

EY South Africa Transparency Report 2020



EY

Building a better
working world

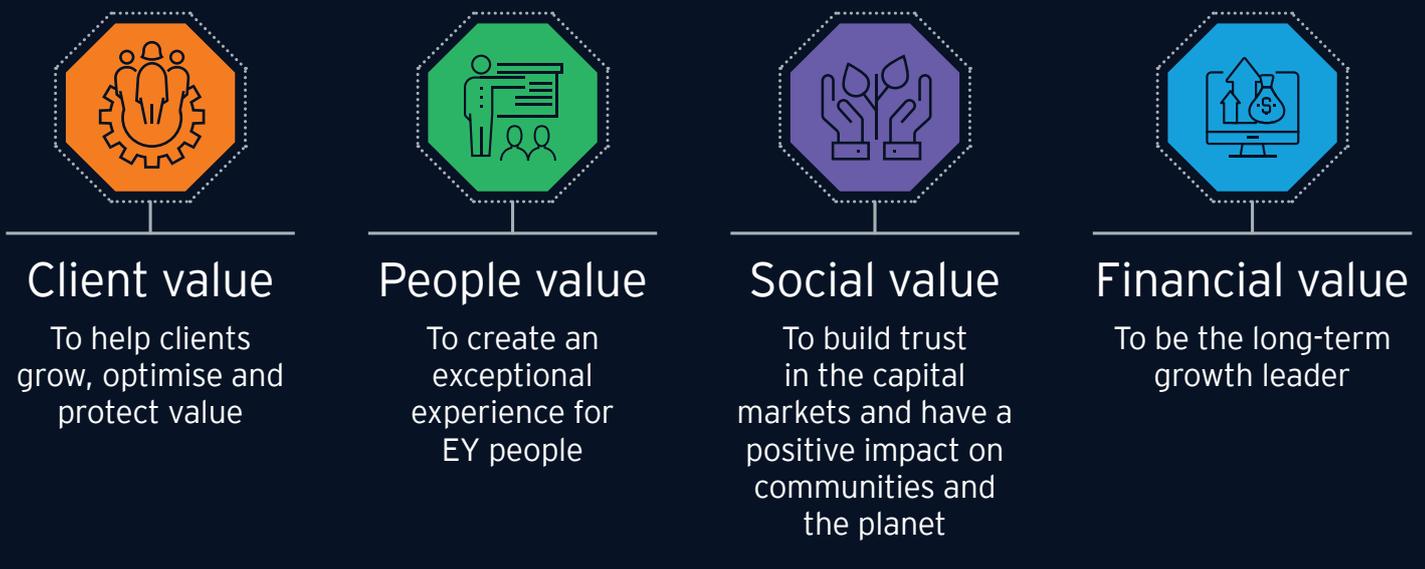
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Who we are



Value creation at EY





Audit quality

Investment in quality and risk management

10%

of audit revenue

Internal review



of files reviewed rated as "good" quality

Non-audit services (NAS)

6%

Average NAS provided across all audit clients

5%

Average NAS provided to our top 25 audit clients



People

We employ

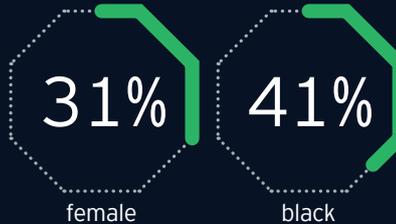
3,177 people in

South Africa across all service lines

We provided jobs to

1,138 trainee accountants in audit

Firm ownership demographics



It is with pride that we announce that EY is the **#3 Top Employer in Africa** with **EY Nigeria ranked #1** and **EY South Africa ranked 6th** for 2019. EY is a certified Top Employer in **Kenya, Nigeria, South Africa, and Zimbabwe**, gaining us the Top Employer Africa certification for another year.

COVID-19 work from home benefit

Staff earning less than R500k received a **R2,500** subsidy @ the EY shop

EY staff received **preferential procurement rates**



EY provided

R2,5m in **remote working** subsidies

Number of subsidies provided **1,053**

Free online learning

- » EY Badges
- » EY Tech MBA





Social

COVID-19 relief

Virtual Education Catch-up Program



91 NextGen learners
40 EY employee's children

Participants received laptops, data, weekly tutoring & virtual teaching

R2,1m
Contribution from the South African Executive



Food relief
188k meals provided with Food Forward



Care Kits
3 000 kits masks & sanitisers donated to NextGen schools

Student bursaries

EY is providing

131

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

R5,4m

EY has provided bursaries to

45 Thuthuka students

to the value of

R3,8m

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



15 NextGen Leaders in university receive full bursaries and **25** others receive partial bursaries and in total this is over **R1,4m**



Foreword:

Ajen Sita and Stephen Ntsoane

Welcome to the South Africa EY Transparency Report for 2020. It's important to begin by acknowledging just how challenging this year has been for all of us due to COVID-19 and the resulting social and economic lockdowns.

COVID-19 instantaneously transformed the way in which we needed to work, to serve our business, clients and our many societal stakeholders. On 17 March 2020, we were able to switch on EY operations from home after migrating our entire Africa-wide organisation, consisting of 262 partners and 5500 employees to home-based, remote working. We were able to do this over a three-day period thanks to the investments we've made, since 2013, into the technology that supports our 'EY@Work' programme - a programme built to enable the very remote working we had to so hastily adapt to.

Our continued investment in Digital Audit and data analytics tools and technologies meant that our audit teams were able to seamlessly continue serving our audit clients remotely during the initial lockdown and beyond. You can read more about our digital audit innovation in the body of this report.

What we all quickly learned too, is that work is something you do, rather than a place that you go. And this shift in mindset has enhanced both our employees and clients' experiences in working with us.

Over the course of this year, every single EY employee met the challenge of working from home, and the complexity with which it comes, with courage and a sense of curiosity. And of that, we are deeply proud.



About the Report

Ours is an organisation that serves the public interest, and the work we do is integral to maintaining trust in the resilience of capital markets. As such, the EY South Africa Transparency Report is a key priority on our annual business calendar. We compile the report to share insight into our rigour around the leadership and management practices throughout our organisation with a core focus on our audit practice.

Much has been said, and continues to be said, regarding trust and integrity within professional services and the audit profession and certainly, there is no shortage of those with a critical view. What we don't have enough of is the right people in the room talking about what we are going to do and what we need to do to move forward. The Finance Minister's recent statement calling for an independent panel to investigate some of the challenges expressed about the audit profession is one that we welcome as a necessary step forward in this conversation.

Leadership and 'Tone at the Top'

2021 will be the year for decisive actions that restore trust in the profession. Those actions, as we see it, pivot around leadership and the way leadership instils a culture of accountability from board right through to trainees; and how the industry effectively addresses the challenges to independence, concentration, and its role in fraud detection.

The idea of 'Tone at the Top' is about leadership setting the tone for all aspects of organisational culture. As leaders, we set the strategy, the expectations of what is right and wrong, and create the environment for all our people to really embrace a set of working methods, protocols, and standards of professionalism and integrity in what we do. EY leaders go to great lengths to communicate, engage, educate and hold ourselves, our employees and our broader supplier and client network to account in order to achieve this.

It is important to understand the scale of what we do across the globe, our commitment to quality and our accountability to regulators. Across all member organisations, EY audits 150,000 entities annually and, based on evidence from over 500 external inspections each year, we have among the lowest rates of audit deficiencies in our peer group.

Trust

While we include many of South Africa's leading organisations in our client base, the real beneficiaries of our work are the consuming public. Currently, there is a trust deficit between the public and the profession. This is expressed as an 'expectation gap' between what the public believe auditors should be doing, and the reality of the audit work itself versus our role in fraud detection and prevention. We continue our robust client acceptance and continuance vetting, where we perform checks against a list of high-risk individuals and entities, including politically exposed persons. We increasingly involve our forensics teams on our higher risk audits to assist us in designing expanded testing programs, checklists and interviews.

Collusive management-led financial fraud is deplorable and combatting it begins with a corporate governance and regulatory framework that deters fraud from starting in the first place. The audit profession must and will play its role in eliminating fraud, but it is management, Boards and the regulations that govern their company conduct that are ultimately the first lines of defense.

Moreover, the profession and audit product must evolve to recognise its role in the context of fraud prevention and detection and that's not a straightforward exercise.

Firstly, we need to develop a set of standards that provide guidance for what IFRS trained auditors should be looking out for in the context of fraud. Secondly, we need the full financial ecosystem in play. This begins with the corporates themselves. It is they who should be setting the right tone, enabling the right culture empowered through the right systems and processes in their own organisations to prevent and detect fraud. The audit profession should then ensure it involves forensic auditors as part of its regular audit teams; deploy digital tools for wider assurance and look at larger population sets. In addition to focusing on blatant theft, auditors must focus on conflict of interest areas where there's potential pressure or incentive for people to commit fraud. Finally, we need the broader system of regulatory bodies working together effectively. Each role player sees a different part of the transaction i.e. the stock exchange, an audit regulator, a market regulator like a Reserve Bank, but none have the full view. By working cohesively together and casting different lenses over the audit process itself, auditors will be better equipped to identify where the risks of fraud are allowing for greater potential to expose wrongdoing.



We are an active participant in the South African Audit Profession Trust Initiative (SAAPTI) and continue to work with the broader audit profession to find solutions to the challenges being faced by the industry. An engaged and proactive profession that focusses on the public interest is critical to the efficiency of the capital markets and is required to address the challenges within the profession.

Concentration

Mandatory Audit Firm Rotation was introduced to help resolve challenges around industry concentration and independence. However, that doesn't solve the issue of concentration. The market needs more choice when choosing auditors as they typically have a choice of one of four organisations due to the limitations of scale and size of the mid and small tier organisations. Today, we have in excess of 2000 registered audit organisations for just over 4,000 registered auditors in South Africa. The number of registered organisations is simply too high given our market size and type of audit work that needs to be done. If we were to consolidate and create up to 10 strong organisations that are all in a position to effectively serve the large, complex multi-location audits and clients, then we offer a real solution to the market to address concentration. This is a principle we must all agree upon and agree quickly. EY continues to play its part by investing in the development of smaller, black-owned audit organisations, by forming strategic alliances with, and partnering with, these entities on our larger audits.

Independence

Currently, in the UK there is a drive to separate auditing operations from the consulting operations in auditing organisations. In South Africa we've always had that separation, yet the perception relating to the inherent conflict persists. At EY, we have been more vigilant than ever before about monitoring the balance of non-audit services to our clients. Today, it accounts for no more than 5% of our revenues on our top 25 audit clients. Audit partners may not be rewarded for selling non-audit services to our audit clients, and all such services need to be pre-approved by the client's Audit Committee.

It is a fair and reasonable expectation that auditors are independent and should not have any conflict of interest with their audit clients. Therefore, we believe there should be stricter and clearer restrictions on what non-assurance services would be permitted to audit clients as well as improved transparency related thereto.

System of Quality Management

We welcome the recent changes to the quality standards. The International Standard on Quality Management (ISQM1) will replace the extant ISQC1, and it places the responsibility on an organisation's leadership for proactively monitoring the system of quality related to assurance engagements. The proposed standard includes more robust requirements for the governance, leadership and culture of professional accounting organisations, and a risk assessment process that evaluates risks to achieving quality objectives and identification of controls that address those risks. The standard is expected to come into effect in December 2022, and we have been preparing to implement the requirements of the standard.

Regulatory

We continue to engage actively with our local audit regulator, the IRBA whose inspection process plays a key role in determining areas of improvement. We benefit from these inspections, and implement the remedial actions to address all regulatory findings. All regulatory findings receive the highest leadership attention and swift responses. In cycle seven our review outcomes indicated a need for improvement at both an engagement and a organisation level, and we have made this a focus in our audit business.

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

Yours in public interest,



Ajen Sita
EY South Africa CEO

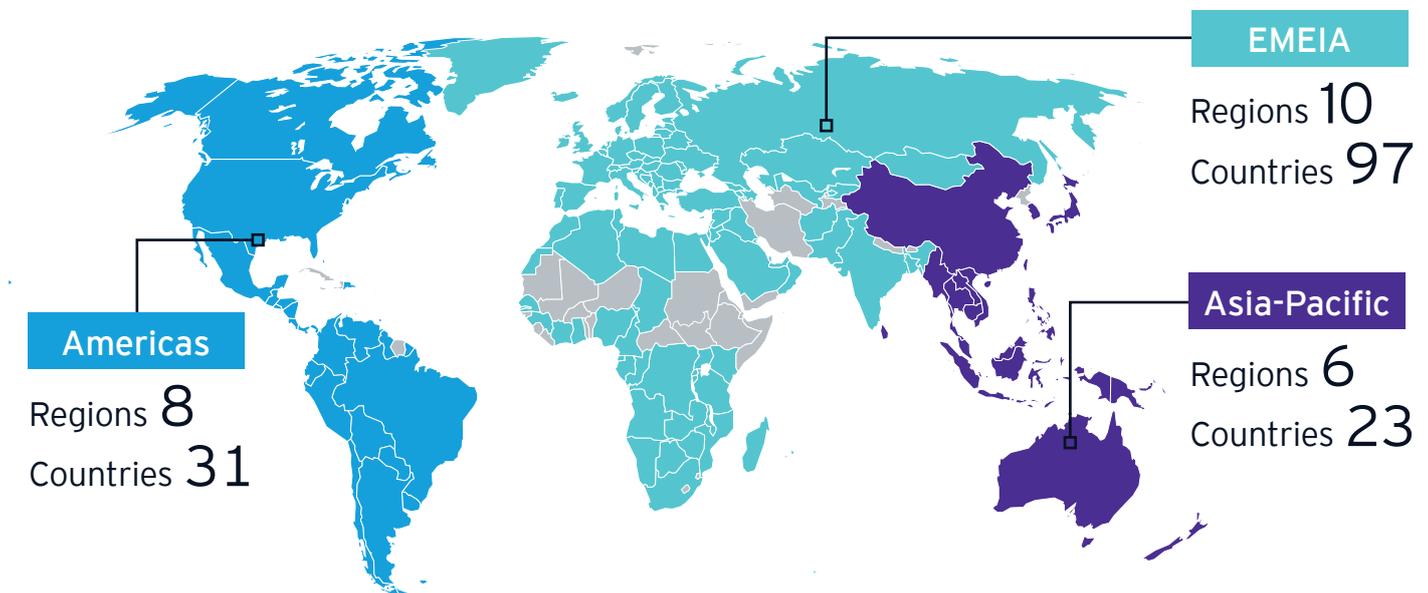


Stephen Ntsoane
EY South Africa Assurance Leader

30 November 2020



The EY network, legal structure and ownership



EY is a global leader in assurance, tax, transaction and advisory services. Worldwide, over **298,000** people in member organisations 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.

EYG member organisations are grouped into three geographic Areas: Americas; Asia-Pacific; and Europe, Middle East, India and Africa (EMEIA). The Areas comprise multiple Regions, which themselves consist of member organisations.

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

EY South Africa is part of the Africa Region which is included in the EMEIA Area.

In this document, reference to "partners" refers to directors who are also shareholders in the EY South Africa entities.

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

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

Governance structure

Management

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 comprises of the following members:



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

Markets Resolution Committee

Litigation Risk Committee

Key Accounts and Risk Committee

Social and Ethics 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.

In appointing the various leaders the following factors are considered:

- ▶ Experience and previous roles within or external to the organisation
- ▶ Knowledge and skill
- ▶ Long term potential
- ▶ Diversity and inclusiveness.

For key roles the Global organisation has input and oversight of the process.

Oversight

Each Region elects a Regional Partner Forum (RPF), whose representatives advise and act as a sounding board to Regional leadership. The Africa RPF (ARPF) has oversight of EY South Africa. **A majority of the members of the ARPF is made up of individuals who are not partners in the SA organisation.**

The ARPF should comprise not less than 8 and not more than 12 members, excluding the Africa CEO. Terms of office will generally be for 3 years with members eligible for re-election by formal vote for a second term.

The ARPF shall consist of partners who are not involved in Regional practice management, other than the Africa CEO. Practice management is defined as those management roles that have ultimate responsibility for the execution of the organisation's strategy and the roles that exert significant influence on management decisions. This means that members of the Africa Regional Executive and partners designated by the Africa CEO as having significant management responsibility cannot be members of the ARPF.

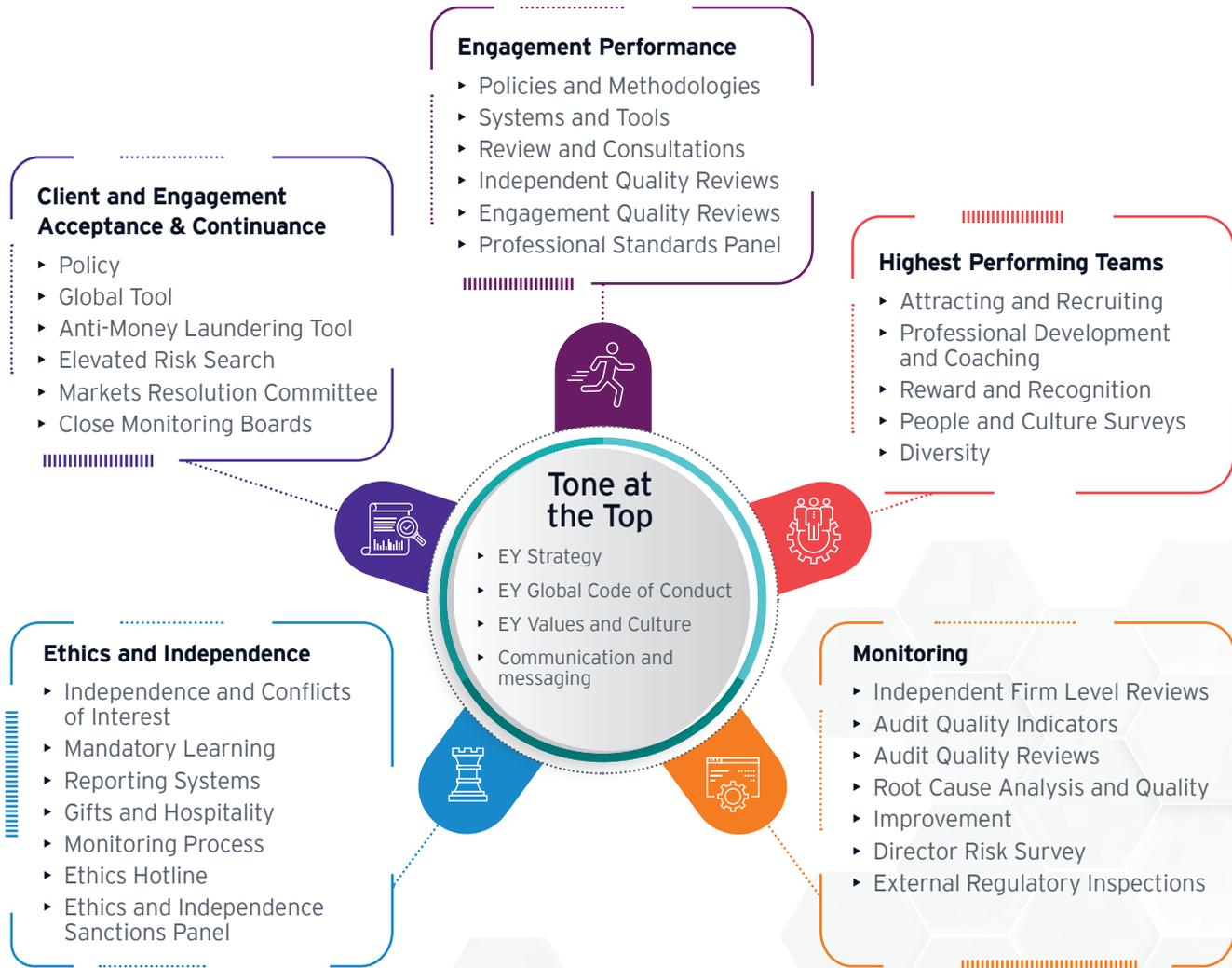
An important element of Regional Partner engagement will be through the ARPF which will:

- ▶ Provide a conduit for partners to raise key issues of concern to be addressed with the leadership of the Region.
- ▶ Provide input and advice to the Region Leadership Team (RLT).
- ▶ Provide input and advice to the Global Governance Council through its GGC representative, the Regional Presiding Partner.
- ▶ Serve as a sounding board for Regional matters including (but not limited to)
 - ▶ Selection of a new Africa CEO and the key RLT members;
 - ▶ Regional Partner compensation matters (not individuals),
 - ▶ Strategic and material matters;
 - ▶ Diversity and inclusiveness;
- ▶ Provide input on other partner-related matters, including the performance of the Africa CEO where appropriate.

The Africa CEO and/or other relevant body will take the ultimate decision on the matters listed above. Should a disagreement arise between the ARPF and the Africa CEO on a matter of significance, it will be brought to the attention of the Area Managing Partner.

Our commitment to quality

EY System of Quality



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.



Risk management

Responsibility for high-quality service and ownership of the risks associated with quality is placed within our various service lines and monitored centrally. Among other things, the Risk Management Leader helps monitor the management of these risks by the member organisations, as well as other risks across the organisation as part of the broader Enterprise Risk Management framework.

The Risk Management Leader is appointed to lead risk management initiatives (supported by other staff and professionals) 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 our organisation, and their execution is monitored through an Enterprise Risk Management program.

The organisation has implemented appropriate processes and controls to ensure that its top ten risks are continuously monitored for relevance and that these risks are adequately mitigated.

Each of the top ten risks have been rated in terms of likelihood and consequence of occurrence in terms of their inherent and residual risk. There are carefully designed appropriate risk treatment plans (controls) to reduce the overall residual risk. The risk treatment plans have been assigned to the service line or functional leaders of the organisation for continuous monitoring, thereby ensuring adequacy and effectiveness of the risk treatment plans.

The Key Accounts and Risk Committee, chaired by the Risk Management Leader, consists of: the CEO, Chief Operations Officer, the service line and functional leaders; maintains oversight of the relevance of the top ten risks and the risk treatment plans.

Top ten risks for South Africa



1

Pandemic response planning and crises management

Inadequate pandemic response; crises management planning and lack of competent teams to execute.



2

Workforce protection and well being

Inadequate health and safety and communicable disease planning; lack of remote working guidelines; poor staff wellness support including not respecting the 'right to disconnect' and insufficient planning for return to work.



3

Technology, infrastructure and security

Changes in IT landscape not managed effectively (cyber crime, hacking, confidentiality breaches, IT business continuity; data privacy (GDPR & POPI). Alternative methods and technologies create risk of fraud.



4

Financial and operational discipline and maintaining liquidity

Poor cash flow management; inability to sustain operations over a longer duration if the scenario deepens or reoccurs quickly.



5

Retention of key accounts, sales pipelines and MAFR

Failure to retain key accounts; establish strong pipelines; risk assessments of distressed clients (going concern); managing the MAFR process performers.



6

Reputation and brand

Negative events and circumstances that impact reputation and brand.



7

Service quality failure

Service quality failures; poor engagement management and independence breaches.



8

Working with a broader group of service providers

Poor management of contractors; consortiums; alliances and JVs. Risk of contractors not fulfilling commitments.



9

Changes in regulatory environment

Adverse regulatory developments e.g. audit restrictions; joint audit. Changes to regulations not communicated to clients timeously.



10

Leadership succession

Lack of effective planning of leadership succession.

Ethics and independence

The topic of ethics 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.

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 categories, containing guiding principles that should be used by everyone within EY to guide our behaviour across all areas of our activity.

All EY staff from juniors to the CEO are required to complete 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
- ▶ Independence Learning
- ▶ Living Our Values

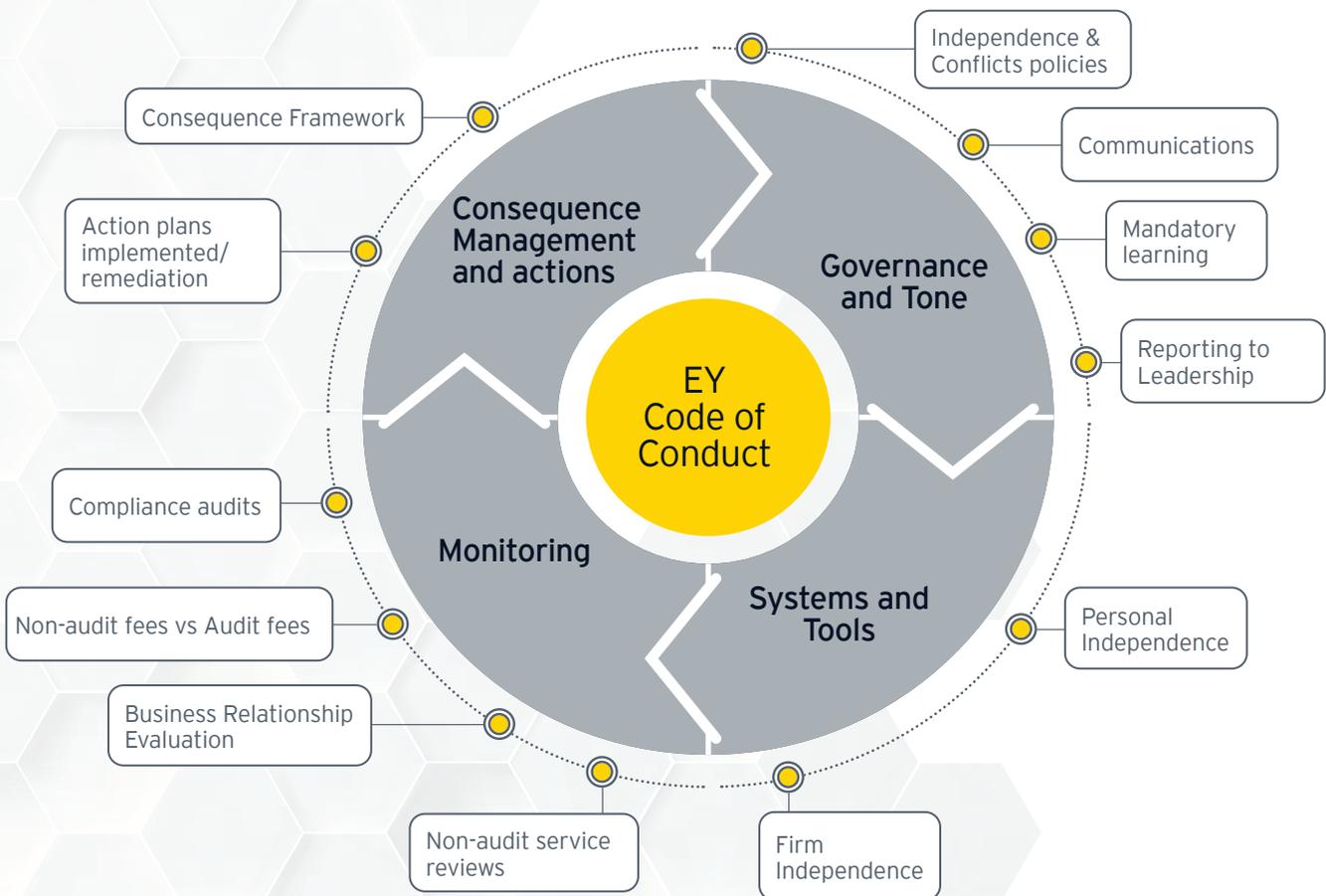


At the heart of maintaining the highest ethical standards is our EY Global Code of Conduct and we have strict requirements to avoid conflicts of interest and maintain independence.

Our EY Global Code of Conduct provides a clear set of standards and an ethical framework for how we work with clients and each other. Our commitment to independence starts at the top of our organisation. EY leaders set a clear tone from the top by establishing and maintaining a culture based on doing the right thing and adhering to our policies and any regulatory requirement. We nurture, develop and guide our talent in dealing with ethical dilemmas. We have extensive policies to avoid conflicts of interests and maintain independence, which are routinely reviewed and updated to adhere to regulatory requirements and are even more strict in certain aspects.

EY has strict requirements regarding both giving and receiving gifts or hospitality. Gifts and hospitality must be pre-approved, and recorded on a register. NO gifts or hospitality may be given to or received from audit clients. In addition, across all our service lines, no gifts or hospitality may be given to, or received from a government/state-owned entity or a politically exposed person.

The EY approach to independence is contained in our Global Code of Conduct and other policies, and is embedded in training programs, internal communications, reporting systems and the EY culture of consultation. Performing high-quality audits with independence, integrity, objectivity and professional skepticism is at the heart of EY serving the public interest. The below represents our system to manage our independence.





The **GMS Mobile App** enables our professionals to make GMS updates directly from their mobile devices, such as: performing a security search, making changes to their manually reported securities and adding new loans, insurance policies, banking and brokerage relationships to GMS.

Systems and Tools

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 conorganisationation of compliance with independence policies.

Service Offering Reference Tool (SORT)

We assess and monitor our portfolio of services on an ongoing basis to conorganisationation 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.

Monitoring

Compliance Audits

Independent compliance audits are performed regularly to determine the level of compliance with our independence policies and professional codes by our staff. These audits include reviewing information related to immediate family members (e.g. spouses) financial relationships and information contained in their tax returns, investment statements and other financial related documentation.



Rotation and long association

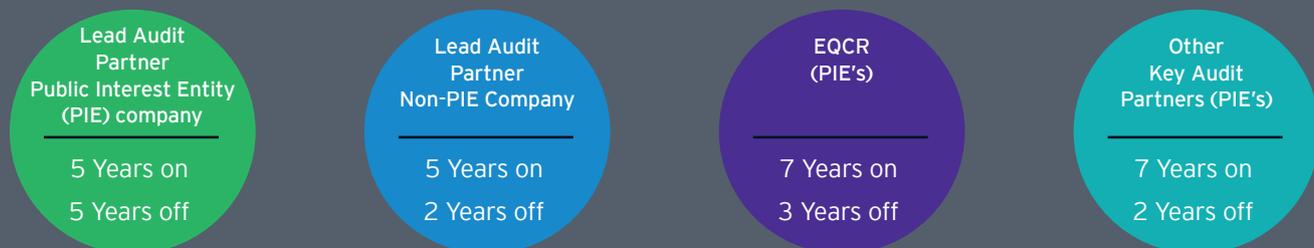
Audit Partner Rotation

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.

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 .

Partner Rotation rules for South Africa are currently as follows:



Choosing our clients: Acceptance and continuance

EY policy

The EY global policy on Client and Engagement Acceptance sets out principles for member organisations 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

Identify and address any issues related to reputation and brand

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) code.

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 organisation 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 Professional Practice Director (PPD).

In the EY annual client and engagement continuance process, we review our service and ability to continue to provide a quality service, and conorganisation 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.

In deciding to accept or continue with client engagements, our assessment includes considering 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.

Markets Resolution Committee (MRC)

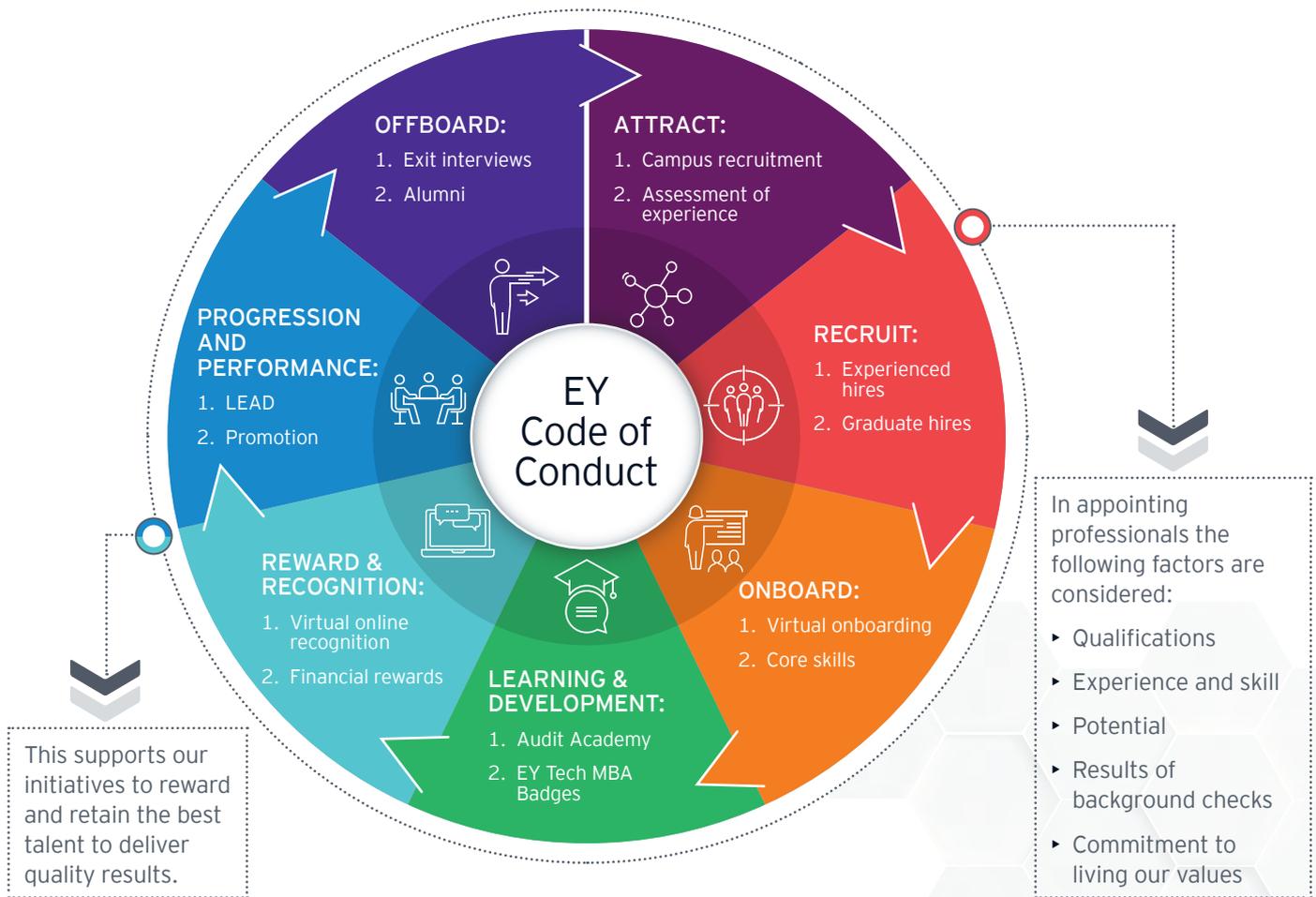
Current challenges in the market in which we operate require us to be more diligent in our client acceptance procedures to ensure we accept the right clients and consider whether we should perform the service.

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, additional approval levels are required.



Talent management & transformation



The EY Employee Value Proposition

“

It's yours to build.

Our people are the at the heart of our success. We endeavour to attract, develop, deploy and retain the very best talent offering in return access to the tools, experiences, learning, development, recognition, reward and many more opportunities to build a long-lasting, multi-faceted and ultimately rewarding career.

We are proud of the scope of work experiences that we offer to all our employees, across rank and job profile; as well as the variety of opportunities from which they are able to choose. And it's this that affords our people the very real occasion to construct their career journey to suit their own ambitions, at a pace that works for them.

This results in high levels of employee engagement, which benefits our culture, our clients and our communities.

Our goal is to empower the exceptional EY experience via the provision of a diverse and inclusive culture, valuable work supported by the best technology, and visible and strong leadership. Together, we continue to build an organisation surrounded by the curious, united by purpose where we learn form the best while using technology to unlock our potential for our clients and society. All to build a better working world, together.



EY culture

We foster a diverse and inclusive culture by practicing leadership behaviours that bring out the best in ourselves and others at EY. Our Transformative Leadership model has personal purpose at its heart, and it shows the way we are linking personal purpose through Better Me and Better Us to our organisational purpose of building a better working world.

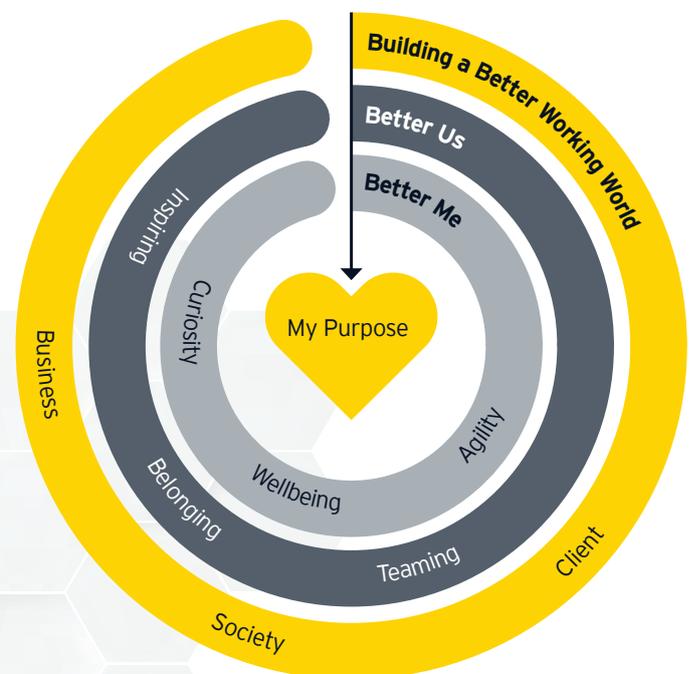
During the COVID-19 pandemic we also recognised the impact on our people and a number of people practices were reviewed and amended to support staff. The safety and wellbeing of our people remains a top priority. A few ways in which EY responded was by providing relevant support that included the introduction of virtual fitness classes and regular drop in calls which covered topics such as anxiety, stress, etc.

EY's approach to fostering a flexible working environment enabled teams to seamlessly continue supporting client delivery through working remotely.

We continuously strive to build a culture which is rooted deeply in our values.

EY is proud to have been consistently ranked as an Employer of Choice through the Top Employer Institute for the past 14 years, featuring in the top 10 each year. The HR Best Practices Survey looks at over 600 people practices and is based on 10 topics which cover key HR themes including various topics focused on people practices. This recognition is testament to our focus on creating exceptional experiences for our people through embedding the right people practices.

At EY we believe that Transformative leaders are purpose driven and bring out the best in themselves and others.



Developing future fit skills

As part of our Talent Strategy, we're continuing to invest in developing skills and empowering our people to build a career they want, in a way that suits them.

In a rapidly changing world, developing the skills of our people is critical to ensuring that we enable our people to be future ready. Preparing our people for the future means helping them to be better equipped and differentiated in the market.

Our Badges learning program opens up a world of possibilities for our people to attain new future fit skills that enables them to stay relevant in today's dynamic working world. EY Badges demonstrates our continued investment in the growth and development of our people. There are four levels of badge distinction (bronze, silver, gold and platinum), with defined criteria to be met in learning, experiences and contribution to earn each badge. Various badges are on offer including digital, industry and teaming.

EY is also proud to have recently introduced the EY Tech MBA. This online qualification, awarded by Hult International Business School, is the first-ever fully accredited corporate MBA. This marks a 'first' not just for EY but for any large organisation. Hult is renowned for its skill-focused approach to education and commitment to practical learning, and is regularly ranked as one of the top business schools in the world. The EY Tech MBA is completely free to our employees. To earn the EY Tech MBA, employees will need to complete 16 EY Badges spanning three categories Technology, Leadership, and Business – and prepare an insight paper for each as well as complete final projects.

EY is proud to be the first professional services organisation to not only offer digital badges globally but to also offer Tech MBA's.

LEAD is the forward looking EY approach to our employees' career, development and performance, focusing on continuous feedback and resulting in better conversations. It is designed to support the growth and development of our people at all stages in their careers. Personal dashboards are populated with aggregated feedback, and this is used to determine their performance against the Leadership dimensions and against their peers.

Diversity and inclusion

Successful organisations create inclusive environments where employees feel free to be themselves, feel a strong sense of belonging, and have equitable opportunities. This drives better decision-making, stimulates innovation and increases organisational agility and resilience.

In order to drive the D&I culture, we have the EY D&I Committee, engaged champions who act as key advocates, beyond the responsibility of the legal requirement of the Employment Equity Act of a Transformation Committee.

These advocates are empowered to act as change agents to drive a culture of diversity at EY. They are selected through an inclusive process, through which the right champion who is willing and influential is selected. The EY D&I Committee are supported and guided through quarterly meetings that empower and enable them with diversity knowledge and networking opportunities throughout Africa.



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, buckets of hope, leadership workshops, bursaries and job placement assistance.

We believe our biggest return will be in the impact and influence our participants will make in their lives and in the lives of their communities. It is to this end that we focus our efforts on empowering and educating our future leaders.

Since its launch in 2012, the programme has expanded from 30 girls in Johannesburg to a total of 262 participants in Gauteng, Western Cape and Kwa-Zulu Natal. Of these 262 girls, there are currently 163 of them in tertiary 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

The EY Entrepreneurial Winning Women™ program identifies ambitious women entrepreneurs and provides them with the advice, resources and access they need to unlock their full potential.

As the leader in advising, guiding and recognising entrepreneurs, EY knows that access to successful role models and business-building networks is critical for entrepreneurs to accelerate growth. Spanning 50 countries, including South Africa, the programme targets "the missing middle" – those savvy women founders who have built profitable small companies, but have not yet found the essential tools needed to expand sustainably. EY gives the founders ongoing access to our vast resources, rich networks and know-how, helping to strengthen their abilities to become market leaders. At the same time, the program creates a vibrant global community of successful women entrepreneurs and inspiring peer role models who, by 2020, number more than 500.

Entrepreneurial Winning Women are coached to embrace ambitious growth plans starting with the "5 ways to win" – five key actions that successful entrepreneurs must take to scale small companies into large ones. When they do, they expand their companies, hire more employees and build a better working world:

- ▶ **Think big and be bold:** Think ambitiously about your future business goals.
- ▶ **Work on the business, rather than in it:** Cultivate a strong team so you can look ahead and plot your path to growth.
- ▶ **Establish key advisory networks:** Establish relationships with other business leaders to secure advice and counsel.
- ▶ **Build a public profile:** Put your brand to work – speak publicly, write about what you know, share your story.
- ▶ **Evaluate financing for expansion:** Consider capital needs as you grow and align investor financing accordingly.



In South Africa, the investment in the programme is a source of great pride for the organisation, and seeing them grow as founders and business leaders is an inspiration. The programme has so far seen over 100 women grow and develop their businesses, since its inception in South Africa in 2013.

As part of the programme, the women participate in year-round activities designed to:

- ▶ Expand their knowledge with the latest information, research and executive dialogues about business strategies and practices.
- ▶ Identify potential partners, strategic alliances, customers and suppliers as well as prospective sources of private capital.
- ▶ Provide access to informal, one-on-one guidance and support. Strengthen their executive leadership and business skills and identify opportunities to grow through meetings with senior advisors and seasoned entrepreneurs.
- ▶ Increase national and regional visibility for themselves and their company among corporate executives, investors and the media. Access to EY's cutting-edge methodologies and tools, which we have developed for business with our own clients.

The Entrepreneurial Winning Women programme is a source of great pride for the organisation. The programme has so far seen 49 women grow and develop their businesses, since its inception in 2013, and has resulted in a number of successes for women from the previous classes, in some cases including revenue growth of 70%.

In addition, as part of our Global Supplier Diversity programme, EY is committed to actively identify, develop and do business with women suppliers as an integral component of our procurement activity. Our majority women owned and black owned suppliers are given access to EY's methodologies and tools as well as sponsorship to executive leadership programmes. In addition, we support diversity in the community through our partnerships with South African Supplier Diversity Council and WeConnect International in South Africa, by chairing the committee, serving on their advisory board and sponsoring conferences. Our partnership with WeConnect also provides women business owners with training and bursaries and facilitates access to corporations so that they can successfully compete in the global markets.



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.

R3,46bn **50%**
TOTAL REVENUE Assurance

5% Average NAS* Provided to our Top 25 Audit Clients

6% Average NAS* Across All Audit Clients

69% Audit Revenue** from PIE clients

* NAS: Non-Audit Services

** Over the period 1 Jan - 31 Dec 2019

Partner remuneration

Our Performance Management System for partners, principals, executive directors and directors (PPEDDs) applies to all partners in EYG member organisations 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 organisations 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 **41%** **53%**
Black White

Remuneration by Race **41%** **52%**
Black White

Ownership by Gender **31%** **69%**
Female Male

Remuneration by Gender **26%** **74%**
Female Male

Ownership Other Race **6%**

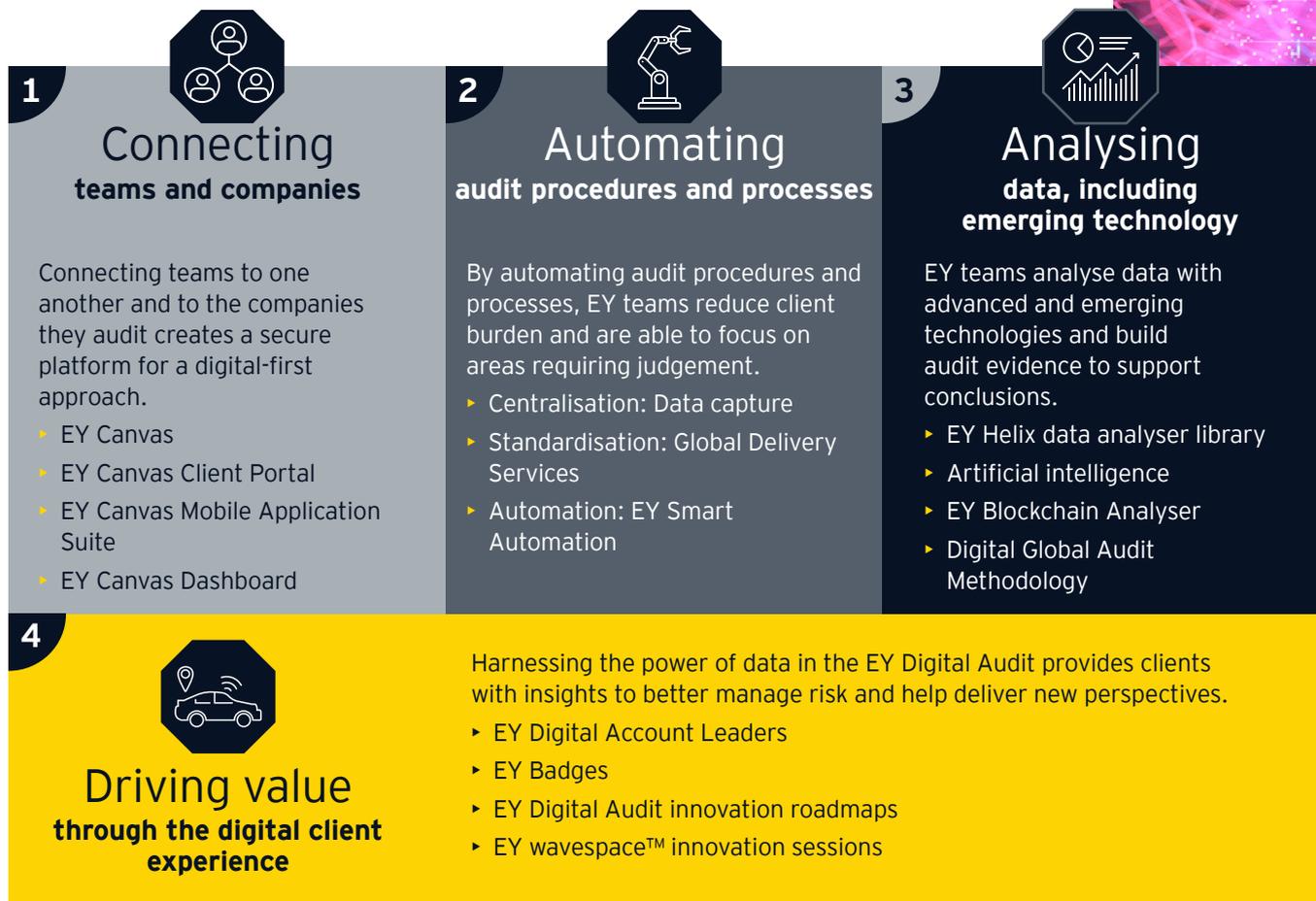
Remuneration Other Race **7%**



The digital audit

The unpredictable landscape ushered in by the pandemic brought with it new, more complex risks, and a greater need to continue to support our people, our clients and our communities.

At EY, we were able to respond rapidly to these changes since we have already embedded the EY Digital Audit in our new way of working. The EY Digital Audit, the first connected data-driven audit is underpinned by a strategy built on the four key pillars of connecting, automating, analysing and driving value.



The EY Digital Audit has also allowed us to:

- ▶ Remain connected as audit teams through our global, secure platform, EY Canvas, no matter where in the world we are,
- ▶ Stay connected with our clients through EY Canvas Client Portal, which connects our clients directly to EY teams and is the gateway to provide audit support information,
- ▶ Identify and isolate complexities in the financial processes of our clients by analysing data and asking more relevant questions that respond to risks
- ▶ Automate routine tasks so that our auditors could sharpen their focus on risk.



Over and above the challenges created by the pandemic, the current market climate set tough standards for the profession:

- ▶ Stakeholders rightfully demand audits of the highest quality.
- ▶ Expectations remain high regarding the scope and thoroughness of audits.
- ▶ Organisations want to ensure that audits leverage their latest investments in systems, technology and data.
- ▶ Auditors are required to communicate critical and key audit matters to provide greater transparency about the audit.
- ▶ Clients expect auditors to ask meaningful and insightful questions about the data as they audit.

The transformation to the EY Digital Audit also allows us to address these market needs. The transformation is 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 transformation is underpinned by people with diverse backgrounds in assurance, customer experience, strategy, audit, software engineering and data science that support our EY audit teams through focussed coaching, digital awareness and solution design, development and implementation.

Driving value through the digital client experience

Digitised end-to-end experience
with an unprecedented focus on risks and business issues

Real-time risk and issue identification,
and response through a globally coordinated, top-down approach

Centralised planning, control and real-time monitoring
of the EY Digital Audit

Leading-edge project management
and ability to monitor key milestones in the audit

Digital Global Audit Methodology

The EY response to transformation

By digitising the audit from end to end, a technology-enabled process changes the way risk is uncovered and assessed. This is supported by EY Canvas, our global audit platform, and aligned with a new Digital Global Audit Methodology that sets out how EY teams address audit objectives using digital solutions. This new methodology embeds the power of all EY digital technology, including data analysis, together with enhanced testing and continuous monitoring; supporting quality, improving effectiveness and increasing value to management.



Increased **confidence**

Investors can be more confident in the financial reporting of the companies EY teams audit, with a connected data-driven audit providing an enhanced focus on risks and greater trust and assurance to the capital markets.



Improved **effectiveness**

Company management and finance teams experience an audit that is more effective: it enhances their experience in supporting the audit and frees up time to focus on the issues that matter.



Enhanced **perspectives**

Audit committees benefit from greater risk insights and new perspectives through EY teams' ability to analyse data and provide enhanced visibility over companies' financial reporting and processes.



Innovation

Innovation drives both EY clients' and our own services. At EY, we monitor emerging technologies to embrace their benefits, understand the new risks they bring, and better anticipate and respond to the evolving needs of business, regulators and investors. We innovate and invest in innovation because we are committed to building a better working world and providing the markets with greater confidence, better business perspective and enhanced transparency.

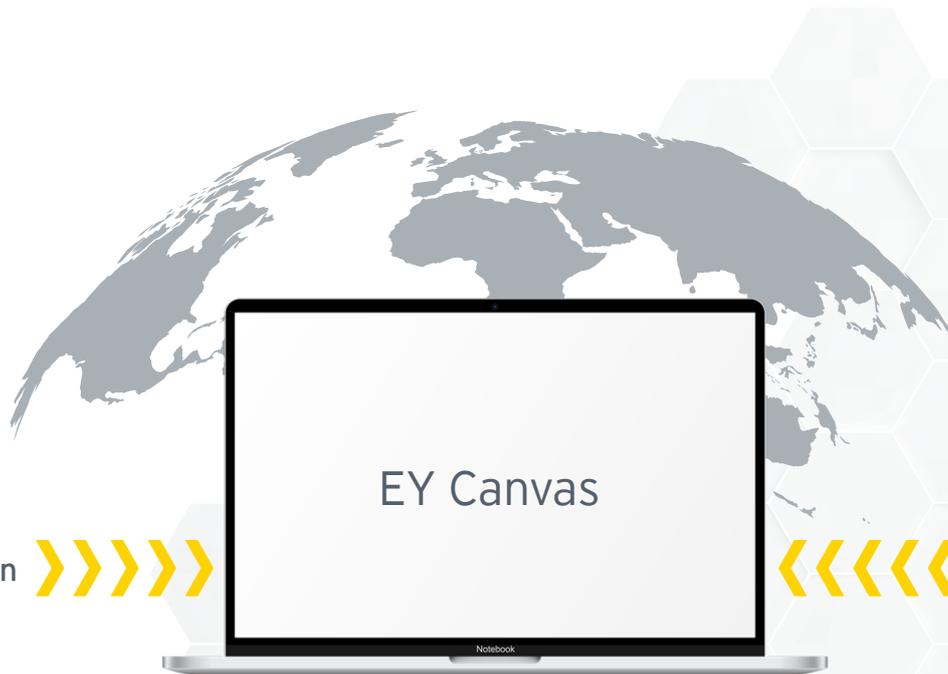
Process mining allows us to deepen the level of insights gained into the financial processes of a client. We are expanding our process mining capabilities from SAP to other common financial platforms.

Machine learning for bulk contract reviews allows us to review a large number of contracts in a short period of time to find common data points for use in further testing.

Our continued focus on automation resulted in 11 new solutions being deployed in South Africa in the last financial year. These solutions remove routine work from our EY teams allowing them to focus on risk. Further, the EY Canvas Smart Automation hub allows our global organisation to deploy new automation technology at scale instantly across our client base.

EY platform to enhance and scale audit technology

EY Canvas is the platform that EY teams use to deploy new technology upgrades at scale. As new enhancements are developed as part of the EY technology roadmap, these are built into EY Canvas to ascertain deployment globally, aligned with the new EY Digital Global Audit Methodology and available for all EY audit professionals.



Automation >>>>>

<<<<< Robotics

Driving value through the digital client experience

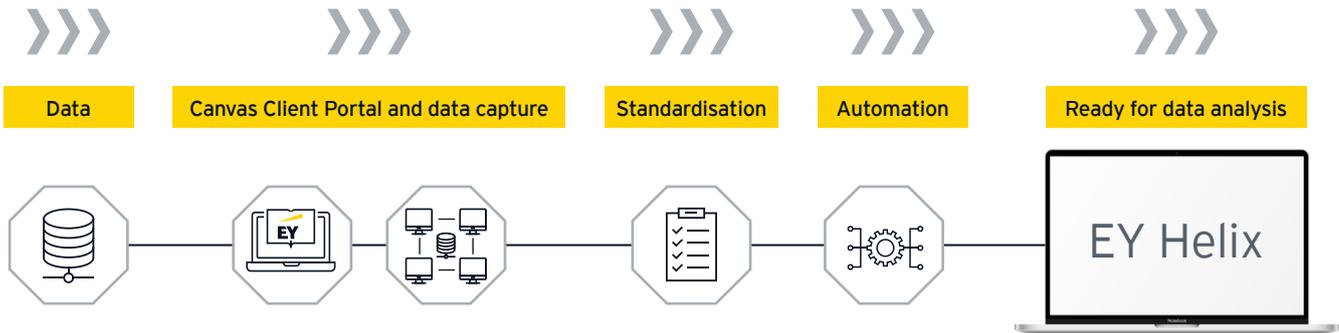
Enhances companies' experience
in supporting the audit, with a globally consistent automation solution

Leverages clients' investments
in flexibility and scale for increasingly centralised audits

Supports focus on areas of judgment
facilitated by automated procedures



Centralisation and Data Delivery



Data analytics is integral to the EY Digital Audit

The use of data and analysis is not about additive procedures or visualisations. 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.

Why use data analytics?

- 1 Analysis of larger populations of audit-relevant data to present a fuller picture of the business activities and to identify the risks that matter
- 2 Clear identification of trends and anomalies in the business processes and controls to help direct inquiries in the right areas
- 3 Relevant feedback and insights provided during the audit to help companies improve their business processes and controls
- 4 A more effective audit through insightful and targeted testing focusing on the transactions that matter most

EY teams have the capability to transform large data sets for use in the EY Digital Audit, through the Africa Data Delivery Centre. The Africa Data Delivery Centre successfully came together as an Africa region-wide collaboration during 2019. The team has onshore resources in South Africa, Nigeria, Ghana, Kenya, Zimbabwe and Mauritius, as well as a nearshore regional delivery service data team located in Mauritius. This network serves our teams across Africa through a common framework, using tried-and-tested data extraction and transformation processes and robust quality controls distilled from best practices across the globe.

In the 2021 financial year we will focus on embedding EY's global extraction assets that have been proved in practice across the globe. These assets enable our team of data analysts to share established extraction steps with our clients for common accounting systems, which simplifies the extraction process and creates routine, predictable data extraction events. As new analytics solutions are launched globally into the EY Helix suite of analysers, audit teams

are able to benefit from a globally developed, simple and reliable extraction process for that new solution without having to reengineer the process.

The technology supporting rapid file share for large files and our globally managed server infrastructure used by the Africa Data Delivery Centre enabled us to continue to create EY Helix analysers. This allowed our EY teams to continue to execute our data-led audit approach despite of the impacts of COVID-19.

Through agile and intelligent use of technology and digital solutions, EY teams have strengthened 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.



Professional practice

There is an established Professional Practice Group. The South Africa PPD is overseen by the Area (EMEIA) 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 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 organisation professionals to execute audits consistently and effectively. The Global, Area and Regional PPDs, together with other professionals who work with them in each member organisation, are knowledgeable about EY people, clients and processes, and they are readily accessible for consultation with audit engagement teams.



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



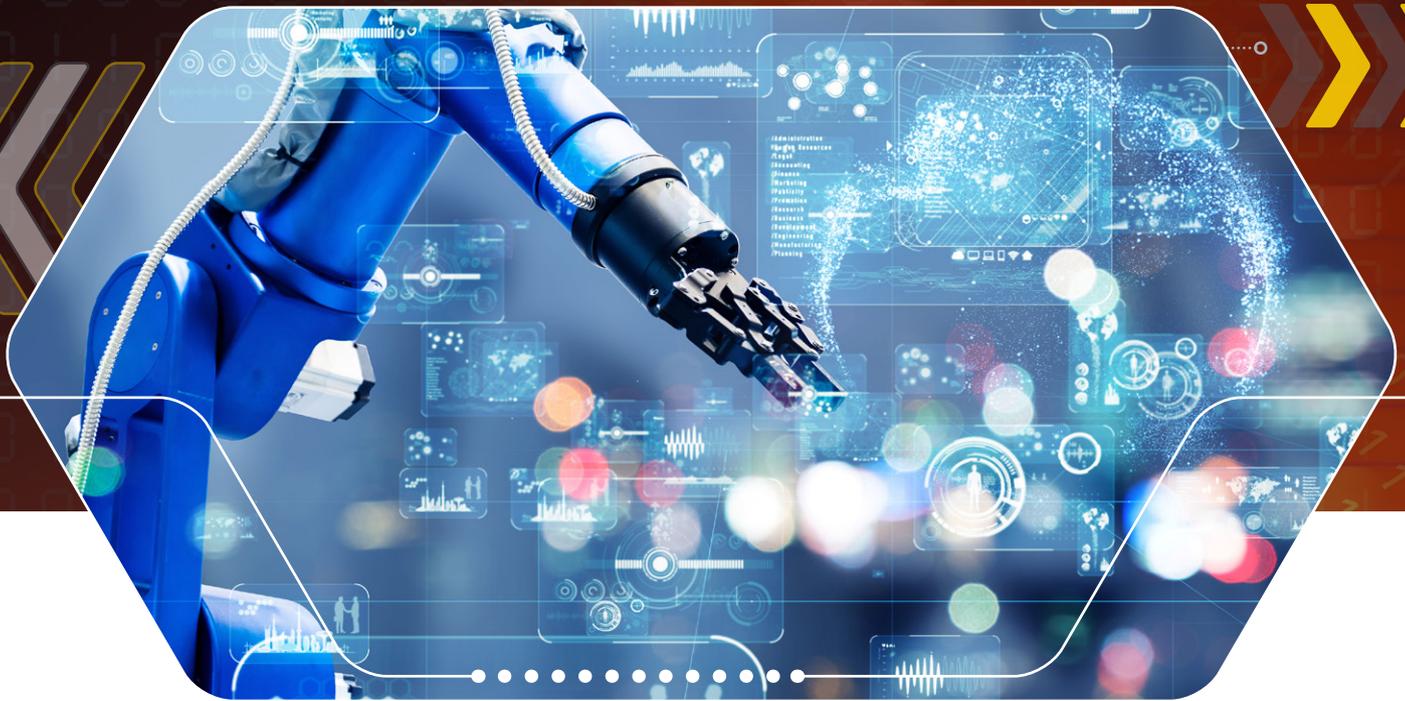
The level of the reviewer's direct participation in the audit work



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.

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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 PPD approves all engagement quality review assignments.

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 include the following:

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

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 organisation is complying with the requirements of ISQC1.

The Quality Control processes subject to evaluation and testing include the following elements:

- ▶ Leadership responsibilities
- ▶ Relevant ethical requirements
- ▶ Acceptance and Continuance of Clients and Engagements
- ▶ Engagement performance and documentation
- ▶ Human resources

Internal Audit Quality Reviews

Each member organisation in the EY network is responsible for establishing and administering, with Area coordination, a 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.

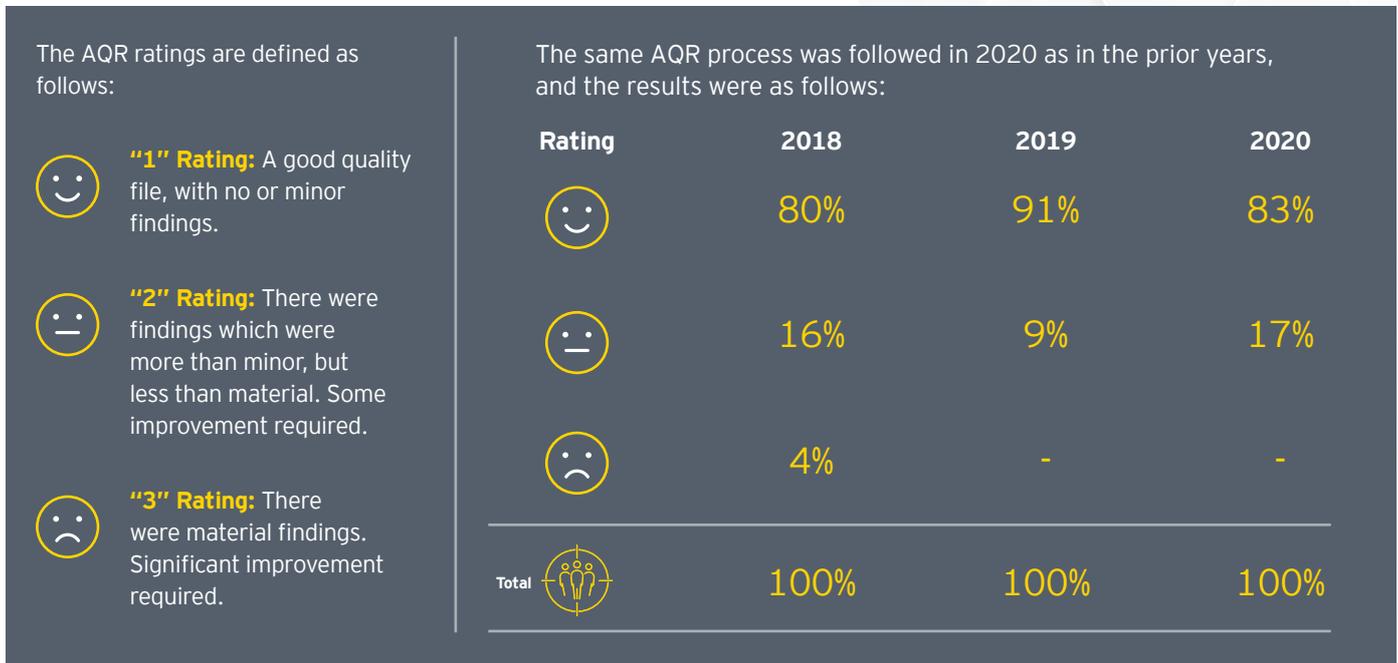
The AQR program is a significant component of EY policies and procedures quality control and supports other risk management and continuous improvement initiatives. Accordingly, the primary objective of the program is to assist EY South Africa in maintaining and continually enhancing the quality of its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



Audit Quality Indicators

AQIs are qualitative or quantitative measures of audit quality that allow stakeholders to assess the indicators year-on-year, across our organisation 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 and we continue to add additional quality indicators for monitoring, in response to business and audit risks that may arise.



Below are some of the indicators that we currently monitor, along with the thresholds that have been set by our global organisation:

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

External quality reviews

The IRBA performs annual inspections at our organisation. Significant findings from the engagement inspections are elevated and included in the organisation-level findings report.

There are two types of findings communicated to the organisation/engagement partner in the formal inspections report:

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

Firm level findings

Cycle Seven introduces the concept of escalating engagement-level findings to organisation level, regardless of whether an ISQC1 organisation level review has yet been conducted.

In 2019 the IRBA selected 18 engagements for inspection and five findings were escalated to organisation-level, in the following areas:

1. Independence considerations
2. Evaluation of the Summary of Audit Differences
3. Analytical Reviews
4. Engagement Quality Review process
5. System of Quality Control

We take these findings seriously and they have received appropriate attention from leadership.

Root Cause Analysis (RCA)

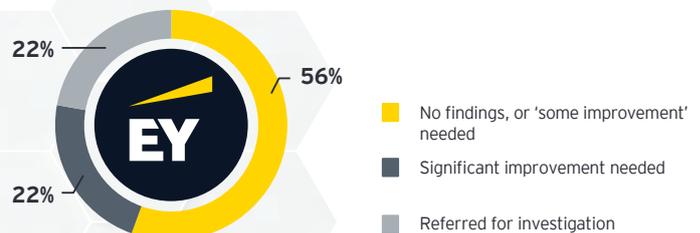
The most important part of the internal and external review process is addressing the results of the review. At an engagement level, RCA is an important component of the EY quality control. Our RCA process is applied globally by all EY member organisations, and is subject to regular Global oversight 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.

In response to the 2019 IRBA regulatory review findings, a detailed RCA process was followed on each engagement, involving interviewing (separately) the Engagement Partner, EQR and members of the audit team, and the following were determined to be the underlying causes of the findings:

- ▶ Insufficient level of detail review
- ▶ Lack of knowledge on the extent of documentation required when documenting the safeguards implemented when non-audit services had been provided by the organisation before the entity was accepted as an audit client
- ▶ Failure by the audit team to review the services set out in our successful tender document when winning a new audit client, to ensure that we deliver as proposed
- ▶ Lack of knowledge on the extent of documentation required to evidence our assessment of adjusted audit differences
- ▶ Lack of knowledge on the extent of documentation required to evidence the performance of substantive analytical procedures

The results of our 2019 engagement level inspections were:



One organisation-level finding resulted in the firm being referred for investigation. We currently await feedback from the IRBA on the next steps in regard to the investigation process arising from the 2019 inspections.

We have shared with the IRBA our detailed action plans, with responses focussing on training, communication, enhanced enablers, oversight and where necessary new processes or controls (including consultation) to ensure we maintain high standards of quality on our audits.



EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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