

**Deloitte.**



## **2019 Transparency Report**

Updated as of 31 March 2020

# Our shared values

## Purpose and Shared Values

At Deloitte, we are more than auditors, consultants, financial advisers, analysts or tax specialists. Every day, we are building trust and confidence in the markets, supporting inclusive growth and developing skills so South Africa can thrive. Looking ahead, it is our ambition to keep driving change for the market and our clients, to promote a learning culture and to create an impact on the society around us.

## Our Purpose defines who we are

At Deloitte, our Purpose of making an impact that matters lies at the heart of what we do. Every day we challenge ourselves to do what matters most – for clients, for our people, and for society.

We serve clients distinctively, bringing innovative insights, solving complex challenges and unlocking sustainable growth.

We inspire our talented professionals to deliver outstanding value to clients, providing an exceptional career experience and an inclusive and collaborative culture.

We contribute to society, building confidence and trust in the markets, upholding the integrity of organisations and supporting our communities.

---

## Our Shared Values guide the way we behave to achieve our Purpose

Our Shared Values underpin our culture – a culture with integrity and professional conduct at its core. Deloitte was built on these values nearly 175 years ago. As we celebrate our 175th anniversary, we have evolved how we talk about and demonstrate our values to ensure that they will carry us through the next 175 years.

This culture is reinforced from the very top of the organisation and evident in the behaviour of our professionals, not only in South Africa, but around the globe.

### Lead the way

Deloitte is the leading professional services organisation in the world for a reason. Our scale and scope is unmatched, enabling our people to consistently serve clients with distinction and help shape professional services for the future.

### Serve with integrity

We believe in doing the right thing – always. That is the guiding force behind every decision we make and every action we take. By acting ethically and with integrity, and serving as role models in our communities, Deloitte has earned the trust of our stakeholders. Upholding that trust is our single most important responsibility.

### Take care of each other

We place a premium on respect, fairness, and trust – working together to achieve our aspirations. We recognise potential, value varied skill sets and experience, reward performance, and provide opportunities for growth and leadership. We prioritise well-being, and we empower our people through mentorship and sponsorship.

### Foster inclusion

We are committed to attracting, retaining, and advancing a diverse workforce, while fostering an inclusive culture where our people feel a sense of belonging and can grow. Accelerating diversity in leadership and strengthening our culture of inclusion requires ongoing attention and deliberate action, and we are steadfast in our commitment.

### Collaborate for measurable impact

We approach our work with a collaborative mindset, teaming across businesses, industries, geographies, and skill sets to consistently deliver tangible, measurable, attributable impact. We play a critical role in helping clients and capital markets operate more effectively.

# Contents

Transparency Report at a glance	2
Message from our Chairman	5
Message from our Chief Executive Officer	6
Deloitte South Africa structure and governance	8
Message from our Audit & Assurance Leader	12
Our approach to managing risk and quality in audit	14
Our commitment to ethics	20
Independence & information security	22
Promoting our Talent & Transformation agenda	24
Financial information	26
Actively engaging with stakeholders on relevant debates	27
Reputational events	28

# 2019 Transparency Report at a glance

## Key highlights

This 2019 Transparency Report demonstrates our commitment to a culture of integrity, professional excellence, accountability and audit quality. Maintaining trust through transparent stakeholder engagement is a key priority for Deloitte South Africa

All information provided in this report relates to the position of Deloitte South Africa for 31 May 2019 year end unless otherwise indicated.



### Deloitte network structure

**Deloitte Global employs 312,000** people in more than 150 countries around the globe

**Deloitte Africa has 370** partners/directors and **7,288** professionals across **17\*** countries

\* Deloitte Africa holds the licence to operate in Ethiopia, Lesotho and Burundi, but has no offices in those countries.

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

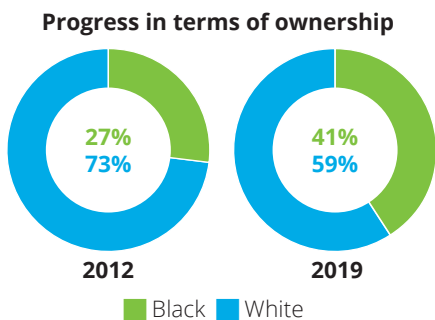
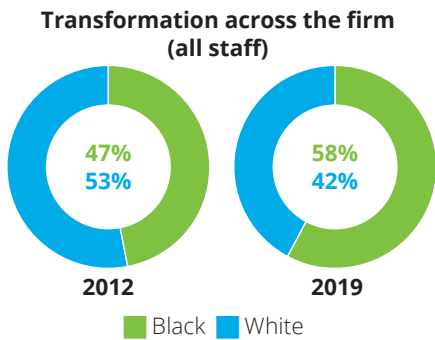
**Deloitte South Africa has 263** partners/directors and **4,626** professionals

### Deloitte South Africa's 2021 transformation strategy



Our review of the firm's transformation status as at 1 June 2019 indicated that, due to business-related factors, these targets may not be reached by 1 June 2020 as indicated in our 2018 Transformation Report. The target was therefore postponed to June 2021.

**Our pipeline of future leaders is consistent with our transformation targets**

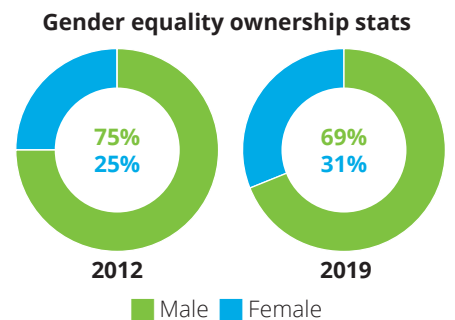
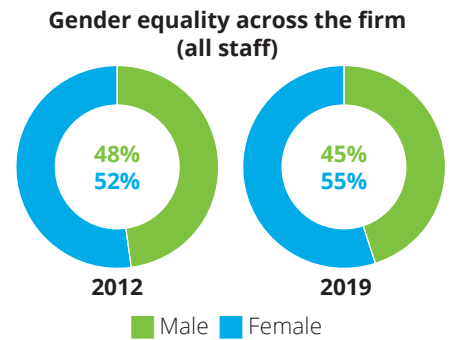


#### Partner/director pay gap

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

Grading (FY19 number of partners/directors)	% Gap (mean per level)			
	White/Black		Male/Female*	
	FY18	FY19	FY18	FY19
1-2 (133)	6%	9%	4%	2%
3-4 (124)	3%	4%	9%	8%
5-6 (6)	-28%**	-27%	-	-

\* No female representation at grading levels 5 and 6.  
 \*\* Black partners'/directors' earnings in this grading are more than that of their white counterparts



## Multidisciplinary professional services firm



Audit & Assurance



Consulting



Financial Advisory



Risk Advisory



Tax & Legal

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

### Benefits of our multidisciplinary model



Cross-functional insights



Access to specialists



Attract and retain talent

## A spotlight on audit

Our vision to “BUILD TRUST” means that quality is and will remain at the front and centre of everything we do and stand for. As part of our Future-Fit programme, we have changed the governance structures of our audit business.

### Audit Quality Board (AQB)

We have an Audit Quality Board that ensures our audits are executed at the highest possible level of quality.

**For the year ended 31 May 2019, 208 client engagements have been assessed through the client review board process. A combination of risk sensing and client review boards have resulted in 18 engagements terminated or proposals not accepted for the year ended 31 May 2019.**

Annually, a portion of the firm’s revenue is committed towards strengthening our risk and quality management processes. **4.8%** of the Audit & Assurance business’ FY19 revenue was reinvested into audit quality.

### Managing our independence

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

As at the date of this document, 100% of our listed clients have been assessed through our continuous risk sensing process.

### Promoting ethics

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

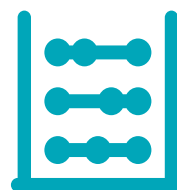
We have conducted a Portfolio Risk Review on 100% of partners servicing and signing listed client audits. This includes a detailed review of the capacity to service the assigned portfolio as well as a detailed assessment of the assigned quality review partners. We are satisfied that our partners have the competence and capacity to service their allocated portfolio of clients.

## FY19 financial highlights

### Revenue in R'million



Deloitte South Africa: **R4,586m**  
 Advisory-only clients: **R2,109m**  
 Audit-only clients: **R1,261m**



**R4,4m**

average total compensation per partner/director in 2019 (before tax)\*

\* The partners'/directors' total compensation includes salary, medical aid, profit share, retirement and group life benefits, and interest on capital.



## Message from our Chairman



**Trevor Brown**  
Chairman  
Deloitte Africa



The true strength of Deloitte lies in our multidisciplinary model. Across our services, we have the range of skills needed to analyse increasingly complex, multinational organisations.



We are working hard to be a true purpose-led organisation that uses our voice and knowledge to advance the role of professional services firms. Our first step in this regard was deep introspection and initiation of a series of remedial steps.

As you will read in his review, our CEO Lwazi Bam notes that incidents related to Eskom, Steinhoff, Tongaat Hulett and African Bank put an uncomfortable but necessary spotlight on our business. It provided us with an opportunity for meaningful reflection. We have taken these incidents very seriously and recognised that change was needed. Lessons have been learned and we have taken bold steps to improve our business to continue to uphold the trust of clients, the regulator and the public. We believe we are a much stronger firm as a result.

The true strength of Deloitte lies in our multidisciplinary model. The rate and scale of technological development and innovation has drastically changed the corporate landscape. Companies have become increasingly complex and this has had a commensurate impact on the depth and breadth of skills required to audit these companies. In order to serve the needs of investors, regulators and the capital markets, firms like Deloitte have grown to establish a similar level of international scale, expertise and experience to deliver high-quality audits. Across our services, we have the range of skills needed to analyse increasingly complex, multinational organisations. We also have the scale to invest in new technology, which has done so much to improve insights in recent years.

Engaging effectively with stakeholders is an important part of our ongoing journey. We welcome your feedback on this Transparency Report and would answer any questions on our structure, governance, remuneration, responsibilities and quality of work. Please reach out to us at [zatransparency@deloitte.co.za](mailto:zatransparency@deloitte.co.za).

I remain confident in the South African firm's strong commitment to the public interest and high-quality professional services, and remain satisfied that Deloitte has an unyielding focus on regaining trust.

A handwritten signature in black ink, appearing to read 'Trevor Brown', written in a cursive style.

**Trevor Brown**  
Chairman  
Deloitte Africa



**Lwazi Bam**  
Chief Executive  
Deloitte Africa

“ We recognise that we are an important contributor of trust and confidence, which are critical to ensure the proper functioning of the capital markets. This is a role that we don't take lightly and we accept the responsibility that comes with it. ”

## Message from our Chief Executive Officer

I am pleased to present our second Transparency Report for the financial year ended 31 May 2019 (FY19). Maintaining trust through transparent stakeholder engagement is a key priority for Deloitte South Africa, and I welcome the opportunity to share the firm's current position and future plans.

It is common cause that the professional services industry in South Africa, and globally, has been under intense scrutiny. This is so for the audit profession, in particular, which has been affected by increased levels of economic crime, unethical business behaviour and conflicts of interest.

The environment that we operate in has to, therefore, be viewed in the context of a trust deficit in business and large organisations globally. There is also a growing expectation from the public and investment community that the audit should be much more than what it currently is. There are debates about whether the scope of an audit should go further in terms of addressing business viability, fraud detection etc. Deloitte and the auditing profession locally in alignment with our global counterparts needs to respond to these debates.

As a global professional services firm we take full responsibility for ensuring that we go beyond simply complying with professional standards and legal and regulatory requirements. We are committed to acting with integrity and to doing the right thing at all times, so that we have a positive impact on business and society.

We understand that the impact of our work extends far beyond the audit engagement itself. We are viewed as important contributors to, and enablers of, trust and confidence. These fundamental values are critical to ensure the proper functioning of capital markets and protecting the public interest.

As leaders in professional services we understand our duty to society. We are therefore driven not only by our will to be the best, but also by what we know to be right.

This report seeks to demonstrate this mission. It provides insights into the inner workings, culture, vision and direction of our firm in South Africa. The report also aims to provide clients, investors, regulators and our wider stakeholder community with a base from which to engage further.



## Business performance

In FY19, Deloitte South Africa performed strongly despite the economic uncertainty (Refer to page 26 for more information about our financial performance during FY19). There is no doubt that the firm's success is largely due to the hard work and commitment of our people.

However, next to managing our business performance, we have taken a continuous improvement approach to managing our operational processes. We have made the necessary investments to deliver a better service to our clients focusing on technology, risk management processes and systems, and our people (more details provided later in the report).

## Addressing reputational matters and rebuilding trust

We remain resolutely focused on maintaining the highest standards and audit quality. It speaks to the very heart of our reputation and the offering that we provide to our clients. Indeed, we do not take lightly the responsibility that we bear as auditors.

Recently, we have had to answer some tough and awkward questions around our audits of Steinhoff, African Bank and Tongaat Hulett. In addition, we have also had to address concerns raised around advisory services rendered to Eskom in 2016. As a result of the introspection opportunity offered by these incidents, we have undertaken a comprehensive review of our business in the past financial year. With audit in particular this is aimed at ensuring that our audit offering is fit to meet and exceed the changed landscape. Please see further details on pages 15 to 19 in the report.

Our remedial process has included: internal investigations; realignment with regulatory processes; and stakeholder engagement. It has also involved a considered investment into further improving our internal processes, risk sensing and risk intelligence. For more detail refer to dealing with current reputational issues on page 28.

We are acutely aware that our licence to trade is linked to our reputation. We are therefore doing everything in our effort to ensure the restoration of the public trust in Deloitte. We understand that our efforts in this regard need to be demonstrated and we are committed to going beyond just words. This report illustrates some of the process improvements that we have already implemented and we will also make reference to where we believe further work is still required.

We take failures to comply with our high standards extremely seriously. Incidents are investigated in detail at the highest levels of management and where necessary these are dealt with appropriately. We also use these incidents as learning opportunities to reinforce our culture of accountability and expectations of excellence in quality management.

To help us further understand the impact of our activities on the public interest, we have established the Public Interest Council. The council is comprised of individuals of good public standing who collectively provide perspectives from business, government and civil society. These members are independent

of Deloitte and have undergone appropriate screening. Their appointment does not compromise their own or our firm's independence to audit clients. Page 11 contains more information about the Public Interest Council.

## Addressing our transformation goals

As indicated in last year's report, Deloitte South Africa is committed to transformation. As such, we have set goals that are reflective of our commitment to do the right thing. Our review of the firm's transformation status as at 1 June 2019 indicated that, due to a number of factors, these targets may not be reached by 1 June 2020 (as was indicated in our 2018 Transparency Report). The target has therefore been postponed to June 2021.

Achieving the 2021 target will require us to maintain the same level of momentum in pursuing our transformation objectives, which the firm's leadership has taken on-board. (Refer to the section on Addressing Transformation).

## Looking ahead

2020 marks 175 years of Deloitte as a global leader in professional services. It is also a year where Deloitte Africa will break new ground with the official opening of our new headquarters in Waterfall City, Midrand. Together with the Executive and the Board, I look forward to this exciting move, which will leverage Deloitte's heritage for future vision and growth for the next 175 years.

We believe that we have an obligation to create a lasting legacy that is founded not on short-term gains, but on long-term and sustainable objectives, anchored by our Purpose of making an impact that matters. This includes continually improving the quality of our work, achieving greater diversity in our talent base, building and maintaining trusted client relationships, and ultimately serving the public interest through the services we provide.



**Lwazi Bam**

**Chief Executive  
Deloitte Africa**



Deloitte South Africa is a voluntary member of the Global Deloitte network, and is a separate partnership owned by South African partners and directors.



# Deloitte South Africa structure and governance

In 2020, we are proud to celebrate our 175th anniversary as a global brand. We still exist in this fast-changing era because we embrace and embark on paradigm shifts, adapt our business to new market conditions – and continue to drive change, innovate and make an impact that matters.

## Deloitte network structure

Under the Deloitte brand, more than 312,000 professionals in more than 150 countries collaborate to provide services to selected clients.

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





## Legal structure in South Africa

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

Our partners and directors fund the partnership through personal capital contributions in cash, based on a percentage of his or her annual earnings. There is no global dividend.

## Our partner/director model

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

Deloitte Africa		Deloitte South Africa
17*	Countries 	1
26	Offices 	8
370	Partners/ directors 	261
7,288	Staff 	4,626

\* Deloitte Africa holds the licence to operate in Burundi, Ethiopia, Lesotho and Swaziland, but has no offices in those countries.



Deloitte Africa holds the licence to operate in Burundi, Ethiopia, Lesotho and Swaziland, but has no offices in those countries.

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

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

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

In the case of audit partners, we have designed the appraisal and promotion processes and considerations to establish a solid link between audit quality and partner remuneration. Partners who provide audit services are not evaluated or remunerated for selling non-audit services to audit clients. This approach aims to preclude financial considerations from driving actions and decisions, which would create a negative effect on audit quality, objectivity and independence.

### Global co-operation

As a member of the Deloitte Global network, we benefit from shared activities, investments and resources. These enhance our ability to provide core services to key local and global clients, as well as development opportunities for our people. We also use Deloitte's brand, eminence and intellectual property to ensure high standards are consistently met across our regions and around the globe.

## Our multidisciplinary model

We seek to make an impact by integrating a diverse range of perspectives, people and ideas to generate innovative solutions. The issues our clients are dealing with are becoming more and more complex. This requires a multidisciplinary approach. We offer solutions on an integrated basis, bringing together a variety of experience and competencies.



### Audit & Assurance

Delivering consistent, high-quality, risk-based audit services.



### Consulting

Unlocking opportunities from issue to impact, through strategy, innovation, human capital, technology and managed services.



### Financial Advisory

Providing expertise in transaction support services, valuations, mergers and acquisitions, debt and infrastructure advisory, and restructuring services.



### Risk Advisory

Realising opportunity by managing risk for our clients through integrated solutions, comprising forensics, data analytics, cyber-security, governance, regulatory compliance, business and technology risk, control and assurance.



### Tax & Legal

Delivering integrated tailored signature tax solutions and insights, spanning business tax, indirect tax and global employer services.

## Benefits of our multidisciplinary model



### Cross-functional insights

We develop insights through multiple lenses, enhancing our auditors' understanding of the business risks relevant to audits.



### Access to specialists

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



### Attract and retain talent

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

# Board and Exco

Strong governance and leadership is the foundation of our firm: determining our Purpose and Strategy; setting the tone for ethical and responsible decision-making throughout the firm; and ensuring transparency and accountability to external stakeholders and to our people.

Deloitte South Africa is governed by the Deloitte Africa Board, composed of Independent Executive Directors, ex-officio Executives, and a cross-representation of partners of the firm. The Board provides oversight on key matters including governance, strategy, alignment to the Global firm, transformation, risk issues, regulatory matters and the Public Interest Council.

Elevating Public Interest on top of the Leadership's agenda was a key focus in FY19. This was effected with the introduction of the Public Interest Council (more details below), and the appointment of Bongisipho Nyembe (Gauteng Audit Leader), holding accountability for the Responsible Business and Public Policy portfolio, and Roger Verster as the Africa Consulting Managing Director to the Exco.

## Members of the Africa Board



**Trevor Brown**  
Chairman  
(Southern Africa)



**Olufemi Abegunde**  
Deputy Chairman  
(West Africa)



**Lwazi Bam**  
Ex officio  
Chief Executive Officer



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



**Mike Jarvis**  
Ex officio  
Chief Operating Officer



**Murray Dicks**  
Ex officio  
Africa Reputation & Risk  
Leader



**Doreen Mbogho**  
(East Africa)



**Eshak Harunani**  
(East Africa)



**Sudasha Naidoo**  
(Southern Africa)



**Ruwayda Redfearn**  
(Southern Africa)



**Anthea Scholtz**  
(Southern Africa)



**Alice Tembo**  
(Southern Africa)



**Gaba Tabane**  
(Southern Africa)



**Nazeer Essop**  
(Southern Africa)



**Zama Dlamini**  
Advancement of  
Women



**Eric Tshabalala**  
Transformation



**Augustine Nkwume**  
(West Africa)



**Professor Njabulo  
Ndebele**  
Independent  
Non-Executive



**Professor Pat Utomi**  
Independent  
Non-Executive



**Rik Vanpeteghem**  
Observer and EMEA  
Managing Partner

Members of the Africa Executive Committee



**Lwazi Bam**  
Africa Chief Executive Officer



**Sihlalo Jordan**  
Africa Deputy Chief Executive Officer



**Mike Jarvis**  
Africa Chief Operating Officer



**Murray Dicks**  
Africa Reputation & Risk leader



**Joe Eshun**  
East Africa Chief Executive Officer



**Fatai Folarin**  
West Africa Chief Executive Officer



**Andrew Mackie**  
Africa Audit & Assurance Managing Partner



**Roger Verster\***  
Africa Consulting Managing Director



**Karin Hodson**  
Africa Financial Advisory Managing Partner



**Navin Sing**  
Africa Risk Advisory Managing Director



**Delia Ndlovu**  
Africa Tax & Legal Managing Director



**Justine Mazzocco**  
Africa Talent & Transformation Managing Partner



**Bongisipho Nyembe\*\***  
Public Policy and Responsible Business

\* Appointed 1 April 2020

\*\* Appointed 1 September 2019

# Public Interest Council

The inaugural Deloitte Africa Public Interest Council was launched in May 2019. The purpose behind establishing the Public Interest Council was to help the firm further understand the impact of our activities on the public interest, through constructive engagement with key stakeholders in society. Through these interactions, we aim to learn, build trust, and inspire confidence in our ability by truly making an impact that matters.

The role of the Public Interest Council is to challenge and provide recommendations to the Deloitte Africa Board and the Executive on matters of public interest pertaining to the activities of Deloitte Africa. The firm gives serious consideration to the feedback provided by the Council, and decides on matters for further action. The Public Interest Council does not hold decision-making powers in relation to Deloitte Africa, nor is it accountable for the actions taken by the firm pursuant to its recommendations.

Council members collectively provide perspectives of business, government, and civil society to allow for robust discussions and viewpoints.



**Andrew Mackie**  
Africa Audit & Assurance Leader



In an age of exponential technological transformation, globalisation and increasing business complexity, we are keenly aware of the need to continuously evolve to deliver audits of the highest quality and to provide confidence and transparency to all our stakeholders.



## Message from our Audit & Assurance Leader

Auditors' roles in facilitating transparency in capital markets mean it is our responsibility to maintain consistent high quality across all of our audits. Deloitte is dedicated to continuous improvement at every level of our organisation and unwavering in our efforts to deepen accountability at every step of the audit.

### **The state of the audit profession**

Recent corporate failures, globally and locally, have shone a spotlight on the role of auditors, and what a financial statement audit entails.

While the expectation gap has never been greater, and must be addressed, it is overly simplistic to say this is the only issue. To address this we must not only consider the expectation gap and revise the roles of the auditors but we must recognise that changes have to be made in the context of a holistic review of the corporate reporting ecosystem.

Our profession is at a watershed moment. Yes, rules and regulations determine what an audit must be, but that should not preclude us, or anyone else, going further than these requirements. Deloitte strongly supports an independent review into the role and responsibilities of auditors with input from investors, regulators, standard setters, auditors and the public. A similar review in the UK identified a number of areas to be addressed, together with substantive actions to close the expectation gap and widen the responsibility of all in the financial reporting ecosystem.

Our Johannesburg Stock Exchange (JSE) has recognised the roles to be played by executives and will require affirmative statements from CEO's and CFO's around the strength of their financial reporting controls.

We further welcome the anticipated International Standard on Quality Management 1 and believe that if properly implemented, it will result in increased audit quality across the profession.

### Strengthening our systems and processes

We have taken the opportunity for pause and reflection. We have deeply considered our role in the financial reporting ecosystem, and have importantly, implemented change and action. We are a stronger audit practice as a result.

This pause and reflection was a deep and wide review of our audit business, which we called Future-Fit. This has resulted in the redesign of our business to deliver improved governance and oversight of audits, improve audit quality and deliver a Future-Fit audit in the volatile world of Mandatory Audit Firm Rotation with heightened stakeholder and public expectations. The implementation of the Future-Fit outcomes has already commenced.

On pages 14 to 17 we have set out the most significant changes that we have made as part of our Future-Fit programme. These changes are primarily in the areas of: governance and oversight, deploying the right people, partner accountability, monitoring, enhanced audit risk identification, and investing in digital and automation.

### Broader change is needed

While we are proud of the changes that we have made, further support is required from the corporate and financial reporting ecosystem. We are supportive of the introduction of separate legislation that governs all players involved, including management, those charged with governance and auditors. A good example of this is the US Sarbanes-Oxley Act of 2002, which sought to improve the accuracy and reliability of corporate disclosures in the wake of the Enron scandal.

In South Africa similar legislation aimed at South Africa's largest listed companies, would place appropriate accountability on company boards and management to ensure the quality of financial reporting. The amendments to the JSE listing requirements are an important shift in this regard. We are also

supportive of the suggestion for the establishment of a 'super-regulator' to regulate the entire financial reporting ecosystem, with powers to effect swift justice. This has worked to good effect in other jurisdictions.

We are acutely aware of the need to continuously evolve to deliver audits of the highest quality, in any circumstance, and to provide confidence and transparency to all our stakeholders.



**Andrew Mackie**  
Africa Audit & Assurance Leader

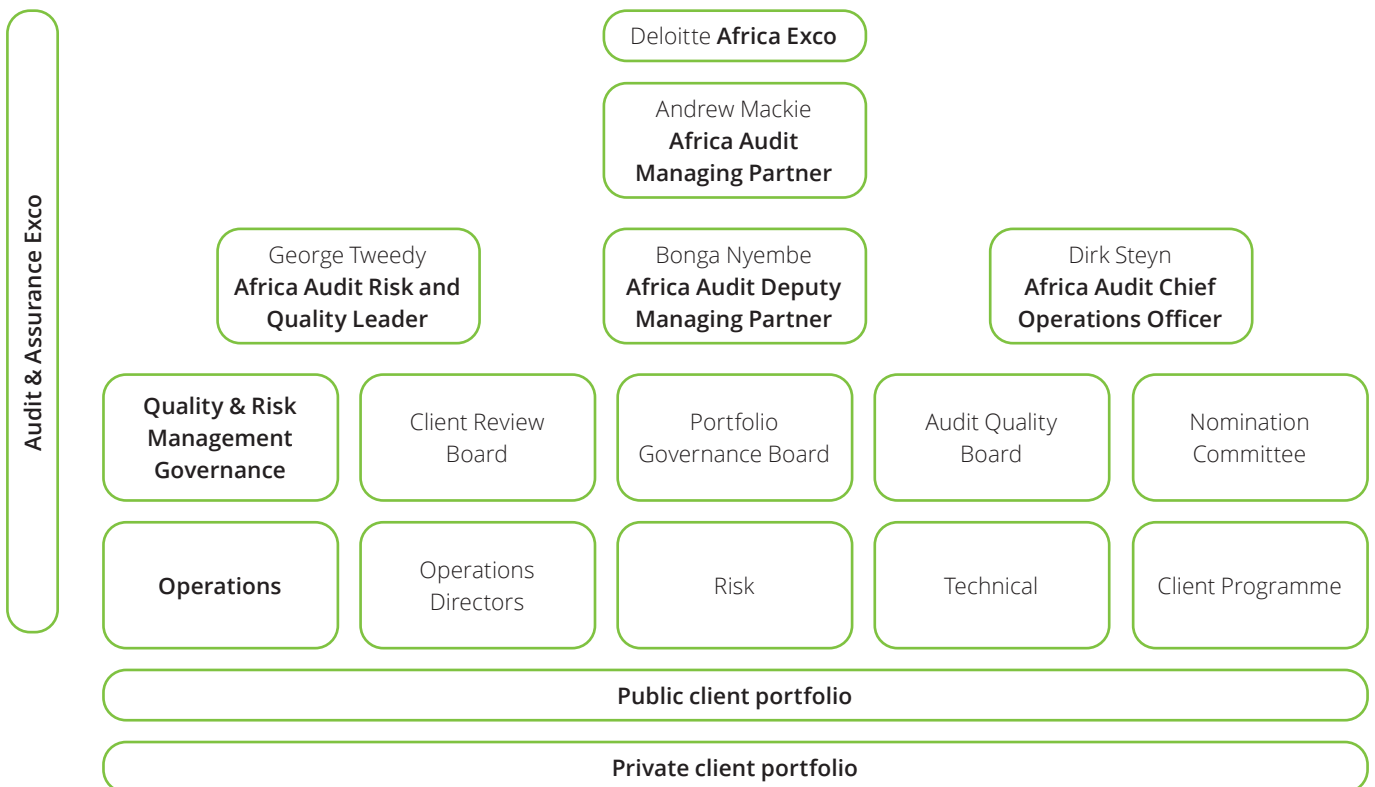
# Our approach to managing risk and quality in audit\*

Building on the gains we have made that we reported in our inaugural transparency report in 2018, we have continued to build our systemic approach to audit quality. The sections below will cover some of the continued enhancements to our systems and processes as part of our focus on quality.

## Governance and oversight

Our vision to “BUILD TRUST” means that quality is and will remain at the front and centre of everything we do and stand for. As part of our Future-Fit programme, we have changed the governance structures of our audit business.

### Audit Governance and Operations Structure



Our governance structure recognises the need for a strong and empowered Quality leader, separate from the role of the Chief Operating Officer. The separation of these roles ensure that audit quality is not compromised for commercial reasons. The Africa Audit Managing partner represents the audit business on the Deloitte Africa Exco, of which audit is the largest business. The Audit Managing partner also represents African member firm on the Deloitte Global Audit Leadership team.

### We run our South African business as one national structure in two segments public and private client focus

We now run our audit structure as a fully integrated national audit and assurance practice business. This allows for tighter governance, improved support, oversight and processes with consistent application of our systems of quality control.

By segmenting the business into public (listed and public interest entities) and private clients, specialist competencies are developed acknowledging the different needs of those clients and audit risks that must be responded to by partners and professional staff. We are able to streamline our training and quality processes to the unique needs of the client profiles.

\* Page 14 to 17 updated as of 31 March 2020



Within our Public Structure, our dedicated Financial Services Team (FIST), remains intact, continuing to invest in the unique enhanced skills and competencies required to excel in auditing the financial services sector.

#### Client Review Board

The audit client review board is mandated for client acceptance and continuation of all public interest entities. The board meets at both the acceptance and continuance stage for public and higher risk audit clients. The board is comprised of the Risk and Quality Leader, relevant members of the Audit Executive Committee and subject matter experts, where required.

The purpose is to assess the Know-Your-Client information submitted by the engagement team and deliberate on the risks that arise from this information. After considering mitigating actions, the engagement may be accepted, accepted with specific conditions (that are then monitored) or rejected. Where further heightened risk is identified, a Global audit acceptance consultation is mandatory.

For the year ended 31 May 2019, 208 client engagements have been assessed through the client review board process. A combination of risk sensing and client review boards have resulted in 18 engagements terminated or proposals not accepted for the year ended 31 May 2019.

#### Portfolio Governance Board (PGB)

We have established a Portfolio Governance Board (PGB) to oversee team allocation to our listed clients. This board considers the partner allocated to the work together with the independent Engagement Quality Control Reviewer (EQCR) that is allocated to each engagement. These decisions consider the input from risk sensing processes and whether the partner has the stature, appropriate quality history and capacity to serve the client.

#### Audit Quality Board (AQB)

We have an Audit Quality Board that ensures our audits are executed at the highest possible level of quality. The AQB is chaired by the Audit leader. There is representation on our AQB by Deloitte Global Audit via a highly experienced global partner, acting as a non-executive, bringing appropriate external challenge to our quality governance and processes.

#### Deploying the right people

By running our business nationally, we allocate the best team to the client irrespective of the geographic location within the country.

The EQCR partner is selected to match both to the engagement partner and client. The partner we select must match the engagement partner in status, experience and quality history and be able to effectively challenge and debate important judgements with the team.



## Our approach to managing risk and quality in audit

The engagement team must be able to draw on multiple skills of highly specialised experts of different disciplines to deliver a modern-day audit. These skills include valuation experts, data analysts, actuaries, IT specialists and tax specialists. The PGB considers if these experts have been appropriately deployed to support the engagement partner.

We have conducted a Portfolio Risk Review on 100% of partners servicing and signing listed client audits. This includes a detailed review of the capacity to service the assigned portfolio as well as a detailed assessment of the assigned quality review partners. We are satisfied that our partners have the competence and capacity to service their allocated portfolio of clients.

### Partner accountability

We need partners of the highest standing that are accountable for their own performance. As part of the Future-Fit process, we have further enhanced our existing partner value assessment to enable us to promptly and in real-time identify and then actively remediate and manage poor performance to ensure the quality of audit opinions issued. We also operate stringent consequence management processes.

### Monitoring

One of the key indicators of audit quality is the inspections or "practice review" process. External inspections are performed by the IRBA and our internal practice reviews are conducted by independent Deloitte teams. Where appropriate, international Deloitte teams perform these practice reviews.

### External inspections

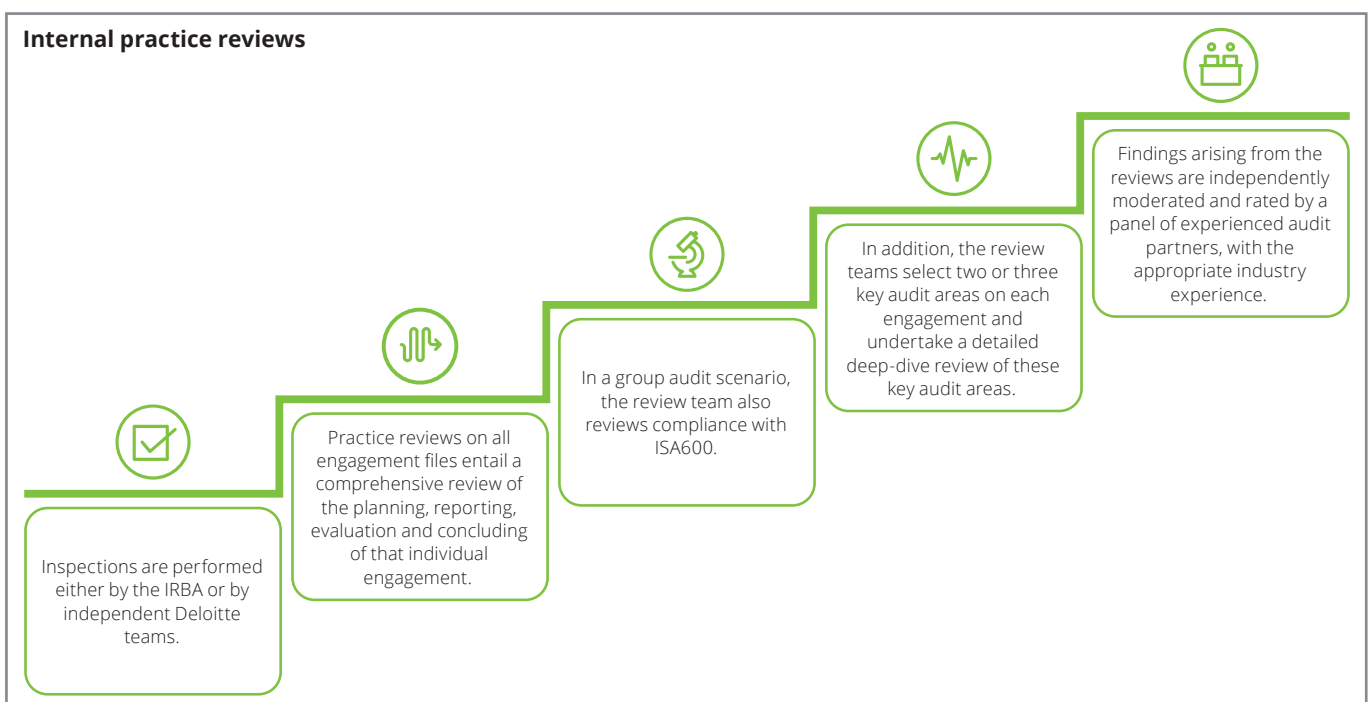
We are subject to inspections by the IRBA, the PCAOB and various other regulators within the countries we operate, which independently evaluate our quality. The inspections focus mainly on elements of the International Standard on Quality Control and engagement performance.

Following our IRBA inspection from January to March 2017, our quality control processes were satisfactory. Both the IRBA (Jan to March 2020) and PCAOB (November 2019) have recently completed inspections, for which we await final outcomes and reports on our systems of quality control.

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

### We have made and continue to make significant cash investments in audit quality

In addition to our Audit Risk and Quality focused teams and the aforementioned Audit Quality Board, we also have deployed a senior Deloitte Global Audit partner into our business on a full time basis, to bring a global perspective to our challenge process and to ensure our local practitioners consistently meet the global standard for excellence. In addition, we have appointed an Africa FSI Audit Quality Leader from the Canadian firm to focus specifically on quality drivers in the audit of our Financial Services Industry clients.



### Audit Quality Milestones

We drive quality into the execution of our audits via Audit Quality Milestones. We expect every audit to have met certain milestones by certain dates. We monitor these milestones and hold partner's accountable. These milestones ensure that audits are being properly planned, and that audit issues are being addressed very early (well before our client's year end). We monitor that audit hours are being deployed into the audit sufficiently early on to achieve a well-planned, and well-considered audit. We monitor the ratio of partner and manager hours to staff hours in real time, ensuring that the audits are achieving suitable managerial leadership.

### Enhanced audit risk identification

In reflecting on the market events that have affected us, should we have identified risk drivers that may have driven a different response? One key focus area has been on what we can do differently to improve our ability to foresee early enough and continuously through the audit process.

Over the past year, we have invested in enhancing our risk sensing capabilities through the development of a specialised risk sensing team, half of which (by design) are not auditors but are trained in equity analysis and similar disciplines. With these capabilities, we are able to have a better look at the financial statements on which we opine, seeing them through the eyes of investors, analysts and other stakeholders, adding to the breadth of insight that we are able to bring to our audit and our clients.

### Continuous Risk Sensing

Tracks listed clients on a continual basis through media "scraping" and reviewing results releases and analyst reports. Partners are immediately alerted if a new risk event is identified. The key output of continuous risk sensing not only informs the audit approach but also our client review boards on client acceptance or continuation, and the Public Governance Board's decision on partner and team allocation.

As at the date of this document, 100% of our listed clients have been assessed through our continuous risk sensing process.

### Investing in digital and automation

Our audit business is supported by a dedicated audit evolution and enablement team, which provides the backbone to the business. This dynamic team, consists of partners and managers with a diverse skill set, who are responsible for supporting our audit business, driving digital transformation, and deploying various automated solutions. This investment in various enabling technologies and systems, ultimately drives our audit quality strategy, while at the same time driving efficiencies in our business. The following areas are supported and executed under this team:

- Deployment of globally developed automated tools that facilitate agile, cognitive enabled audits
- Deployment of robotic processes
- Incorporation of bespoke data analytic solutions, enabling large data handling, resulting in valuable visualisations and insights, which in turn facilitates robust risk assessment
- Management and coordination of our audit delivery center in Hyderabad India, for performance of low risk, routine audit procedures
- Management of our audit Centers of Excellence, which include our project management and client acceptance capabilities
- An audit transformation team involved in enabling audit teams in adopting global Deloitte Way Workflows, re-thinking audit approaches, and incorporating global and local talent models, enabling technologies, and various other audit support tools.



### Risk we don't see the issue

#### Risk intelligence

- Performed independently of the activities of the audit engagement team
- Derives risk insights per client for the team to respond, understand and respond to
- Technology enhanced risk model.

#### Continuous risk sensing

- Tracking specific listed entities
- Media "scraping" and reviewing results releases and analyst reports
- Partners are immediately alerted if a new "risk event" is identified.

#### Dragons Den

- Assessment of client through the lens of a stakeholder providing an independent holistic view of the health and risk of the client
- Pre-emption of brand damage or regulatory risks/issues (avoidable)
- Critically evaluating management bias and understanding what drives company value from management perspective.

#### Impact:

- Challenges our approach (including resolving issues from previous experience)
- Challenges our behaviour (conflict/chemistry)
- Embeds specialist capabilities and tools, scope of work on risk indicators
- Enhances narratives (fraud, viability, risk lens, stakeholder expectations).

### Risk of incomplete or inaccurate risks identified, or inadequate responses

#### Risk Ops

- Formal, independent panels convened to challenge the partners and engagement teams
- Focuses on risk assessment, risk of material misstatement identified, risk classification and the planned procedures in our audit approach
- Pro-active approach towards audit quality remediation of audits-in-progress
- Drives faster interventions to potential audit quality deficiencies if any.

**Risk of a bad client**



**Client Review Board**

- Client review board to assess elevated client risk or professional service risks; and/or threats to independence
- Robust consideration and consultation
- Where risk cannot be mitigated, panel declines or terminates engagement
- Global audit acceptance consultation is mandatory where further heightened risk is identified.

**Risk of portfolio as a whole**



**Portfolio Risk Review**

- Review of partner portfolios
- Identifies risk exposure clients
- Results in design and implementation of safeguards to mitigate risk exposure
- Where the risk exposure cannot be mitigated, the client is exited.

**CARE programme**

- iCARE: Clients with risk exposure that have potential for high level of brand damage
- CARE: Clients with risk exposure that have potential for medium level of brand damage
- Specialised risk team assigned to guide engagement team and bring additional level of expertise and objectivity.

**Increased fraud focus**



- Increased partner and manager learning to build and refine new skill set
- Increased awareness created in junior staff on what to look out for and focused audit procedures
- Centrally run firm-wide process to assess all SPVs and unconsolidated structures and whether they have been treated correctly in Groups
- List of "Red Flags" identified based on experiences to date. All existing and new clients assessed against the "Red Flags" in deciding on acceptance
- When Red Flags are identified, increased specialist involvement on the audit team including:
  - Forensics
  - Money laundering
  - Legal
- Extensively enhanced procedures on related parties – identification thereof, commercial substance and relevance of relationships
- In addition to internally generated analyst reports through continuous risk sensing, increased attention paid to third party analyst reports with disproportionate focus on any views outside of the norm.

**Risk**

**Revised approach to ISA 600**



- Minimum level of 70% coverage of the component audits within a group
- Include all significant components from a materiality and risk perspective
- We have a strong preference to perform the audits of all major subsidiaries and components as Deloitte. We will only work with other statutory auditors if the component on which they are opining is clearly immaterial.

**Investing in partner training and support**



- Specialised training in professional scepticism including psychometric assessments to better understand both self and the other party
- Focused partner ethical leadership training to ensure that our partners embrace the requirement to be a voice for ethical leadership, role-modelling ethical leadership behaviors, and how to foster teams with high integrity.

**Restructure of business**



- Audit practice has been restructured into 2 business units – private client vs public client focus
- Risk profile, skill set and market expectations in respect of public entities differ to private
- Ensures partners, managers and professional staff, with the right level of experience, are allocated to different client profiles
- Streamlines training and quality processes to the unique needs of client profiles.

**Ethics as a foundation and part of our DNA**



**Re-enforced ethics**

- Ethics awareness campaigns
- Speak Up programme, with zero tolerance on ethical and confidentiality breaches
- Enhanced independence processes.

**Investment and re-design of ethics protocols**

- Successful migration to one Africa independence solution
- Implementation of risk, ethics, compliance and anti-corruption programmes across Deloitte Africa
- Investment in risk, independence and legal infrastructure
- Enhanced inspection and testing process
- Enhanced take-on measures, including client review board.

# Our commitment to ethics

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

Our commitment to independence, ethical behaviour and compliance is demonstrated by the tone set by our leaders, and is reinforced by carefully and consistently implementing, and monitoring comprehensive policies and procedures.

## Maintaining independence on client engagements

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

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

## Upholding ethics

Our professionals are expected to act with integrity in accordance with high ethical standards. To this end our Global Code of Business Conduct (Global Code) and our Africa Code of Conduct outline the commitments we make as Deloitte professionals. Anyone found in breach of these codes is disciplined according to the Deloitte Africa disciplinary framework. All staff are required to confirm annually that they have read and comprehend the codes of conduct and understand that it is their responsibility to comply with them.

We take a zero-tolerance stance on bribery and corruption and prohibit all forms of bribery and corruption in compliance with local and global anti-corruption laws and regulations.

We have appointed Johan Erasmus as Ethics Officer for Africa. Johan is an experienced director with direct access to the CEO and the Executive Committee.

The 'Deloitte Speak Up' hotline is a confidential reporting line for suspected unethical conduct. This hotline is administered by a global third party to maintain confidentiality and anonymity, where requested. All cases reported through the Speak Up line are independently investigated, and action is taken where required. Every reported incident is investigated and closed off in good time, and a report on the outcome of each case is presented to the Executive and the Board by the Ethics Officer. We have implemented a strict non-retaliation policy.

We carry out an ethics survey annually, and the results of these surveys clearly demonstrate a belief that Deloitte is an ethical place to work and that the firm would take action to address unethical conduct when reported. The results of the survey are reported to the Executive and the Board by the Ethics Officer, and form part of the basis for consideration of any development initiatives.

## Ensuring compliance

Compliance with our policies is rigorously managed and monitored through:

- The appointment of risk and compliance officers in each of the regions and businesses to support our people with risk assessment and compliance, assisting with consultations on a real-time basis the ongoing development and enhancement of formal policies governing expectations of our people
- An ongoing internal review process whereby all partners/ directors are periodically reviewed
- An additional review of our business by an independent Deloitte Global monitoring team.

## The review processes typically cover our compliance in:

- Client and engagement acceptance
- Quality of service scoping, evidence obtained, deliverables issued
- Financial management of client engagements
- Archiving and document retention.

### Disciplinary process

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

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



# Independence & information security

## 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,

### 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

For audit client engagements, a similar process applies. Go to page 14 for more information about this board.

### Portfolio risk reviews

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

Deloitte South Africa's current audit client portfolio includes 53 main board/equity listed companies, 30 debt listed companies and 6 other (interest rate, Exchange Traded Funds (ETFs) or secondary listings)



## Ensuring information security and privacy

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

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

### Information security

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

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

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

### Privacy

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

### Confidentiality

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

### Cyber-security

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

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

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

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

# Promoting our Talent & Transformation agenda

Our people and our culture are what makes Deloitte unique – they are our strongest asset. We are committed to creating an inclusive workplace and culture where everyone can reach their full potential and believe in being transparent about our progress towards this.

We want to create opportunities for graduates and experienced professionals alike to be part of a vibrant and diverse organisation, to work with people who are forward thinking, collaborative and committed to making a difference. At Deloitte, we work with our clients, not just for them, on their most complex and challenging problems to deliver the best results.

We have established policies and procedures to ensure that our professionals have: appropriate capabilities, experience and competence; are supervised by skilled partners, directors and managers; and have sufficient training.

Our policies and procedures for advancement have been established to provide reasonable assurance that professional staff selected for advancement have the qualifications necessary to fulfil the responsibilities they will be called on to assume.

## Transformation goals

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

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

- Achieve 51 per cent black ownership and 35 per cent female ownership by 2021\*
- Drive demographic transformation as per the Economically Active Population targets set by government
- Create and sustain a corporate culture of inclusion, in which all can achieve and excel.



\* Our review of the firm's transformation status as at 1 June 2019 indicated that, due to business-related factors, these targets may not be reached by 1 June 2020 as indicated in our 2018 Transformation Report. The target was therefore postponed to June 2021.

Achieving the 2021 target will require us to maintain the same level of momentum in pursuing our transformation objectives, which the firm's leadership have taken on-board.

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

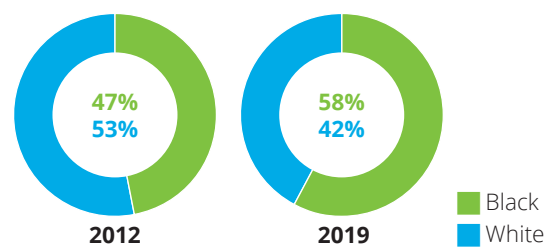
## Growing our Talent pool

One of the key pillars of our transformation strategy is the ‘Each one, grow one’ initiative. Each partner/director is required to identify a talented senior Black professional with partnership potential and mentor that individual towards partner level over the next few years.

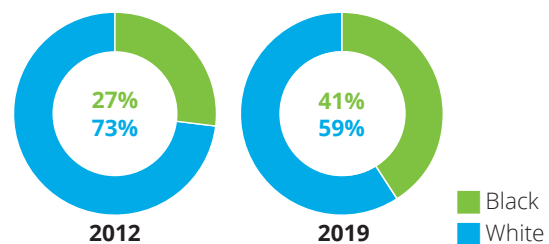
Over and above contributing to direct employment and tax, between Deloitte's ongoing enterprise development, socio-economic development, bursary spend and other membership contributions, Deloitte South Africa partners/ directors collectively contribute on average R66.5 million per annum to the firm's transformational goals in the form of a cash contribution, mainly towards bursaries and scholarships for students studying towards becoming a CA.

This speaks directly to a culture of collective accountability at leadership level and is directly aligned to the firm's long-term strategy of organic growth.

## Transformation across the firm (all staff)

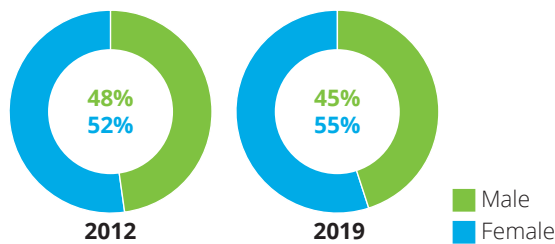


## Progress in terms of ownership

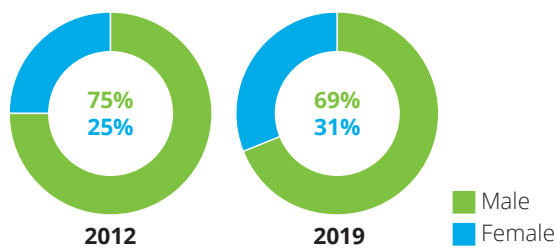


Our goal is to achieve a fair representation of both genders throughout Deloitte South Africa, increasing the number of women in leadership and governance bodies.

**Gender equality across the firm (all staff)**



**Gender equality ownership stats**



**Building future audit leaders**

Deloitte is a training office and learning institution first and foremost. We are committed to developing the knowledge and skills of future generations who are starting their careers in our profession.

We are especially proud of the fact that 1193 of all African black CA(SA)s have qualified through Deloitte since 2001. Deloitte has produced 8 per cent of all newly qualified African CA(SA) in the market in 2018 and 15 per cent over the last 18 years. We encourage our employees to gain international experience and we support this vision through our secondment programme that see our staff work at the USA, Europe or Middle East offices for either a short-term (less than 12 months) or long-term period.

Trainees must complete a training contract and pass the South African Institute of Chartered Accountants’ (SAICA) professional examinations – the Initial Test of Competence (ITC) and Assessment of Professional Competence (APC).

Our trainees’ pass rate in the November 2018 APC exam was 78 per cent, against the national pass rate of 68 per cent. SAICA released the results of the ITC in March 2019 and our trainees achieved a pass rate of 82 per cent against the national pass rate of 71 per cent.

We are extremely proud of these results and our contribution towards developing Chartered Accountants in South Africa.

We are also committed to assisting previously disadvantaged individuals to complete their studies by providing financial assistance through bursaries. Supporting students from grassroots level through Project Siyakhula ensures that we have a greater success rate.

Our bursary spend over the past number of years is as follows:

All candidates – cash payments	2017	2018
Number of students	268	249
Thuthuka cash payment (Rand)	3 161 350	7 732 293
Bursary payment (Rand)	8 697 565	8 917 293
<b>Total cash payment (Rand)</b>	<b>11 858 915</b>	<b>16 649 586</b>

Black candidates – bursaries	2017	2018
Number of students	190	187
Bursary payment (Rand)	7 220 565	7 762 293

African candidates – bursaries	2017	2018
Number of students	138	144
Bursary payment (Rand)	5 525 565	6 334 293

# Financial information

Our financial performance reflects the success of our multidisciplinary model. It drives the delivery of audit, consulting, financial advisory, risk advisory, and tax & legal services.

## Financial highlights

Deloitte South Africa's financial information has been extracted from our financial records for the financial year ended 31 May 2019 (FY19).

Our revenue represents amounts recovered or recoverable from clients for statutory audits, audit-related services and advisory services during FY18 and FY19, excluding VAT. Recoverable amounts reflect the fair value of the services provided, based on the stage of completion of each client engagement, including expenses and disbursements, as at the balance sheet date.

	R'm FY19	R'm FY18
Total revenue		
Total SA partnership	4,586	4,481
Top 200 clients	3,370	3,312
Advisory clients	2,109	2,069
Audit clients	1,261	1,242
Non-audit related services as a percentage of audit fees at Top 200 audit clients	9%	9%

Annually, a portion of the revenue is committed towards strengthening our risk and quality management processes. For example, in audit, 4.8% of the Audit & Assurance business' FY19 revenue was reinvested into audit quality.

Only 9 per cent of revenue earned from audit clients is made up of non-audit services. We are confident that we have not impaired our independence or objectivity by delivering these essential, non-audit related services to selected audit clients.

## Remuneration of partners/directors

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.

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.

## Partner/director compensation

The average total compensation per partner/director in the year ended 31 May 2019 amounted to R4.4 million (before tax).

## Partner/director pay gap

The pay gap percentage is calculated based on the average remuneration per partner/director (per demographic grouping) at each partner grading level. The pay gap figures shown in the table below are linked to the current demographics of the partnership, which will gradually be corrected as we reach our transformation targets. We were able to lessen the gender pay gap in the past year. The widening of the race gap arises as a consequence of the appointment of a number of black partners in the VG1 band. This area will continue to be the focus of the firm.

	% Gap (mean per level)			
	White/Black		Male/Female*	
Grading (FY19 number of partners/directors)	FY18	FY19	FY18	FY19
1-2 (133)	6%	9%	4%	2%
3-4 (124)	3%	4%	9%	8%
5-6 (6)	-28%**	-27%	-	-

\* No female representation at grading levels 5 and 6. 15

\*\* Black partners/directors' earnings in this grading are more than that of their white counterparts

## Independent non-executives

We pay our firm's independent non-executives, Professors Njabulo Ndebele and Pat Utomi, fees based on attendance at Africa Board meetings.

# 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.

During the past 12 months, our stakeholder engagement included:

- Ongoing engagement and CEO-led roundtables with government, regulators, clients, institutional investors and media on developments in the audit environment reputational issues affecting the firm
- CEO-led town hall meetings with staff across the country and teleconferences across Africa
- We have been an active member in the profession-wide forum, South African Auditing Profession Trust Initiative (SAAPTI), which seeks to identify proactive responses to the concerns prevalent in the South African financial markets and the role of the audit profession in adding value to such markets.

In light of current developments in the profession, we have been active in policy development processes and provided commentary on amendments to various laws and regulations including:

- Amendments to the Auditing Profession Act, 2005 (through written and oral submissions in Parliament)
- Companies Act, 2008 Amendment Bill 2019
- Amendments to JSE Listings Requirements.

We seek to remain engaged in these and other matters of public interest, and we welcome any opportunity to discuss these issues further.

# Reputational events\*

The past two years have seen Deloitte embark on a journey of self-reflection as a firm. Our vision to be the Standard of Excellence and the first choice of the most sought-after clients and talent has been impacted by events that have challenged us and made us reflect deeply.

We do acknowledge that these events have put the spotlight on our audit quality and have led to concerns in relation to the audits of African Bank, Steinhoff and Tongaat Hulett. In addition, concerns have been raised around advisory services rendered to Eskom in 2016. It is important to note that, to date, none of our internal investigations have found evidence of any unethical behaviour, corruption or state capture on the part of the firm or the partners leading the above-mentioned client engagements.

## Update on events

### African Bank

The IRBA disciplinary hearing against the two audit partners concluded on 6 December 2019. Closing arguments are expected to be led in June 2020 after which IRBA will issue the verdict or outcome. We remain confident that the audit was carried out with due professionalism and still have no reason to believe that the two Deloitte partners charged may have acted outside of the required ethical standards of the profession or the firm.

Parallel to this process, earlier in 2019, the Court upheld the exception of African Bank directors and Deloitte against a claim by shareholders of African Bank for loss of shareholder value. Leave to appeal was granted to the shareholders of African Bank to appeal against the decision to uphold the exception. This matter has been heard in the Supreme Court of Appeal in March of 2020.

### Steinhoff

The IRBA is still investigating the Steinhoff audit. They have requested our audit files and we continue to cooperate with them, as well as other regulatory bodies. There is a pending class action suit against approximately 40 respondents (including Deloitte) in South Africa, which we are defending. The Hawks and the Financial Sector Conduct Authority investigations into the activities of Steinhoff are ongoing. Deloitte ceased to be the auditors of Steinhoff.

### Tongaat Hulett

The IRBA has asked for access to our files which have been provided. As part of our internal review processes, we found no evidence to suggest that the lead Deloitte partner or any staff member acted unethically. However, for the 2019 audit, we changed the Tongaat audit leadership team to ensure objectivity and independence. Deloitte also supplemented the core team with additional senior audit, forensic and corporate finance experts. The Tongaat lead partner has withdrawn from the firm

at the end of February 2020. Deloitte was re-appointed as the auditors to Tongaat for the 31 March 2020 year end.

### Eskom

The Eskom matter has been concluded following a settlement jointly announced by the two parties on 20 March 2020. Leading to the announcement, investigations by both parties found no evidence of state capture or corruption as initially alleged by Eskom. Eskom acknowledged that there were technical irregularities within Eskom's own procurement process. Deloitte Consulting accepted that it had participated in this irregular procurement process. Eskom also acknowledged that it benefitted and continues to benefit from services rendered by Deloitte Consulting. Deloitte Consulting was entitled to compensation for the value it delivered to Eskom. As part of the settlement, Deloitte Consulting undertook to repay an amount of R150 million to Eskom, representing a portion of the original fees invoiced, in full and final settlement of the matter.

### Future outlook

These incidents have provided us with an opportunity for reflection and remediation where necessary and we believe we are a stronger firm as a result. We have committed the firm to self-correct and consistently deliver products and services in line with our stated intent.

We have undertaken thorough investigations into the matters that brought our standards into question. Where gaps have been identified, we have taken firm steps to address these. These include, among many others, the implementation of risk, ethics, compliance and anti-corruption programmes across the firm, a significant increase in the Risk, Independence & Legal (RIL) resources and budget, as well as overall improvements to our operating model – focusing on risk structures.

Specifically, 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.

\* Updated as of 31 March 2020





Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 312,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2020. For information, contact Deloitte Touche Tohmatsu Limited.