

**2018 Audit Regulatory
Transparency Report**

Deloitte Africa: Focus South Africa

30 September 2018

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Scope of this report

This report has been prepared in accordance with the provisions of the Article 13 of EU Regulation 537/2014, of the European parliament and the council of European Union of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, which requires the publication of certain information by transparency reporting auditors, such as Deloitte South Africa. This report relates to the firm's audit activities in South Africa for the year ended 31 May 2018.

In addition to the requirements of the instrument, the Independent Regulatory Board for Auditors (IRBA) issued a call, in July 2018, for South African audit firms to produce transparency reports providing insight into the audit firm's operations, governance, leadership, culture, ethics, audit quality, transformation, and audit engagements, amongst others.

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Our purpose is to *make an impact that matters*. For Audit & Assurance, this means a focus on delivering independent high quality audits and dedication to continuously pursuing opportunities to support auditors' roles in the capital markets.

Deloitte Africa leadership message



I am pleased to present the 2018 Audit Regulatory Transparency Report for the year ended 31 May 2018.

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.

Our purpose is to make an impact that matters. For Audit & Assurance, this means a focus on delivering independent high quality audits and dedication to continuously pursuing opportunities to support auditors' role in the capital markets. This requires us to continuously build capabilities to support the delivery of high quality audits and make leading contributions to shaping the future of the audit profession.

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 30th 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 Audit Regulatory 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.

Lwazi Bam

Chief Executive Officer
Deloitte Africa

Deloitte network

Network description

The Deloitte network

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

Deloitte Touche Tohmatsu Limited (DTTL or Deloitte Global)

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

For more information about the Deloitte network, please see: **About Deloitte**.

Global co-operation

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

Deloitte South Africa: legal structure and ownership

Deloitte South Africa is connected to the Deloitte network through Deloitte Africa, a member firm of Deloitte Touche Tohmatsu Limited. Deloitte South Africa is referred to throughout this report as 'Deloitte', and

Deloitte Africa is referred to throughout this report as 'Deloitte Africa'.

Deloitte Africa holds practice rights to provide professional services using the 'Deloitte' name which it extends to Deloitte entities within its territory (comprised of Namibia, Botswana, Zimbabwe, Zambia, Mozambique, Malawi, Tanzania, Rwanda, Uganda, Kenya, Nigeria, Ghana), including Deloitte South Africa. Deloitte South Africa is authorised to serve as an auditor for clients in South Africa, under IRBA registration number 902276. Our audit firm operates as a partnership and is established under South African law, with a registered office at 20 Woodlands Drive, Woodlands, Woodmead, 2128.

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 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.

Deloitte core services

In addition to the audit services, as a multidisciplinary firm, Deloitte is a significant provider of non-audit advisory services.

At a high level, these comprise the following services:

- Tax & Legal

- Corporate Finance

- Risk Advisory

- Consulting

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In all their activities, Deloitte Africa senior leaders are responsible for the *overarching objective of audit quality*, including compliance with applicable professional standards and regulatory requirements.

Governance – leadership in action

Deloitte Africa Board

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

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

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 have specific oversight of risk and quality

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

Deloitte Africa Executive Committee

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

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
- Planning the firm's future development.

Deloitte Audit Executive Committee

The Deloitte Africa Audit Executive Committee is responsible for the governance and oversight of the Audit & Assurance business.

Role and responsibilities

- Set the strategic direction and focus areas
- Approve Audit & Assurance business strategy
- Approve admission of partners
- Approve the allocation of units and earnings to partners
- Approve the financial aspects of business plans

Andrew Mackie was appointed by the Deloitte Africa CEO in the role of Audit & Assurance Managing Partner. He, along with other members of senior management develops and implements the strategy for the Audit & Assurance practice, including related policies and procedures.

In all their activities, Deloitte Africa senior leaders are responsible for the overarching objective of audit quality, including compliance with applicable professional standards and regulatory requirements.

The Deloitte Africa strategy is developed in alignment with the overall strategic direction established for the Deloitte network.

Members of the Deloitte Africa Audit Executive Committee:



Andrew Mackie
Chairman



James Welch
Chief Operating Officer



George Tweedy
Audit Risk Leader



Penny Binnie
Audit Capture & Defend Leader



Hermine Smit
National Professional Practice Director



Graham Berry
Lead Client Service Partner



Thega Murrday
Audit Chief Financial Officer



Bonga Nyembe
Gauteng Audit Leader



Eric Tshabalala
Transformation & Diversity Leader



Anne Muraya
East Africa Audit Chief Operating Officer



Michael Daudu
West Africa Audit Leader



Stephen Munro
Africa Financial Services Industries Leader

Deloitte Africa Audit Risk and Quality Committees

The below committees are responsible to ensure audit quality is our first priority:

- Africa Audit Quality Board
- Audit Learning Board
- Africa Audit Risk Committee

The Deloitte audit quality journey

The Deloitte system of quality control has been developed on the foundation provided by the International Federation of Accountants, per “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements” (ISQC 1). The standard lays out the framework for the system of quality control for audits and review of financial statements, other assurance and related service engagements. Our Global policies drive audit quality to a level that surpasses that of the ISQC 1 foundation level.

Deloitte leadership sets the tone at the top

Reputation

Reputational risks today are at least as great as strategic, operating and financial risks. In the context of an ethics and compliance programme, tone at the top sets an organisation’s guiding values and ethical climate. Our leadership takes responsibility for setting the right tone, ensuring accountability and responsibility is taken at an individual level.

Internal culture

We have fostered an internal culture that places quality and our people at the heart of everything we do. This culture is an essential part of our business in engendering and preserving trust and we undertake a number of activities to continuously develop our culture. We enforce the requirement to perform work that complies with the professional standards and applicable legal and regulatory requirements in order to issue reports that are appropriate in the circumstances. We are proud of our progress to date in establishing and promoting our culture, but recognise there is more to do. We have a continuing focus on building on and driving our ethical values and principles.

Our commitment to ethical and independent behaviour

Our approach to ethics seeks to build and embed a culture of ethics, quality and integrity where people feel supported to raise their voice when something does not feel right. The focus on ethics, quality and integrity is a critical part of our business, our overall firm culture and of fulfilling our public interest role. Periodic ethics e-learning are mandated for all staff. Deloitte People make a commitment to live the Deloitte Africa Code, which emphasises that ethics, quality and integrity are fundamental and not negotiable.

As auditors, we maintain a mindset of independence, objectivity and professional scepticism throughout the conduct of our work. This means defining the investing public as the ultimate stakeholder – ensuring that doing the right thing is valued, invested in, and rewarded – and managing our practice such that financial and operational considerations do not override fidelity to professional standards and serving the public interest. This approach to the audit is reflected in many aspects of our policies, methods, procedures, and training, and is reinforced through quality control and accountability measures.

Independence, ethics and additional disclosures

Independence

We have policies and procedures designed to address compliance with applicable professional standards that relate to independence. These policies and procedures are based on the Deloitte Global Independence Policy, and are supplemented, as appropriate, to reflect additional national or regional requirements that may be more restrictive than Deloitte Global policies. Our leadership reinforces the importance of compliance with independence and related quality control standards, thereby setting the appropriate tone at the top and instilling its importance into the professional values and culture of people. Strategies and procedures to communicate the importance of independence to partners, other professionals and support staff have been adopted, emphasising each individual’s responsibility to understand and meet the independence requirements.

The key elements of the system of quality control that we have implemented in accordance with global policies, as pertains to independence, include the following:

- Engagement acceptance and monitoring
- Monitoring of rotation requirements
- Business relationship assessments and monitoring

- Use of independence business process tools, including the Deloitte Entity Search and Compliance (DESC) system, the Global Independence Monitoring System (GIMS), annual independence confirmations, and consultation procedures, to monitor compliance with independence requirements
- Procedures to identify and analyse non-compliance with independence requirements and apply related disciplinary measures and actions
- Independence-related learning and communications
- Assignment of responsibility for independence systems and controls.

Ethics

We maintain policies and procedures that are designed to provide reasonable assurance that our professionals comply with relevant ethical requirements. The ethical requirements for audit and related assurance services provided by Deloitte are in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct (the IRBA Code). We also comply with Deloitte Global policies and procedures, which align with the requirements and guidance set out in the Code of Ethics for Professional Accountants (the Code) issued by the International Ethics Standards Board for Accountants, a standard-setting body of the International Federation of Accountants (IFAC). When local requirements are more restrictive than the Deloitte Global policies and procedures, we follow the applicable local requirements.

Deloitte has an Ethics Officer who is an experienced partner with direct access to the CEO and the member firm’s governing

body. In addition, we have developed and implemented our own Code of Conduct, which incorporates the Deloitte Global Principles of Business Conduct and describes critical professional behaviour that reflects local customs, regulations, and legal requirements.

Communication channels are made available through which partners, other professionals and support staff can consult on and report ethical issues and situations.

We reinforce our commitment to ethics and integrity through communication tools, learning programmes, compliance processes, and measurement systems. In addition, all partners, other professionals and support staff are required to confirm annually that they have read and comprehend the Code of Conduct, and understand that it is their responsibility to comply with it.

Deloitte Global Independence

-  **Sets independence policies and procedures** based upon the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants and the independence standards of the US Securities and Exchange Commission and the Public Company Accounting Oversight Board. Performs full reviews of independence quality controls on a three-year cycle; annual focused reviews for the off-cycle years; and in-depth follow-up reviews as needed.
-  Performs **on-going monitoring** activities of firms – enabling continuous enhancements to global policies, quality controls, tools, and practice support activities.
-  Delivers **global systems** to provide professionals with entity information to support compliance with personal and professional independence requirements, including financial interests and scope of service approvals.
-  Supports **independence awareness** across the Deloitte network through active engagement with independence and business leadership groups, periodic communications and alerts, and development of guidance, learning and instructions.

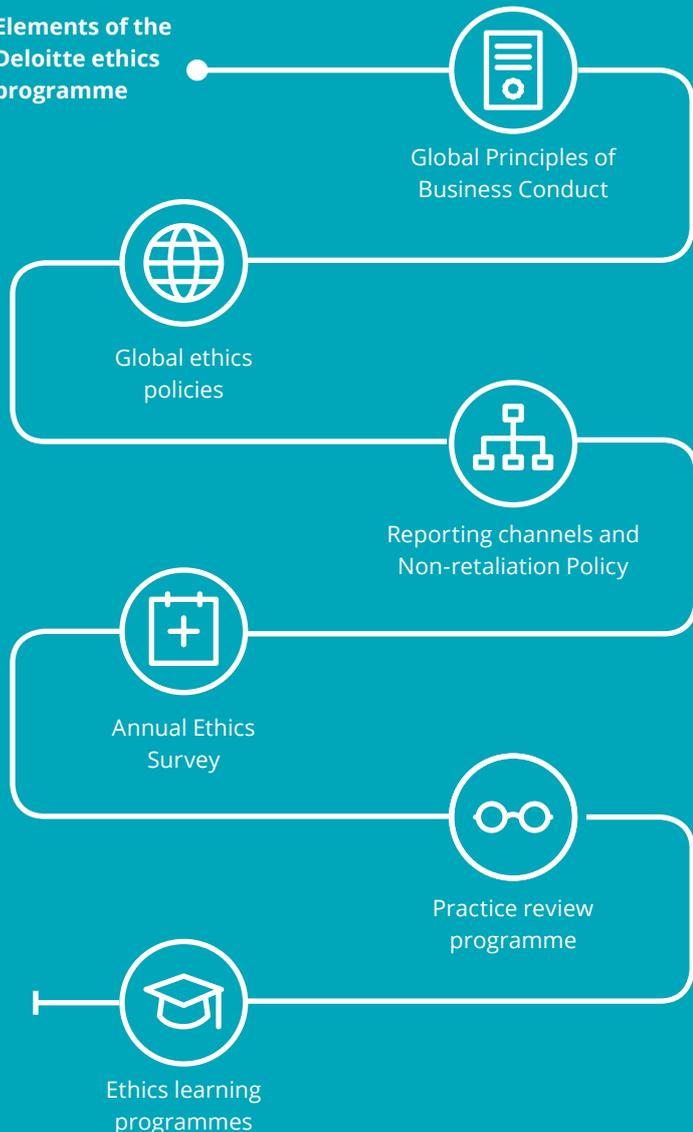
Deloitte Global Ethics and Integrity Imperative

Deloitte is committed to conducting business with honesty, distinctive quality, and high standards of professional behaviour.

Deloitte's Global Principles of Business Conduct (Global Code) outlines Deloitte's ethical commitments as a network and expectations for Deloitte's people, giving a strong, principled foundation. The Deloitte Integrity Imperative amplifies the Global Code across the network by empowering leaders to set a strong tone from the top; encouraging people to speak up when they witness anything that runs counter to the Global Code; and helping Deloitte act quickly and appropriately in the face of misconduct.

The Deloitte Global Ethics team and member firm ethics officers work closely with senior Deloitte leaders to build and enhance the foundations of the network's ethics programme, which is comprised of the following elements:

Elements of the Deloitte ethics programme



Serving the right clients

Engagement acceptance

Rigorous policies and procedures are in place for accepting prospective clients and engagements and assessing engagement risk. These policies and procedures are designed to provide assurance that only engagements where we can comply with the relevant ethical, independence and conflict of interest requirements are accepted. Relevant information is gathered to assess whether any threats to independence or potential conflicts exists. Based on the assessment of client risk and professional services risk an engagement risk is classified. A decision to accept the engagement is made based on the safeguards available to mitigate any of the identified risks. Different levels of authority may become involved in the acceptance decision based on the level of the engagement risk classification.

Lead partner assignment

A lead partner is assigned as the primary contact for an audit client and is responsible for managing risk through understanding the total service provision

to the client and promote consistent compliance with professional standards, regulatory requirements, the Deloitte Policies Manual, and minimise the risk of damage to the Deloitte brand and/or client relationship. The primary responsibility of the lead partner is the demonstration of quality, through facilitating a consistent delivery of high-quality service, with objectivity, integrity and professionalism that meets the expectations of the client and complies with professional standards and applicable rules and regulations; as well as managing risk.

Threats to independence

Where threats to independence are too significant to be reduced to an acceptable level, Deloitte walks away from the prospective client or engagement. Information related to our public audit clients and their affiliates is recorded in the DESC system and continuously updated. The DESC system has features that are used to request and document approvals related to our service provision to an entity. These requests are submitted to the lead partner, who is responsible for authorising

new service requests, after ensuring that our proposed service request is in compliance with laws and regulations and falls within the scope of services pre-approved by the entity's audit committee or others charged with governance.

Partners and professional staff are required to log their financial investments in any public audit clients on the GIMS. Through comparative monitoring against the DESC system's database, any restricted financial interests and accounts are flagged, and appropriate and timely actions are taken by the partners and professional staff to dispose of the financial interests or abstain from involvement in the specific public audit client's audit engagements, as applicable.

The Business Relationship Management System ensures that, prior to entering into any business relationship with an audit client, its management or substantial shareholders, a determination is made to ensure such a relationship does not impair independence in respect of that audit client.

Processes ensuring independence amongst partners and professionals



Independence confirmations

Confirmations that individuals are independent of audit clients and meet the applicable independence requirements, are obtained at both an engagement level and annually from partners and professional staff on a periodic basis.



Independence learning

New hires complete independence learning upon joining the firm. When professional staff are promoted, independence policy awareness learning tailored to the new level is performed.

Where an employee contravenes the independence policies of the firm, the needed actions and remediation are taken. Independence learning is provided through learning events as required.



Inspection of personal independence

Inspections are conducted to ensure that the information represented and submitted by partners and professional staff relating to independence matters is accurate and complete.

The inspections entail a review of the partner's (or professional staff's) bank records, investment portfolio, loans, and any other financial instruments. This review also covers all their dependents.



Disciplinary measures and actions

Disciplinary policies and procedures are in place to address non-compliance with the firm's independence policies and procedures.

These disciplinary policies and procedures are designed to provide an appropriate response to breaches of such policies and procedures by partners, professional staff and support staff.

Potential conflicts

Potential conflicts of interest are considered on all prospective engagements.

Steps are taken to assess all relevant parties associated with the prospective engagement to identify any circumstances that may give rise to conflict.

The Deloitte Conflict Checking System is designed to support the conflict checking process by considering the principal parties to the engagement, the scope of work, engagement team and specific questions, which are driven by the proposed service offering. Each conflict check recorded searches the DESC system database to identify any potential audit/ attest relationships. Where conflicts arise, mitigating actions are mandated and teams may not commence their engagements until the required mitigating steps are executed. These may include a rejection of the engagement.

Engagement risk

Client risk: The integrity of a prospective client's management is assessed through an extensive 'Know-Your-Client' process, which assesses whether any information exists that makes association with a particular client questionable or undesirable. Integrated risk intelligence monitoring processes drive the analysis of established local and international information sources as well as breaking news covered in the media from across the globe.

Professional services risk: Professional services risk is a factor of the staff experience and staff capacity required to deliver a high audit quality in light of the level of service complexity. The engagement partner is responsible for ensuring that any engagement accepted is classified in accordance with the Deloitte approved professional service classifications and that the identified specialists (if required) are appropriately included in the acceptance and performance of the engagement. Should an engagement partner receive a request to perform professional services which are not reflected on the approved list of professional services, the engagement may not be accepted without following a new service approval process. In order to control factors related to performance,

the firm has adopted the highest technical standards, policies, and procedures; assigns appropriate, competent, and properly trained personnel; encourages consultation; and establishes strong review and approval procedures.

Client Review Board

Where elevated client risk or professional service risks or threats to independence are identified, a Client Review Board panel debates the acceptance decision. The panel (comprising the Africa Audit Risk Leader, Risk Management partners and/ or other relevant members of the Audit & Assurance Business) assesses information brought by the engagement partner and/ or lead partner. Based on the deliberation and available mitigating actions, the engagement may be accepted. Where the risk cannot be appropriately mitigated against, or threats to independence safeguarded, the panel declines or terminates the engagement.

Risk management and compliance

Risk management programme

Clients with risk exposure that could lead to a high level of brand damage for the firm, or who have a high risk impact and can typically only be managed reactively are enrolled in iCARE¹.

Clients with risk exposure that could lead to a medium level of brand damage, have a high impact, be medium-term in nature and can be managed through pro-active risk management techniques are enrolled in the CARE programme. For both the iCARE and CARE programmes, members of the specialised Audit Risk Management team are assigned to clients to guide the engagement team and provide an additional level of competence and objectivity in planning, performing and concluding on the engagement. Specifically for the iCARE programme, experienced specialist partners are assigned to provide assistance to the engagement partner during the risk management process.

Portfolio risk reviews

An annual portfolio risk review is conducted to identify significant risk exposure to the audit business in order to design and implement safeguards to mitigate the risk exposure.

Legal and disciplinary proceedings

With regard to investigations in South Africa we confirm the existence of two significant regulatory investigations currently being conducted into the professional conduct of auditors in the employ of Deloitte. These investigations, which emanate from the Independent Regulatory Board for Auditors (IRBA) are into:

- audits of Steinhoff International Holdings Proprietary Limited (and its subsidiaries)
- audits of African Bank Limited (and its subsidiaries).

Deloitte is covered by an adequate level of professional indemnity insurance and there is minimal threat to the ability of Deloitte to continue to provide a high level of quality services to clients. We have not been subject to any penalties or fines levied by any South African regulators during the year ended 31 May 2018.

A spotlight on our Audit & Assurance practice

Putting our partners to the test

A leadership lifecycle has been developed to assist partners in being optimally effective and ensure that they experience the prestige of partnership throughout their career and beyond. This is designed to enable partners to achieve greater agility, be mobile and make an impact across a broad range of industries and services. Partners who provide audit services are not evaluated or remunerated on the selling of other services to the entities they audit.

Disciplinary framework

A number of policies and procedures have been developed to comply with the requirements of different laws, of regulators, of Deloitte Global and of the firm. These can be broadly categorised as policies and procedures applicable to specific business units only and national policies and procedures applicable to all staff. It is essential that all partners adhere to the Deloitte policies and procedures. In line with all member firms of Deloitte Global, the firm has established a disciplinary framework for violations and contraventions of policies and for failure to meet laid down requirements. The intention of the disciplinary procedures

¹The iCARE programme ensures the careful management of risk exposure to clients that could lead to a high level of brand damage, have a high impact that would be long-term in nature and can typically only be managed reactively.

is to be remedial rather than punitive. Nevertheless, the framework also provides for penalties to be imposed on flagrant or repeated violations, contraventions and failures. The framework is a guideline with specific facts and circumstances taken into account when considering the appropriate disciplinary steps for each particular case – the end result is that the outcome may be harsher or more lenient. Record is maintained of cumulative violations and contraventions of national policies and procedures. Partners with frequent violations and contraventions are penalised when considering earnings or allocation of profit-sharing units.

Building future Deloitte leaders

A significant investment is made in developing our Deloitte People through providing world-class learning opportunities that are business-led, and leverages the best practice from our Deloitte Global firm, aligned to our firm's strategic focus on quality, growth, diversity and excellence.

Deloitte learning offerings provide learning and development opportunities to equip

Deloitte staff with the knowledge and skills for professional development. The learning initiatives are focused on the Global Audit Learning Curriculum, specific learning opportunities that include big data and project management. An annual Management Summit is hosted offering managers at both a junior and senior level the opportunity to network with fellow managers, associate directors, partners, members of our leadership as well as renowned guest speakers.

Trainees

 **Trainee accountant in-take 2018 is up 25%**

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

We are excited to welcome these new trainees through our doorways, recognising that the path to achieving the Chartered Accountant (South Africa) designation is challenging, but provides a rewarding career and personal growth experience.



82% Board Exam pass rate in 2018

The Initial Test of Competence (ITC) 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, we had **339 candidates** writing the exam, our ITC candidates have achieved an 82 per cent pass rate, compared to the national SAICA pass rate of 74 per cent. **Two of our candidates placed in the top 10.**

The 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.

Optimising our audit performance

We enforce actions to identify overloads and inconsistencies, and reorganise partner, manager and engagement review workloads.

Team assignment

Engagement team assignment is critical to the delivery of a high quality Deloitte audit. The process consists of assigning engagement partners that are assessed to have the appropriate competence, capabilities and authority to perform the role and lead the engagement team with distinction. We embrace the requirement that audit partners rotate from clients after five years and consider potential long association risk of other partners and specialists to address any familiarity threat to independence.

The professional staff assigned to the engagement team are required to have, collectively, appropriate competence and capabilities to perform the engagement in accordance with the professional standards and applicable legal and regulatory requirements and to assist and enable the partner in issuing of reports that are

Transformation

In Audit & Assurance, we remain committed to achieving the firm's black ownership targets by the year 2020.

	IRBA registered	Johannesburg Stock Exchange (JSE) accredited ²
African black	18%	13%
Chinese	1%	0%
Coloured	2%	4%
White and foreign nationals	63%	65%
Indian	16%	65%
Number of audit partners	119	76

²To be eligible for JSE approval, an audit partner must not have been subject to any findings arising from any investigation process or been found guilty of any legal, regulatory review or disciplinary finding from any process of any professional body or been found guilty in terms of any legislation.



appropriate in the circumstances. Staff planning systems and processes are implemented to monitor the workload and availability of engagement teams, to allow sufficient time for engagement teams to adequately discharge their responsibilities.

Audit file configuration

Our bespoke audit software provides a clear framework of procedures, which gives the engagement teams the tools to help them assess risks and make more refined audit judgements, with regular partner and manager involvement right from the outset of the engagement, while better managing the progress of engagements and evidencing the appropriate reviews and evidence on file.

Our technology transformation programme helps us continuously move forward 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 on areas of significant judgement.

Audit performance

We continue to enhance our audit methodologies to encourage a more robust, fact-based risk assessment and varying our audit response as a result of that risk assessment. We recently increased our focus on the importance of understanding internal controls and embracing data analytics throughout the audit.

Continued professional development (CPD)

We have established minimum levels of CPD to be undertaken by partners and other professionals that includes 120 relevant hours of structured learning over a three year rolling cycle, of which a minimum of 60 hours are to be verifiable.

Workflow and sequencing

We mandate audit quality milestones on all public interest entities and drive accountability through incentives and consequences.

Our audit approach includes requirements and guidance to assist in the planning, performance, reporting and concluding of audit engagements and is based on

the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board of IFAC and other applicable auditing standard frameworks for dual listed entities. The firm has further supplemented these requirements and guidance to reflect local requirements, as applicable.

Experts and specialists

When the engagement team utilises an expert, the engagement team evaluates whether the expert has the necessary competence, capabilities, and objectivity. We have established consultation networks to assist in resolving issues identified by the engagement team that requires specialised knowledge. Consultations with Audit & Assurance Technical include technical accounting, auditing and regulatory questions regarding the application and interpretation of applicable standards, legislation and reporting issues or on any other matter pertaining to an audit engagement that requires specialised knowledge. Consultations with Audit Risk Management arise due to our risk management processes of certain clients and engagements.

Engagement quality control review (EQCR)

An EQCR is performed for all public interest entities, by an engagement partner who has the appropriate experience and knowledge about applicable accounting and auditing standards and regulations, as well as experience and knowledge of the entity's industry, economic environment, and accounting principles.

The reviewer is appropriately briefed by the engagement team and conducts the review in such a manner that sufficient knowledge and understanding is obtained in order to reach conclusions. The reviewer's responsibility is to perform an objective review and evaluation of significant auditing, accounting, and financial reporting matters, to document the procedures the reviewer performed, and to conclude, based on all the relevant facts and circumstances of which the reviewer has knowledge, that no matters that have come to his or her attention would cause the reviewer to believe that the significant judgments made and the conclusions reached were not appropriate

in the circumstances. The EQCR partner is supported by the Professional Standards Review (PSR), together with other specialist support as deemed necessary. PSR is an independent review of key reporting documents, audit committee reports, annual financial statements and circulars.

Audit performance

We continue to enhance our audit methodologies to encourage a more robust, fact-based risk assessment and varying our audit response as a result of that risk assessment. We recently increased our focus on the importance of understanding internal controls and embracing data analytics throughout the audit.

In-flight monitoring (IFM)

IFM is a proactive approach towards audit quality remediation of audits-in-progress. The process drives faster interventions to potential audit quality deficiencies on audit engagements while they are in progress, through identification, timely solution and real time actions. The aim of such intervention is to ensure that audit quality deficiencies are identified at an early stage. The end-goal is to reduce the number and severity of internal and external findings, this resulting in a shift of effort from Internal reviews to in-flight monitoring to the extent permitted by the current international standards.

Diagnostics monitoring is focused on Public Company Accounting Oversight Board (PCAOB) and public interest entity engagements. Key metrics on audit files are extracted with identified inconsistencies, potential documentation failures, milestone compliance and file set-up. Health checks monitor predefined audit quality milestones, methodology enhancements and the most pervasive findings from the prior year internal review.

In-flight reviews are 'internal review style' audit file reviews conducted for new and direct entry partners and associate directors.

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.

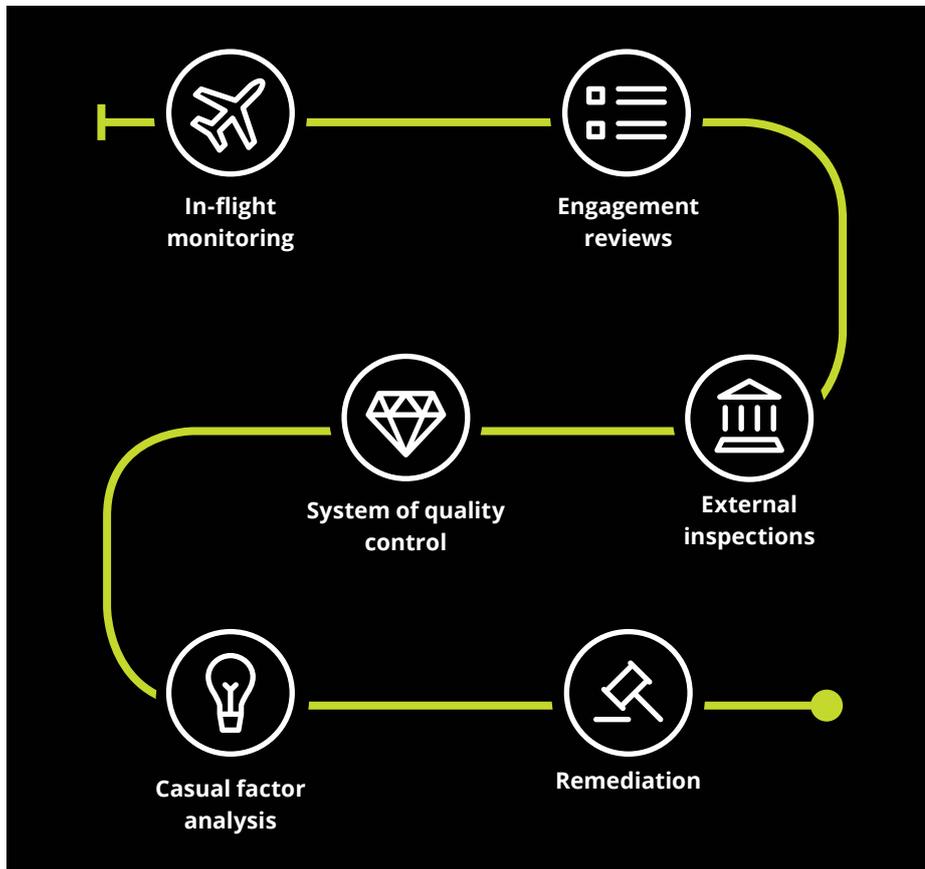


107 Reportable Irregularities were reported in 2017.

37 Reportable Irregularities were reported by 31 July 2018.

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.

Our monitoring procedures complement our policies and tools and drive audit quality



Monitoring

Audit quality monitoring and measurement (AQMM)

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

The objectives of the AQMM programme are to transform the way audit quality is monitored and measured and audit deficiencies are resolved and enhance the internal system of quality control, which all Deloitte network firms follow. The AQMM programme is focused on driving continuous, consistent, and robust monitoring of completed and in-flight engagements, fundamental understanding of deficiencies and timely execution of corrective actions by all member firms consistently and greater transparency and consistency in reporting key measures of audit quality.

Internal review

Internal reviews are conducted on selected public interest entities and large non-public interest entities which are selected per partner on a rotation basis. Client engagements are reviewed to determine whether quality control procedures have been appropriately applied to such engagements, assess the adequacy of implementation of the audit approach, including compliance with the policies and procedures contained in our policy manuals, monitor compliance with applicable local laws and assess overall quality of service provided to clients. Mandatory moderation panels, with external participation, assess the internal review results to drive consistency in findings and engagement ratings. The 2017 internal review results have been included in the firm's audit quality plan and presented to the Audit Executive Leadership, other appropriate firm leaders as well as members of the Deloitte Regional and Global Leadership. Where a partner has a prior year internal or external inspection remediation plan, that partner's audit file will be subjected to in-flight review in the current year.

In 2017 **34%** of our active partners were assessed.

Of these partners **72%** consistently met the minimum Deloitte Global quality standards.

Areas of improvements, where the robustness of audit evidence should be enhanced, were identified in the following categories:

- Goodwill
- Revenue
- Journal entries
- Loan book impairments
- Group audits

External inspections

We are subject to external inspections, which independently evaluate our quality and add value to the overall system of quality control.

Following our IRBA inspection from January to March 2017, our quality control processes were satisfactory. The inspections approach is based on risk (measured by the significance of the possible impact on the public interest) and engagements are selected based on risk factors identified. The inspections focus mainly on the International Standard on Quality Control (ISQC) 1 elements.

The inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to issuer audit work.

Following our PCAOB inspection, in 2016, which subjected three files to review, two findings were raised on two files. We submitted a remediation plan, which was accepted by the PCAOB.

Continuous improvement

Focusing on continuous improvement is essential to driving improvements in audit quality. Understanding why findings occur in both internal and external inspections and the development of the appropriate actions to address the causes is fundamental. The key components of causal factor analysis and remediation include the creation of a culture where the causes of deficiencies are thoroughly and consistently explored. This results in the revision of the audit quality plan so that it provides for effective identification, implementation and monitoring of key audit quality priorities.

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

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

Appendices

Appendix A | Practice office locations

Country's Offices	Province	Address
Johannesburg Head Office	Gauteng	Deloitte Place The Woodlands 20 Woodlands Drive Woodmead Sandton
Pretoria	Gauteng	Riverwalk Office Park, Block B 41 Matroosberg Road Ashlea Gardens
Cape Town	Western Cape	1st Floor, The Square Cape Quarter 27 Somerset Road Green Point
Stellenbosch	Western Cape	Unit 11, La Gratitude Ground Floor 97 Dorp Street Stellenbosch
East London	Eastern Cape	16 Surrey Road Vincent, 5247 East London
Durban	Kwa-Zulu Natal	DTT Place, No.2 Pencarrow Crescent, Pencarrow Park La Lucia Ridge
Pietermaritzburg	KwaZulu-Natal	460 Town Bush road Building A, Unit 3B Town Bush Office Park Cascades Pietermaritzburg
Richards Bay	Kwa-Zulu Natal	The Rotary Room Richards Bay Country Club Kurperkurwe Merensee
Port Elizabeth	Eastern Cape	Deloitte Place, Ascot Office Park Conyngham Street Greenacres Port Elizabeth

Appendix B | Financial information

Deloitte South Africa financial highlights

	R'm FY18	R'm FY17
Total revenue		
Total SA partnership	4,481	4,241
Top 200 clients	3,312	3,203
Advisory clients ³	2,081	1,961
Audit clients ³	1,231	1,242
Audit fees attributed to Public Interest Entities	66%	-
Audit fees attributed to Non-Public Interest Entities	34%	-
Non-audit related services ⁴ as a percentage of audit fees at Top 200 audit clients	9%	11%

³ 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).

⁴ 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.

Appendix C | Public interest entities

Public interest entities audited for statutory purposes by Deloitte South Africa in the financial year ended 31 May 2018:

Acsion Limited	Lion of Africa Life Assurance Limited
AdaptIT Holdings Limited	Lombard Insurance Company Limited
Adcorp Holdings Limited	Lombard Life
ADvTECH Limited	Long4Life Limited
AECI Limited	Mango Airlines SOC Limited
AEP Energy Africa Limited	Master Currency (Pty) Limited
African Energy Partners Limited	Merafe Resources Limited
Air Chefs SOC Limited	Mercantile Bank Limited
Allan Gray Pension Preservation Fund	Mercantile Holdings limited
Allan Gray Provident Preservation Fund	Metrofile Holdings Limited
Allan Gray Retirement Annuity Fund	MiX Telematics Limited
Alliance Midmed	Momentum Medical Scheme
ANC & ANC Elections Fund	Motor Industry Pension Fund
Anglo American Finance Company Limited	Motor Industry Provident Fund
Anglo American Platinum Limited	Mpact Limited
ArcelorMittal South Africa Limited	Municipal Gratuity Fund
Ashburton Fund Managers (Pty) Limited	Murray and Roberts Holdings Limited
Attacq Limited	Mustek Limited
Auto Workers Provident Fund	Nampak Limited
Balwin Properties Limited	Nedbank Collective Investment Schemes
Bank of Athens	Nedbank Group Limited
Bank of Tokyo	Nedbank Retail
Barloworld Limited	Nedbank Synthesis Funding (Securitisation)
Bayport Financial Services (Pty) Limited	Nedbank Wealth Stockbrokers
Bell Equipment Limited	Nedgroup Collective Investments (RF) Pty Limited
Bidvest Bank Limited	Nedgroup Investment Collective Investment Schemes
Bidvest Insurance Limited	Nedgroup Private Wealth Stockbroking

Bidvest Life Limited	Nedsettle Pty Limited
Blue Diamond no 1	Net 1 UEPS Technologies Inc.
Blue Diamond no 2	NMG Administrators (Pty) Limited
Blue Diamond no 3	NMG Private Equity
Blue Granite I Pty Ltd	Oceana Group Limited
BNP Paribas Personal Finance South Africa Proprietary Limited	Octodec Investments Limited
Bonitas	Pan African Resources Plc
Brait Private Equity	Pentair Water South Africa Proprietary Limited
Brait SE	Peregrine Holdings Limited
Bridge Collective Investment Schemes	Peregrine Life Limited
Brightrock	Peregrine Securities Proprietary Limited
Brimstone Investment Corporation Limited	PPC Limited
BSI Steel Limited	Precinct Funding 1 Limited
Cape Municipal Pension Fund	Precinct Funding 2 Limited
Capital Drilling Limited	Rand Merchant Bank
Coface SA	Real People
Community Life Insurance Company	Regent Insurance
Compcare Medical Scheme	Regent Life Assurance Company Limit
Coreshares Index Tracker Management and Exchange Traded Funds	Relyant Insurance Company Limited
Crookes Brothers Limited	Relyant Life Assurance Company (Pty) Limited
Datatec Limited	Renasa Insurance Company Limited
De Beers Consolidated Mines Limited	Resilient REIT Limited
Delta EMD Limited	Reunert Limited
Dipula Income Fund Limited	RH Bophelo Limited
Durban University of Technology	Rhodes Food Group Holdings Limited
Edcon Limited	RMB Stockbrokers
Eqstra Holdings Limited	Rustenburg Platinum Mines Limited
Eqstra Holdings Limited	SA Corporate Real Estate Limited
Etana Insurance Company Limited	Sabvest Limited
Ethos Listco	SACCAWU National Provident Fund
Famous Brands Limited	Safari Investments RSA Limited
FedGroup	SAHL Insurance Company Limited
First Rand Bank Limited	SAHL Life Insurance Company Limited
First Rand Limited	Sandown Capital Limited
FirstRand Investments Holdings Limited	Santova Limited

FirstRand Retirement Fund	South African Retirement Annuity Fund
FNB Pension Fund	Sea Harvest Group Limited
FNB Securities (Pty) Ltd	South African National Blood Services
Fortress REIT Limited	South African National Parks
FR Life Insurance	Southchester Investment Managers
Gaia Infrastructure Capital Limited	Steinhoff Investments Holdings Limited
Global administrators	Sygnia Collective Investment Scheme RF (Pty) Ltd
Government Employees Medical Scheme	Sygnia Life Limited
Government Employees Pension Fund	Sygnia Limited
Greenhouse Funding (RF) Limited	The Bidvest Group Limited
Greenhouse Funding 4 (RF) Limited	The Foschini Group Limited
Greenhouse Funding III (RF) Limited	The Smartlife Insurance Company Limited
Grindrod Bank Limited	The Thekwini Fund 9 (RF) Limited
Grindrod Limited	The Thekwini Fund 11 (RF) Limited
GTC	The Thekwini Fund 12 (RF) Limited
H4 Collective Investment Scheme	The Thekwini Fund 13 (RF) Limited
H4 Qualified Investor Hedge Fund Scheme	The Thekwini Fund 14 (RF) Limited
H4 Retail Investor Hedge Fund Scheme	The Thekwini Fund 15 (RF) Limited
Habib Overseas Bank Limited	Tiso Blackstar Group SE
Hollard Insurance Company	Tongaat Hulett Limited
Hollard Life Assurance Company Limited	Topmed Medical Scheme
IDS Qualified Investor Hedge Fund Scheme	Torre Industries Limited
IDS Retail Investor Hedge Fund Scheme	Toyota Financial Services (SA) Limited
Imperial Holdings Limited	Transaction Capital Limited
Interwaste Holdings Limited	Transnet Retirement Fund
Invicta Holdings Limited	Transnet Second Defined Benefit Fund
KAP Industrial Holdingsw Limited	Transsec (RF) Limited
Keyhealth Medical Scheme	Transsec 2 (RF) Limited
King Price Insurance Limited	Unitrans Insurance
Kumba Iron Ore Limited	University of South Africa
KZN Municipal Pension Fund	University of Zululand
Legal Expenses Insurance SA Limited	Wesbank
Lion of Africa Insurance Company Limited	



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