







## 2018 Transparency Report

### Deloitte Africa

[transparency.deloitte.co.za](https://transparency.deloitte.co.za)

## 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.

 <p><b>We serve clients with quality and distinction</b> – making a measurable and attributable impact.</p>	 <p><b>We inspire our people to deliver value</b> – mentoring and developing future leaders and colleagues for life.</p>	 <p><b>We contribute to society</b> – building confidence and trust, upholding integrity and supporting the community.</p>	 <p><b>We are leaders in the profession</b> – challenging ourselves to do what matters most, delivering innovative ideas that reflect our unique capabilities.</p>
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## Deloitte’s shared values

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

<p><b>Integrity</b> 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.</p>	<p><b>Outstanding value to markets and clients</b> 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.</p>	<p><b>Commitment to each other</b> 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.</p>	<p><b>Strength from cultural diversity</b> 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.</p>
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# Contents

Foreword	2
Key highlights	4
Network and governance structure	6
Our partner/director model	12
Addressing transformation	13
Our commitment to independence, ethics and quality, in both audit and advisory	14
A spotlight on audit	19
Financial information	23
In closing	26



# Foreword

## 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).

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.

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 ('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.

### 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.

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.

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.

### 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.

### 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. The IRBA has since brought charges against two of our partners. Our view supports the findings and causes of the failure of African Bank as reported in the Myburgh Commission of Enquiry in May 2016, which yielded no adverse findings about the way 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 these matters.

### 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.

South Africa's auditing profession used to be consistently rated the best in the world in the World Economic Forum's global competitiveness rankings. Last year, we slipped to 30<sup>th</sup> place. As a firm, and as a member of the profession, we will play our role in ensuring that the profession, as a whole, once again becomes a beacon of hope and the foundation for trust in our country.

This is not a challenge that we take lightly, and we are accepting the burden of responsibility that comes with this.

Our 2018 Transparency Report provides you with insight into our inner workings, along with a demonstration of our commitment to delivering distinct services of the highest quality.

We invite you to look inside our firm.

# Deloitte.

## 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 network structure



**Deloitte Global employs 263,900** people in more than **150 countries** around the globe



**Deloitte Africa has 369** partners/directors and **5,500** professionals across **16<sup>1</sup>** countries

<sup>1</sup> Deloitte Africa holds the licence to operate in Ethiopia, Lesotho and Burundi, but has no offices in those countries.



**Deloitte South Africa forms part of the Deloitte Africa firm**, which is part of Deloitte Touche Tohmatsu Limited (Deloitte Global). We are, however, a separate partnership that is funded, owned and managed by South African partners/directors

**Deloitte South Africa has 262** partners/directors and **3,315** professionals

#### Deloitte South Africa's 2020 transformation strategy



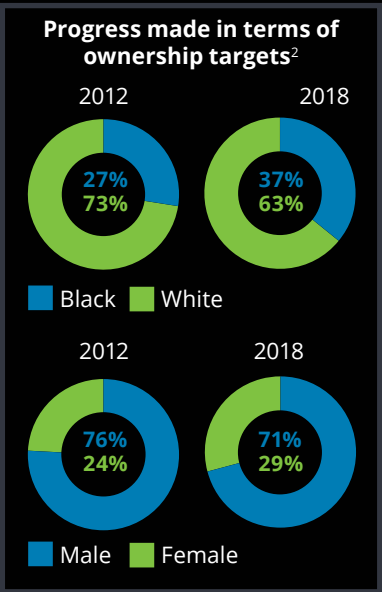
**51%** black ownership



**35%** female ownership



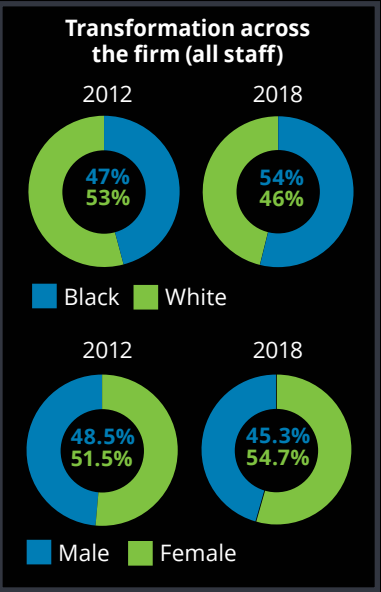
Our pipeline of future leaders is consistent with our transformation targets



#### 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.

Partner/director grading	Number of partners/directors	% Gap (mean per level)	
		White/Black	Male/Female <sup>3</sup>
1 – 2	129	6%	4%
3 – 4	127	3%	9%
5 – 6	6	-28% <sup>4</sup>	-



<sup>2</sup> 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.

<sup>3</sup> No female representation at grading levels 5 and 6.

<sup>4</sup> Black partners'/directors' earnings in this grading are more than that of their white counterparts.

#### Multidisciplinary professional services firm



Audit & Assurance



Consulting



Corporate Finance



Risk Advisory



Tax & Legal

The diversity of the different businesses, under one umbrella, is the key differentiator that enables Deloitte South Africa to deliver high-quality professional services to our clients.

#### Benefits of our multidisciplinary model



Cross-functional insights



Access to specialists



Attract and retain talent

#### 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.

Our firm provides non-audit services to audit clients in very complex audit engagements. In this capacity, advisory services may support the audit opinion by providing relevant and sufficient audit evidence from our firm's subject matter experts. These non-audit services must be pre-approved by the client's audit committee.

Based on our Top 200 clients, **9% of audit revenue relates to non-audit services undertaken at audit clients.**

Annually, a portion of the firm's revenue is committed towards strengthening our risk and quality management processes. In Audit & Assurance, **7.4%** of the business' FY18 revenue is being re-invested into **audit quality.**

#### Managing our independence

Independence, integrity and quality are embedded in all parts of our firm. They bring a rigorous approach to such areas as client and project acceptance, project risk, and assessment of existing and new service offerings.

#### Promoting ethics

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.

In optimising our audit performance, we consider the following:



Assigning the right audit team



Audit file configuration



Involving specialists and experts



Audit approach



Audit reporting



Building future audit leaders

#### FY18 financial highlights



#### Revenue in R'million

Deloitte South Africa: **R4,482m**

Advisory-only clients:<sup>5</sup> **R2,815m**

Audit-only clients:<sup>5</sup> **R1,667m**

<sup>5</sup> **Advisory and audit clients are mutually exclusive**, except where advisory services are provided to enhance an audit opinion.



**R4,5m**

average total compensation per partner/director in 2018 (before tax)<sup>6</sup>

<sup>6</sup> The partners'/directors' total compensation includes salary, medical aid, profit share, retirement and group life benefits, and interest on capital.



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%).

#### Partnership funding

- Deloitte South Africa is a partnership, owned and managed by our South African partners/directors
- Partners/directors fund the South African firm through personal capital contributions, based on their annual earnings

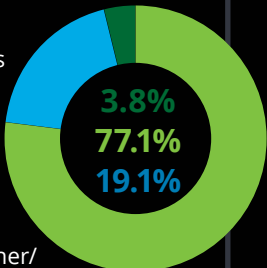


Deloitte South Africa pays an annual fee of **3.8%** to Deloitte Global

The rest of the revenue<sup>7</sup> we earn from clients goes towards:

- professional, support and partner/director employment costs
- operating and administrative costs

<sup>7</sup> Per FY18 financial results.





# Network and governance structure

Under the Deloitte brand, more than 263,900 professionals in more than 150 countries collaborate to provide services to selected clients.

### 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.



### 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.

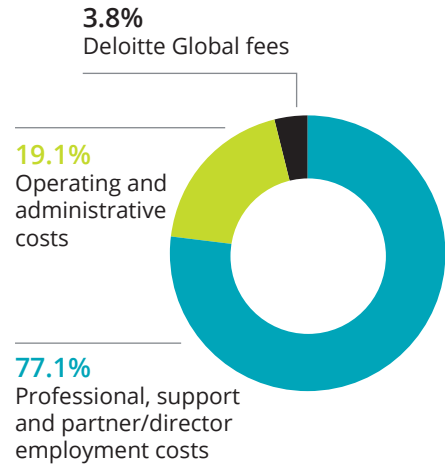
### Reinvesting in South Africa

The revenue earned from clients is predominantly disbursed within South Africa as per the chart to the right.

Only 3.8 per cent of our firm's revenue is paid to Deloitte Global as fees, and this contributes to the running costs of the network. In exchange for these fees, Deloitte South Africa receives benefits including:

- direct financial support from Deloitte Global to fund the growth of our footprint in Africa
- short-term secondments of our newly qualified chartered accountants to the US, Europe and the Middle East to gain international experience
- information technology (IT) support, including cyber-risk services
- methodology and infrastructure support to maintain service quality

- risk and governance frameworks
- a platform to contribute and receive global thought leadership
- Deloitte brand-related support
- access to new trends and member firm standards.



### 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.



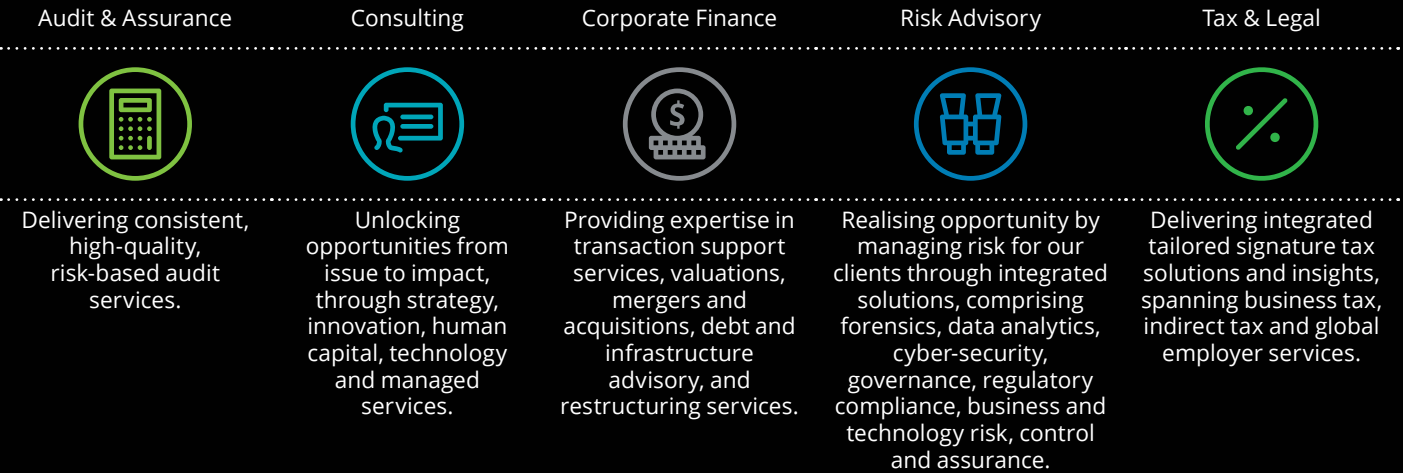
#### Attract and retain talent

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



<sup>8</sup> Deloitte Africa holds the licence to operate in Ethiopia, Lesotho and Burundi, but has no offices in those countries.





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 Ndebele  
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 Nkwume  
West Africa



Doreen Mbogho  
East Africa



Eric Tshabalala  
Southern Africa



Eshak Harunani  
East Africa



Gaba Tabane  
Southern Africa



Nazeer Essop  
Southern Africa



Ruwayda Redfearn  
Southern Africa



Sudasha 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



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

### Africa Executive Committee

**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.

### 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



**Navin 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.

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.

#### Quality

Uncompromising quality in all professional work

#### Risk

Consistent and strong contributions across all areas of risk and independence

#### Performance

Strong performance against key metrics, objectives and career plan

### 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.

Partners who provide audit services are not evaluated or remunerated for selling non-audit services to audit clients. This approach aims to preclude financial considerations from driving actions and decisions, which would create a negative effect on audit quality, objectivity and independence.

# Addressing transformation

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.

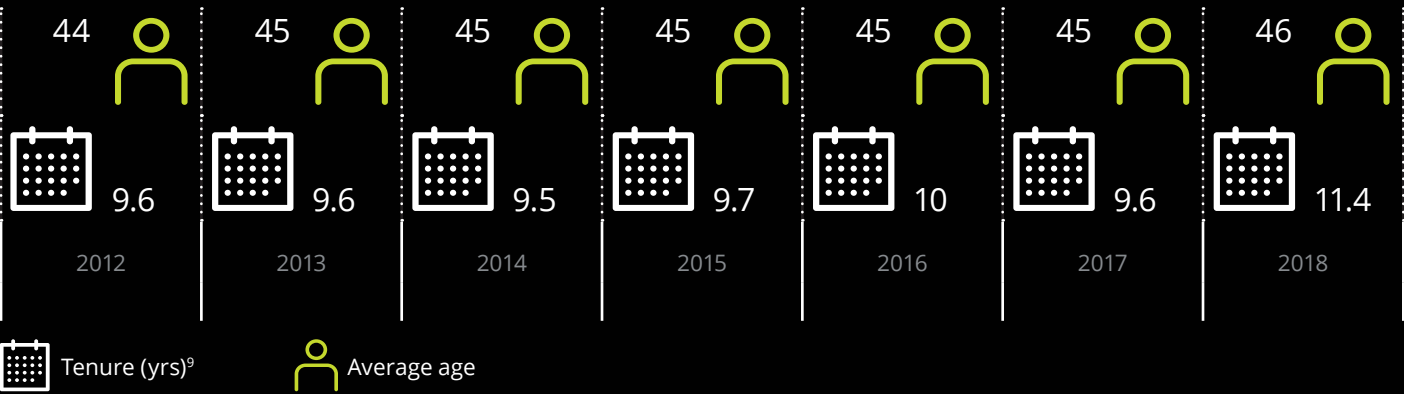
The following key goals underpin our strategy:

- achieve 51 per cent black<sup>10</sup> 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.

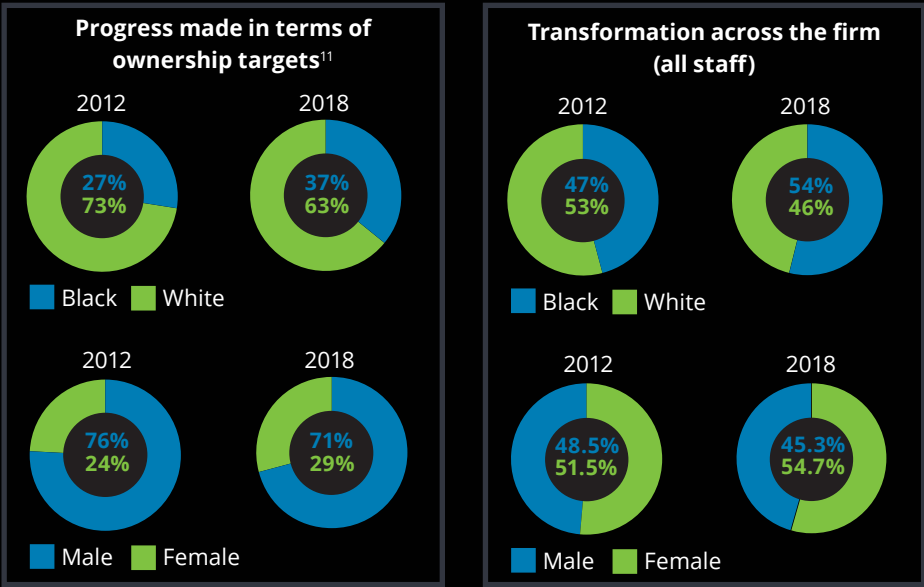
We believe that achieving these goals will be the tipping point that makes us a firm representing South Africa's diverse demographics.

<sup>10</sup> 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".


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



<sup>9</sup> These numbers exclude direct-entry partners/directors.



<sup>11</sup> 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.



# Our commitment to independence, ethics and quality, in both audit and advisory

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.

**Providing non-audit (advisory) services to audit clients**

Deloitte South Africa may provide non-audit services to audit clients. The technical demands of a complex audit require access to skillsets and knowledge beyond that of an experienced auditor. The audit opinion may be supported by IT control reviews of financial systems, or tax re-computation, which could contribute relevant and sufficient audit evidence via the firm’s subject matter experts.

Availability and access to non-audit subject matter experts, who have deep technical and industry knowledge, is essential to audit quality. Their use is rigorously regulated by international and local standards, as well as our internal risk management processes. Being part of the engagement team, the subject matter experts are subject to the same individual independence tests/confirmations as the rest of the audit team. Moreover, Deloitte applies global compliance processes to ensure that every advisory service provided to audit clients meets the regulatory requirements applicable to the client concerned.

Emphasis is placed on consultation with the clients’ audit committees (in the case of audit clients) to ensure that any proposed advisory services will not impair our independence. Even if the advisory services are allowed by regulations, the clients’ audit committee may opt not to allow us to provide them. Deloitte South Africa has always supported and respected this right and will continue to do so.

**Establishing the right tone from the top**

Our leaders see ‘doing the right thing’ as a fundamental principle, which is not just in the public interest and the interests of our clients, it is also important to the reputation of our firm, partners, directors and people.

We are doing business in a world that is constantly changing. This brings a wide range of opportunities, but also challenges. The compliance requirements to safeguard our profession are increasing significantly, as is the level of assurance we bring to our clients and their investors. At Deloitte, we seek to go beyond mere compliance.

**Managing our independence and risk**

We comply with the independence requirements of the International Ethics Standards Board for Accountants, the IRBA and the Companies Act of 2008, as well as Deloitte Global’s independence policies, which, in turn, reflect the International Federation of Accountants (IFAC) policies.

Reminders of independence-related policies and measures are routinely published as part of an internal drive for staff awareness.

Each year, partners and directors are expected to make an annual declaration regarding compliance requirements they must meet. This includes the disclosure, to the Deloitte Africa Chief Executive Officer, of their assets and liabilities (including contingent liabilities). Partners and directors are also expected to confirm that their tax affairs are up to date and that they are compliant with the relevant tax authorities.

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 2016, when 39 staff members were subject to financial penalties of R400,000. Most of these occurrences related to the individuals missing deadlines to report financial interests or business relationships. The decrease in penalties is a result of implementing various processes to ensure timely reporting.

**Advisory Client Review Board**

We carefully consider each service request received from our advisory clients and our ability to successfully deliver on it. Potentially high-risk or high-value engagements are evaluated by the Advisory Client Review Board for consideration and approval. The board comprises seasoned directors and associate directors with the necessary experience.

In addition, project opportunities whose value exceeds R50 million, or that pose additional risks, are escalated to the Africa Executive Committee. If we believe we cannot meet our clients’ expectations for quality and value, or if the engagement risk is too high, we will opt out. We would rather not propose any work that means delivering substandard services to the detriment of our clients and our reputation.

Recently, we declined to submit a proposal for a potentially large consulting opportunity, believing we did not have the resources to deliver a quality solution to the client. During the past financial year, we have also rejected certain forensic assignments due to potential independence issues or conflicts of interest. The combined value of these opportunities was approximately R100 million.

**Audit Client Review Board**

For audit client engagements, a similar process applies. Where we identify a high risk posed by a client, professional service risks or threats to independence, the Audit Client Review Board debates whether to accept the opportunity. The board (comprising the Reputation & Risk Leader, the Ethics Officer and relevant members of the Audit Executive Committee) assesses information submitted by the partners responsible for the client engagement, and, after deliberating and considering mitigating actions, the engagement may be accepted or rejected.

If the risk cannot be appropriately mitigated, or threats to independence arise, the board declines the engagement.

Since 1 January 2018, we have declined engagements to the value of R31 million due to identified concerns, for various reasons.

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, any 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.

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.

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

- an ongoing internal review process whereby all partners/directors are periodically reviewed
- an additional review of our business by an independent Deloitte Global monitoring team.

The review processes typically cover our compliance in these areas:

- client and engagement acceptance
- quality of service scoping, 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.

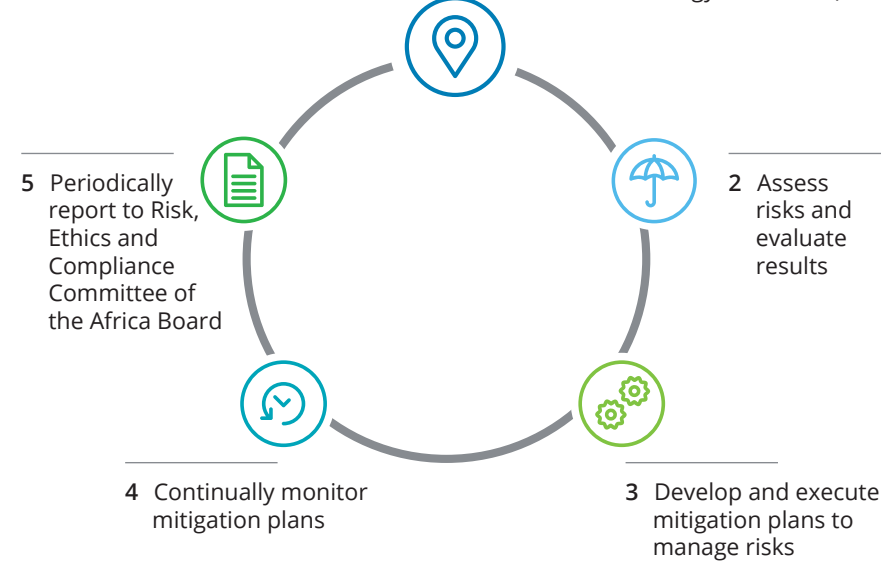
Operating within the risk management framework

Deloitte Africa has implemented a formal enterprise approach to identifying and managing the principal risks and uncertainties we face. This is regarded from a quality and a business perspective, and includes financial and internal controls.

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.

Risk management process

The firm's risk management process is summarised below:



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.



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.



Optimising our audit performance

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.

We embrace the requirement that **audit partners rotate** clients after five years to address familiarity that may present a threat to independence.



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.



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.

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.

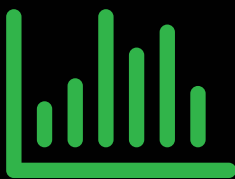
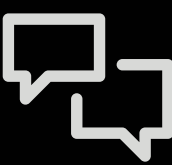
These results confirm that we are attracting top talent at Deloitte and we look forward to retaining the most sought-after talent as they build their careers within the firm.

**Two of our candidates ranked in the top ten nationwide.**



Audit ownership breakdown by ethnicity

	Audit partners	JSE accredited
African black	18%	13%
Chinese	1%	0%
Coloured	2%	4%
Indian	16%	18%
White and foreign nationals	63%	65%
Number of audit partners	119	76



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

**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 complied, 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'.

We consider all of the comments, recommendations and findings arising from such inspections and develop quality improvement action plans around them. We regularly monitor the implementation of those plans.

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	R'm FY18	R'm FY17
Total SA partnership	4,481	4,241
Top 200 clients	3,312	3,203
Advisory clients <sup>12</sup>	2,081	1,961
Audit clients <sup>12</sup>	1,231	1,242
Non-audit related services <sup>13</sup> as a percentage of audit fees at Top 200 audit clients	9%	11%

<sup>12</sup> 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).  
<sup>13</sup> 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.

Annually, a portion of the revenue is committed towards strengthening our risk and quality management processes. For example, in audit, 7.4% of the Audit & Assurance business' FY18 revenue is being re-invested into audit quality.

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 commitment to audit quality – today, tomorrow and always**



Deloitte Africa's investments in quality and innovation are transforming how audits are delivered, ensuring that the audit of the future is a valuable contributor to a robust capital market system.

As we move towards a more connected future, our commitment to invest in innovation, transformation and emerging technologies will allow the delivery of enhanced quality, insights and value. To that end, we are committed to ongoing collaboration with regulators, elected officials and other stakeholders to evaluate the quality of financial reporting to the investing public.

Remuneration of partners/directors

A partner’s/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.

Partner/director grading	Number of partners/directors	% Gap (mean per level)	
		White/Black	Male/Female <sup>14</sup>
1 – 2	129	6%	4%
3 – 4	127	3%	9%
5 – 6	6	-28% <sup>15</sup>	-

<sup>14</sup> No female representation at grading levels 5 and 6.  
<sup>15</sup> 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.

It has been a challenging period for our profession and for our country. State capture, irregular business practices and widespread corruption made headlines, and, unfortunately, Deloitte was not spared. Our work with Steinhoff and African Bank, in particular, came under fire and we are fully aware of the impact that these issues have had.

It is important to note that in terms of Deloitte's commitment to quality and ethics, we are confident that our firm, partners, directors and staff behave ethically on an ongoing basis. We therefore stand by the quality work that we deliver on client engagements.

We believe that our multidisciplinary delivery model, which includes both advisory and audit, has benefits for our markets, our clients and our people, because it provides the right environment for enhancing quality and delivery through innovation. This model provides the structure, breadth and depth of skills and experience to provide clients with impactful solutions and high-quality service for their complex needs and issues.

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.

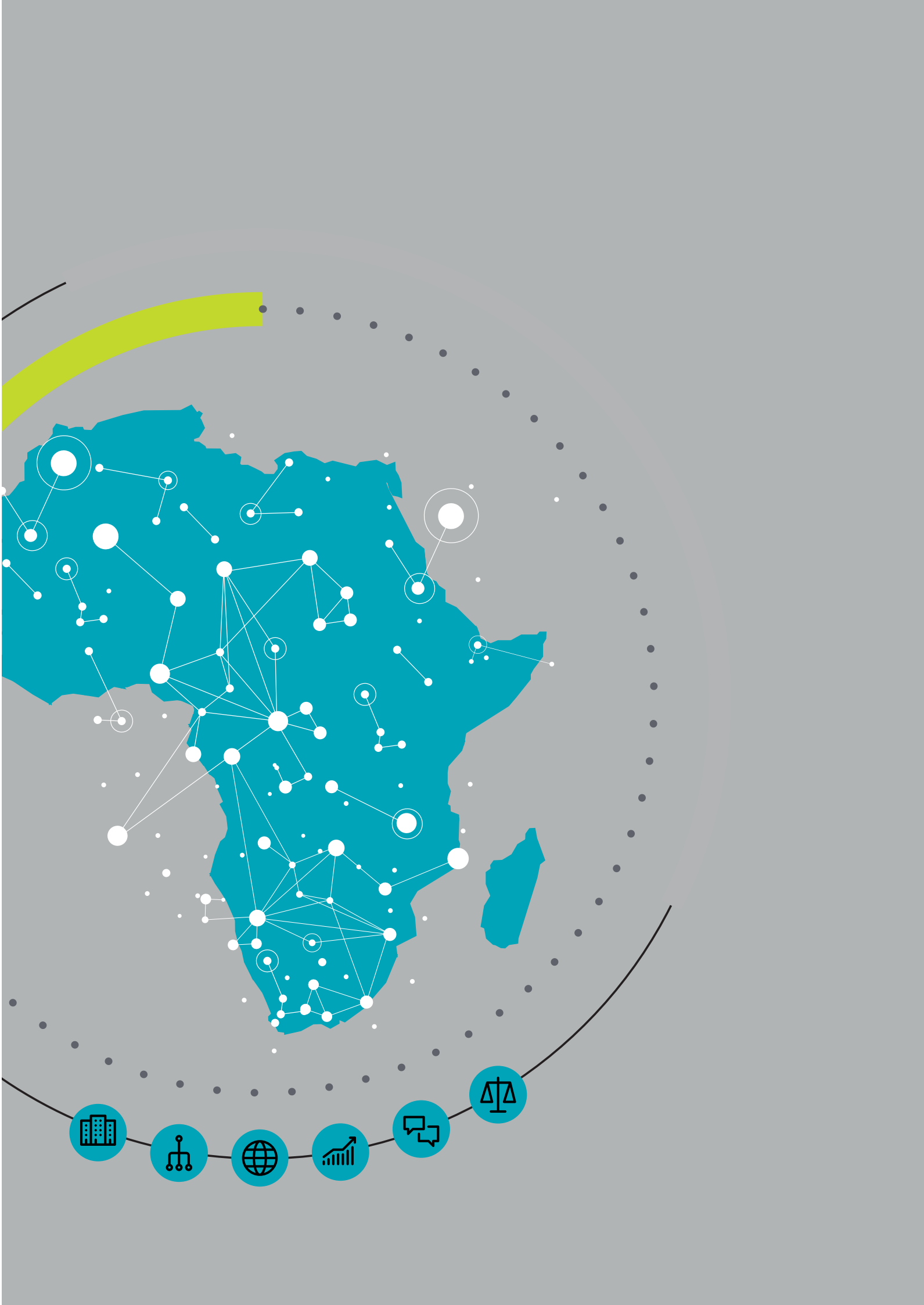
We will continue to confront economic volatility and uncertainty, regulatory developments, rapidly shifting technology paradigms and political challenges. We are confident that our current strategy and purpose-led approach position us well to achieve our goal of undisputed leadership in the professional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







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