

An impressionistic painting of a landscape. The foreground is a field of tall grasses in shades of yellow, green, and brown. In the middle ground, there are several large, rounded trees with dense foliage in various colors including blue, purple, orange, and green. The background is a soft, hazy blue sky. A bright yellow rectangular box is overlaid on the left side of the image, containing the title text.

# EY South Africa Transparency Report 2019



**EY**

Building a better  
working world

# CONTENTS





## Chapter 1

### About Us

5

**Foreword:**  
**Ajen Sita**  
**EY South Africa CEO**

6

The EY Network

8

Legal structure and ownership

9

Governance Structure

11

Our commitment to quality

13

Compliance with legal requirements

18

Ethics and Values

20

Independence Practices

23

Choosing our clients: Acceptance and continuance

25

Talent Management & Transformation

27

Corporate Social Responsibility

29

Revenue & Remuneration

32

## Chapter 2

### About our Audit Practice

33

**Foreword:**  
**Stephen Ntsoane**  
**EY South Africa Assurance Leader**

34

The Future of Audit is Digital

37

Performance of audits

39

Review and consultation

42

Monitoring

43

1. South Africa internal monitoring program

43

2. EY Global Practice Level Reviews (PLR)

43

3. Audit Quality Indicators

44

4. Internal Audit Quality Reviews

44

5. External quality reviews

45

6. Root Cause Analysis (RCA)

47

Compliance with Legal requirements:  
 Rotation and long association

48

# Who We Are

## Our Purpose



Building a better working world

## Our Values



People who demonstrate integrity, respect and teaming



People with energy, enthusiasm and the courage to lead



People who build relationships based on doing the right thing

## Code Of Conduct

- 1 Working with one another
- 2 Working with clients and others
- 3 Acting with professional integrity
- 4 Maintaining our objectivity and independence
- 5 Respecting intellectual capital

# Value Creation at EY



### Client value

We help our clients grow, optimise and protect their value.



### People value

At our core is our commitment to creating an exceptional experience for our EY people.



### Social value

EY's social and entrepreneurial programs have a positive impact on communities and the planet.



# Audit Quality

## Investment in quality and risk management

11%

of audit revenue

## Internal review



of files reviewed rated as "good" quality

## Most recent external firm review finding\*



No IRBA sanctions since our first inspection in 2006 in terms of the Auditing Profession Act.



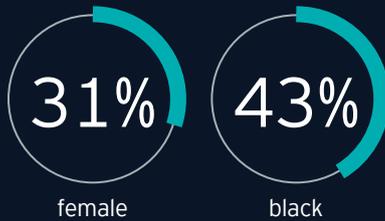
# People

We employ

2,965

people in South Africa across all service lines

Firm ownership demographics



What our people are saying:

86%

believe the experiences EY provides are important to their growth and development.

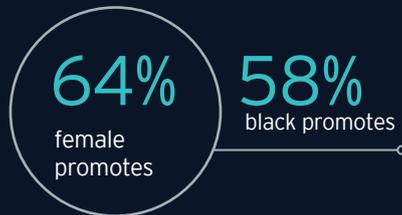
83%

of our people say they are proud to work for EY.

We provided jobs to

1,024

trainee accountants in audit



82%

believe people at EY are committed to doing the right thing even when there is no pressure to do so.



EY South Africa is a certified and **Top 10 (#6)** ranked 2020 Top Employer in South Africa. EY is ranked as the **#2 Top Employer in Africa** based on the performance of the following countries in the certification programme: South Africa, Kenya, Nigeria (#1 Top Employer) and Zimbabwe.

\*Most recent finalised IRBA Inspection finding for 2018



## Social

### Student bursaries

EY is providing

# 195

candidates with bursaries over their 4 years of study to obtain their Accounting degrees with a total spend of

# R7m

EY has provided bursaries to

# 45

 Thuthuka students

to the value of

# R3,4m

**NextGen is our flagship women's development CSR programme. There are currently 226 participants of which 135 are at University.**



# 15

 NextGen Leaders receive full bursaries and

# 25

 others receive partial bursaries and in total this is over **R1,4m**

### Other social initiatives



Entrepreneurial Winning Women Class of 2019 consisted of

# 16 Women

spanning various industry sectors.



# 372

Buckets of Hope were delivered to child-headed households



# 545

Santa Shoeboxes packaged and delivered



## Financial

### Results

EY firm revenues are

# R3,2bn



Audit revenues grew by

# 11%

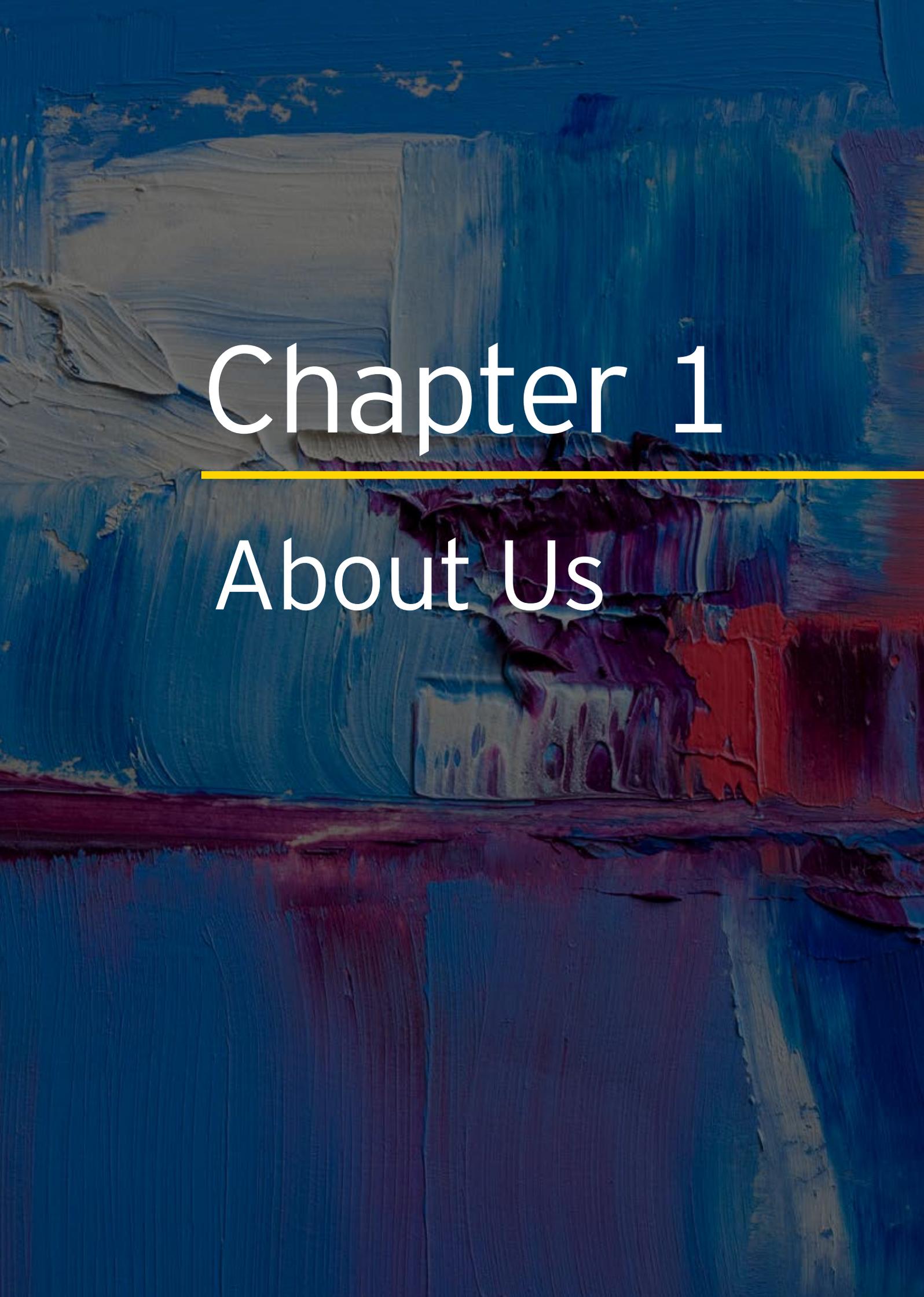
### Non-audit services (NAS)

# 10%

Average NAS provided across all Audit Clients

# 2%

Average NAS provided to our top 20 Audit clients



# Chapter 1

---

## About Us

# Foreword:

## Ajen Sita

### EY South Africa CEO

Welcome to the 2019 Transparency Report of EY South Africa, which covers the financial year ending 30 June 2019. This report, the second to be published specifically for the South African market, is designed to inform you about our structure, approach to quality, independence practices, talent and transformation, and provides insight into our revenue and remuneration philosophy.

In 2017, we took the proactive step of preparing a transparency report specifically for the South African market, to illustrate our understanding of the challenges facing the economy and our profession, and to demonstrate how EY South Africa is responding to those challenges. In 2018, the Independent Regulatory Board for Auditors (IRBA) issued a call to audit firms to publicly report relevant internal information about the firm.

In line with our duties regarding the European Union's 8th Company Law Directive, EY South Africa published its most recent Transparency report for the fiscal year ended 30 June 2019 on 31 October 2019. Please refer to this link for that report [https://www.ey.com/en\\_za/legal-and-privacy](https://www.ey.com/en_za/legal-and-privacy).

This year, our 2019 transparency report takes stock of an industry and country facing distinct challenges and illustrates the steps we have taken to restore trust.

#### Building trust

As an organisation EY committed to the purpose of 'building a better working world'. There can be no nobler goal right now. We arguably live in a time of widespread distrust between companies and their stakeholders. The audit profession globally is under the spotlight, but in South Africa there is a real need for positive reform within the auditing profession and the economy as a whole.

Quality audits are a powerful tool to restore and build stakeholder trust in businesses. When investors, regulators, organisations and the broader public trust the quality of audits, greater investment and economic growth follows, delivering value to society at large and contributing to building a better working world.



## Ethics at work

For ethical conduct to become part of the DNA of an organisation, there needs to be a strong culture of accountability. The EY approach in this regard are clear since it is standard policy to omit sales targets from audit partner KPI measures.

To ensure that positive ethics are embedded in our everyday conduct, EY introduced internal culture and ethics surveys to ensure professional ethics are being adhered to. These serve as an early warning system for potential problems and allow us to course-correct and improve standards where needed.

Our Ethics Hotline creates a confidential platform for anyone either internal or external for the organisation to report activities that are in contravention of laws and regulations or that fall short of our professional standards. We also continue our close collaboration with industry regulators to ensure that we go beyond the minimum standards for quality and accountability in all our work.

## Multi-disciplinary approach

As a global organisation with diverse and exceptionally talented people the world over, EY has a unique ability to turn global insights into value for our clients while driving a powerful culture of diversity and professionalism. The greatest EY asset is the ability to build multi-disciplinary teams from across our various service lines that combine to address some of the most pressing business problems. This multi-disciplinary approach also enables EY member firms to serve all clients through various supplementary and advisory services.

## Talent focus

Our success is determined by our ability to attract, retain and engage the best talent. To do that, we ensure that we hold our talent management practices and policies to a market-leading standard.

As such, over 500 of these policies and practices are audited and certified by the global certification agency, the Top Employers Institute, each year. I'm proud that we have been consistently certified as a Top Employer and ranked in the Top 10 in South Africa for the past 13 years.

## Purpose-led culture

The EY purpose, building a better working world, powers our employee-driven initiatives enabling us to extend this purpose beyond our day-to-day client work.

Our flagship NextGen Programme aims to empower and aid girls from disadvantaged backgrounds from Grade 10 to university by offering them leadership workshops, mentorship, extra lessons in subjects such as accountancy, English, mathematics and physical sciences, and providing bursary and job placement assistance. We are proud that this programme has expanded from 30 girls to 226 across Gauteng, Cape Town and Durban.

The EY Ripples platform continues to provide EY people with a directory of global CSR opportunities for which they can volunteer. Through this platform we are able to drive support for the NextGen programme and a number of other EY-led initiatives, including WeConnect Entrepreneurs, EY Entrepreneurial Winning Women Programme, and Endeavour Entrepreneurs.

## How it fits together

Our work as professionals supports the conditions for stimulating economic growth, attracting investment and restoring the trust that has been eroded over the past few years. Driven by an incredible team of professionals, a culture of accountability, a higher purpose of building a better working world and a commitment to upholding the highest levels of professional and ethical standards, we believe in our integral role in the future of our industry, our profession and our country.

We call on all our stakeholders - from our clients to their investors to the regulators - to continue their lively engagement with our teams on any and all matters covered in this report.

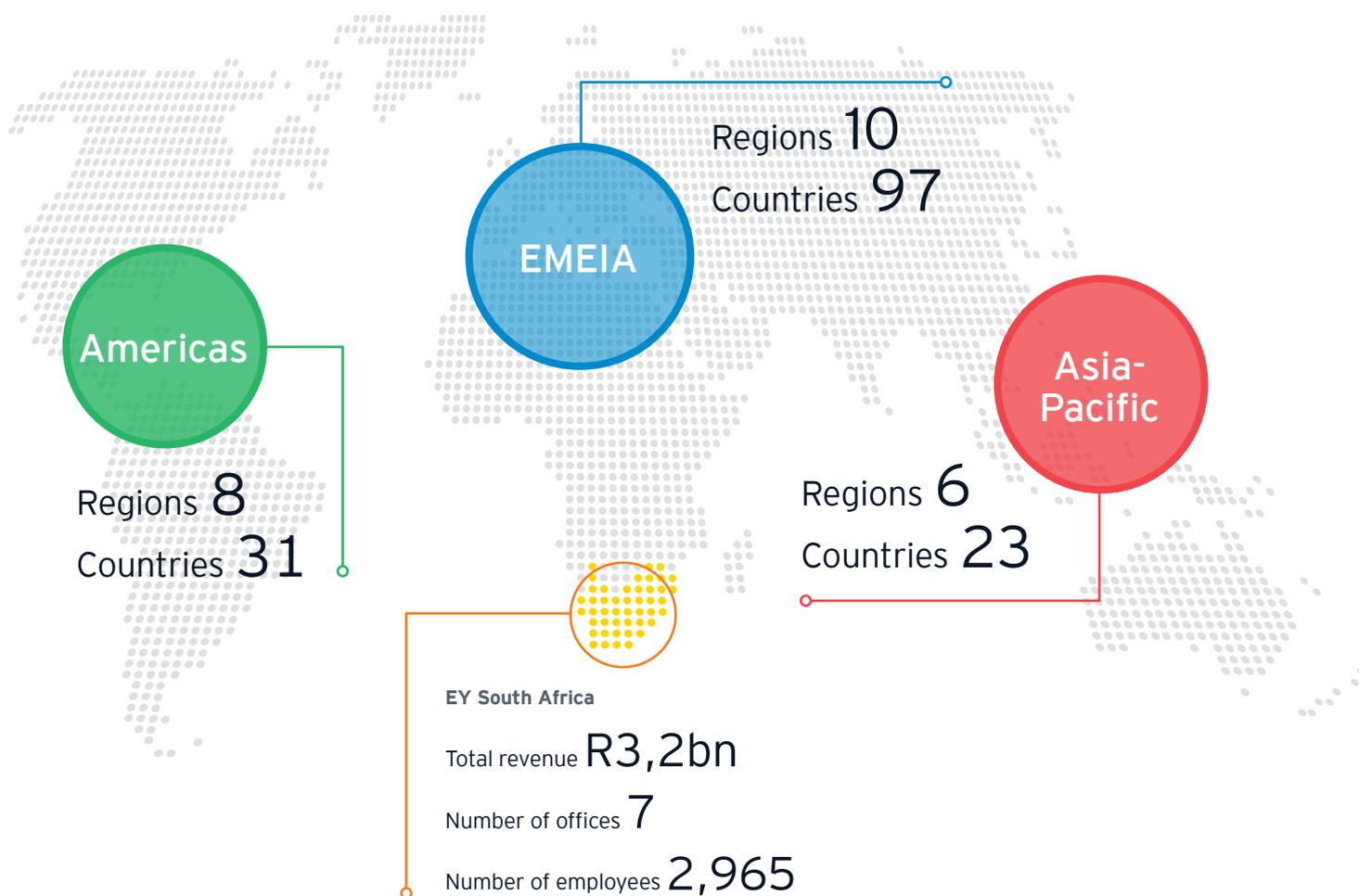


**Ajen Sita**  
EY South Africa CEO  
February 2020

## Our Purpose Building a Better Working World

EY is committed to doing its part in building a better working world. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to stakeholders. In so doing, we play a critical role in building a better working world for our people, our clients and our communities.

# The EY Network



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, over **260,000** people in member firms in more than 150 countries share a commitment to building a better working world, united by shared values and an unwavering commitment to quality, integrity and professional skepticism. In today's global market, the integrated EY approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

This integrated approach enables EY member firms to develop and draw upon the range and depth of experience required to perform diverse and complex audits.

EY refers collectively to the global organisation of the member firms of Ernst & Young Global Ltd. (EYG), a UK company limited by guarantee.

EYG coordinates the member firms and promotes cooperation among them. EYG does not provide services, but its objectives include the promotion of exceptional high-quality client service by member firms worldwide. Each member firm is a legally distinct entity. Their obligations and responsibilities as members of EYG are governed by the regulations of EYG and various other agreements.

The structure and principal bodies of the global organisation, described below, reflect the principle that EY, as a global organisation, has a common shared strategy.

# Legal structure and ownership



EY South Africa comprises several member firms of Ernst & Young Global Limited, a UK company limited by guarantee (EYG). In this report, we refer to ourselves as “EY South Africa,” “we,” “us” or “our.”

The EY South Africa companies listed below are owned by their directors.

In this document, reference to “partners” refers to directors and shareholders in EY South Africa entities.

EY South Africa includes the following entities which are EYG member firms in South Africa:

- ▶ Ernst & Young Incorporated
- ▶ Ernst & Young Advisory Services (Pty) Ltd
- ▶ Ernst & Young Services (Pty) Ltd

EYG member firms are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). Japan was a separate fourth Area, but on 1 July 2019 became part of Asia-Pacific. The Areas comprise a number of Regions, which consist of member firms or sections of those firms.

Ernst & Young (EMEIA) Limited (“EMEIA Limited”), an English company limited by guarantee, is the principal coordinating entity for the EYG member firms in the EMEIA Area. EMEIA Limited facilitates the coordination of these firms and cooperation between them, but it does not control them. EMEIA Limited is a member firm of EYG, has no financial operations and does not provide any professional services.

## The EY footprint across Africa



EY South Africa is part of the EMEIA Area, which comprises EYG member firms in 97 countries in Europe, the Middle East, India and Africa. Within the EMEIA Area, there are 10 Regions. EY South Africa is part of the Africa Region.

In this report, we refer to ourselves as EY South Africa, we, us or our.” EY on its own is used throughout the report and not in reference to EY SA.

Exceptional client service

- Connected
- Insightful
- Proactive

Building  
a better  
working  
world

## Our South African Executive



The EY South Africa Executive is supported by:

- ▶ Independence & Conflicts Leader
- ▶ General Counsel
- ▶ Service Line Quality Leaders

1. **Ajen Sita** | CEO
2. **Valerie Davies** | COO
3. **Roderick Wolfenden** | Markets Leader
4. **Jabulile Kubheka** | Talent Leader
5. **Mike Bourne** | Risk Management Leader
6. **Stephen Ntsoane** | Assurance Leader
7. **Hennie Human** | Advisory Leader
8. **Ekow Eghan** | Tax Leader (from 1 July 2019)
9. **Tina Rookledge** | Western Cape Leader
10. **Dharmalingum Moodley** | KwaZulu-Natal Leader
11. **Quintin Hobbs** | Transaction Advisory Services Leader

# Governance Structure

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to Regional leadership. The partner elected as Presiding Partner of the RPF also serves as the Region's representative on the Global Governance Council.

Members of the ARPF consist of the RPP and one partner representing each of the logical operating units of the Region (as outlined in the ARPF Terms of Reference).



1. **Shailen Ramgoolam** | Mauritius | ARPF Presiding Partner Member of Global Governance Council Southern Cluster
2. **David Marange** | Zimbabwe | Central Cluster
3. **Gisela Pieterse** | South Africa | Tax
4. **Bernard Carrena** | Nigeria | West Cluster
5. **Julius Ngonga** | Kenya | East Cluster
6. **Khethiwe Cebekulu** | South Africa | Advisory
7. **Warren Kinnear** | South Africa | Assurance
8. **Quintin Hobbs** | South Africa | Transaction Advisory Services

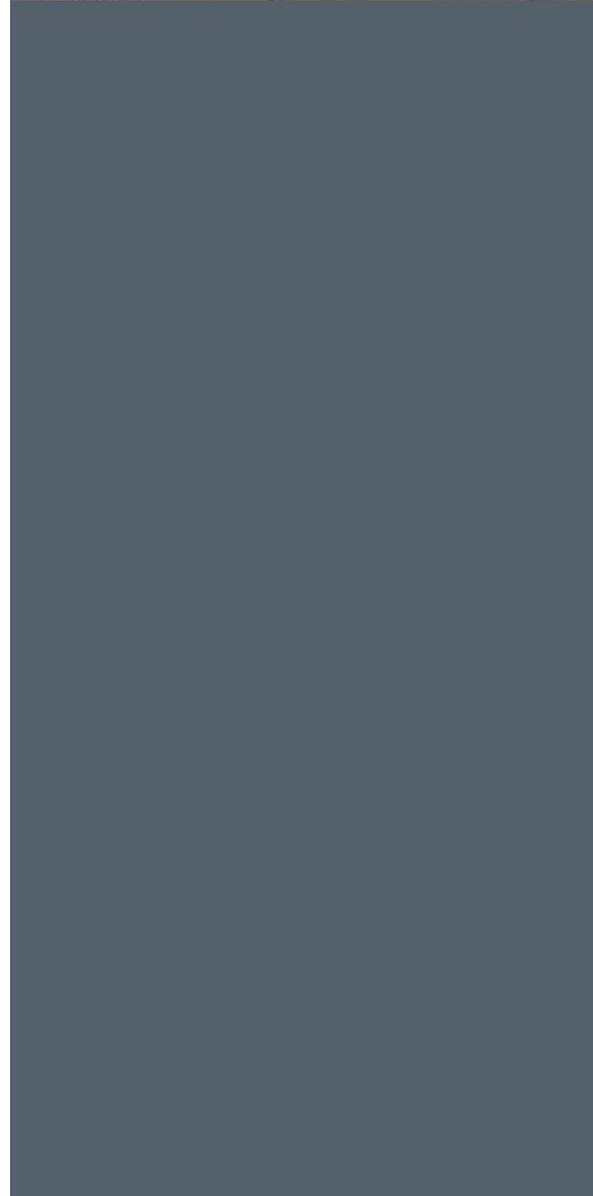
EY South Africa is governed by the EY South Africa Executive Committee (EXCO) that also oversees its strategy and operations. The EY South Africa EXCO consists of the following members:

- ▶ CEO,
- ▶ Assurance Leader,
- ▶ Advisory Leader,
- ▶ Tax Leader,
- ▶ Risk Management Leader,
- ▶ Transaction Advisory Services Leader,
- ▶ Markets Leader,
- ▶ KwaZulu-Natal Leader,
- ▶ Western Cape Leader,
- ▶ COO, and
- ▶ Talent Leader.

The EY South Africa EXCO is supported by the following sub-committees:

- ▶ Markets Resolution Committee,
- ▶ Litigation Risk Committee and
- ▶ Key Accounts and Risk Committee.

These sub-committees include members of the EY South Africa EXCO as well the Risk Management Leader, the Independence and Conflicts Leader and the Head of Legal.





# Our commitment to quality

## EY System of Quality Control



\* Specific to Audit

Ajen Sita



### Tone at the top

EY South Africa's leadership is responsible for setting the right tone at the top and demonstrating EY commitment to building a better working world through behaviour and actions. Our Code of Conduct and other policies contain our commitment to ethics and quality. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality are embedded in who we are and in everything we do.

We are committed to exceptional client service worldwide, supported by an unwavering commitment to quality and service that is professionally and globally consistent.

A key accountability metric is the quality of the services we provide to all of our clients. Through our leadership we have inculcated a culture where our people understand that quality and professional responsibility starts with them. Our shared values, which inspire our people and guide them to do the right thing, and our commitment to quality are embedded in who we are and in everything we do.



The consistent stance of EY South Africa has been that no client is more important than our professional reputation — the reputation of EY South Africa and the reputation of each of our professionals.

### Quality in our service lines

Each Service Line has a Quality Leader (SLQL) who is responsible for ensuring compliance with EYG quality policies, and where necessary, developing additional processes to comply with specific local risks.

The SLQL's role includes managing and maintaining quality in the services and solutions delivered to clients in the particular service line; and coordinating the internal review programme and following up on any deficiencies noted.

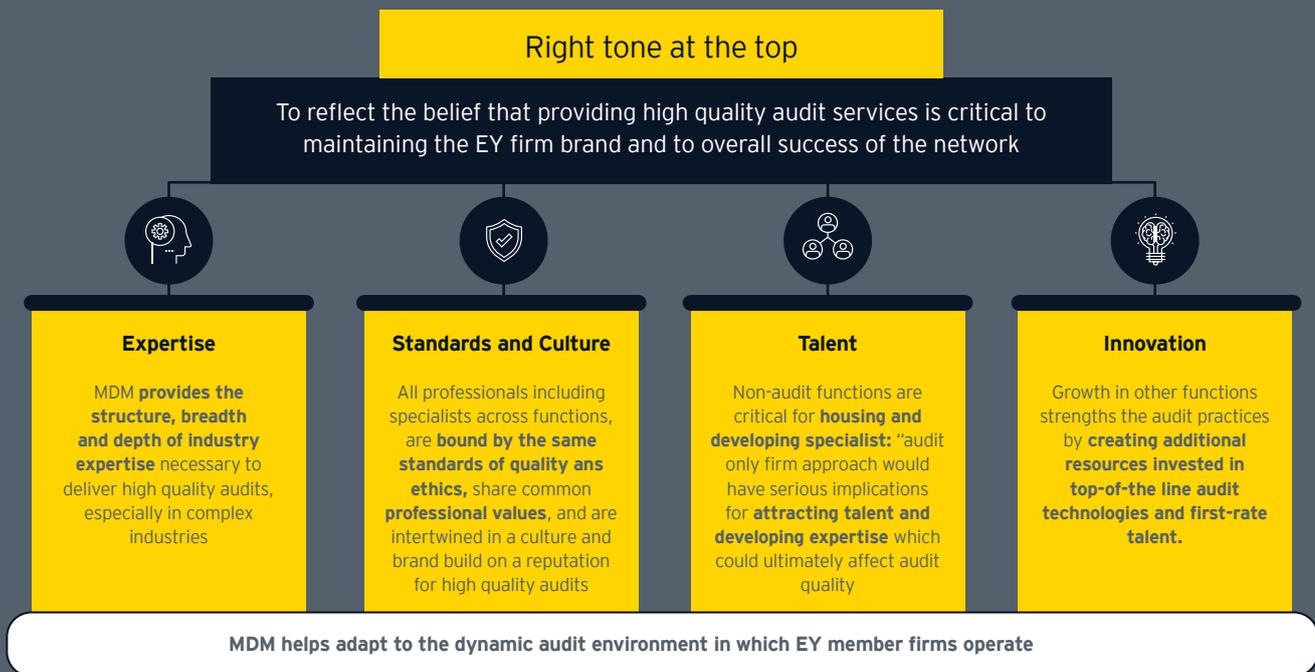


Our vision has reinforced the ownership of quality by the service lines, including audit. It has also resulted in increased clarity around the role of risk management in policies and practices that support and improve audit quality.

- 
1. Assurance SLQL / Professional Practice Leader | Roger Hillen
  2. Advisory SLQL | Vince Paino
  3. Tax SLQL | Russell Smith
  4. Transaction Advisory Services SLQL | Anil Kimjee

## Multidisciplinary Model (MDM)

The multidisciplinary EY model gives us the ability to work across and within service lines; collaborating, teaming and providing holistic solutions to the most complex of business challenges. This also ensures that quality is delivered to our clients due to the diverse skill sets from experts in various disciplines.



# Risk Management



Mike Bourne

Responsibility for high-quality service and ownership of the risks associated with quality is placed with the member firms and their service lines. Among other things, the EY Global Risk Management Leader helps monitor the management of these risks by the member firms, as well as other risks across the organisation as part of the broader Enterprise Risk Management framework.

Member firm partners are appointed to lead risk management initiatives (supported by other staff and professionals) within member firms, including coordinating with the service lines on such matters. The Global Risk Management Leader is responsible for establishing globally consistent risk management execution priorities and enterprise-wide risk management. These priorities cascade to member firms, and their execution is monitored through an Enterprise Risk Management program.

## Key strategic risks for South Africa



1

### Reputation and brand

Negative events or circumstances that impact reputation and brand



2

### Changes in regulatory environment

Inability to respond adequately to regulatory developments



3

### Working with a broader group of service providers

Poor management of contractors, consortiums, alliances and JVs



4

### Leadership succession

Lack of effective planning of leadership succession



5

### Attract, manage and retain talent

Inability to attract right calibre of talent, retain and manage talent and top performers



6

### Service quality failure

Service quality failures, poor engagement management and independence breaches



7

### Financial, operational discipline

Not maintaining financial and operational discipline. Margin erosion, volatility and low economic growth in key markets and poor cash flow management



8

### Retention of accounts and sales pipelines

Failure to secure / retain the right accounts or to establish deep pipelines per sector



9

### IT and digital transformation

Change in IT environment and digital transformation is not managed effectively (Cyber Crime / Hacking, IT Business Continuity, Data Privacy (GDPR & POPI), Digital 4th Industrial Revolution, Digital Audit)



10

### Mandatory Audit Firm Rotation (MAFR)

Failing to effectively manage the MAFR process



## Global confidentiality policy

Protecting confidential information is ingrained in the everyday activities of EYG member firms. Respect for intellectual capital and all other sensitive and restricted information is required by the EY Global Code of Conduct, which provides a clear set of principles to guide the behaviours expected of all EY people. The Global Confidentiality Policy further details this approach to protecting information and reflects the ever-increasing use of restricted data.

This policy provides added clarity for EY people and forms the fundamental element of broader guidance that includes key policies on conflicts of interest, personal data privacy and records retention.

Other guidance includes:



Social media guidance



Information-handling requirements

## Cybersecurity

Managing the risk of major and complex cybersecurity attacks is a part of doing business for all organisations. While no systems are immune from the threat of cyber-attacks, EY South Africa is vigilant in the steps it takes to secure and protect client data. The EY approach to cybersecurity is proactive and includes the implementation of technologies and processes necessary to manage and minimise cybersecurity risks globally.

EY information security and data privacy programs, consistent with

industry practices and applicable legal requirements, are designed to protect against unauthorised disclosure of data. There is a dedicated team of internal and external cybersecurity specialists who actively monitor and defend EY systems. Beyond technical and process controls, all EY people are required to affirm in writing their understanding of the principles contained in the EY Global Code of Conduct and their commitment to abide by them, and to participate in an annual security awareness learning activity.

There are various policies outlining the due care that must be taken with technology and data, including, but not limited to, the Global Information Security Policy, and a global policy on the Acceptable Use of Technology. EY cybersecurity policies and processes recognise the importance of timely communication. EY people receive regular and periodic communications reminding them of their responsibilities on these policies and general security awareness practice.

# Compliance with legal requirements

The EY Global Code of Conduct provides a clear set of standards that guide our actions and business conduct. EY South Africa complies with applicable laws and regulations, and EY's values underpin our commitment to doing the right thing. This important commitment is supported by a number of policies and procedures, explained in the paragraphs below.



## Anti-bribery

The EY Global Anti-bribery Policy provides EY people with direction around certain unethical and illegal activities. It emphasises the obligation to comply with anti-bribery laws and provides greater definition of what constitutes bribery. It also identifies reporting responsibilities when bribery is discovered. In recognition of the growing global impact of bribery and corruption, efforts have been increased to embed anti-bribery measures across EY.



## Document retention

EY South Africa's record retention policy applies to all engagements and personnel. This policy addresses document preservation whenever any person becomes aware of any actual or reasonably anticipated claim, litigation, investigation, subpoena or other government proceeding involving us or one of our clients that may relate to our work. It also addresses South African legal requirements applicable to the creation and maintenance of working papers relevant to the work performed.



## Insider trading

The EY Global Insider Trading Policy reaffirms the obligation of our people not to trade in securities with insider information, provides detail on what constitutes insider information and identifies with whom our people should consult if they have questions regarding their responsibilities.



## Data privacy

The EY Global Personal Data Privacy Policy, revised and reissued in 2018, sets out the principles to be applied to the collection, use and protection of personal data, including that relating to current, past and prospective personnel, clients, suppliers, and business associates. This policy is consistent with the strict requirements of the European Union's General Data Protection Regulation and other applicable laws and regulations concerning data protection and privacy. EY also has Binding Corporate Rules approved by EU regulators in place to facilitate the movement of personal data within the EY network. Furthermore, we have a policy to address our specific South African data privacy requirements and business needs.



## Trade sanctions

It is important that we are aware of the ever-changing situation with respect to international trade sanctions. EY monitors sanctions issued in multiple geographies and provides guidance to EY people on impacted activities.

## Non-compliance with Laws & Regulations (NOCLAR)

In 2017, The International Ethics Standards Board for Accountants (IESBA, the Ethics Board) released new sections to the IESBA Code of Professional Conduct which deal with Responding to Non-Compliance with Laws and Regulations.

The objective of this standard is to provide a framework to guide auditors, other professional accountants (PAs) in public practice, and PAs in business (PAIBs) in deciding how best to act in the public interest when they come across an act or suspected act of non-compliance with laws and regulations (NOCLAR).

It addresses breaches of laws and regulations that deal with matters such as fraud, corruption and bribery, money laundering, tax payments, financial products and services, environmental protection, and public health and safety.

The debate around these changes focussed on what is reasonable to ask of PAs within their role in the public interest when they come across actual or suspected NOCLAR when providing a professional service to their clients or carrying out their responsibilities for their employer.

## What is required of auditors and other professional accountants under the Framework?

The framework specifies a differential approach to responding to identified or suspected NOCLAR depending on the role of the professional:

- ▶ Auditors vs. other professional accountants in public practice
- ▶ Senior-level Professional Accountants In Business (“PAIB”)s vs. other PAIBs

The auditor is required to understand the legislative environment in which the client operates. NOCLAR divides relevant legislation into two categories:

- a. Laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the client’s financial statements; and
- b. Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the client’s financial statements, but compliance with which may be fundamental to the operating aspects of the client’s business, to its ability to continue its business, or to avoid material penalties.

# Ethics and Values

The topic of ethics and values remains at the forefront of everything we do. As EY professionals, we are committed to each other as colleagues, holding ourselves and each other accountable and maintaining zero tolerance for those who do not live our values.

## Our Code of Conduct Categories

1



Working with one another

2



Working with clients and others

3



Acting with professional integrity

4



Maintaining our objectivity and independence

5



Respecting intellectual capital

## EY Ethics

The EY Global Code of Conduct provides a clear set of principles that guides our actions and our business conduct.

It presents each of us with a behavioural framework to guide our response to the challenging and sometimes difficult choices we face. It also reflects our values.

We have an important responsibility to serve the public interest and always to act in accordance with our Global Code of Conduct, which underpins all that we do.

Our Global Code of Conduct is organised into the above five categories, containing guiding principles that should be used by everyone within EY to guide our behaviour across all areas of our activity.

## Compliance with policies and procedures

Compliance with EY policies is key to living our code. We create an enabling environment for EY personnel through policies, tone at the top culture, confirmation of compliance with the code, training and compliance monitoring. Non-compliant matters are reported to the Ethics and Independence Sanctions Panel.

Two policies to mention are the Hospitality and Gifts policy and Conflicts of Interest policy. These and numerous other EY policies help to keep our business safe.

The Africa Region Hospitality and Gifts policy is based on the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants. Professional Ethical Standards prohibits the giving/receiving of inducements, including hospitality and gifts where the intent is to improperly influence behaviour even if the value is trivial and inconsequential.

EY Africa Region policy in addition, prohibits the giving/receiving of hospitality and gifts to/from restricted entities. Restricted entities are elaborated in our policy.

Dealing with actual or perceived conflicts of interest is a critical element of accepting and continuing client engagements. In conducting any part of our business, we are determined to avoid personal, professional or commercial conflicts of interest and any other activity that could possibly threaten our objectivity, integrity, confidentiality or the reputation of EY. EY has policies, tools, processes and safeguards to assist prevent, identify and/or manage conflicts of interest.

EY personnel are required annually to sign confirmation of compliance with our Global Code of Conduct to demonstrate our commitment to EY, each other and to living our values.



## Ethics Hotline

The EY Ethics Hotline provides our people, clients and others outside of the organisation with a means to confidentially report activity that may involve unethical or improper behaviour and that may be in violation of professional standards or otherwise inconsistent with the EY Global Code of Conduct. The hotline is operated by an external organisation that provides confidential and, if desired, anonymous hotline reporting services worldwide. When a report comes into the EY Ethics Hotline, either by phone or internet, it receives prompt attention. Depending on the content of the report, appropriate individuals from Risk Management, Talent, Legal or other functions are involved to address the report. The same procedures are followed for matters that are reported outside of the EY Ethics Hotline.

Additionally, all staff have direct access to the EY South Africa CEO, promoting an open door policy. Ethics is presented by the CEO at new partner induction.

The number of matters reported

13

The broad themes:



Human resource management matters



Use of firm resources



Client service

0

The number of matters that remained open at year end

**To contact the EY Ethics hotline kindly use the link or telephone numbers below:**

<https://secure.ethicspoint.com/domain/media/en/gui/6483/index.html>

**From within South Africa:**

0-800-99-0123 (enter 877-393-8442 when prompted)

**From other countries:** numbers are available on the website above

## Ethics and Independence Sanctions Panel (EISP)

Non-compliance with Ethics, Independence and Risk Management policies is referred to the EISP. The independence and conflicts leader is the chairman of the panel, with the following serving as members:

- ▶ Risk Management Leader
- ▶ SLQLs
- ▶ Representatives from other EY African offices

The EISP has a sanctions framework in place, intended to provide consistent and fair treatment of all employees and contractors where there have been breaches of the EY Global Code of Conduct and Independence Policies, including local regulatory requirements, as documented and updated from time to time on our Risk Management and Independence Policy site\*. The EISP is the final decision-making body for ethics and independence violations.

The responsibility of the EISP is to:



Draft and maintain the Sanctions Framework for partners and non-partners, setting penalties based on the severity/gravity of the non-compliance or violations;



Impose appropriate sanctions and/or penalties in terms of the Africa Sanctions Framework to be applied to partners and non-partners in instances of non-compliance with the Code of Conduct; Risk Management Policies; Independence Policies and Regulatory requirements;



Make recommendations on our Code of Conduct, related Risk Management and Independence policies, processes and controls in mitigating the risk of violations; and



Consider such other matters that may be referred to it by the EY South Africa EXCO.

All EY staff from juniors to the office of the CEO are required to complete an average of six hours of annual ethics and independence training. This includes amongst others:

- ▶ Conflicts of Interest
- ▶ Financial Crime, Money Laundering, Tax Evasion and Terrorist Financing
- ▶ General Data Protection Regulation
- ▶ Handling Information Safely
- ▶ Anti-Bribery & Corruption!
- ▶ Annual Independence Learning

\* The EISP may impose monetary and non-monetary sanctions

# Independence Practices

Mahendrin Moodley



The EY Global Independence Policy requires EY South Africa and our people to comply with the independence standards applicable to specific engagements, including, e.g., the IESBA Code of Ethics, the Independent Regulatory Board for Auditors and the Companies Act of 2008.

We consider and evaluate independence with regard to various aspects, including our financial relationships and those of our people; employment relationships; business relationships; the permissibility of services we provide to audit clients; applicable firm and partner rotation requirements; fee arrangements; audit committee pre-approval, where applicable; and partner remuneration and compensation.

EY South Africa has implemented EY's global applications, tools and processes to support us, our professionals and other employees in complying with independence policies.

## EYG Independence Policy

The EY Global Independence Policy contains the independence requirements for member firms, professionals and other personnel. It is a robust policy predicated on the IESBA Code and supplemented by more stringent requirements in jurisdictions where proscribed by the local legislative body, regulator or standard setting body. The policy also contains guidance designed to facilitate an understanding and the application of the independence rules. The EY Global Independence Policy is readily accessible and easily searchable on the EY intranet.

## Independence compliance

EY has established a number of processes and programs aimed at

monitoring the compliance with independence requirements of EY member firms and their people. These include the following activities, programs and processes:

### Global Independence System (GIS)

The GIS is an intranet-based tool that helps EY professionals identify the entities from which independence is required and the independence restrictions that apply. Most often, these are listed audit clients and their affiliates, but they can also be other types of attest or assurance clients. The tool includes family-tree data relating to affiliates of listed audit clients and is updated by client-serving engagement teams. The entity data includes notations that indicate the independence rules that apply to each entity, helping our people determine the type of services that can be provided, or other interests or relationships that can be entered into.

### Global Monitoring System (GMS)

The GMS is another important global tool that assists in identifying proscribed securities and other impermissible financial interests. Professionals ranked as manager and above are required to enter details about all securities they hold, or those held by their immediate family, into the GMS. When a proscribed security is entered or if a security they

hold becomes proscribed, professionals receive a notice and are required to dispose of the security. Identified exceptions are reported through the Global Independence Incident Reporting System (GIIRS) for regulatory matters. GMS also facilitates annual and quarterly confirmation of compliance with independence policies, as described below.

### Independence confirmations

Annually, EY South Africa is included in an Area-wide process to confirm compliance with the EY Global Independence Policy and process requirements, and to report identified exceptions, if any.

All EY professionals, and certain others, based on their role or function, are required to confirm compliance with independence policies and procedures at least once a year. All partners are required to confirm compliance quarterly.

### Independence compliance reviews

EY conducts internal procedures to assess member firm compliance with independence matters. These reviews include aspects of compliance related to non-audit services, business relationships with the companies we audit and financial relationships of member firms.



### **Personal independence compliance testing**

Each year, the EY Global Independence team establishes a program for testing compliance with personal independence confirmation requirements and with reporting of information into GMS. For the 2018 testing cycle, EY South Africa tested more than 195 partners and other personnel.

### **Non-audit services**

We monitor compliance with professional standards, laws and regulations governing the provision of non-audit services to audit clients through a variety of mechanisms. These include the use of tools, such as PACE and Service Offering Reference Tool (SORT) (see below), and training and required procedures completed during the performance of audits and internal inspection processes. We also have a process in place for the review and approval of certain non-audit services in advance of accepting the engagement.

“

The goal is to help EY people understand their responsibility and to enable each of them, and their member firms, to be free from interests that might be regarded as incompatible with objectivity, integrity and impartiality in serving an audit client.

### **Global independence learning**

EY develops and deploys a variety of independence learning programs. All professionals and certain other personnel are required to participate in annual independence learning to help maintain our independence from the companies we audit.

The annual independence learning program covers independence requirements focusing on recent changes to policy, as well as recurring themes and topics of importance. Timely completion of annual independence learning is required and is monitored closely.

In addition to the annual learning program, independence awareness is promoted through a number of events and materials, including new-hire programs, milestone programs and core service line curricula.

### **Service Offering Reference Tool (SORT)**

We assess and monitor our portfolio of services on an ongoing basis to confirm that they are permitted by professional standards, laws and regulations, and to make sure that we have the right methodologies, procedures and processes in place as new service offerings are developed. We restrict services from being provided that could present undue independence or other risks. SORT provides EY people with information about EY service offerings. It includes guidance around which services can be delivered to audit and non-audit clients, as well as independence and other risk management issues and considerations.

### **Business Relationship Evaluation Tool (BRET)**

Our people are required to use BRET in many circumstances to identify, evaluate and obtain advance approval of a potential business relationship with an audit client, thereby supporting our compliance with independence requirements.



# Choosing our clients: Acceptance and continuance

## Audit committees and oversight of independence

We recognise that the important role audit committees and similar corporate governance bodies undertake in the oversight of auditor independence. Empowered and independent audit committees perform a vital role on behalf of shareholders in protecting independence and preventing conflicts of interest. We are committed to robust and regular communication with audit committees or those charged with governance. Through EY quality review programs, we monitor and test compliance with EY standards for audit committee communications, as well as the pre-approval of non-audit services, where applicable.

## EY policy

The EY global policy on Client and Engagement Acceptance sets out principles for member firms to determine whether to accept a new client or a new engagement, or to continue with an existing client or engagement. These principles are fundamental to maintaining quality, managing risk, protecting our people and meeting regulatory requirements.

The objectives of the policy are to:

- ▶ Establish a rigorous process for evaluating risk and making decisions to accept or continue clients or engagements
- ▶ Meet applicable independence requirements
- ▶ Identify and deal appropriately with any conflicts of interest
- ▶ Identify and decline clients or engagements that pose excessive risk
- ▶ Require consultation with designated professionals to identify additional risk management procedures for specific high-risk factors
- ▶ Comply with legal, regulatory and professional requirements

In addition, the EY global policy on conflicts of interest defines global standards for addressing categories of potential conflicts of interest and a process for identifying them. It also includes provisions for managing potential conflicts of interest as quickly and efficiently as possible using appropriate safeguards. Such safeguards may include obtaining client consent to act for another party where a conflict of interest may exist, establishing separate engagement teams to act for two or more parties, implementing “Chinese Walls” between engagement teams or declining an engagement to avoid an identified conflict.

The EY global policy on Conflicts of Interest and associated guidance take into account the increasing complexity of engagements and client relationships, and the need for speed and accuracy in responding to clients. They also align with the latest International Ethics Standards Board for Accountants (IESBA) standards.

## Putting policy into practice

We use the EY Process for Acceptance of Clients and Engagements (PACE), an intranet-based system, for efficiently coordinating client and engagement acceptance and continuance activities in line with global, service line and member firm policies. PACE takes users through the acceptance and continuance requirements, and identifies the policies and references to professional standards needed to assess both business opportunities and associated risks.

As part of this process, we carefully consider the risk characteristics of a prospective company or engagement and the results of several due diligence procedures. Before we take on a new engagement or company, we determine whether we can commit sufficient resources to deliver quality service, especially in highly technical areas, and if the services the client wants are appropriate for us to provide. The approval process is rigorous, and no new audit engagement may be accepted without the approval of the PPL.



In the EY annual client and engagement continuance process, we review our service and ability to continue to provide a quality service, and confirm that companies we serve share EY South Africa's commitment to quality and transparency in financial reporting. The partner in charge of each audit, together with our Assurance leadership, annually reviews our relationship with the audit client to determine whether continuance is appropriate.

As a result of this review, certain audit engagements are identified as requiring additional oversight procedures during the audit (close monitoring), and some audit clients are discontinued. As with the client acceptance process, our Regional PPD is involved in the client continuance process and must agree with the continuance decisions. Decisions about acceptance or continuance of clients and engagements consider the engagement team's assessment of whether the company's management may pressure us to accept inappropriate accounting, auditing and reporting conclusions to undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

EY South Africa has further enhanced the Global PACE tool, to include additional local requirements to assess entities and individuals against an "elevated risk" list, as well as to consider whether the entities or individuals constitute Politically Exposed Persons (PEPs).

## **Markets Resolution Committee (MRC)**

Current challenges in the market in which we operate require us to be more diligent in our client acceptance procedures to ensure we accept the right clients and consider whether we should perform the service.

Executive involvement is essential in adapting to our ever changing environment and our leaders that serve on the MRC bring years of experience, market knowledge and professional judgement to ensure we are accepting the right clients.

Where work is being considered at a government or state-owned entity (SOE), additional approval levels are required.

## **Director Risk Survey**

We annually conduct a Director Risk Survey which focuses on general risks and challenges faced by our professionals. This survey provides an indication of the general sentiment on how risks are encountered and addressed.

A second survey on the partners' client portfolios gives an indication of the risk profile of the firm's audit clients. This part of the survey is done on a sector basis with additional questions specific to the financial services sector.

The output of the survey is summarised and presented to the firm's Leadership who then address the significant challenges and risks.

# Talent Management & Transformation

At EY South Africa, our people are our greatest resource. Ensuring that we attract, develop and retain the best people forms the core of our strategy. Our philosophy is that we commit, whenever a person joins EY, for however long they remain with the organisation, that the exceptional EY experience will last a lifetime.

## EY Employer Value Proposition (EVP)

Our EVP reads: "Whenever you join and however long you stay, the exceptional EY experience lasts a lifetime." The EVP is made up of differentiators that we as a firm include to ensure we are distinctive as an employment destination. In this way we ensure business continuity, and reduce recruitment and associated HR costs.

EY Talent Management encompasses Human Resources, Recruitment and Employer Branding, Learning and Development, HR Enablement, Organisational Design and Talent Shared Services with transformation threaded through all we do. Each of these make up a complex puzzle of policies, frameworks, processes and outcomes that work as one to attract, retain, develop and promote EY employees, all working together to build a better working world.

## Organisational Design

EY South Africa's Organisational Design (OD) strategy aims to enhance communication, connection and career development through the EY@Work model. This is the model on which the talent management and employee experience at EY is designed. This OD is audited each year through the annual, global Top Employers Certification Programme.

The Top Employers programme is one that EY South Africa has both participated in, and earned certification for, for past 13 years. EY SA has consistently ranked in the Top 10 each year. Their audit of approximately 500 Talent Management practices is one of the leading standards for people management globally. The benchmark talent management data we get from participating gives us the insight needed to design world-class policies and practices that engage our current staff, while supporting in talent acquisition initiatives.



EY's OD implementation strengthens our firm's strategic priorities strategy, harnesses innovation, increases engagement, drives change, heightens awareness and exposure to development opportunities, creates personal connections, encourages career management and provides two-way communication with leadership.

## Professional development

The continuous development of our people's skills and knowledge is critical to achieving our purpose of enhancing confidence in the capital markets.

Providing opportunities for the right experiences, learning and coaching helps them grow and achieve their potential at a variable pace of progression that suits them.

The day-to-day experiences gained are assigned locally in a systematic way while the EY audit learning core curriculum is globally consistent. This is supported throughout by on-the-job coaching from more experienced professionals that helps to transform knowledge and experience into practice.

Learning is delivered through the award-winning Audit Academy, which combines interactive classroom-based simulations and "on-demand" e-learning modules with relevant reinforcement and application support. This is supplemented by learning programs that are developed in response to changes in accounting and reporting standards, independence and professional standards, new technology and emerging practice issues.

In addition to formal learning, professional development occurs through coaching and experiences our professionals receive on-the-job. Coaching helps to transform knowledge and experience into practice.

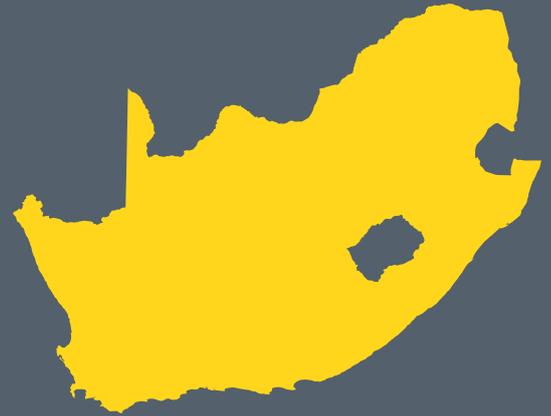
Experienced professionals are expected to coach and develop less experienced personnel to create a continual learning environment. We also manage the assignment of our people to particular engagements in a systematic way that helps provide them with exposure to a range of experiences as part of their own development.

LEAD is the forward-looking EY approach to people's career, development and performance focusing on continuous feedback resulting in better conversations built around 90-day cycles. Feedback is aggregated and used as an input to compensation and reward programs.

It is designed to support the growth and development of our people at all stages of their career at EY. An individual's personal dashboard provides an easy to interpret snapshot of their performance against the Leadership at EY dimensions and assessed performance against peers.

## Transformation

The EY South Africa transformation strategy includes initiatives aimed at promoting economic inclusivity, diversity and gender parity at all levels. Our transformation strategy includes initiatives aimed at promoting economic inclusiveness and diversity - as well as gender parity at all levels of the firm



Total number of partners, by gender and race

Male



69%

Female



31%

Black



43%

White



52%

Other



5%

# Corporate Social Responsibility

EY South Africa’s corporate social responsibility is led by two primary CSR programmes, namely NextGen and Entrepreneurial Winning Women. These are enhanced by several initiatives under the EY Ripples programme, which provides our employees with opportunities for volunteering work at a number of initiatives around the world.

## NextGen

The flagship CSR programme of EY South Africa is NextGen, which aims to develop the next generation of women leaders in Africa. The programme focuses on girls from disadvantaged backgrounds, from grade 10 to university.

NextGen provides learners with mentorship, extra lessons, leadership workshops, bursaries and job placement assistance. Since its launch in 2012, the NextGen programme has more than doubled in size, and now works with 216 girls in 18 schools in Gauteng, Cape Town and KwaZulu-Natal.

We are currently supporting 164 girls in various tertiary learning institutions in SA, who were identified through NextGen. The girls are in different fields of study, such as business science, law, accountancy and medicine.

Through NextGen we aim to create a network of high achieving young women who support each other as they further their careers. In 2019, full bursaries were awarded to 15 NextGen university students and 25 received partial bursaries.

## Entrepreneurial Winning Women

Spanning 50 countries and more than 400 participants, the EY Entrepreneurial Winning Women (EWW) programme identifies high-potential women entrepreneurs whose businesses show real potential to scale, and provides them with ongoing support to help accelerate their growth.

EWW provides a customised executive leadership program with year-round activities that assists high-potential women entrepreneurs with scaling their businesses to become global market leaders, with EY providing assistance through:

- ▶ Expanding their knowledge with the latest information, research and executive dialogues about business strategies and practices
- ▶ Identifying potential partners, strategic alliances, as well as prospective sources of private capital
- ▶ Providing access to informal, one-to-one guidance and support
- ▶ Increasing visibility for themselves and their companies among corporate executives, investors and the media.

The class of 2019 consisted of 16 women-led businesses from a wide range of industries.

### NextGen Development Pillars



#### Personal Development

- ▶ Communication skills
- ▶ Deportment & personal grooming
- ▶ Self esteem & confidence
- ▶ Social etiquette
- ▶ Public speaking skills



#### Leadership Development

- ▶ Study skills
- ▶ Time management
- ▶ Personal productivity
- ▶ Stress management
- ▶ Health & nutrition



#### Career Development

- ▶ Work place and business Exposure
- ▶ Educational Support
- ▶ Financial Support
- ▶ Career guidance
- ▶ Mentorship
- ▶ Health & nutrition

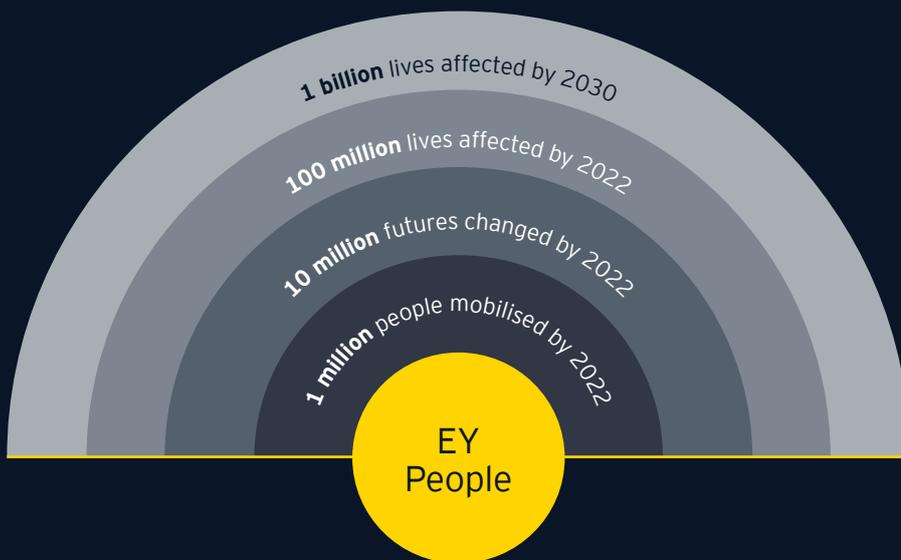
## EY Ripples

A better working world is one where everyone can share in and contribute to economic growth

EY is on a multi-year journey to transform the positive impact we have on society and build a better working world. We have a bold ambition: to positively affect a billion lives by 2030. We'll achieve this by driving more sustainable inclusive growth – growth that creates opportunity for everyone and distributes the benefits of increased prosperity fairly across society.

The global Corporate Responsibility (CR) program, EY Ripples, will help us to make a greater social impact, by providing our people the opportunity to use their skills, knowledge and experience to positively impact the lives of millions of individuals.

As a significant global organisation, EY has the potential to bring about considerable positive change through our capabilities, our people and our influence.



By the end of 2022, the aim is to have mobilised more than 1 million of EY people, clients, alumni and wider networks, channelling collective knowledge, skills and experience to address some of society's toughest challenges.

Our activities will directly impact the futures of 10 million individuals and organisations, indirectly benefiting 100 million people in their families and communities by 2022, and 1 billion people by 2030.

Importantly, the ripples start with EY people, but it is only through collaboration with our broader ecosystem that we can scale our impact and reach our aspirational number of beneficiaries. <https://sites.ey.com/sites/corporateresponsibility/SiteAssets/assets/Images/Vision-diagram.png>

## Other CSR Initiatives

### Technical and Vocational Education and Training (TVET) Programme

Started by the Financial Services Sector Education and Training Authority (FASSET), the TVET was launched to address the issue of youth unemployment in South Africa by encouraging employers to recruit graduates from TVET colleges.

The TVET programme is an 18-month work placement programme that allows graduates the opportunity to gain practical experience and qualify for their higher diploma upon completion of the work experience and assessment period.

Since its launch in 2014, 124 interns have graduated, and EY has appointed 44 interns as permanent staff in the business.

### Women in Engineering (WomEng)

WomEng is an award-winning organisation working to attract, develop and retain the pipeline of female engineering talent. WomEng focuses on developing leadership, employability and entrepreneurship skills among female engineering students.

EY South Africa supports WomEng with access to highly-skilled, business ready BEEE female engineering talent, insight into company perception and employers-of-choice for female engineers, and direct exposure for Fellows to EY South Africa's work environment as the Fellowship is hosted at the EY office in Sandton, Johannesburg.

Most of the prize money of \$250 000 went toward the NextGen Leadership Camp in 2018, which brought together more than 90 students and 30 alumni, and the first-ever NextGen Academic Camp in 2019, which introduced practical mathematics to the future leaders in addition to a range of intellectual, emotional and physical development activities.

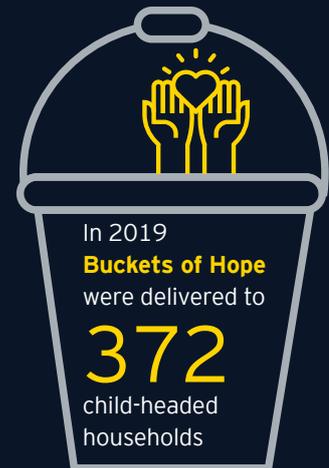
### Junior Achievement Programme

Our partnership with Junior Achievement South Africa (JASA) was officially launched in February 2019 across eight NextGen schools in Cape Town, Durban and Johannesburg. The programme strives to enrich, educate and motivate young male and female learners in Grades 9-12 and provide them with alternatives to their futures.

Learners are taught how to start their own businesses, make good career choices, and direct their lives with wisdom and self-confidence. Overall feedback from learners was positive and they look forward to using the skills they acquired.

### Buckets of hope

The Buckets of Hope initiative is aimed at collecting donations and foodstuffs, which are then distributed to learners living in child-headed households.



### Santa Shoeboxes

Every December, shoeboxes containing toiletries, stationery, a toy and a snack are delivered to child-headed households.



# Revenue & Remuneration

Quality is at the center of the EY strategy and is a key component of EY performance management systems. EY South Africa partners and other professionals are evaluated and compensated based on criteria that include specific quality and risk management indicators, covering both actions and results.

**R3,2bn**  
TOTAL REVENUE

**46%** Assurance  
**54%** Advisory, Tax Transactions

**2%**

Average NAS\* Provided to our Top 20 Audit Clients

**10%**

Average NAS\* Across All Audit Clients

\*NAS: Non-Audit Services

## Partner remuneration

LEAD for partners, principals, executive directors and directors (PPEDDs) applies to all partners in EYG member firms around the world. LEAD for PPEDDs reinforces the global business agenda by continuing to link performance to wider goals and values. The process includes goal setting, ongoing feedback, personal development planning and performance review, and is tied to partners' recognition and reward. Documenting partners' goals and performance is the cornerstone of the evaluation process. A partner's goals are required to reflect various global priorities, one of which is quality.

EY policies prohibit evaluating and compensating lead audit engagement partners and other key audit partners on an engagement based on the sale of non-Assurance services to companies they audit. This reinforces to our partners their professional obligation to maintain our independence and objectivity.

Specific quality and risk performance measures have been developed to account for:

- ▶ Providing technical excellence
- ▶ Living the EY values as demonstrated by behaviours and attitude
- ▶ Demonstrating knowledge of, and Leadership in, quality and risk management
- ▶ Complying with policies and procedures
- ▶ Complying with laws, regulations and professional duties
- ▶ Contributing to protecting and enhancing the EY brand

The EY partner compensation philosophy calls for meaningfully differentiated rewards based on a partner's level of performance, as measured within the context of LEAD. Partners are assessed by their firms annually on their performance in delivering quality, exceptional client service and people engagement alongside financial and market metrics.

To recognise different market values for different skills and roles, and to attract and retain high-performing individuals, the following factors are also considered when we determine our partners' total reward:

- ▶ Experience
- ▶ Role and responsibility
- ▶ Long-term potential
- ▶ Fair and equal remuneration for similar roles and responsibilities

Instances of non-compliance with quality standards result in remedial actions, which may include compensation adjustment, additional training, additional supervision or reassignment. A pattern of non-compliance or particularly serious non-compliance may result in actions that include separation from EY South Africa.

Ownership by Race  
43% Black 52% White

Remuneration by Race  
41% Black 52% White

Ownership by Gender  
31% Female 69% Male

Remuneration by Gender  
25% Female 75% Male

Ownership Other Race  
5%

Remuneration Other Race  
7%

# Chapter 2

---

## About our Audit Practice

# Foreword:

## Stephen Ntsoane

### EY South Africa Assurance Leader

---

Auditors play a vital role in the functioning of capital markets by promoting transparency and supporting investor confidence. Performing high quality audits continues to be our top priority and is at the heart of our commitment to serve the public interest.

Companies, regulators and other stakeholders count on us to deliver high quality in every engagement. Our reputation is based on, and is grounded in, providing high quality professional audit services objectively. In the rapidly changing business landscape in which we find ourselves, what has not changed is our commitment to creating a culture where everyone at EY South Africa understands that audit quality is our single most important priority. We continuously engage our professionals about the specific behaviours that contribute to audit quality and how our professionals can incorporate them into their daily lives.

In this chapter of our Transparency report, you can read more about the policies and procedures that we have in place in our Audit practice, our continued investment in technology and the monitoring activities that we perform to obtain comfort that our audit work remain of exceptional quality.



## Sustainable Audit Quality (SAQ)

The SAQ program is the global strategic framework for supporting audit quality and is applicable to all EY member firms. SAQ is not a short-term program or initiative, but global commitment to audit quality, emphasised through a series of focus areas that support the consistent and sustainable delivery of quality audits. It includes investments to equip our leaders in setting the appropriate tone at the top, strengthen our people's capabilities, simplify processes and procedures, transform, innovate and digitise our practice, create better support for engagement teams and focus on auditor integrity, ethics and professional scepticism.

We have already begun planning for International Standard on Quality Management (ISQM1), which has an anticipated effective date of December 2021. This is a significant undertaking, requiring substantial investment, and which will enable us to enhance our audit quality further.

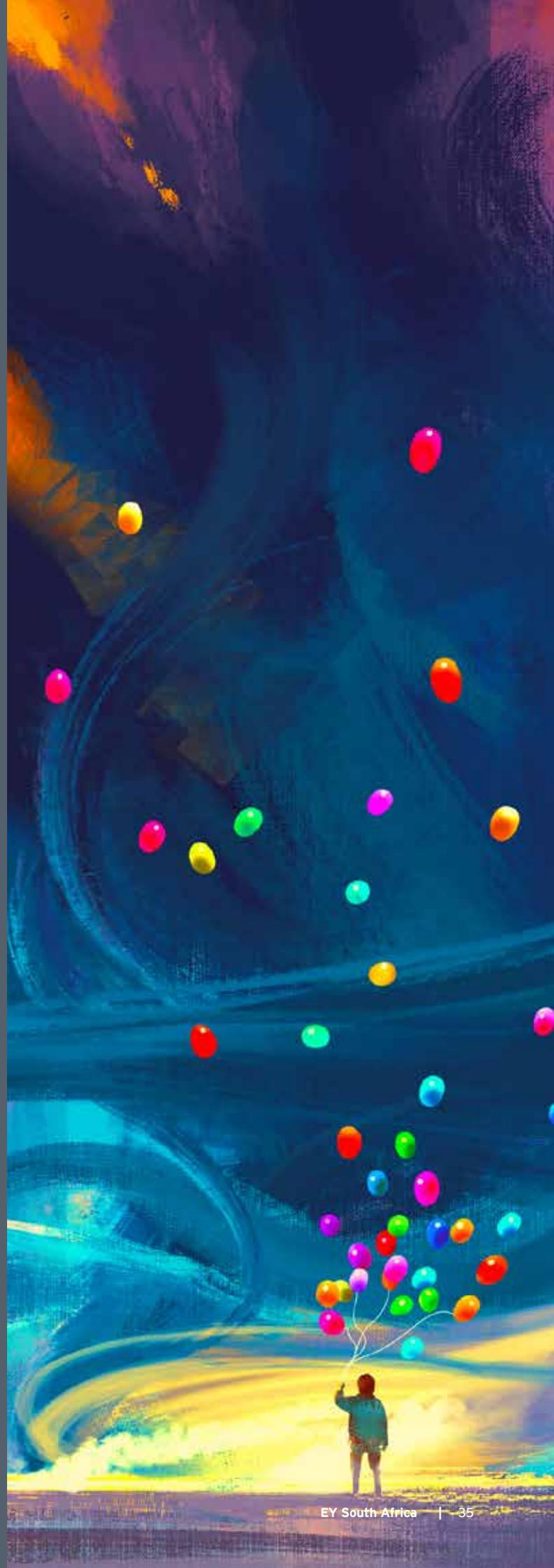
## Audit Quality Indicators (AQIs)

Audit quality is rightfully an expectation of our clients and other stakeholders and as such it is clear that there are certain indicators that we can track to determine whether our engagement teams are striving to achieve the highest quality. We started monitoring certain quality indicators a number of years ago, in response to an initiative driven by our Global Firm. More recently, we have been working with the IRBA on its AQI project, and today we continue to enhance our AQIs and design our systems internally to track and evaluate AQIs, and take appropriate, timely action to address identified areas of concern.

## Investment in Emerging Audit firms

We are committed to increased participation of local Black owned audit firms in the broader South African sector. We recognise the importance of creating the platforms to support emerging firms in our market, and to this end we have established a strategic relationship with Motlanalo Chartered Accountants. Motlanalo is a majority Black, women-owned audit and advisory firm.

Today, Motlanalo works together with EY South Africa on the audits of a number of JSE listed entities. This has resulted in the significant growth of Motlanalo in the last 12 months.



## In conclusion

Given the need for positive reform in the audit profession and the broader financial reporting ecosystem, we continue to play a proactive role in engaging with various stakeholders such as regulatory bodies, key members of government, industry bodies, directors and other audit firms. Our engagement include attendance at various fora, hosting meetings to discuss the challenges faced by the profession, as well as seeking solutions to those problems together.

As active participants in the South African Audit Profession Trust Initiative (SAAPTI), we continue to work with the broader audit profession to find lasting solutions to current challenges.

We encourage all our stakeholders – including our clients and their investors, audit committee members and regulators – to continue to engage with us on our priorities as well as any of the matters covered in this report.



**Stephen Ntsoane**  
EY South Africa Assurance Leader  
February 2020

## Driving Sustainable Audit Quality across six global pillars to serve the public interest



### **Tone at the top:**

The internal and external messages sent by EY leadership, including audit partners, that establish and encourage a culture based on a commitment to quality, a dedication to continuous improvement, an emphasis on values, a global mindset and the importance of teaming, setting a clear tone at the top.

### **Exceptional talent:**

Specific initiatives that support EY auditors in performing quality work. This covers recruitment, retention, learning and workload management. It also includes consideration of the type of skills and capabilities needed, both now and in the future.

### **Audit technology and digital:**

How the EY Digital Audit is evolving in this Transformative Age to set the standard for the data-first way of approaching an audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality.

### **Simplification and innovation:**

How we are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit. This involves the move to the Digital Global Audit Methodology and the growing use of AI and blockchain.

### **Enablement and quality support:**

How EY teams are being helped to manage their responsibility to provide high audit quality. This includes efforts to support them through coaching, root cause analysis, the Milestones project management program and updated quality control standards.

### **Accountability:**

The systems and processes in place to help EY people take responsibility for carrying out high quality work at all times. This discusses how we measure audit quality, the latest reward and recognition initiatives, the enhanced Accountability Framework and the Global Audit Quality Committee.

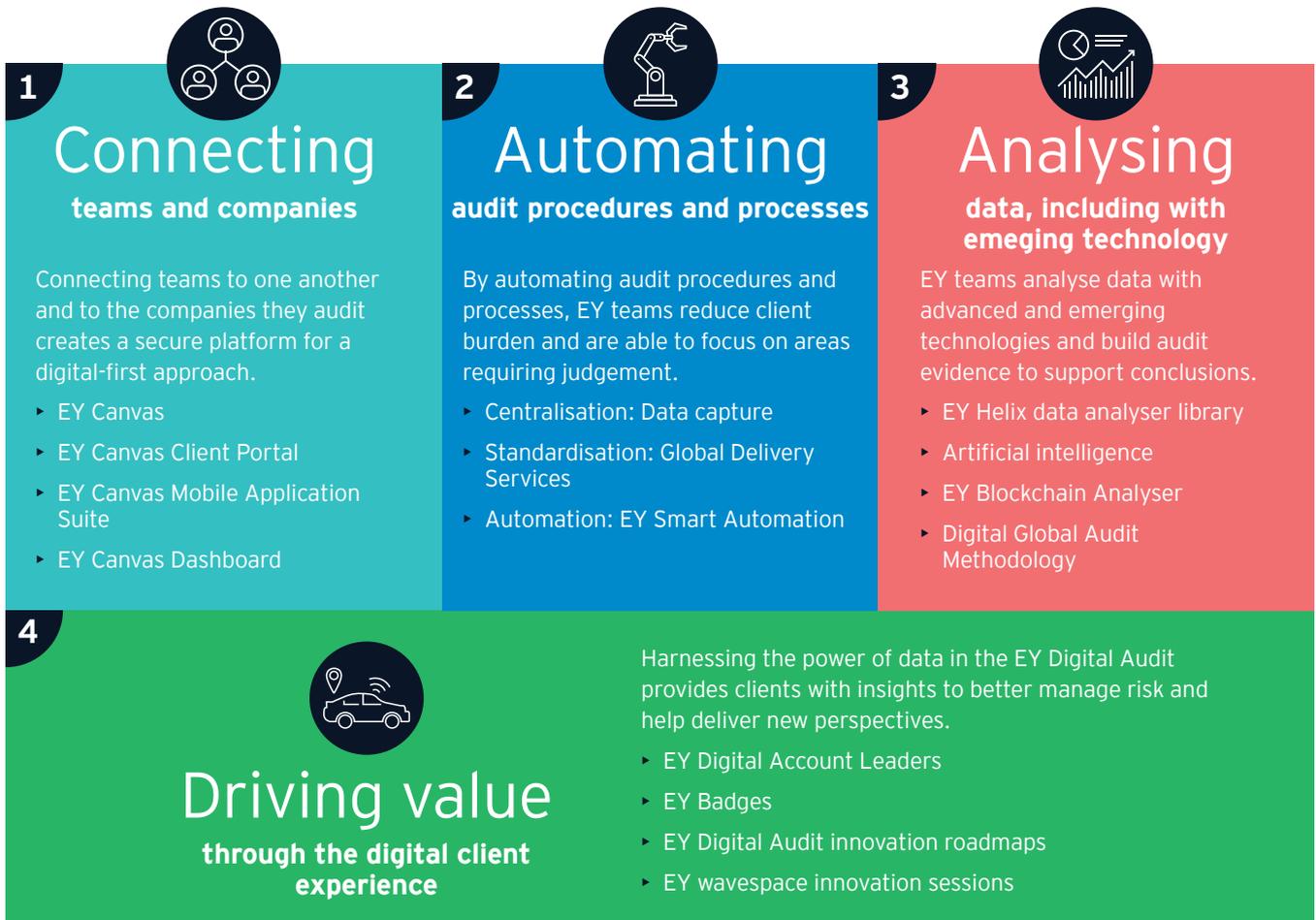
# The Future of Audit is Digital

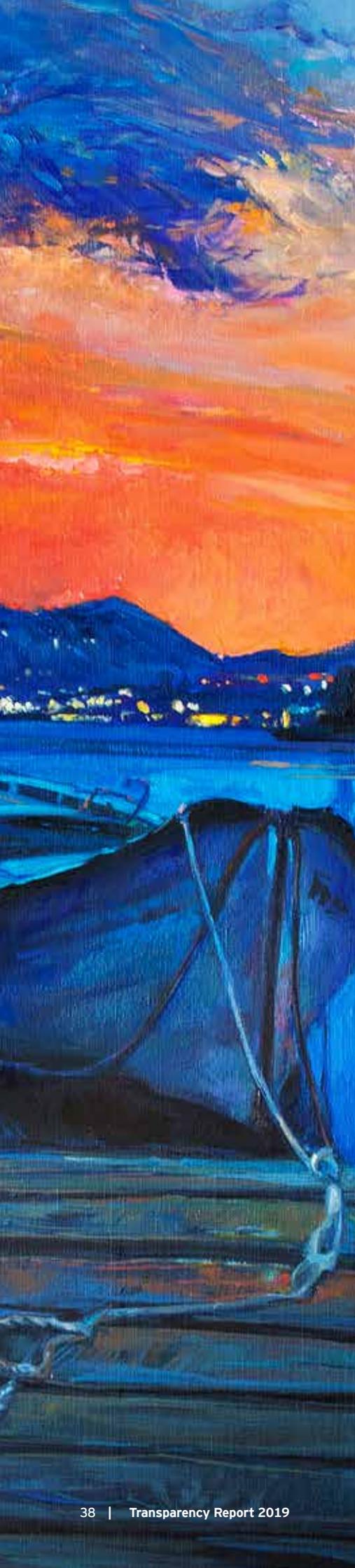
We are living in a Transformative Age, in which technology is reshaping every aspect of business and society. This dynamic landscape offers many opportunities, but brings with it new, more complex risks, and greater scrutiny from a broader range of stakeholders. Through agile and intelligent use of technology and digital solutions, EY teams are strengthening services so that clients can better unlock insight from the vast amount of data they generate. This helps them to manage their risks, improve their effectiveness and ultimately succeed in this fast-changing world. This is fundamental to the public interest role EY teams play in helping to provide confidence in the world's capital markets and in fulfilling the purpose of building a better working world.

The EY Digital Audit harnesses the power of technology to enable a data-led audit that leads to a renewed focus on risks, and enhances transparency and accountability for the organisations and communities EY teams serve. This is a transformation not just in technology but also in how EY professionals help deliver audits and how stakeholders, whether their needs are regulatory, compliance or risk-focused, are served.

This digitally transformed audit is underpinned by a strategy built on four key pillars of connecting, automating, analyzing and driving value. EY Canvas and its client portal are central to the EY Digital Audit. EY Canvas is the first totally online platform in the profession, facilitating a digitised audit process from end to end. Providing 24/7 connectivity

and connecting more than 120,000 EY professionals with the companies that are served, EY Canvas is a global network that recognises country privacy laws and provides leading-edge data security.





EY Canvas helps EY teams to navigate and drive a highly integrated and consistent audit across the globe:

- ▶ Audit instructions are issued and monitored globally via EY Canvas.
- ▶ Audit files, work papers and audit evidence are stored in secure EY Canvas environments.
- ▶ EY Canvas is mobile-enabled and available on phone and tablet devices for access on the go. This helps audit teams to monitor and execute the audit rapidly, as well as respond to questions from clients.
- ▶ The EY Canvas Client Portal connects companies directly to EY teams and is the gateway to provide audit support information

Organisations see robotics as an opportunity to enhance individual processes using technology. A digital-first approach has been supported by leveraging the global connectivity of EY Canvas and deploying automation at an unprecedented scale.

EY Smart Automation is being deployed through an automation hub directly integrated within the EY Canvas global audit platform.

It maximises the use of robotics and advanced automation techniques to automate administrative and repetitive tasks, including those traditionally executed manually by client teams in support of the audit. This in turn helps EY auditors to focus their time on areas requiring their professional judgment and insight.

EY is deploying data analysers to analyse the business operating cycles of the companies that we audit, supported by analytics-based audit programs to aid the application of these data analysers.

It is about taking full or large populations of company data and applying a globally consistent technology and methodology to audit that data.

To support this approach, EY teams use EY Helix, a library of data analysers. Each data analyser is integrated within the EY Helix suite globally and approved for use with the new EY Digital Global Audit Methodology. The benefits of a data-led audit include:

- ▶ The ability to analyse all aspects of companies' business operating cycles, giving us a clear picture of the company's operations.
- ▶ Analysis of larger populations of audit-relevant data to present a fuller picture of the business activities and to identify the risks that matter.
- ▶ Clear identification of trends and anomalies in the business processes and controls to help direct inquiries in the right areas
- ▶ Relevant feedback and insights provided during the audit to help companies improve their business processes and controls
- ▶ A more effective audit through insightful and targeted testing focusing on the transactions that matter most

A new Digital Global Audit Methodology is being launched, designed for the connected data-driven audit. This new methodology embeds the power of all EY digital technology, including data analysis across the EY Digital Audit, together with enhanced testing and continuous monitoring; supporting quality, improving effectiveness and increasing value to management.

# Performance of audits

There has been significant investment in EY in improving audit methodologies and tools, with the goal of performing the highest-quality audits in the profession. This investment reflects the EY commitment to building trust and confidence in the capital markets and in economies the world over.

## Audit methodology

EY GAM provides a global framework for delivering high-quality audit services through the consistent application of thought processes, judgments and procedures in all audit engagements, regardless of size. EY GAM also requires compliance with relevant ethical requirements, including independence from the entity we audit. Making risk assessments, reconsidering and modifying them as appropriate, and using these assessments to determine the nature, timing and extent of audit procedures are fundamental to EY GAM. The methodology also emphasises applying appropriate professional skepticism in the execution of audit procedures. EY GAM is based on International Standards on Auditing (ISAs) and is supplemented in South Africa to comply with the local South African auditing standards and regulatory or statutory requirements.

Using an online tool, EY Atlas, an EY auditor is presented with a version of EY GAM organised by topic and designed to focus the audit strategy on the financial statement risks, and the design and execution of the appropriate audit response to those risks. EY GAM consists of two key components: requirements and guidance, and supporting forms and examples. The requirements and guidance reflect both auditing standards and EY policies. The forms and examples include leading practice illustrations, and assist in performing and documenting audit procedures.

EY GAM can be “profiled” or tailored to present the relevant requirements and guidance, depending on the nature of the entity being audited – e.g., there are profiles for listed entities and for those considered non-complex entities. Enhancements to the audit methodology are made regularly to address new standards, emerging auditing issues and matters, implementation experiences, and external and internal inspection results. In addition, we monitor current and emerging developments, and issue timely audit planning and execution communications that emphasise areas noted during inspections as well as other key topics of interest to our local audit regulator (or regulators) and the International Forum of Independent Audit Regulators (IFIAR). Specifically, we are preparing for the implementation of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures (effective for audits of periods beginning on or after 15 December 2019), by raising awareness of the requirements of the new standard and providing reminders on performing risk assessment procedures specific to the audit of accounting estimates, and designing and performing audit procedures responsive to those risks.

## Technology

Our audit engagement teams use technology to assist in executing and documenting the work performed in accordance with EY GAM.

EY Canvas, the global EY audit platform, lies at the heart of the audit and enables us to provide a high-quality audit. EY Canvas is built using state-of-the-art technology for web applications. This allows us to provide data security and to evolve our software to respond to changes in the accounting profession and regulatory environment.

Through the use of profile questions, audit engagements in EY Canvas are automatically configured with information relevant to an entity's listing requirements and industry. This helps to keep our audit plans customised and up-to-date, and provides direct linkage to our audit guidance, professional standards and documentation templates. EY Canvas is built with a user interface that allows the team to visualise risks and their relationship to the planned response and work performed in key areas. It also enables a linkage for our group audit teams to communicate inter-office risks and instructions so that the primary audit team can direct execution and monitor performance of the group audit.

EY Canvas includes a Client Portal to assist teams in communicating with clients and streamlining their client requests. Mobile applications are integrated with EY Canvas to help our people in their audit work – e.g. in monitoring the status of the audit, capturing audit evidence securely and performing inventory observations. Audit engagement teams use other applications, data analysers and forms during various phases of an audit to assist in executing procedures, making and documenting audit conclusions, and performing analysis. This includes EY Smart Automation, a collection of applications that are being developed and deployed globally through EY Canvas to digitally enable EY audit professionals in executing audit procedures and processes.

At EY, data analysis is integral to audits. This use of data and analysis is not about additive procedures or visualisations. It is about taking large populations of company data, and applying globally consistent EY technology (EY Helix) and methodology (EY GAM) to audit that data.

EY Helix is a library of data analysers for use in audits. These data analysers are transforming the audit through the analysis of larger populations of audit-relevant data, identifying unseen patterns and trends in that data, and helping to direct our audit efforts. The use of data analytics also allows us to obtain better perspectives, richer insights and a deeper understanding of transactions and areas of risk.

EY member firms deploy data analysers to analyse the business operating cycles of the companies that we audit, supported by analytics-based audit programs to aid the application of these data analysers. Using the EY Helix library of data analysers, our engagement teams can enhance their audit risk assessment, enabling the audit of higher-risk

transactions, and assisting our people in asking better questions about audit findings and evaluating the outcomes.

EY Atlas is a global technology platform that enables our auditors to access the latest accounting and auditing content, including external standards, EY interpretations and thought leadership.

### Formation of audit engagement teams

EY South Africa policies require an annual review of partner assignments by our Assurance leadership and country PPD. This is carried out to make sure that the professionals leading listed-company audits possess the appropriate competencies (i.e., the knowledge, skills and abilities) to fulfill their engagement responsibilities, and are in compliance with applicable auditor rotation regulations.

The assignment of professionals to an audit engagement is also made under the direction of our Assurance leadership. Factors considered when assigning people to audit teams include engagement size and complexity, specialised industry knowledge and experience, timing of work, continuity, and opportunities for on-the-job training. For more complex engagements, consideration is given to whether specialised or additional expertise is needed to supplement or enhance the audit engagement team.

In many situations, internal specialists are assigned as part of the audit engagement team to assist in performing audit procedures and obtaining appropriate audit evidence. These professionals are used in situations requiring special skills or knowledge, such as information systems, asset valuation and actuarial analysis.

Roger Hillen



## Professional Practice

There is an established Professional Practice Group. The South Africa Professional Practice Leader (PPL) is overseen by the Area (EMEIA) Professional Practice Director (PPD), who in turn is overseen by the EY Global Vice Chair of Professional Practice, referred to as the EY Global PPD.

The EY Global Vice Chair of Professional Practice, referred to as the EY Global Professional Practice Director (PPD), is overseen by the EY Global Vice Chair of Assurance and works to establish global audit quality control policies and procedures. Each of the Area PPDs is overseen by the EY Global PPD and the related Area Assurance Leader. This helps provide greater assurance as to the objectivity of audit quality and consultation processes.

The EY Global PPD also leads and oversees the EY Global Professional Practice group. This is a global network of technical subject matter specialists in accounting and auditing standards, who consult on accounting, auditing and financial reporting matters, and perform various practice monitoring and risk management activities.

The EY Global PPD oversees development of the EY Global Audit Methodology (EY GAM) and related technologies so that they are consistent with relevant professional standards and regulatory requirements. The Global Professional Practice group also oversees the development of the guidance, training and monitoring programs and processes used by member firm professionals to execute audits consistently and effectively. The Global, Area and Regional PPDs, together with other professionals who work with them in each member firm, are knowledgeable about EY people, clients and processes, and they are readily accessible for consultation with audit engagement teams.

Additional resources often augment the Global Professional Practice group, including networks of professionals focused on:



Internal-control reporting and related aspects of the EY audit methodology



Accounting, auditing and risk issues for specific industries and sectors



Event-specific issues involving areas of civil and political unrest; or sovereign debt and related accounting, auditing, reporting and disclosure implications



General engagement matters and how to work effectively with audit committees

# Review and consultation

## Reviews of audit work

EY policies describe the requirements for timely and direct senior professional participation, as well as the level of review required for the work performed. Supervisory members of an audit engagement team perform a detailed review of the audit documentation for accuracy and completeness. Senior audit executives and engagement partners perform a second-level review to determine adequacy of the audit work as a whole, and the related accounting and financial statement presentation. A tax professional reviews the significant tax and other relevant working papers. For listed and certain other companies, an engagement quality reviewer (described below) reviews important areas of accounting, financial reporting and audit execution, as well as the financial statements of the company we audit and our auditor's report.

### The nature, timing and extent of the reviews of audit work depend on many factors, including:



The risk, materiality, subjectivity and complexity of the subject matter



The ability and experience of the audit team members preparing the audit documentation



The level of the reviewer's direct participation in the audit work



The extent of consultation employed

Our policies also describe the roles and responsibilities of each audit engagement team member for managing, directing and supervising the audit, as well as the requirements for documenting their work and conclusions.

## Consultation requirements

EY consultation policies are built upon a culture of collaboration, whereby audit professionals are encouraged to share perspectives on complex accounting, auditing and reporting issues.

Consultation requirements and related policies are designed to involve the right resources so that audit teams reach appropriate conclusions.

Consultation is built into the decision-making process; it is not just a process to provide advice.

For complex and sensitive matters, we have a formal process requiring consultation outside of the audit engagement team with other personnel who have more experience or specialised knowledge, primarily Professional Practice and Independence personnel. In the interests of objectivity and professional skepticism, our policies require members of Professional Practice, Independence and certain others to withdraw from a consultation if they currently serve, or have recently served, the client to which the consultation relates. In this circumstance, other appropriate individuals would be assigned.

EY policies also require that all consultations are documented, including written concurrence from the person or persons consulted, to demonstrate their understanding of the matter and its resolution.

## Engagement quality reviews

Engagement quality reviews are performed by audit partners in compliance with professional standards for audits of all listed companies and those considered to need close monitoring. Engagement quality reviewers are experienced professionals with significant subject matter knowledge. They are independent of the engagement team and able to provide objective evaluation of significant accounting, auditing and reporting matters. In no circumstances may the responsibility of the engagement quality reviewer be delegated to another individual.

The engagement quality review spans the entire engagement cycle, including planning, risk assessment, audit strategy and execution. Policies and procedures for the performance and documentation of engagement quality reviews provide specific guidelines on the nature, timing and extent of the procedures to be performed, and the required documentation evidencing their completion. Our PPL approves all engagement quality review assignments.

## Audit engagement team resolution process for differences of professional opinion

EY has a collaborative culture that encourages and expects people to speak up, without fear of reprisal, if a difference of professional opinion arises or if they are uncomfortable about a matter relating to a client engagement. Policies and procedures are designed to empower members of an audit engagement team to raise any disagreements relating to significant accounting, auditing or reporting matters.

These policies are made clear to people as they join EY, and we continue to promote a culture that reinforces a person's responsibility and authority to make their own views heard, and seek out the views of others.

Differences of professional opinion that arise during an audit are generally resolved at the audit engagement team level. However, if any person involved in the discussion of an issue is not satisfied with the decision, they refer it to the next level of authority until agreement is reached or a final decision is made. Furthermore, if the engagement quality reviewer makes recommendations that the engagement partner does not accept, or the matter is not resolved to the reviewer's satisfaction, the auditor's report is not issued until the matter is resolved. EY policies require documentation of disagreements and their resolution.

# Monitoring

EY's reputation for providing high quality professional audit services independently, objectively and ethically is fundamental to our success as independent auditors. We recognise that in today's environment – characterised by continuing globalisation and the rapid movement of capital and the impact of technology changes – the quality of our audit services has never been more important. As part of our strategy, we continue to invest heavily in developing and maintaining our audit methodology, tools and other resources needed to support quality service. EY has designed and implemented a comprehensive set of global audit quality control policies and practices. These policies and practices meet the requirements of the International Standards on Quality Control 1 (ISQC1) issued by the International Auditing and Assurance Standards Board (IAASB). EY has adopted these global policies and procedures, and has supplemented them as necessary to comply with local laws and professional guidelines, and to address specific business needs.

We monitor compliance with the requirements of ISQC1 through various monitoring processes, which includes the following:

1. Execution of an internal monitoring program for South Africa,
2. Independent reviews of our South Africa practice by EYG,
3. Audit quality indicator reviews,
4. Internal Audit Quality Reviews,
5. External reviews
6. Root Cause Analysis of findings of external reviews by regulators.

## 1. South Africa internal monitoring program

At a firm level, we have established within the Professional Practice Group a dedicated team responsible for assessing our compliance with ISQC1. We have mapped our internal processes to the requirements of ISQC1 which identifies key controls and outputs. We have performed testing of the identified

controls to determine our compliance with ISQC1. The results of the testing are communicated to Assurance Leadership. Should deficiencies be detected, additional steps are taken to improve process so that these are addressed timely and do not recur. This may take the form of messaging from leadership; designing additional forms and templates; consequence management; or a combination of the above.

### ISQM1

In February 2019, the International Auditing and Assurance Standards Board (IAASB) released an exposure draft that proposes significant changes to the way professional accountancy firms manage quality. The International Standard on Quality Management 1 (ISQM 1) will replace the current International Standard on Quality Control 1 (ISQC 1), and take a more proactive and risk-based approach.

ISQM 1 is expected to require firms to design, implement, monitor and assess the overall system of quality management (SQM) that provides reasonable assurance a firm will meet its quality objectives. The proposed standard includes more robust requirements for the governance, leadership and culture of an audit firm and a risk assessment process that evaluates risks to achieving quality objectives and identification of controls that address those risks. It will involve more extensive monitoring of the SQM to evaluate effectiveness and to identify deficiencies that require corrective actions.

While the anticipated effective date of the standard is December 2021, EY has already taken many steps to improve its SQM. An effective SQM is the foundation for all EY's quality initiatives, and will enhance quality and operating effectiveness. EY's approach is to implement an SQM that is consistently applied across the entire network of member firms. This is especially important in a global economy where many audits involve the use of other

EY member firms. A globally consistent SQM helps ensure audit quality and consistent execution. EY member firms continue to invest to ensure we comply fully with the new standard.

## 2. EY Global Practice Level Reviews (PLR)

At least once every three years, there is an EY review of our audit quality policies and procedures. Experienced reviewers, external to EY South Africa, test extensive samples and complete detailed work programs to ensure that the SA firm is complying with the requirements of ISQC1.

The Quality Control processes subject to evaluation and testing include:

- ▶ Leadership responsibilities
- ▶ Relevant ethical requirements
- ▶ Acceptance and Continuance of Clients and Engagements
- ▶ Engagement performance and documentation (see Engagement Level Reviews below)
- ▶ Monitoring

In addition, a senior HR expert performs focused reviews on the following:

- ▶ Hiring (sufficiency of resources),
- ▶ Assignment,
- ▶ Learning (competence and capability),
- ▶ Performance Evaluation

The results of the reviewers' testing is documented using global Quality Control questionnaires within the Audit Quality Review (AQR) system.

The most recent Global practice level commenced in November 2019 and at the date of this report is being finalised.

### 3. Audit Quality Indicators

AQIs are qualitative or quantitative measures of audit quality that allow stakeholders to assess the indicators year-on-year, across our firm and for the engagements we deliver on.

Several years ago, we identified a number of indicators which we would start monitoring. Identification of AQIs is an iterative process; some of the indicators - along with expected thresholds - that our firm requires us to monitor are as follows:

AQI	Expectation	Actual
Partner involvement	2-5%	4%
Overall partner utilisation	<70%	54%
Partner retention rate	>70%	94%
Professional staff per partner	<20:1	14,8
IFRS pre-issuance reviews for PIEs	100%	100%
Completion of mandatory training	100%	100%
Independence training completion	100%	100%
Audit tenure compliance	100%	100%
Global People Quality Survey Results	>85%	94%
Late archives (<25 days)	<5%	4%

In December 2019, the IRBA published its Feedback Report on Audit Quality Indicators. This report provided feedback on a set of measures that audit firms in South Africa reported to the IRBA, and it provides audit committees with insights relevant to the appointment of the external auditor, performance of the audit engagement and independence. The IRBA report can be accessed here: <https://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/transparency-reporting-and-audit-quality-indicators-aqis>. The following AQI categories were presented in the IRBA report:



### 4. Internal Audit Quality Reviews

Each member firm in the EY network is responsible for establishing and administering, with Area coordination, an Audit Quality Review (AQR) program to continually evaluate the adequacy and operational effectiveness of the country practice's quality control policies and procedures covering its accounting, auditing and other assurance engagements.

The AQR program is a significant component of EY policies and procedures quality control and supports other risk management and continuous improvement initiatives. Accordingly, the primary objective of the program is to assist EY South Africa in maintaining and continually enhancing the quality of its assurance engagements. This objective is accomplished by determining whether EY:

- is conducting assurance engagements in accordance with relevant professional standards and in accordance with the applicable EY policies, and
- has established and documented adequate control policies and procedures and is complying with them.

Each member firm partner should be reviewed at least once every three years. New partner promotes, and direct entry partners, are reviewed in the year following that in which they became partner. Should the outcome of a review be unsatisfactory, the partner will be subject to re-review in the following year.

Engagements to be reviewed are selected by the Area AQR Coordinator (who is independent of South Africa). Engagements are selected for review on a risk basis, and cover a cross-section of EY South Africa's accounting, auditing and other assurance practice.

The AQR ratings are defined as follows:



**"1" Rating:** A good quality file, with no or minor findings.



**"2" Rating:** There were findings which were more than minor, but less than material. Some improvement required.



**"3" Rating:** There were material findings. Significant improvement required.

The same AQR process was followed in 2019 as in the prior year, and the results were as follows:

Rating	2017	2018	2019
	73%	80%	91%
	27%	16%	9%
	-	4%	-
<b>Total</b> 	<b>100%</b>	<b>100%</b>	<b>100%</b>

The Assurance Leadership, which includes the Service Line Leader: Assurance and the Professional Practice Leader, is notified of all "3" rated Partners, and the findings of "2" and "3" rated engagements are taken into account when determining Partner remuneration.

The most important part of the AQR process is addressing the results of the review. A Regional Quality Improvement Plan ("QUIP") for Africa (which includes any South African findings) is generated in response to all common findings, and all significant findings (even when these have occurred infrequently), and describes in appropriate detail the timely follow-up actions to be taken in response to all the matters noted during the review by describing the action steps to be taken, the people responsible for the actions, the timetable and deadlines established, and sign-off on completed actions. The QUIP is monitored by Assurance Leadership and the implementation is the responsibility of the Quality Enablement Leader (QEL).

## 5. External quality reviews

EY South Africa's audit practices and our registered statutory auditors are subject to regular inspection by the IRBA. As part of its inspections, the IRBA evaluates quality control systems and reviews selected engagements.

We recognise the importance of the IRBA's role in assisting to create confidence in the capital markets and promoting sound practices. External quality reviews performed by the IRBA are one of the key components in our system of quality control, with findings receiving the highest leadership attention. Our leadership regularly engages with the IRBA to ensure that we work together to achieve high quality audits. Our Leadership, including the Country Leader, Assurance Leaders and Professional Practice Leader always avail themselves when the IRBA requests meetings to discuss any aspects related to quality or matters affecting the firm. Any communication from the IRBA to the firm receives the highest attention.

At an engagement-level, the process continues to be risk-based, with an emphasis being placed on engagements with public interest.

There are two types of findings communicated to the firm/ engagement partner in the formal inspections report, following an IRBA inspection:

- ▶ firm level - those related to the audit firm's system of quality control; and
- ▶ engagement level - those related to the firm's assurance engagements.

A reportable finding at a firm level includes any significant or systemic deficiency related to the firm's conduct or system of quality control that may have an impact on audit quality by creating a risk of inappropriate auditors' reports being issued by the firm, including failure to implement remedial/ corrective action on all assurance engagements performed by the firm, resulting in recurring inspection findings.

A reportable finding at an engagement level includes any significant deficiency where the firm has failed to obtain sufficient and appropriate audit evidence to support its auditor's report, including a failure to identify or address a material or potential material financial reporting/accounting related deficiency; or any non-compliance with applicable standards, codes of conduct and legislation, including a departure from EY policies, procedures or methodology.

Reportable findings on assurance engagements do not necessarily imply that the financial statements are materially misstated or that the auditor's opinion is inappropriate.

The Inspections Committee (INSCOM) assesses the reported findings. It then comments and determines any further action it deems necessary, as follows:

7th Cycle Action guideline (Commenced: 1 April 2018)
There may be nothing pertinent identified during an inspection that requires any action on the part of the firm/engagement partner, and this will be reported as such.
Where there are reported findings, the firm will be required to, by the specified time, submit a written undertaking that prompt remedial/corrective action will be taken to address the reported findings within the firm, and this includes submitting a Root Cause Analysis and a Remedial Action Plan in the prescribed format to the IRBA for evaluation. (General action/conditions)
INSCOM may also decide to provide the firm/engagement partner with specific actions/conditions, e.g. to submit supporting evidence or information on a specific matter within a prescribed time frame for evaluation. (Specific action/conditions)

The purpose of communicating reportable findings is to formally alert the firm/engagement partner of any identified deficiency of a significant or systemic nature that requires prompt remediation or corrective action to be implemented by the firm and its engagement partners in order to promote consistent, sustainable high audit quality on all audits within the firm.

Failure to meet any action/conditions or requests by INSCOM may result in a referral to the IRBA's Investigations Department for an investigation/disciplinary action.

INSCOM, at any time, reserves the right to refer any firm/ engagement partner to the Investigations Department, based on the significance, systemic nature or extent of reported findings, including recurring findings of a similar nature being reported.

A referral for investigation does not negate the responsibility on the part of the firm and all of its partners to implement prompt remedial/corrective action.

EY's most recent completed firm-level review by the IRBA took place in June and July 2018. We included the firm level finding of this inspection in our 2018 Transparency Report.

At the time that our 2018 TR was published, we were still awaiting finalisation on the outcomes of two file reviews (out of the six engagements selected for review). The 2 directors responsible for the 2 outstanding file reviews were subsequently referred for investigation by the IRBA's inspections committee. We have responded to the IRBA's requests for additional information, and are waiting to hear whether the IRBA intends taking any of the matters further. We completed a detailed root cause analysis (RCA) on all files, as well as the firm-level finding. We have presented our RCA and action plan to the IRBA.

### Development post 30 June 2019

The IRBA performed engagement-level reviews on 18 files over the period July to September 2019. Of the 18 engagements, 6 are entities listed on the JSE. We have received decisions from the Inspections Committee on 9 of the files in December 2019. We have completed RCAs where necessary.

At the date of this report, we are yet to receive our final firm-level findings and the outcomes of the remaining 9 files.

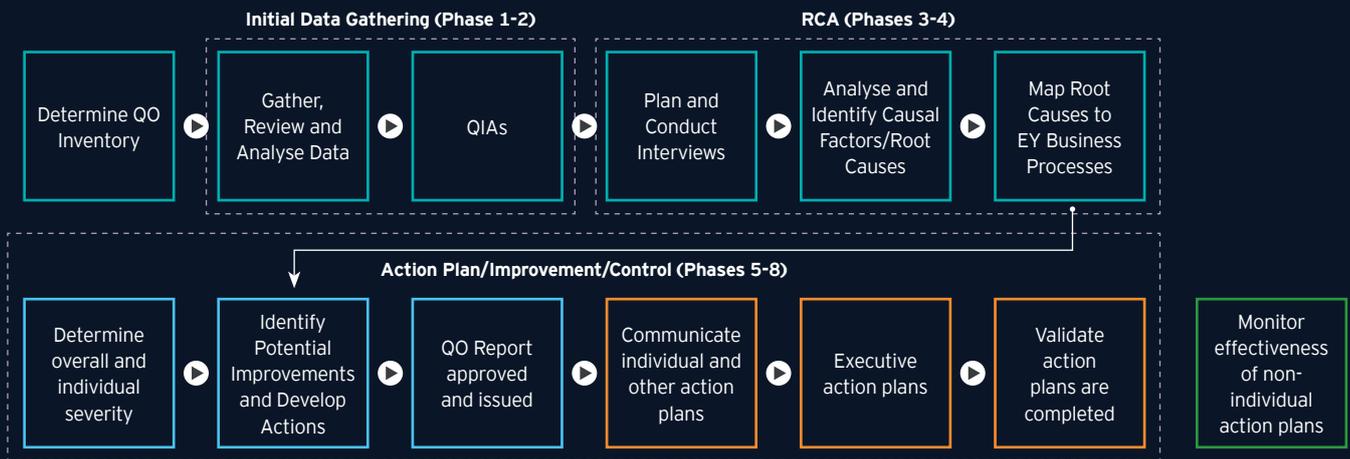
The PCAOB performed an office-level inspection in August 2019, and also reviewed three engagements. We await the final outcome of the review.

We respect and benefit from the external regulatory inspection process. We thoroughly evaluate points raised during the inspection in order to identify areas where we can improve audit quality. Together with the AQR process, external inspections aid us in making our audits and related control processes of the highest quality in the interests of our clients' investors and other stakeholders.

Information on the above-mentioned regulator can be found at [www.irba.co.za](http://www.irba.co.za) and [www.pcaobus.org](http://www.pcaobus.org)

## 6. Root Cause Analysis (RCA)

The following graphic depicts the RCA process:



All of the above is captured on an online Global tool, QOMAR. This allows for enhanced analysis and monitoring capability. The tool includes standardised Quality Improvement Areas (QIAs), Causal factor themes and Causal Factors

At an engagement level, RCA is an important component of the EY quality control. The process described above is applied globally by all EY member firms, and is subject to regular Global oversight and monitoring.

It is aimed at continuous quality improvement which starts with the identification of "Quality Occurrences" (QOs) and "Positive Quality Events" (PQEs) and is designed to identify the origin of the negative event to assist in preventing future occurrences from happening again, while also reinforcing positive events.

At a minimum, the following types of QOs will require a RCA to be performed:

- ▶ External inspection findings Internal inspections receiving the lowest grade (AQR "3" rated engagements)
- ▶ Listed company financial restatements, in situations where the financial statements were retracted and reissued due to correction of an error Private company restatements for engagements exceeding 10,000 hours, in situations where the financial
- ▶ statements were retracted and reissued due to correction of an error
- ▶ Internal Controls over Financial Reporting (ICFR) restatements
- ▶ Non-personal independence matters

Further RCAs can be performed at the discretion of the QEL and Professional Practice Leader (PPL).

“

The recent results of our internal firm-level and engagement-level monitoring, together with the recent feedback from independent external audit firm regulators, provide EY South Africa with a basis to conclude that our internal quality control systems are designed appropriately and are operating effectively.

# Compliance with Legal requirements: Rotation and long association

## Audit Partner Rotation

EY supports mandatory audit partner rotation to help reinforce auditor independence. EY South Africa complies with the audit partner rotation requirements of the IESBA Code, the Independent Regulatory Board for Auditors (IRBA), the Companies Act of South Africa, 2008, as well as the U.S. Securities and Exchange Commission (SEC), where required. EY South Africa supports audit partner rotation because it provides a fresh perspective and promotes independence from company management, while retaining expertise and knowledge of the business. Audit partner rotation, combined with independence requirements, enhanced systems of internal quality controls and independent audit oversight, helps strengthen independence and objectivity, and are important safeguards of audit quality.

For PIEs, the EY Global Independence Policy requires the lead engagement partner, the engagement quality reviewer and other audit partners who make key decisions or judgments on matters significant to the audit (together, the “key audit partners”) to be rotated after seven years. For a new PIE (including a newly listed company), key audit partners may remain in place for an additional two years before rotating off the team if they have served the company for six or more years prior to the listing.

In addition to the audit partner rotation requirements applicable to PIE audit clients, EY has established a long association safeguards framework that, consistent with the requirements of the IESBA Code include consideration of the threats to independence created by involvement of professionals over a long period of time on an audit and a safeguards framework to address such threats.

We employ tools to effectively monitor compliance with internal rotation and requirements for audit partners and other professionals who have had long association with the audit client. There is also a process for rotation planning and decision-making that involves consultation with, and approvals by, our Professional Practice and Independence professionals .

## Audit Firm Rotation

The Independent Regulatory Board for Auditors (IRBA) announced on 2 June 2017, the requirements for the adoption and implementation of Mandatory Audit Firm Rotation (MAFR) in South Africa. Their ruling was gazetted into law on 5 June 2017.

The ruling is effective for financial years commencing on or after 1 April 2023 and is applicable to listed companies, as well as a broad range of other Public Interest Entities (“PIEs”), as defined.

The ruling provides that if an audit firm of a PIE has served as the appointed auditor of that entity for 10 or more consecutive financial years before the financial year commencing on or after 1 April 2023, the audit firm will be required to decline re-appointment. It may not again assume appointment as auditor for a 5 year period thereafter.

Partner Rotation rules for South Africa are currently as follows:



## The Auditing Professions Act

A Reportable Irregularity (RIs) is defined as any unlawful action or omission committed by any person responsible for the management of an entity, which -

- has caused or is likely to cause material financial loss to the entity or to any partner, member, shareholder, creditor or investor of the entity in respect of his, her or its dealings with that entity; or
- is fraudulent or amounts to theft; or
- represents a material breach of any fiduciary duty owed by such person to the entity or any partner, member, shareholder, creditor or investor of the entity under any law applying to the entity or the conduct or managements thereof.



## About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit [ey.com](http://ey.com).

©2019 Ernst & Young Incorporated  
All Rights Reserved.

Creative Services ref. 5652. Artwork by D.Naidoo.

## ED None

This material has been prepared for general information purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice. The information contained herein has been prepared as of the current date, is of a general nature, and is not intended to address the circumstances nor needs of all individuals or entities. No one should act upon such information without obtaining appropriate professional advice. Although we endeavor to provide accurate and timely information at the current date, there can be no guarantee that such information will continue to be accurate in the future.

Ernst & Young Inc. is a South African company and a member firm of the Ernst & Young network of independent member affiliates with Ernst & Young Global Limited ("EYG"), each of which is a separate legal entity. EYG is a UK company limited by guarantee. EYG does not provide services to clients. For more information about our organisation, please visit [ey.com](http://ey.com)

**All rights reserved**

**[ey.com](http://ey.com)**

