Deloitte.

30 September 2020

Audit Regulatory Transparency Report

Deloitte & Touche Kenya

30 September 2020

Contents

Scope of this report

This report sets out the practices and processes that are currently employed by Deloitte & Touche Kenya, in accordance with the requirements of Article 13 of the European Union's Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities.

Leadership message

Deloitte & Touche Kenya leadership message

Anne Muraya
East Africa Audit Leader

Welcome to the third edition of the Deloitte & Touche Kenya's (hereinafter referred to as "Deloitte Kenya") Audit Regulatory Transparency Report for the year ended 31 May 2020.

Audit regulatory transparency is vital in creating and maintaining trust between the firm, its clients and the general public. At Deloitte, quality and integrity is deeply rooted in our culture, as is the commitment to the quality of our work. It is not only what we do, but who we are. In line with this, Deloitte has developed global compliance processes to ensure that every service provided to our clients complies with the regulatory requirements applicable to the client concerned. These processes are applied consistently across our business.

Deloitte Kenya endeavors to uphold professionalism by attesting to accomplishments and challenges as well as helping to assure strong foundations for future aspirations. We illuminate the what, how and why of change so that our clients are always ready to act ahead.

We are living in a fast-changing environment especially when it comes to technological advancement. Technology continues to be a catalyst in improving audit processes and increasing efficiency in the profession. Deloitte Kenya is at the forefront in embracing technology in our work and we are excited to be part of the digital evolution.

We continue to transform the way we audit through re-imagination, embracing technology and adapting to the changing environment. Deloitte Kenya is committed to continuously building a culture of quality and excellence in audit in the region and beyond.

Coronavirus disease 2019 (COVID-19)

Deloitte's highest priority is the safety and well-being of its professionals. As the impact of COVID-19 unfolds, investors and stakeholders are looking to auditors to provide an independent opinion on companies' financial statements more than ever. Deloitte remains committed to this critical role and delivering the highest quality audits.

Deloitte's global technology and infrastructure has allowed for an agile and rapid response to the various impacts of COVID-19. We have prepared for various contingencies in order to support changing client needs and to keep Deloitte professionals informed while working remotely. Deloitte's business continuity plans have been updated and we have affirmed that Audit & Assurance products and solutions have the necessary bandwidth to ensure continuity.

We hope this report will provide you a deeper understanding of our commitment to quality, our ethical principles and professional standards.

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

Throughout this report, the terms "Deloitte, we, us, and our" refer to one or more of one or more of Deloitte Touche Tohmatsu Limited, its network of member firms, and their related entities. For more information about the Deloitte network, please see p. 3 or https://www2.deloitte.com/global/en/pages/about-deloitte/articles/about-deloitte.html.

Africa leadership message

Andrew Mackie
Managing Partner
Audit & Assurance
Deloitte Africa

State of the Profession

The professional services industry globally has been under intense scrutiny and this is true for the audit profession in particular, which exists within a context of increased levels of economic crime, unethical business behaviour by executives and those charged with governance, conflicts of interest and corporate failures. The role of auditors in these scandals and the perceived absence of accountability highlights the expectation gap on the role of external audit.

The financial reporting ecosystem is complex, interdependent and each component of the ecosystem is integral to the proper functioning of the others. This means that the entire ecosystem must adapt in concert and with speed. Management, audit committees, regulators, policy-makers, standard-setters, investors, and auditors are in this together. It is important to remember that the purpose of the financial reporting ecosystem is to serve the public interest by enabling complete, accurate, transparent corporate financial disclosures.

At Deloitte, we take our responsibilities to serve the capital markets and public interest very seriously. Accordingly, we are deeply committed to investing in capabilities and continuous improvement to deliver high-quality audit services.

Corporate reporting and audit – a collective responsibility

Through the corporate reporting process, stakeholders need to be able to identify well-governed companies who act in the public interest. Transparent reporting and robust governance mechanisms are key tenets of public interest and drive trust.

All stakeholders that form part of the financial reporting ecosystem, including the accounting profession, the corporate world, regulators, and investors, need to work together to drive change across the corporate reporting ecosystem to respond to the changing relationship between companies and the society they work within.

We support the market side developments, including strong regulation over director responsibilities for the internal control environment and the regulatory oversight of corporate reporting. It is critical that companies and their boards are transparent and accountable for their business and an appropriate strong regulatory environment exists to drive responsible behaviours in the public interest. Deloitte is committed to this evolution of corporate reporting in the public interest and will explore elements of this further in a series of points of view to stimulate and inform the debate.

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The impact of COVID-19

We acknowledge the devastating impact that COVID-19 had on lives, the economy and employment. Our first priority always remains ensuring that clients and employees remain safe and protected. We adhere to the letter and the spirit of the regulations published and adopted where necessary. We are delighted by the agility shown by Deloitte employees and partners alike to adapt to the new normal. We continue to grow in digitisation and believe that there will be many enhancements in the auditing profession due to innovation that the   COVID-19 landscape put into play.

At Deloitte

We are dedicated to continuous improvement at every level of our organisation and unwavering in our efforts to deepen accountability at every step of the audit.

Deloitte network

Deloitte & Touche Kenya legal structure and ownership

Deloitte & Touche Kenya is connected to the Deloitte network through the Deloitte Pan African Trust, a member firm of Deloitte Touche Tohmatsu Limited. Deloitte & Touche Kenya is referred to throughout this report as "Deloitte & Touche Kenya", and Deloitte Pan African Trust 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 practice offices in Botswana, Ghana, Kenya, Malawi, Mozambique, Namibia, Nigeria, South Africa, Tanzania, Uganda, Zambia, Zimbabwe and territorial rights over Ethiopia, Lesotho, Rwanda and Swaziland.

Deloitte Kenya is authorised to serve as an auditor for clients in Kenya, Institute of Certified Public Accountants of Kenya (ICPAK) registration number PF/0004. Our audit firm operates as a partnership and is established under Kenyan law, with the head office registered at Deloitte Place, Waiyaki Way, Muthangari P.O. Box 40092-00100, Nairobi Kenya

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.

The Deloitte audit quality journey

The Deloitte audit quality journey

Tone at the top

Refreshed shared values.

Our commitment to the highest standards of audit quality is in our DNA.

We continue to set a **strong tone at the top**, in particular regarding ethics, quality and compliance with the firm's policies and procedures.

Through our refreshed **Shared Values** we are able to serve our clients, our people and our communities in a way that is consistently and unmistakably Deloitte. (1) We lead the way, (2) We serve with integrity, (3) We take care of each other, (4) We foster inclusion, and (5) We collaborate for inclusion.

We provide strong support to audit partners who face matters head-on. **We publicly recognise and acknowledge the role of the partner.** Our partners know this, and are proud of our leadership stance.

Deloitte Africa Board

Our Board is constituted in terms of a partnership agreement and is elected by the partner and directors every three years. In accordance with best practice corporate governance, we insist on a separation between the board of partners and directors and the executive management.

Roles and responsibilities

- Ongoing oversight and monitoring of Deloitte Africa's adherence to ethics, laws and regulations
- Promotion and protection of partner and director interests and overseeing management
- Determine Deloitte Africa's long-term strategies, with specific oversight of risk and quality.

Deloitte Africa Executive Committee

Our 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 or directors and Africa regional leaders.

Roles and responsibilities

- Assisting the Chief Executive Officer in managing Deloitte Africa
- Implementing policies and strategies of Deloitte Africa as approved by the Africa Board
- Retaining the authority to manage the day-to-day operations of Deloitte Africa
- Planning Deloitte Africa's future development.

Tone at the top

Refreshed shared values.

Our commitment to the highest standards of audit quality is in our DNA.

Deloitte Africa Audit Executive Committee

Our Audit Executive Committee is responsible for the governance and oversight of the Audit & Assurance service line.

Roles and responsibilities

- Sets the strategic direction and focus areas
- Approves the service line's business strategy
- Approves the allocation of units and earnings to partners
- Approves the financial aspects of business plans.

Members of the Deloitte Africa Audit Executive Committee

Andrew Mackie Managing Partner	**Anne Muraya** East Africa Audit Leader	**Bonga Nyembe** Deputy Managing Director and assurance Representative	**Lizette Snelgar** Talent and organisational effectiveness specialist
Eric Tshabalala Talent and transformation	**George Tweedy** Audit Quality and Risk Leader	**Vuyelwa Sangoni** Public relations	**Pennie Binnie** T50 and adjacencies
Haroon Loonat National Private	**Dirk Steyn** Chief Operating Officer	**Michael Daudu** West Africa Audit Leader	James Welch Rest of Africa NPPD

Deloitte Kenya Independence

Deloitte Kenya has 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.

Deloitte Kenya's 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 Deloitte Kenya.

Strategies and procedures to communicate the importance of independence to partners, other professionals and support staff have been adopted, emphasizing each individual's responsibility to understand and meet the independence requirements. The Director of Independence is responsible for overseeing independence matters within the member firm, including the design, implementation, operation, monitoring and maintenance of the system of quality control related to independence. The key elements of the system of quality control that Deloitte Kenya implemented in accordance with global independence policies are set out below.

Quality Controls & processes supporting Independence

Deloitte invests in systems, quality controls and processes to safeguard the independence and objectivity of our firm, our professionals and our engagement teams, and to avoid conflicts of interest.

Independence declarations

This process secures confirmation from partners, directors, professionals and support staff that they are aware of policies associated with audit-entities 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.

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 family members (spouses or spousal equivalents, and dependants).

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. This process is renewed on an annual basis.

Ethics and independence

Stronger stance on non-compliance with firm policies and processes.

Strengthened independence processes.

Enhanced disciplinary liability framework.

Deloitte entity search and compliance (DESC) system

The DESC system contains information related to all our 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. The system also allows partners, directors and professionals to confirm the permissibility of a new personal financial interest, before the acquisition is made.

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 permissibility of business and financial relationships of a sample of partners, directors and client-facing professionals of manager grade and above, including that of their immediate family members.

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. 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.

Audit Client Review Board

The audit client review board (CRB) is mandated for client acceptance and continuation of all public interest entities (Listed entities, Banks, Insurers and other PIE where there are risk factors present). These consultations are completed on an annual basis.

The board consists of various panel members and may comprise of the Risk Intelligence Partner, Risk and Quality Leader, relevant members of the Audit Executive Committee and subject matter experts, depending on the risk profile of the client.

The purpose is to have an independent panel to assess the Know-Your-Client information submitted by the engagement team and challenge them on their respective risk assessment and risk responses, specifically with regards to professional service risk, client risks and reputational risk. After considering mitigating actions, the engagement may be accepted, accepted with specific conditions (that are then monitored) or rejected if the client doesn't meet the current risk profile of the firm.

Where further heightened risk is identified, a Global Audit Acceptance Consultation (GAAC) is mandatory. The global consultation process in mandated across all Deloitte member firms for audit engagement that represents certain risk profiles. The engagement acceptance/ continuance decision is then further assessed by an independent panel in the UK and a conclusion reached as to whether the member firm can continue the relationship.

Both the CRB and GAAC selection criteria are assessed on a continuous basis to ensure that the criteria remains relevant and topical when considering the risks in the audit industry.

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.

Ethics

The expectation to act with integrity in accordance with high ethical standards is at the core of everything we do. To this end our Global Code of Business Conduct (Global Code) and our Africa Code of Professional Conduct outline the commitments we make and the standards we adhere to as Deloitte professionals. We take any breach of these commitments and standards seriously, and any breach may result in sanctions determined in accordance with the Deloitte Africa disciplinary framework.

We encourage our people to speak up where they observe questionable behaviour. During FY2020 we have received 146 reports via our independent reporting line, Speak Up. All reports are independently investigated and we aim to close out all investigations in a reasonable time. 52 of the reported cases were substantiated and action taken in these cases include a policy or process review, counselling or reprimand and/or financial sanction.

Our Ethics Officer facilitated 'Leading with Integrity' conversations with all partners and directors, and all other Deloitte professionals completed the Speak up for Values learning.

The annual ethics survey confirmed that 98% of respondents believe that Deloitte is an ethical workplace. The survey identified potential blind spots, which enables the Ethics Officer to address these through targeted interventions. The Ethics Officer shares the survey results with all Deloitte professionals, and presents it to the Executive and the Board.

A number of new policies have been implemented in the past year, including the Gifts and Entertainment policy, the Consensual Personal Relationships policy, and the Anti-harassment and Anti-discrimination policy. Our Anti-corruption policy was updated and confirms our zero-tolerance stance on bribery and corruption in compliance with local and global anti-corruption laws and regulations.

Ethics and independence

Stronger stance on non-compliance with firm policies and processes.

Strengthened independence processes.

Enhanced disciplinary liability framework.

Long association requirements of audit partners and professionals

Long association requirements of audit partners and other professionals are currently tracked via the portfolio allocation processes.

Long association requirements of audit partners are a key consideration when allocating a partner to a client. We have further invested in a portfolio management system which is currently in development. Going forward the rotation requirements will be built into the portfolio management system and provide a real time control to pro-actively alert the business to upcoming rotation requirements.

Information security

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.

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

Future Outlook

We have embarked on a deep and wide review of our audit business. Known as the Future-Fit project, it is designed to improve governance, oversight, efficiencies and improve audit quality (with immediate effect). Also, to further empower our leadership and employees, we are hosting ongoing risk awareness and education sessions.

Additionally, in the last two years Deloitte has made a substantial investment in its client and engagement onboarding processes – especially in relation to work in the public sector. This has resulted in reduced risk and greater compliance with applicable procurement rules.

We have zero tolerance for behaviour that falls short of our standards of excellence. Upholding the trust of clients, the regulator and the public is our foremost priority.

We manage our practice so that financial and operational considerations do not override fidelity to professional standards and serving public interest.

Deloitte Global Independence 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.

Our **independence policies and processes** are summarised as follows:

Policy		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; provides an annual focused review program to be performed by member firms as part
People		• Annual and engagement level independence declarations. • Rotation of key audit partners and staff, at a minimum in accordance with the IESBA Code or more restrictive local laws and regulations where applicable. • Training on ethics, independence and conflicts of interest. • Global Independence Monitoring System. • Business Relationship Management System. • Firm rotation from clients per regulatory requirements.
Client		• Deloitte Conflict Checking System. • Deloitte Entity Search and Compliance system. • Business Relationship Management System.
Monitoring		• Deloitte Global Independence performs on-going monitoring activities of firms— enabling continuous enhancements to global policies, quality controls, tools, and practice support activities.
Sanctions		• Enhanced Africa disciplinary liability framework. • Disciplinary processes.

Risk management

Driving relevance, urgency and appropriate conflict management.

Changing behaviours to an intelligent and pro-active response to the risks facing our business.

To respond to the enhanced risk we face as a business and to drive the appropriate change in behaviours, we have invested heavily in our risk management processes. We emphasise the importance of effective risk management strategies through driving **relevance, urgency and appropriate conflict management** in resolving risk matters. We recognise that maintaining **professional skepticism** obliges us to maintain a never ending and uncompromising mind set.

We have developed a risk intelligence process that comprises **risk sensing**, and **Audit client review board** in addition to our existing portfolio risk review process. Through these processes we pro-actively and continuously identify significant risk exposures emanating from our clients to the audit business, allowing us to design and implement safeguards to mitigate the risk exposure. These processes are further expanded on in the "A peek into the Deloitte Audit" section.

Clients exposing our business to an elevated risk of brand and reputation damage are enrolled into **iCARE** if the risk exposure is considered high and **CARE** where the risk exposure is considered medium. Both iCARE and CARE programmes are staffed by specialised members of the Audit Risk Management team who guide the engagement team and provide an additional level of competence and objectivity in planning, performing and concluding on the engagements.

Deloitte people

Right skillset at the right time.

Focus on changed behaviours to ensure that our auditors maintain professional scepticism.

Enhanced talent model which includes learning, rewards and recognition, centres of excellence, and delivery centres.

Our transformed approach to audit delivery is enabling our professionals to use more advances analytics, apply the latest tools, technologies and more critical thinking, thus spending more time applying professional judgement and gaining a deeper understanding of a client's business and industry and ultimately contributing to enhanced audit quality and an improved experience for our people.

Performing a high-quality Deloitte audit requires deep technical knowledge combined with relevant auditing skills and a sceptical mind-set. Substantial investments have been made in our talent and learning strategies and we have transformed our technical audit curriculum to build proficiency required by level.

At the core, a global mandatory Audit technical learning curriculum has been developed, targeting learners y-level, using a dynamic blend of live instructor-led, digital on-demand courses and on-the-job activities

Our professional development program has been established to help partners and other professionals maintain and enhance their professional competence and ensure consistency of audit execution. To supplement on-the-job development, we provide formal continuing professional development programs in relevant subject areas consistent with the Deloitte Global Audit Curriculum. Our audit partners and professional staff are required to complete at least 20 hours of continuing professional education annually and at least 120 hours every three years.

We have driven a change in behaviour to ensure that our auditors maintain professional skepticism through specifically tailored learning initiatives aimed at improving our partner and manager ability to deal with fraud. We have been driving an increased awareness in "what to look out for" and what focused audit procedures are required when responding to the risk of fraud.

When the engagement team utilises an **expert**, the engagement team evaluates whether the expert has the necessary competence, capabilities, and objectivity. We involve **specialists** throughout the audit engagement, including taxation, information technology, valuation, forensic and actuarial experts (among others) who receive relevant training as they are part of the extended audit teams and work directly within our audit systems processes, where required.

Deloitte people

Right skillset at the right time.

Focus on changed behaviours to ensure that our auditors maintain professional scepticism.

Enhanced talent model which includes learning, rewards and recognition, centres of excellence, and delivery centres.

Senior engagement team member workload has been noted as a causal factor with symptoms presenting in a broad expanse of audit quality issues. We will be placing significant focus on this area with priority actions focused on the development of processes that allow for pro-active and holistic monitoring of workload and capacity, including the portfolio review process and an increased level of monitoring will be enforced on newly accepted clients. Solutions to assist our senior engagement team members in project management and attaining improved work-life balance continue to evolve.
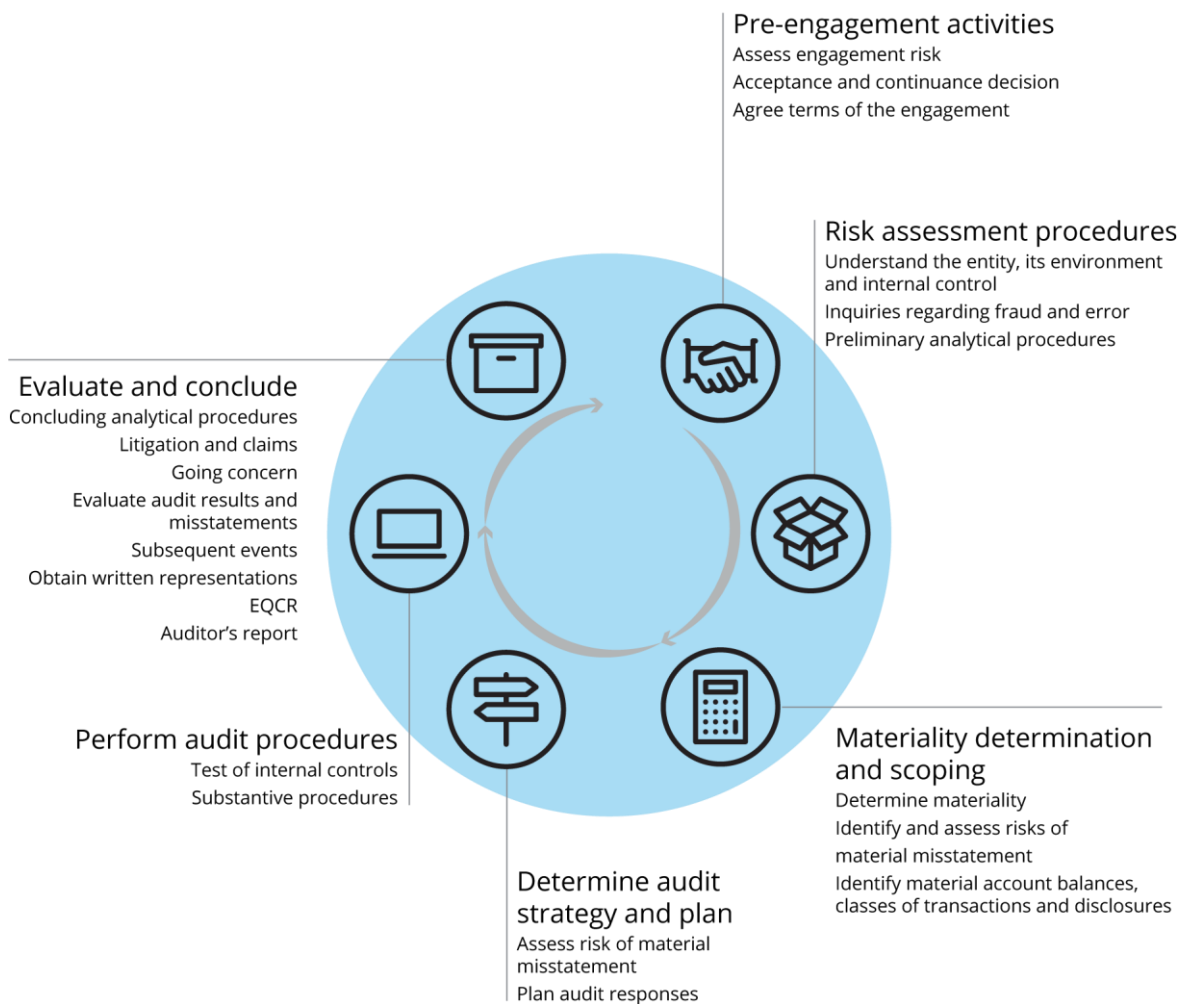
Partner remuneration

A partner or 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.

A peek inside the Deloitte 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 and other applicable auditing standard frameworks for dual listed entities. The firm has supplemented these requirements and guidance to reflect local requirements, as applicable. We continuously enhance our audit methodologies to encourage a robust, fact-based risk assessment and adjustment of audit response in relation to changes in that risk assessment.

Pre-engagement activities
Assess engagement risk
Acceptance and continuance decision
Agree terms of the engagement

Risk assessment procedures
Understand the entity, its environment and internal control
Inquiries regarding fraud and error
Preliminary analytical procedures

Evaluate and conclude
Concluding analytical procedures
Litigation and claims
Going concern
Evaluate audit results and misstatements
Subsequent events
Obtain written representations
EQCR
Auditor's report

Materiality determination and scoping
Determine materiality
Identify and assess risks of material misstatement
Identify material account balances, classes of transactions and disclosures

Perform audit procedures
Test of internal controls
Substantive procedures

Determine audit strategy and plan
Assess risk of material misstatement
Plan audit responses

A peek inside the Deloitte Audit

Pre-engagement activities

We have deployed our client acceptance, continuance and opportunity management software solution, **Phoenix**, across the Africa member firm to embed and drive a consistent approach. Our **Know-Your-Client** process assesses whether information exists that makes association with a particular client questionable or undesirable, with specific consideration being given to whether entities and individuals have been implicated in corruption or are politically exposed persons.

Risk sensing has been designed to identify risks that appear to be "hidden in plain sight". Our risk sensing team pro-actively senses the risks through consideration of external data available in the public domain. The integrated risk intelligence model underpinning the process identifies risk insights for selected clients and articulates the risk exposure to the firm on a level that is independent of the audit business' audit activities to develop an historic client risk profile for future predictive risk intelligence.

We established a **Portfolio Governance Board**, convened to debate and decide on the partner, engagement quality control reviewer and team allocation to our listed client portfolio, considering industry experience and capabilities, quality history, workload and business chemistry.

A peek inside the Deloitte Audit

Pre-engagement activities

The **Client review board** has been mandated as a robust consideration and consultation process for all listed entities, banks and insurers in order to drive deliberate changed behaviours in our client acceptance and continuance processes. Through the process we assess the client risk by asking pertinent questions and considering identified risk flags; the professional services risk by assessing the appropriateness of our capacity, capabilities and specialists to execute the audit as well as our pricing model based on the client risk profile.

Where further heightened risk is identified a **Global audit acceptance consultation** is mandatory. Where the risk cannot be appropriately mitigated against, or threats to independence safeguarded, the board declines or terminates the engagement. For the year ended 31 May 2020, 307 client engagements have been assessed through the client review board process. Prevalent themes identified through the client review board include the presence of politically exposed persons on our clients boards of directors, adverse media related to the client, the client's association with implicated entities or individuals, the client having links to government, matters related to weak management integrity and poor governance, entities facing issues related to viability and being highly leveraged, cross-border listings and entities with restatements.

A combination of risk sensing and client review boards have resulted in approximately 207 clients being reviewed across the continent with 12 engagements terminated or proposals not accepted for the year ended 31 May 2020.

A peek inside the Deloitte Audit

Risk assessment procedures

Through a thoughtful and fact-based risk assessment process, the guided risk assessment (GRA) process has been rolled out on our audit software to enable users to identify and assess the risk of material misstatement and identify controls and substantive procedures in alignment with the Deloitte Way. The GRA acknowledges that lower risks should have a standard response and higher risks a more tailored customised response. Based on the GRA, preliminary analytical procedures are performed to support the risk assessment.

In response to the outcome of the GRA, prescriptive generalised control descriptions are provided to respond to the risk of material misstatement.

A peek inside the Deloitte Audit

Audit Strategy and Plan

A peek inside the Deloitte Audit

Audit procedures

Audit Quality Milestones (AQMs)

We have made strategic investment in Project management procedures through **Audit Quality Milestones** (AQMs). AQMs are designed to drive the earlier timing and sequencing of audit planning and interim activities and to assist engagement teams to focus attention on doing the right audit activities at the right time, driving project management.

Timely completion of the AQMs improve audit quality and increase the operational excellence of audits, which is instrumental in contributing toward a successful transformation of the audit business. The AQMs are also an integral component to drive successful execution of in-flight reviews, which allows for the remediation of findings and improves the quality of the audit prior to the issuance of the audit opinion.

Engagement teams monitor milestone progress at the engagement level. The AQM report (available through the Diagnostics Quality Dashboard module in Audit Online) shows engagement portfolio progress against the milestones based on activity within all your active engagements.

The local audit quality and risk office utilizes diagnostics to identify whether engagement teams and partners have met the AQMs.

The roll out of **Guided Risk Assessment**(GRA) and **Deloitte Way Workflows** (DWW) is designed to address the most common scenarios on audit engagements, which are applicable to entities in all industries. The DWW provides a standardised process for executing audit procedures on an account balances, financial statement cycle or a non-account process.

We have **increased our focus on fraud** in response to stakeholder expectations by increasing the involvement from forensic, money laundering and legal specialists when red flags derived from our lessons learnt are identified. A process has been developed to assess all **special purpose vehicles and unconsolidated structures** to determine whether they have been treated correctly for the Group. Our related parties procedures have been extensively enhanced to include improved identification thereof and assess the commercial substance and relevance of relationships.

Our established consultation network assists in resolving issues identified by the engagement team that requires additional information, perspectives or specialised knowledge.

A peek inside the Deloitte Audit

Evaluate and conclude

An Engagement Quality Control Review (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. We have in the past year placed significant focus on capacitating and recognising the role of the EQCR and enhanced the eligibility and training requirements.

In our role of raising the overall quality of financial statements, our audit reports are required to convey our opinion on the truth and fairness of financial statements and as such are required to be of high quality and insightful transparency. **Key Audit Matters** are reported for listed entities to enhance the communicative value of the auditor's report by detailing information on the matters that, in auditor's professional judgment, were of most significance in the audit of the financial statements.

Our **communications with audit committees** and our client's boards of directors provide valuable commentary on the more qualitative aspects of financial reporting and management of clients' businesses.

Monitoring

Embedding the Audit Quality Monitoring and Measurement (AQMM) programme.

Our **AQMM programme** drives credible, reliable, and real-time audit quality monitoring activities that have contributed to our quality improvement goals. We are focused on identifying audit issues early, understanding what caused the issues, identifying key themes, and determining the actions needed to resolve the audit deficiencies. The early recognition of thematic or pervasive issues continues to be a critical focus to drive member firm level remediation.

Engagement monitoring is approached with a two-pronged strategy, a pro-active **in-flight monitoring (IFM)** process and retrospective **internal review process**.

The IFM process drives faster interventions to potential audit quality deficiencies on audit engagements while they are in process, through identification, timely solutions and real time actions. **Diagnostics monitoring**, specifically focused on public interest engagements, extracts key metrics on audit files to identify inconsistencies, potential documentation weaknesses, audit quality milestone non-compliance and issues with file configuration set-up. Through **Health Checks** and audit quality milestones, methodology enhancements and the most pervasive findings from the prior year's internal review are monitored. Where a partner has a prior year internal or external inspection remediation plan, an engagement file for that partner will be selected and will be subjected to In-flight Review in the current year.

Our **internal review process** has been augmented to ensure that up to 90 reviews can be accommodated across Deloitte Africa. The process accommodates public interest entities and other large non-public entities which are selected on a risk basis. The selected engagement files are reviewed to determine whether quality control procedures have been appropriately applied, assess the adequacy of the implementation of the audit approach, including compliance with our policies and procedures, monitor compliance with applicable local laws and assess the overall quality of service provided to clients. Consistency in findings and engagement ratings is driven by a mandatory moderation panel.

A risk-based approach is adopted to determine whether the **systems of quality control** processes and underlying Deloitte Policies Manual have been effectively designed, implemented and are operating effectively.
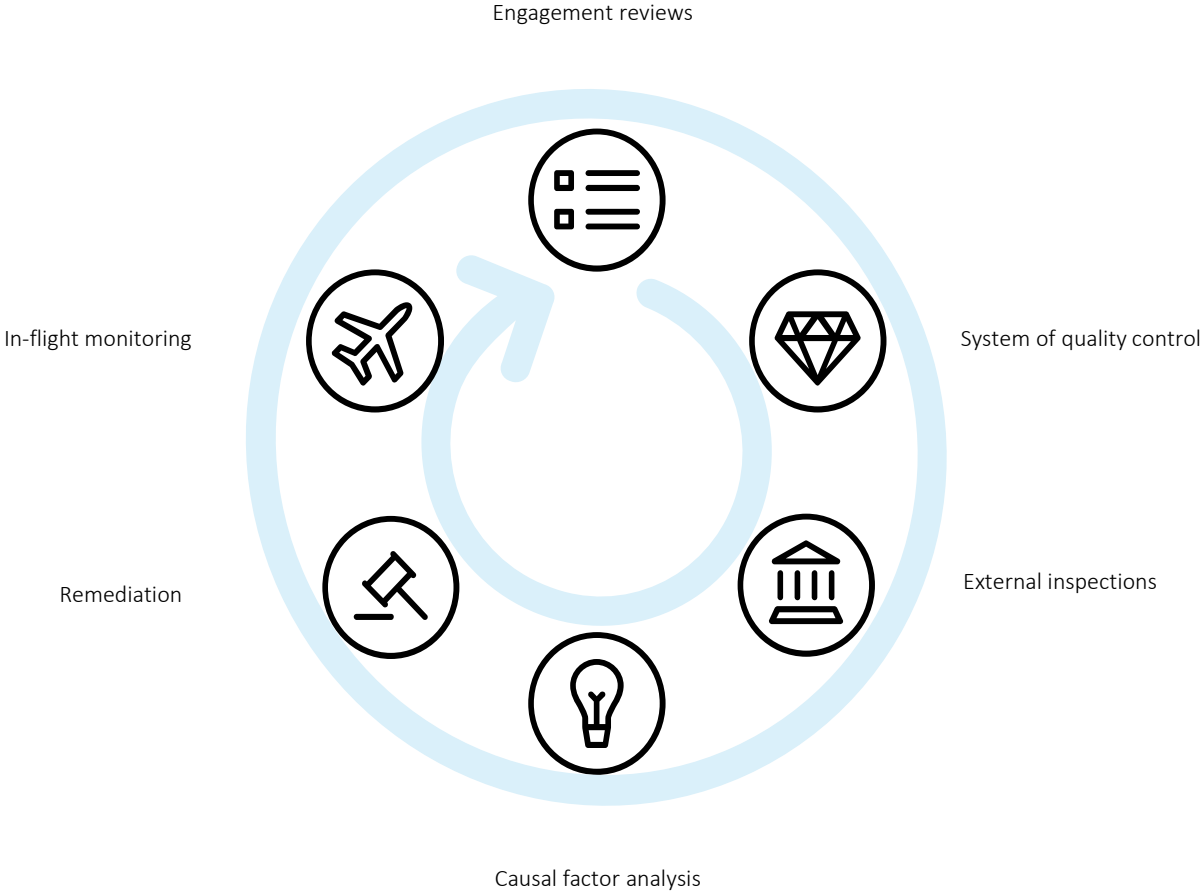
Focusing on **continuous improvement** is essential to driving improvements in audit quality. Understanding why findings occur in both internal and external inspections and the development of the appropriate actions to address the causes is fundamental. The key components of **causal factor analysis 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. The results from the internal review and quality control monitoring are included in our audit quality plan which is presented to our Audit Quality Board and Audit Leadership.

External inspections

We are subject to external inspections, which independently evaluate our quality and assist in enhancing our overall system of quality control. Following our 2010 review by the Institute of Certified Public Accountants of Kenya (ICPAK) inspection, our system of quality control processes were satisfactory.

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.

Engagement reviews

In-flight monitoring

System of quality control

Remediation

External inspections

Causal factor analysis

Audit & Assurance Transformation

Audit & Assurance Transformation

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

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

The Deloitte Way: standardization of audit processes supported by our global technology suite	Real-time audit quality monitoring
Enhanced talent model which includes learning, rewards and recognition, centres of excellence, and delivery centres	Agile deployment of tools and technologies to respond to changing environments

Audit innovation

Innovation is an expectation in today's fast-changing business environment and this holds true for the Audit profession as well. Given the complex business environment and tech evolution, there is a demand for real-time, relevant information, and clients expect audits to evolve as they innovate. While traditional procedures still have a place in auditing, Deloitte auditors are making use of more technology-based analytics, Artificial Intelligence (AI), cognitive & cloud-based technologies, etc. to allow for the overall process to be dynamic, multidimensional and insightful.

The innovation aims to improve routine tasks, bring to life analytics that yield a deeper, more insightful view into the data, and make use of artificial intelligence that enhances human discovery and problem-solving.

This is due in part to the increased automation and effectiveness that data analytics and other tools provide, but also the need for Deloitte to stay ahead of the curve of the technological advances.

With the introduction of The Deloitte Way, one standard Global Approach intended to standardize, digitize and automate, Deloitte is bringing innovation into the core of how we audit through Illumia, our global analytics platform, as well as an integrated suite of enabling innovation tools which are all connected in the cloud.

Our audit teams today, use analytics and benchmarking through the utilisation of Spotlight, our general ledger analytics solution which analyzes 100% of the journal entry data to assist in identifying anomalies and exceptions shifting our focus to where it is needed.

Deloitte's Icount technology enabled audit teams to perform real-time, remote Inventory counts during the lock down period, that led to significant audit process optimization.

In addition, our audit teams use our cloud hosted OCR platform, Argus, to digitally interrogate electronic documentation, such as revenue contracts, using advanced machine learning techniques and natural language processing to quickly identify, analyse, and extract key information, providing key insights and supporting further standardisation.

Organisational capabilities

Learning and development initiatives

As one of the top organisations in the world for developing leaders, Deloitte's learning philosophy is geared to improve our ability to serve clients; improve our people and grow the firm. We develop highly skilled practitioners that can be deployed anywhere in the world. Through Deloitte learning, our practitioners are positioned to build client confidence in our leadership capabilities by delivering outstanding client service.

Learning offerings provide staff with learning and development opportunities and annually, all staff are assisted in identifying a learning development plan. Each business unit has a dedicated learning advisor whose role is to assist staff identify and plan their learning needs. The talent leader, together with the business unit leader, will allocate budgets for the learning planned for the year.

To further enhance this process, all business units have a customised learning curriculum in place which outlines technical, leadership and management skill programmes per level.

Deloitte has made substantial investments in talent and learning strategies and transformed the technical audit curriculum to build the refreshed skillsets and proficiency required by level:

- At the core, we have a single, global mandatory audit technical learning curriculum for auditors, targeting learners by level, using a dynamic blend of live instructor-led, digital on-demand courses, and on-the-job activities.

- All client service professionals are required to complete at least 20 hours of continuing professional education (CPE) each year and at least 120 hours every three years, through structured, formal learning programs, such as internal or external courses, seminars, or e learning covering all areas of the competency model (e.g., shared competencies function-specific technical competencies, and competencies in areas of specialization).

- All client service professionals have clearly defined role expectations and our global Talent Standards outline the capabilities that are required of practitioners at each level.

- Deloitte Kenya provides on-the-job coaching through the EQCR Support Function on engagement teams as well as through the Internal Control Coaches.

- Mandatory and supplementary courses are conducted throughout the year. Mobile applications are used to keep record of attendance to ensure that updated information and tracking of attendance takes place.

Deloitte has also established specific learning opportunities for specialists working on audit engagements to support their knowledge and understanding of the audit process. The firm continues to provide world-class learning and career development for all staff, thereby ensuring that both staff, clients and the market benefit as a result.

As part of our mandatory GAAL (Global Audit and Assurance Learning) curriculum which we follow, all internal specialists are required to complete 2 curriculums. In addition, there is a separate Global curriculum specific to IT specialist which our IT specialists also complete. In the current year, specialists within FSA and Adjacencies were invited to specific topics or classroom learning modules as part of our GAAL curriculum.

Shaping the future

Shaping the future of the audit profession

Management teams, audit committees, investors, regulators, and standard setters all play critical roles in shaping the environment in which audits are performed. We strive to engage with these parties, both formally and informally, to share, offer and debate ideas with the objective of ensuring the relevance of audit and assurance to the capital markets.

Actively engaging with stakeholders on relevant debates

We continuously engage with key stakeholders to capture and understand different viewpoints and interests relating to the audit profession, and, in particular, to our firm. We do so with the understanding of the responsibility that a firm like ours has in maintaining the integrity of the capital markets, and in protecting public trust.

Having embraced the shift of being a more engaging and transparent firm, we remain conscious of the need to strike the right balance between client confidentiality and the occasional expectation from the public for specific disclosures of information relating to those clients.

However, since beginning of 2019, we have been deliberate in a strategy focused on a stakeholder-inclusive approach that balances the needs, interests and expectations of stakeholders and the best interest of the firm.

We appreciate the complex environment within which we operate, and the need to be attuned to the interests of the wide array of stakeholders therein. We have proactively engaged with various stakeholders including, government, regulators, professional bodies, the investor community, universities and other societal organisations.

Hard-wiring audit quality into our day to day

We embarked on a deep and wide review of all we do in our audit business - the "Future-Fit" project. Whilst our overarching values remain the same, we embarked on a process to become future fit to thrive in a volatile world of mandatory audit firm rotation and heightened stakeholder and public expectations. The Future Fit project was capacitated by local and global advisors, with deep experience in Audit Quality. The implementation of the project's recommendations have already commenced and are designed to not only restore our brand, but to significantly enhance audit quality.

We have implemented the following business and governance changes:

Best of Deloitte everywhere

We have nationalised our audit and assurance business. This ensures a far more integrated audit approach, enabling us to manage regional delivery dynamics more effectively and efficiently and achieve better consistency in our audit approach across a group engagement.

Single accountability for quality

We reconfigured our organisational structure and reporting lines to ensure that our audit quality and audit risk functions are fully capacitated, with appropriate capabilities, to execute and are empowered to hold any and all parties accountable for Audit Quality. We recognised the need for a strong and empowered Quality leader, separate from the role of the Chief Operating Officer.

The separation of these roles ensures that audit quality is not compromised for commercial reasons. We created a single accountability for quality through the Africa Audit Quality & Risk Leader, which is aligned to our global structure with equal status to the Africa Audit COO.

Shaping the future

Governance over lead client service partner, the engagement quality control reviewer and engagement team allocation .

We established a **Portfolio Governance Board**, convened to debate and decide on the partner, engagement quality control reviewer and team allocation to our listed client portfolio, considering industry experience and capabilities, quality history, workload and business chemistry.

Enhanced engagement quality control review (EQCR)

We have recently enhanced our EQCR support capability to respond to quality results and ineffective EQCR processes in the business, with specific focus on spending focussed time, at the right time, with the right skills and capabilities to perform an effective EQCR.

Appropriate focus on public and private

We created a segmented focus within our business between both public and private clients, deploying our capabilities in a way that is more aligned to our clients' specific circumstances. With bespoke training for our teams based on the types of clients they serve, and deployment of situation-specific tools, our audit process is significantly enhanced.

Addition of non-traditional skillsets

We have focused on strategic talent management ensuring we deliver the most distinctive client experience by integrating new capabilities and skills into our audit teams, bringing in valuable non-CA skillsets such as data analytics and project management and bringing further deep technical IFRS and audit skills to our listed client portfolio.

Systems of quality management

We continue to invest in our systems of quality management to drive continuous improvements in audit quality and to ensure that we are prepared for the enhancements required to our quality management processes as noted in the proposed International Standards on Quality Management (ISQM1).

Technical excellence

We have made several investments in our audit technical capabilities and infrastructure to provide deep technical and specialised support to audit engagement teams on IFRS and audit and regulatory matters, including dedicated IRFS and audit technical experts who are integrated into audit teams.

Appendices

Appendix A
EU EEA audit firms

Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation[1]

EU/EEA Member State (Article 13.2 (b)(iii) EU Audit Regulation: the countries in which each audit firm that is a member of the network is qualified as a statutory auditor or has its registered office, central administration or principal place of business)

Name of audit firms carrying out statutory audits in each Member State (Article 13.2 (b)(ii) EU Audit Regulation: the name of each audit firm that is a member of the network) EU Regulation 537/2014 on specific requirements regarding statutory audit of public-interest entities

EU/EEA Member State[2]	Name of audit firms carrying out statutory audits in each Member State[3]
Austria	Deloitte Audit Wirtschaftsprüfungs GmbH
	Deloitte Burgenland Wirtschaftsprüfungs GmbH
	Deloitte Niederösterreich Wirtschaftsprüfungs GmbH
	Deloitte Oberösterreich Wirtschaftsprüfungs GmbH
	Deloitte Salzburg Wirtschaftsprüfungs GmbH
	Deloitte Tirol Wirtschaftsprüfungs GmbH
	Deloitte Wirtschaftsprüfung Styria GmbH
Belgium	Deloitte Bedrijfsrevisoren / Réviseurs d'Entreprises CVBA / SCRL
Bulgaria	Deloitte Audit OOD
Croatia	Deloitte d.o.o. za usluge revizije
Cyprus	Deloitte Limited
Czech Republic	Deloitte Audit s.r.o.
Denmark	Deloitte Statsautoriseret Revisionspartnerselskab
Estonia	AS Deloitte Audit Eesti
Finland	Deloitte Oy

Appendix A(Continued)
EU EEA audit firms

Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation

EU/EEA Member State[2]	Name of audit firms carrying out statutory audits in each Member State[3]
France	Deloitte & Associés
	Deloitte Marque & Gendrot
	Audalian Commissaire
	BEAS
	Cisane
	Constantin Associés
	Constantin Entreprises
	D.B. Consultant
	ECA Audit
	Jacques Serra et Associés
	Laurens Michel Audit
	Opus 3.14 Audit et Conseil
	Pierre-Henri Scacchi et Associés
	Revi Conseil
Germany	Deloitte GmbH Wirtschaftsprüfungsgesellschaft
	Deutsche Baurevision GmbH Wirtschaftsprüfungsgesellschaft
	SüdTreu Süddeutsche Treuhand GmbH Wirtschaftsprüfungsgesellschaft
Greece	Deloitte Certified Public Accountants S.A.
Hungary	Deloitte Könyvvizsgáló és Tanácsadó Kft.
Iceland	Deloitte ehf.
Ireland	Deloitte Ireland LLP
Italy	Deloitte & Touche S.p.A.
Latvia	Deloitte Audits Latvia SIA
Liechenstein	Deloitte (Liechtenstein) AG
Lithuania	Deloitte Lietuva, UAB
Luxembourg	Deloitte Audit

Appendix A
EU EEA audit firms

Disclosure in accordance with Article 13.2 (b)(ii)-(iv) of the EU Audit Regulation

EU/EEA Member State	Name of audit firms carrying out statutory audits in each Member State
Malta	Deloitte Audit Limited
Netherlands	Deloitte Accountants B.V.
Norway	Deloitte AS
Poland	Deloitte Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa
	Deloitte Audyt spółka z ograniczoną odpowiedzialnością
Portugal	Deloitte & Associados, SROC S.A.
Romania	Deloitte Audit SRL
Slovakia	Deloitte Audit s.r.o.
Slovenia	Deloitte Revizija d.o.o.
Spain	Deloitte, S.L.
Sweden	Deloitte AB
United Kingdom	Deloitte LLP
	Deloitte Limited
	Deloitte N.I. Limited

Disclosure in accordance with Article 13.2 (b)(iv) of the EU Audit Regulation

The total turnover achieved by the audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements: € 2.1 billion[1]

[1] Amount represents an estimate determined based upon best efforts to collect this data. Certain Deloitte audit firms registered to perform statutory audits in respective Member States provide statutory audit services as well as other audit, assurance and non-audit services. While Deloitte endeavored to collect specific statutory audit turnover for each EU/EEA Deloitte audit firm, in certain cases turnover from other services has been included. The turnover amounts included herein are as of 31 May 2020, except for a limited number of instances where a Deloitte audit firm has different financial year-end or has not finalized its reporting for such period. In these cases, turnover amounts are for the relevant financial year or preceding financial year. Where currency other than Euros is used in the Member State, the amount in Euros was translated using an average exchange rate in effect for the period 1 June 2019 to 31 May 2020.

Appendix B
Financial information

Disclosure in accordance with Article 13.2 (k)(i)-(iv) of the EU Audit Regulation

The breakdown of the Deloitte & Touche Kenya's turnover for the year ended 31 May 2020:

Turnover	USD
Statutory audit (PIEs or PIE subsidiaries)	1,010,389
Statutory audit (non-PIEs or non-PIE subsidiaries)	4,736,664
Non-audit services (audited PIEs or PIE subsidiaries)	804,111
Non-audit services (audited non-PIEs or non-PIE subsidiaries)	2,781,522
Non-audit services (other entities)	15,187,970
Total	24,520,657

Appendix C
Public interest entities

Disclosure in accordance with Article 13.2 (f) of the EU Audit Regulation

Public Interest Entities Audited for Statutory Purposes at 31 May 2020.

Name	Client's financial year end
Bamburi Cement Limited	31 December 2019
Car & General (Kenya) Plc	31 December 2019
Central Bank of Somalia	31 December 2019
DIB Bank Kenya limited(rotated out in current year)	31 December 2019
Faulu Microfinance Bank Limited	31 December 2019
Jamii Bora Bank Limited	31 December 2019
Mayfair Bank Limited	31 December 2019
Kakuzi Plc	31 December 2019
Kenya Airways Plc(rotated out in current year)	31 December 2019
Kenya Women Microfinance Bank Limited	31 December 2019
Saham Assurance Company Kenya Limited(rotated out in current year)	31 December 2019
Trade and Development Bank (TDB)	31 December 2019

Appendix C
Public interest entities (continued)

Disclosure in accordance with Article 13.2 (f) of the EU Audit Regulation

Public Interest Entities Audited for Statutory Purposes at 31 May 2020:

Name	Client's financial year end
Fidelity Shield Insurance Company Limited	31 December 2019
AIG Kenya Insurance Company Limited(rotated out in current year)	31 December 2019
Old Mutual Life Assurance Company Limited(rotated out in current year)	31 December 2019
Paramount Bank Limited	31 December 2019
Resolution Insurance Limited	31 December 2019
The Company for Habitat and Housing in Africa (Shelter Afrique)	31 December 2019
Williamson Tea Kenya Plc	31 March 2020
Kapchorua Tea Kenya Plc	31 March 2020
WPP Scangroup Plc	31 December 2019

Deloitte.