

EY South Africa Transparency Report 2021

**Trust through
transparency**



EY

Building a better
working world

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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.

In this report, we refer to ourselves as "EY South Africa," "we," "us" or "our."

Who we are

Our Purpose



Building a better working world

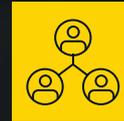
Our Values



People who demonstrate integrity, respect, teaming and inclusiveness.



People with energy, enthusiasm and the courage to lead.



People who build relationships based on doing the right thing.

Value creation at EY



Client value

To help clients grow, optimise and protect value.



People value

To create an exceptional experience for our people.



Social value

To build trust in the capital markets and have a positive impact on communities and the planet.

EY South Africa Highlights



Audit quality

Investment in quality and risk management

10%
of audit revenue

Average learning hours per audit professional

71

Non-audit services (NAS)

4% Average NAS provided across all audit clients

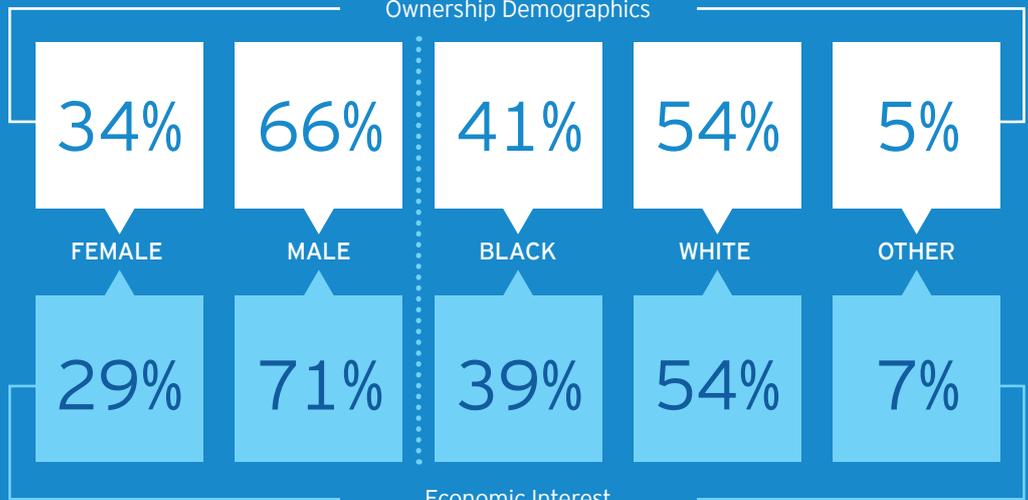
2,8% Average NAS provided to our top 25 audit clients



People

We employ
3,080
people across all service lines

Ownership Demographics



We provided jobs to
1,184
trainee accountants in audit



EY South Africa was proudly certified as the **5th ranked Top Employer™** in the Top Employers Certification Programme for 2020.

Our Badges learning program opens up a world of possibilities for our people to attain new future fit skills. There are now five levels of badges: learning, bronze, silver, gold and platinum. Each level with different requirements in learning and experience, which builds our technology skillset and transformative mindset.



In FY21, **1,778** badges were awarded

Levels of badges awarded:

Learning 1,641 Bronze 126
Silver 11



Social

Our Ripples programme has three areas of focus:

Supporting the next generation workforce

Supporting young and underserved people to develop the mindsets and skills they'll need to find and sustain meaningful work.

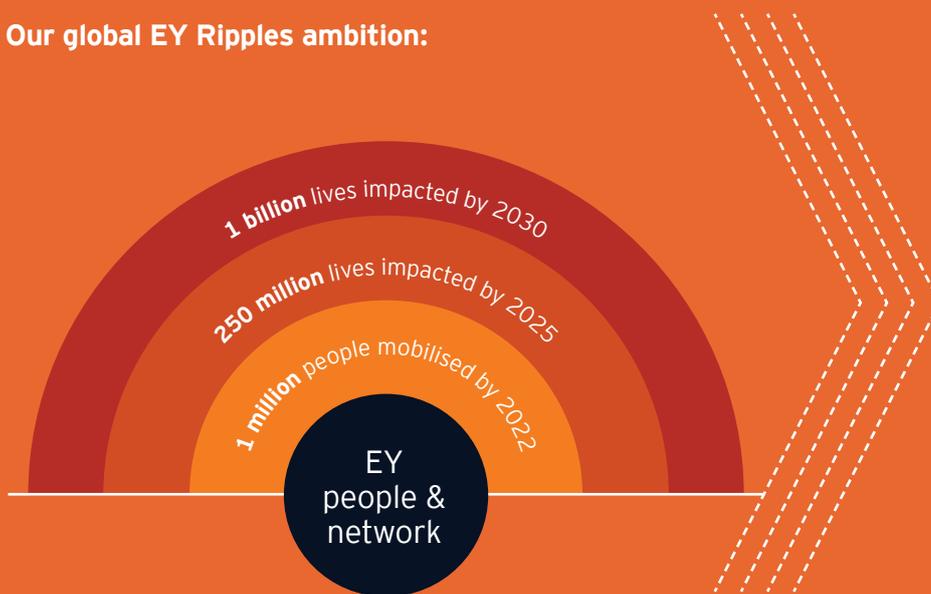
Working with impact entrepreneurs

Helping scale small and growing businesses that are driving progress toward the UN Sustainable Development Goals.

Accelerating environmental sustainability

Driving adoption of behaviours, technologies and business models that protect and regenerate the environment while unlocking economic opportunity.

Our global EY Ripples ambition:



In South Africa we had:



Student Bursaries

EY South Africa has provided

135

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

R9m

EY South Africa provided bursaries to

45

 Thuthuka students

to the value of

R4m

NextGen is our flagship women's development programme. There are currently 288 participants, of which 135 are at University.



Bursaries awarded by EY South Africa in total is over

R1,4m



Foreword: Ajen Sita and Stephen Ntsoane

We are pleased to present the 2021 EY South Africa Transparency Report. Through this report, we reaffirm our commitment to continuously improving the quality of our audits, our system of internal quality control and the broader corporate reporting ecosystem.

In these challenging times, our commitment to audit quality remains central to our purpose of building a better working world. We embrace our responsibility as independent auditors to perform high-quality audits that promote trust and confidence in capital markets, and we understand our role is even more important in times of uncertainty.



As part of our commitment to serving the public interest, we have a responsibility to provide our stakeholders with an understanding of how we conduct our audits, how we maintain our independence, how we monitor our performance and what we are doing to continuously improve the quality of our audits. This report is one way we provide that transparency. EY South Africa continues to play a significant role in supporting profession-wide initiatives to restore trust in the profession through our participation in various forums, including the South African Audit Profession Trust Initiative and various forums of the South African Institute of Chartered Accountants (SAICA). Active engagement with our audit regulator continues to be a priority for EY South Africa as we seek to identify areas of improvement in our quality which are highlighted by the inspections process. This is particularly important as we ready ourselves for a transition to the new International Standard on Quality Management 1 (ISQM 1).

Our 2021 report reflects our data-first audit approach, which combines the strength of our technology and the skills of our people to audit more effectively. Our technology also enabled us to pivot quickly to a remote working environment to support our ability to continue to perform high-quality audits. Our unwavering focus on sustainable audit quality enables us to navigate these uncertain times and to reimagine what our audits will look like in the future.

Our culture and people are our most important assets, and our people have demonstrated remarkable agility. We remain united in the belief that belonging and connectedness are at the core of our organisation. We have long had a diverse and inclusive culture, but we know we have to do more to drive sustainable change and fight racism in our society. We promote diversity and inclusiveness at every level, because we know that diverse perspectives strengthen our organisation and allow us to deliver high-quality audits. We are focused, more than ever, on recruiting and retaining the right people with the right skills and the right values to lead us into the future. The resilience of our people and their ability to adapt in the face of uncertainty and continuous change inspire us. Working together, we are finding new ways to deliver high-quality audits.

At this year's COP26 summit where EYG was led by its Global Chair and CEO, we saw significant commitments made by world leaders from governments and business aimed at combating climate change. South Africa also announced that it will transition away from coal in a multilateral effort funded by developed countries. As EY globally we recently announced that we have achieved Carbon negative status which is a major step towards achieving the EYG ambition of becoming 'net zero'* by 2025. We also welcome the formation of a new International Sustainability Standards Board to develop in the public interest a comprehensive global baseline of high-quality sustainability disclosure standards to meet stakeholder information needs. We continue to invest in expanding our capability and capacity in this area to support our clients with excellent assurance services and enhancing their reporting on sustainability.

Although we are facing significant uncertainties in our working world and society in general right now, one thing remains constant: our commitment to audit quality. With this as our foundation, we are confident that we will continue to generate new ideas about how to develop our people and conduct audits that promote trust and confidence in the capital markets.

We welcome any comments and questions you may have about the matters discussed in this report.



Ajen Sita
EY South Africa CEO



Stephen Ntsoane
EY South Africa Assurance
Leader

26 November 2021

*Net zero can be broadly defined as being the same as carbon neutral: Emissions are still being generated, but they're offset by the same amount elsewhere. The "net total" of your emissions is then zero.

The EY network, legal structure and ownership



EYG is a global leader in assurance, tax, strategy and transactions, and consulting services. Worldwide, over **312,000** 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 EYG approach is particularly important in the delivery of high-quality multinational audits, which can span nearly every country in the world.

EYG member firms 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.

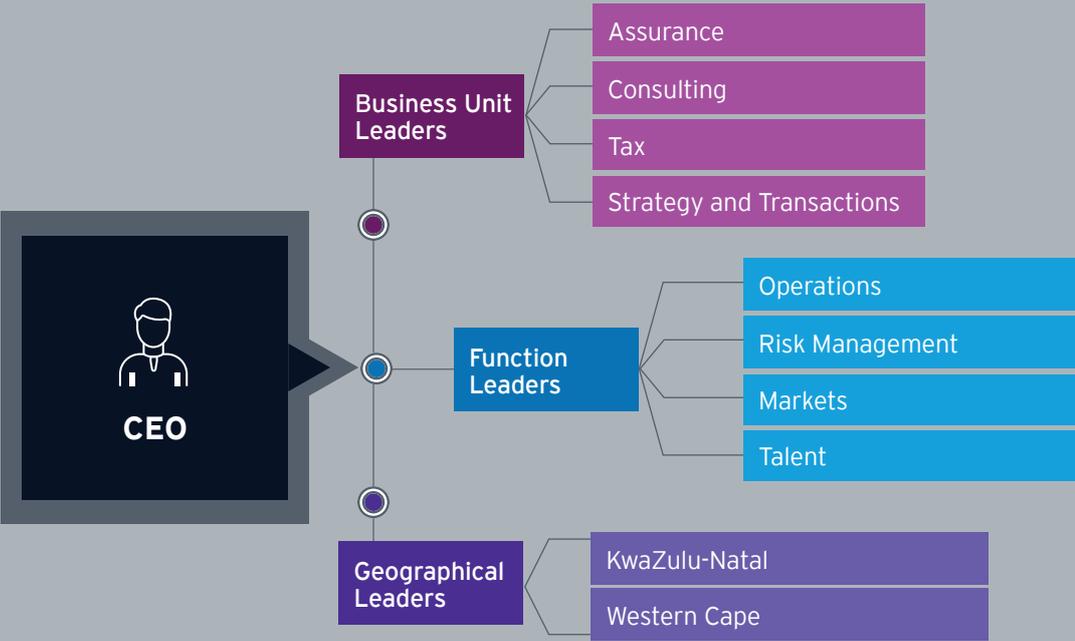
EY South Africa includes the following entities which are EYG member firms:

- ▶ 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 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.

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 our 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.

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.

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

Client and Engagement Acceptance & Continuance

- ▶ Policy
- ▶ Acceptance and Continuance Tool
- ▶ Anti-Money Laundering (AML) Tool
- ▶ Markets Resolution Committee
- ▶ Close Monitoring Boards

Ethics & Independence

- ▶ Independence and Conflicts of Interest Policies
- ▶ Mandatory Learning
- ▶ Reporting Systems
- ▶ Gifts and Hospitality
- ▶ Monitoring Reviews
- ▶ Ethics Hotline
- ▶ Ethics and Independence Committee

Monitoring and Remediation

- ▶ Independent Firm Level Reviews
- ▶ Audit Quality Indicators
- ▶ Audit Quality Reviews
- ▶ Director Risk Survey
- ▶ External Regulatory Inspections
- ▶ Root Cause Analysis and Quality Improvement Initiatives

Engagement Performance

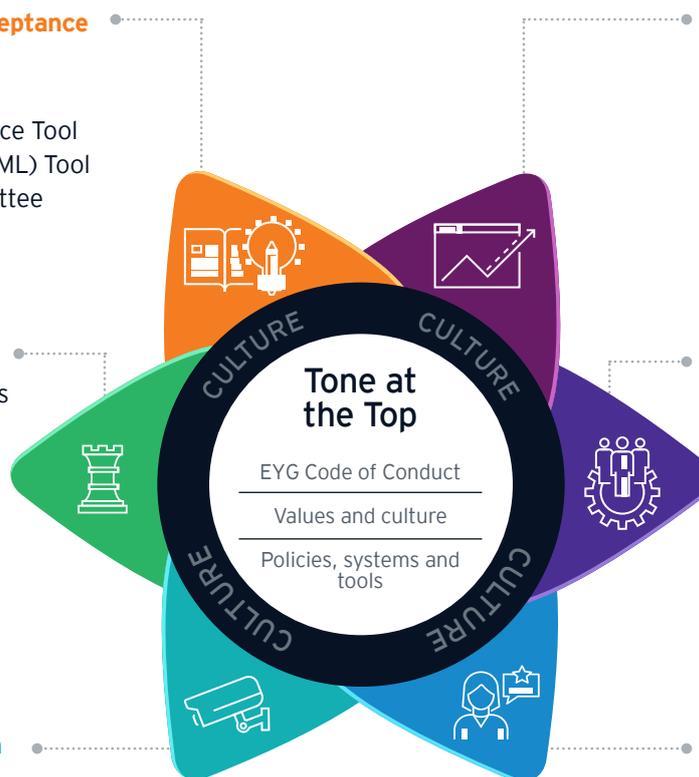
- ▶ Policies and Methodologies
- ▶ Digital Tools and Enablers
- ▶ Review and Consultations
- ▶ Independent Quality Reviews
- ▶ Engagement Quality Reviews
- ▶ Professional Standards Panel

Highest Performing Teams

- ▶ Hiring and Recruiting
- ▶ Professional Development and Coaching
- ▶ Reward and Recognition
- ▶ People and Culture Surveys
- ▶ Diversity and Inclusiveness

Information and Communication

- ▶ Transparency Report
- ▶ Regulatory Submissions
- ▶ Client Specific Communications
- ▶ Quality Related Communications





In September 2020, the International Auditing and Assurance Standards Board (IAASB) approved a quality management standard that includes significant changes to the way professional accountancy firms manage quality. ISQM 1 will replace the current International Standard on Quality Control 1 (ISQC1) and requires a more proactive and risk-based approach to managing quality at the firm level. ISQM 1 requires firms to design, implement, monitor and evaluate the overall System of Quality Management (SQM) that provides reasonable assurance a firm will meet prescribed quality objectives.

The Standard includes more robust requirements for the governance, leadership and culture of professional accountancy firms, and introduces a risk assessment process for firms to assess risks to achieving quality objectives and design responses that address those risks. It also requires more extensive monitoring of the SQM to identify deficiencies that require corrective actions and to provide the basis for evaluating the overall effectiveness of the SQM.

Our approach is to design a SQM that promotes consistent engagement quality and operating effectiveness. This is especially important in a global economy where many audits are transnational, complex and involve the use of other EY member firms.

The Standard requires firms to design and implement a system of quality management by December 2022. We have commenced work to implement the new standard alongside our existing System of Quality Control. Our transitional steps include, amongst others:

- ▶ Identifying the functions and service lines that provide support for, or perform engagements within the scope of ISQM 1,
- ▶ Establishing a program governance structure to manage the design and implementation of a system of quality management that complies with ISQM 1, with representatives from various functions and service lines,
- ▶ Identifying and assessing quality risks, and documenting responses,
- ▶ Identifying and understanding resources as well as how they are deployed, and
- ▶ Challenging and identifying enhancements to the existing quality control system to achieve compliance with the new standard.

We believe that implementing the requirements within ISQM 1 will be useful to improving quality at the firm and engagement level, because an effective system of quality management is foundational to achieving consistent engagement quality.

Risk management

Responsibility for high-quality service and ownership of the risks associated with quality is placed within our various service lines and is monitored centrally. The Risk Management Leader helps monitor the management of these risks, as well as other risks across EY South Africa 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 Risk Management Leader is responsible for establishing risk management priorities and enterprise risk management. These priorities cascade across our firm, and their execution is monitored through an enterprise risk management program.

We have industrialised appropriate processes and controls to ensure that our 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 members of the South African EXCO for continuous monitoring, thereby ensuring adequacy and effectiveness of the risk treatment plans.

The Key Accounts and Risk Committee (KARC) maintains oversight of the relevance of the top ten risks and the risk treatment plans. The KARC is chaired by the Risk Management Leader and includes the CEO, COO as well as the service line and functional leaders.

Top ten risks for South Africa

- | | | | | | |
|---|---|---|---|----|--|
|  | 1 | Pandemic response planning and crises management |  | 6 | Reputation and brand |
|  | 2 | Workforce protection and well being |  | 7 | Service quality failure |
|  | 3 | Technology, infrastructure and security |  | 8 | Working with a broader group of service providers |
|  | 4 | Financial and operational discipline and maintaining liquidity |  | 9 | Changes in regulatory environment |
|  | 5 | Retention of key accounts, sales pipelines and audit firm rotation |  | 10 | Leadership succession |

Ethics and independence

The topic of ethics remains at the forefront of everything we do. Our professionals 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.

Ethics

Our 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 Code of Conduct, which underpins all that we do.

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

Our 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.

All our staff from juniors to the CEO are required to complete ethics and independence training. This includes amongst others:

- ▶ Conflicts of Interest
- ▶ Anti-Money Laundering, Tax Evasion and Terrorist Financing
- ▶ General Data Protection Regulation
- ▶ Handling Information Safely
- ▶ Anti-Bribery
- ▶ Independence Learning
- ▶ Living Our Values



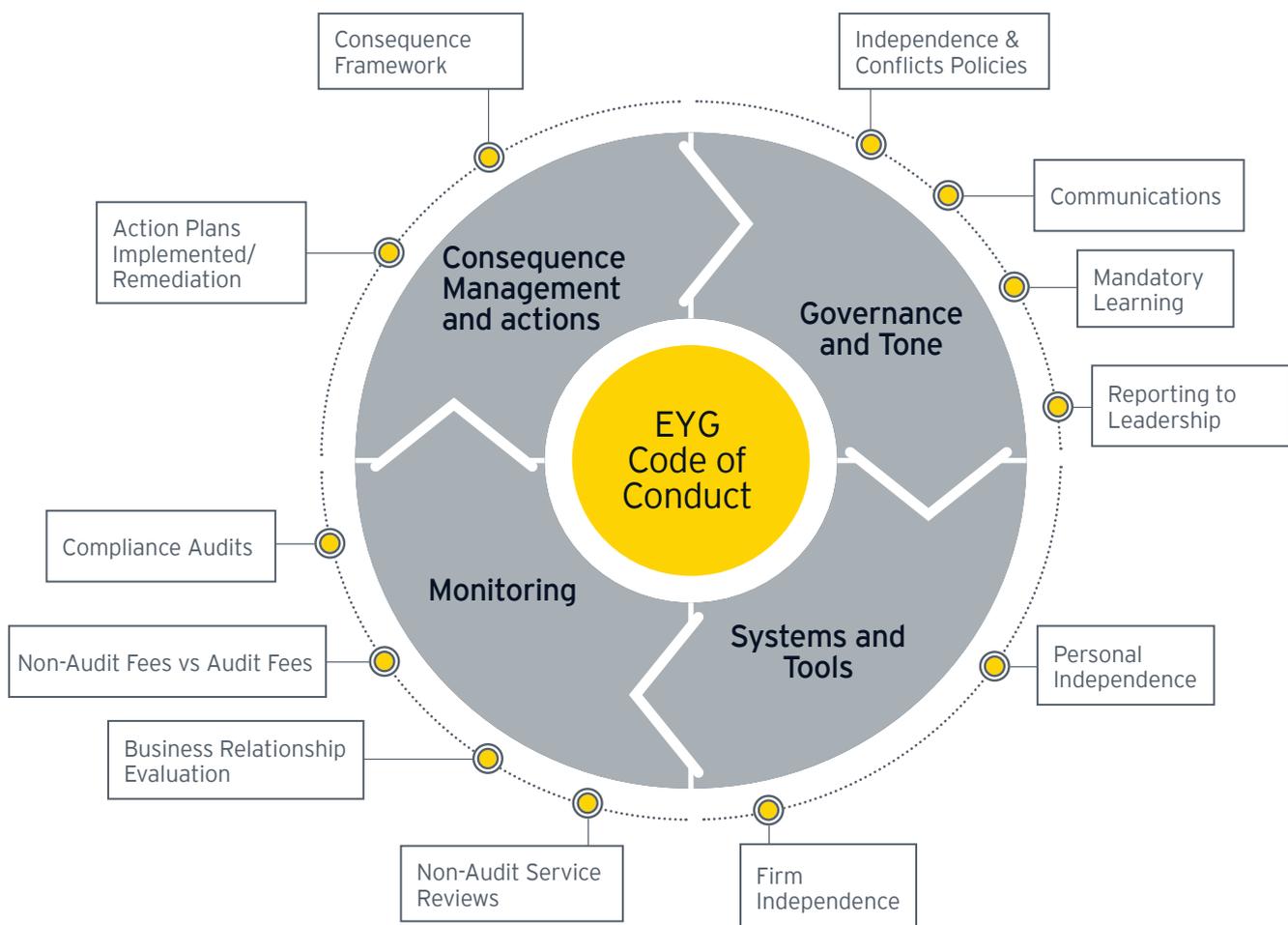
At the heart of maintaining the highest ethical standards is our Code of Conduct and we have strict requirements to avoid conflicts of interest and to maintain independence.

Our 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 South Africa 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 requirements. 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 stricter in certain aspects.

We have 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.

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

The below represents our **system to manage our independence**.



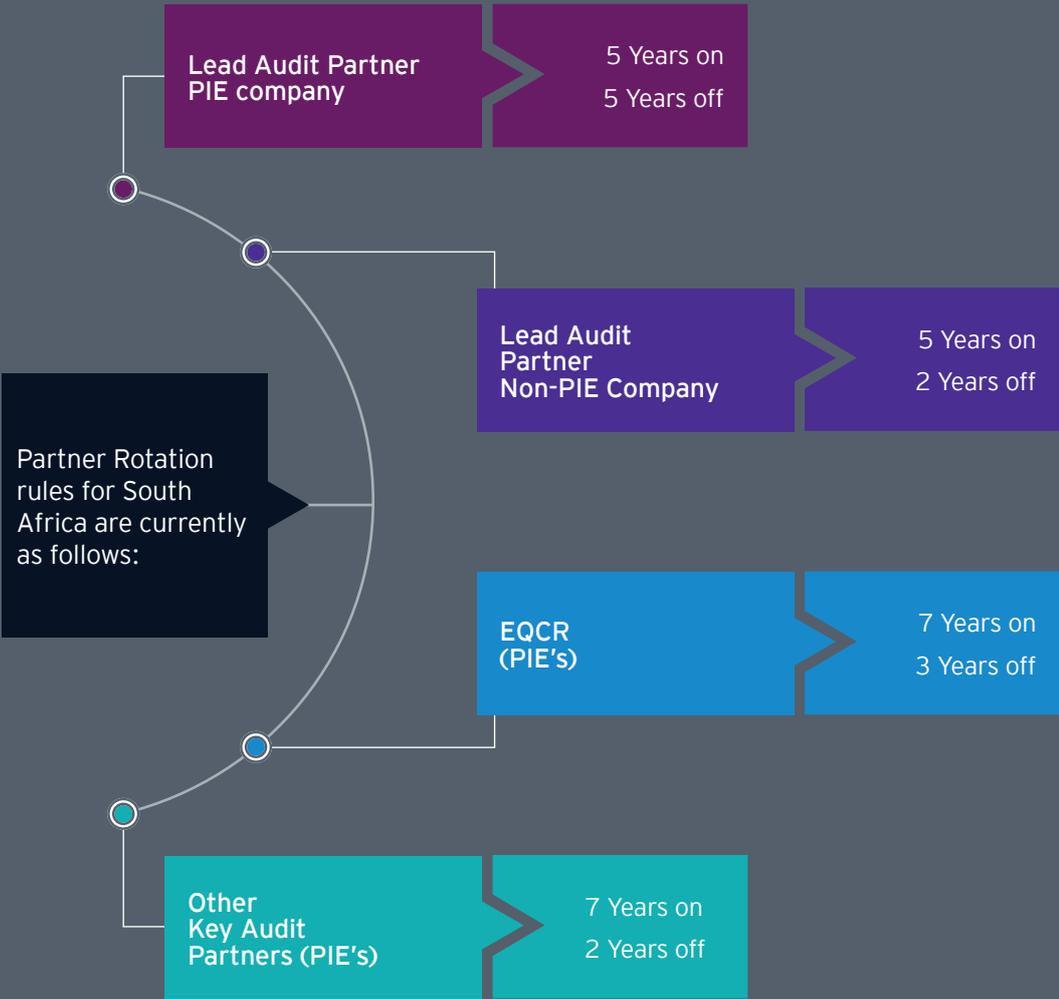
Rotation and long association

Audit Partner Rotation

We support 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) Code, 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 Public Interest Entity (PIE) audit clients, EY South Africa 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.



Choosing our clients: Acceptance and continuance

Our policy

The EY South Africa policy on Client and Engagement Acceptance sets out principles to assist us in determining 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 potential 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, our policy on potential 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 be perceived to exist, establishing separate engagement teams to act for two or more parties, or declining an engagement to avoid an identified conflict where appropriate safeguards cannot be put in place.

Putting policy into practice

We use our 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.

In our annual client and engagement continuance process, we review our service and ability to continue to provide a quality service, and ensure 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 Professional Practice Director (PPD) is involved in the client continuance process where the risk is higher than normal and must agree with the continuance decision.

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 which could undermine quality. Considerations and conclusions on the integrity of management are essential to acceptance and continuance decisions.

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. We give special consideration to regulatory requirements with regard to public sector procurement to mitigate the risk of being appointed through, or associated with, a process that might be considered irregular.

Talent management and transformation



In appointing professionals the following factors are considered:

- ▶ Qualifications
- ▶ Experience and skill
- ▶ Potential
- ▶ Results of background checks
- ▶ Commitment to living our values

This supports our initiatives to reward and retain the best talent to deliver quality results.

Our 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, and offer in return access to tools, experiences, learning, development, recognition, reward and many more opportunities to build a long-lasting, multi-faceted and 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 opportunity 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 create an exceptional employee experience via the provision of a diverse and inclusive culture, meaningful 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 from the best while using technology to unlock our potential for our clients and society. All to build a better working world, together.

Our culture

We foster a Diverse and Inclusive (D&I) culture by practicing leadership behaviours that bring out the best in ourselves and others at EY South Africa. 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 talent initiatives were reviewed and amended to support our people. The safety and wellbeing of our people remains a top priority. A few ways in which we responded was to provide relevant support that included the introduction of virtual fitness classes and regular drop in calls which covered topics such as anxiety, stress, etc.

EY South Africa'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.

Learning and development

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. Our Badges demonstrates our continued investment in the growth and development of our people. There are now five levels of badges: learning, bronze, silver, gold and platinum. Each level has different requirements in learning and experiences, building our technology skillset and transformative mindset.

1,778 badges were awarded in the following pillars:

Business 543
Leadership 498
Partner Learning 62
Technology 675

We are proud to have 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 us but for any large organisation. Hult is renowned for its skills-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 free to our employees. To earn the EY Tech MBA, employees will need to complete 16 Badges spanning three categories: Technology, Leadership, and Business – and prepare an insight paper for each as well as complete final projects.

LEAD is our forward looking approach to our employees' career, development and performance, which focuses on continuous feedback and results 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 employees' 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 a culture of inclusiveness, we have a D&I Committee and engaged champions who act as key advocates, beyond the responsibility of the legal requirement of the Employment Equity Act, 1998 of a Transformation Committee.

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

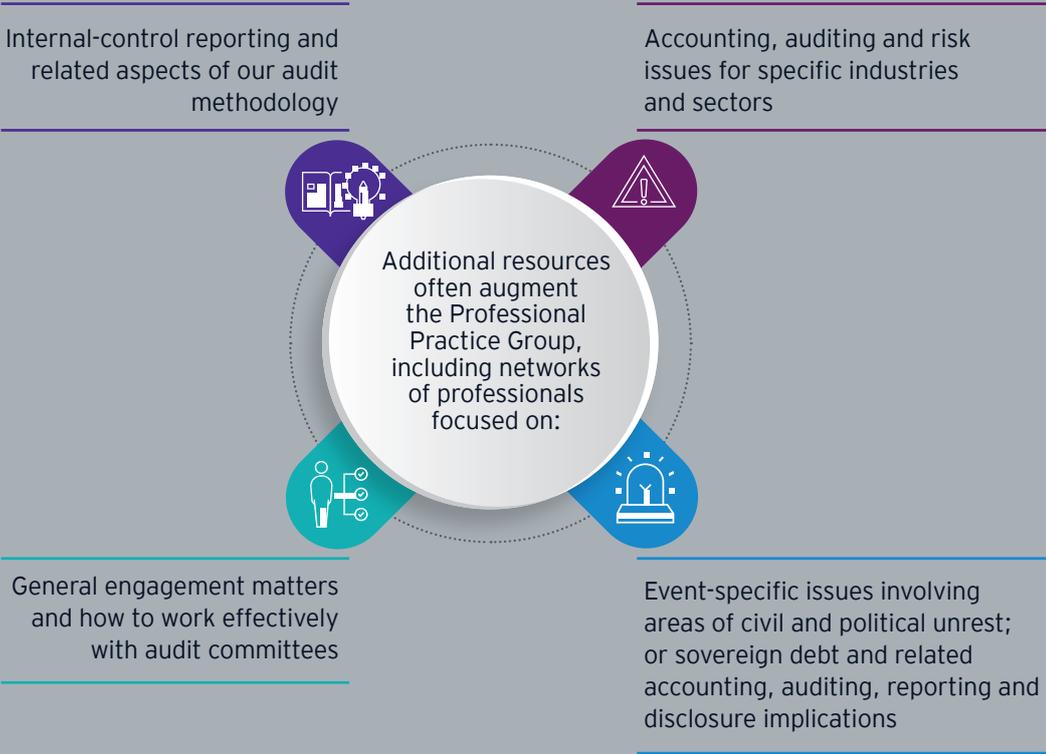
Professional practice

There is an established Professional Practice Group. Our PPD's role 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 PPD establishes audit quality control policies and procedures to ensure high quality services are delivered to audit clients.

The PPD leads and oversees the Professional Practice Group. This is a network of technical subject matter specialists in accounting and auditing standards, who consult on accounting, auditing and financial reporting matters, in addition to performing various practice monitoring and risk management activities.

The PPD oversees development of local audit methodology and related technologies so that they are consistent with relevant professional standards and regulatory requirements. The Professional Practice Group also oversees the development of the guidance, training and monitoring programs and processes used by our professionals to execute audits consistently and effectively. The PPD, together with other professionals who work with them in EY South Africa, is knowledgeable about our people, clients and processes, and is readily accessible for consultation with audit engagement teams.



Quality enablement

Our Quality Enablement team, headed by our Quality Enablement Leader (QEL), is a group of experienced and knowledgeable Assurance professionals who drive improvements in audit quality. Their responsibilities include: coaching teams and developing a quality-driven culture; supporting internal and external inspections; advising teams on remediating the root causes of areas for improvement; driving practice and project management; supporting portfolio risk analyses; and implementing processes related to the EY system of quality management, including Audit Quality Indicators (AQIs).

Sustainable Audit Quality (SAQ)

Quality is the foundation of our work and central to our responsibility to provide confidence to the capital markets. This is reflected in the SAQ program, which continues to be the highest priority for our audit practice.

SAQ establishes a strong governance structure that enables us to provide high-quality audits. The word “sustainable” in SAQ is used to demonstrate that this is not a one-off, short-term initiative, but an ongoing process of improvement that has been embedded into our culture of excellence.

There are six SAQ pillars: tone at the top; exceptional talent; simplification and innovation; audit technology and digital; enablement and quality support; and accountability. These pillars are supported by a foundation of serving the public interest.

The path to SAQ is monitored through the AQI's which are a wide ranging set of quality metrics that are monitored on a monthly basis and used by the QEL to rapidly respond to the changing landscape and address areas for improvement.

In addition to monitoring, we have deployed leading technological tools that enhance the quality and value of our audits, including the EY Canvas online audit platform, EY Helix analytics platform and EY Atlas research platform.

EY Canvas facilitates the use of the “Milestones” project management functionality, which helps audit teams stay on pace with their audit execution and drive executive involvement. Milestones allows teams to move work forward and enables higher levels of executive involvement and sharper focus on the key audit matters. Milestones is a focal point for our project management looking forward and its implementation is being driven with a view to improve our quality initiatives.

We emphasise innovation and disruption to drive quality and are continuously developing automations and AI bot technology in order to drive standardisation, consistency and quality approved work that creates efficiency and greater client value.

Current SAQ initiatives are focused on supporting our teams in understanding the business of the companies audited. By leveraging data and technology and executing enhanced engagement risk assessment, we continue to drive quality audit execution.

Additionally, a network of coaches is actively supporting engagement teams in staying on track with respect to the pace of their audits, driving timely executive involvement and providing positive direction and enablement when necessary.

Audit quality is something that every team member must understand and be committed to implementing locally. SAQ is essential to all our goals and ambitions.

The SAQ infrastructure demonstrates that audit quality is the single most important factor in our decision making and the key measure on which our professional reputation stands.

Quality culture

Quality is one of the core pillars of our culture and every team member is required to understand the importance of quality as well as having constant access to a support and coaching network in order to facilitate this pillar. Our culture is supported and reflected in Purpose Led Outcome Thinking (PLOT).

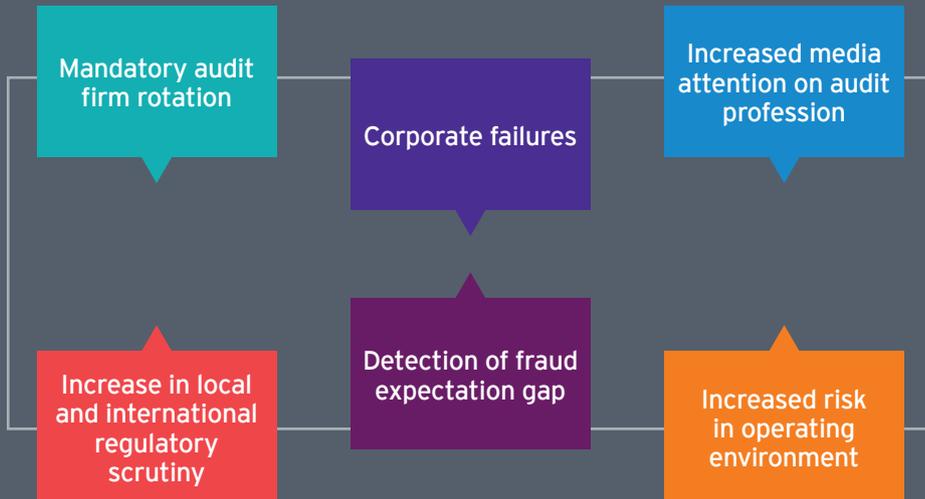
PLOT is designed to create a way of thinking that marries quality and team goals with purpose to resonate with team members on a personal and professional level so that quality and commitment are not just things we consider but instead are part of our DNA. This is the source from which our quality stems.

While PLOT is the soul of our initiatives, we are consistently implementing new initiatives to support this culture such as the manager peer review programme. This is a coaching tool designed to allow our manager group to engage in peer reviews with a view to broadening the perspectives of our managers. The peer review programme proactively improves quality by equipping our managers with different lenses in order to learn from their peers and improve their own quality standards through experiencing perspectives.

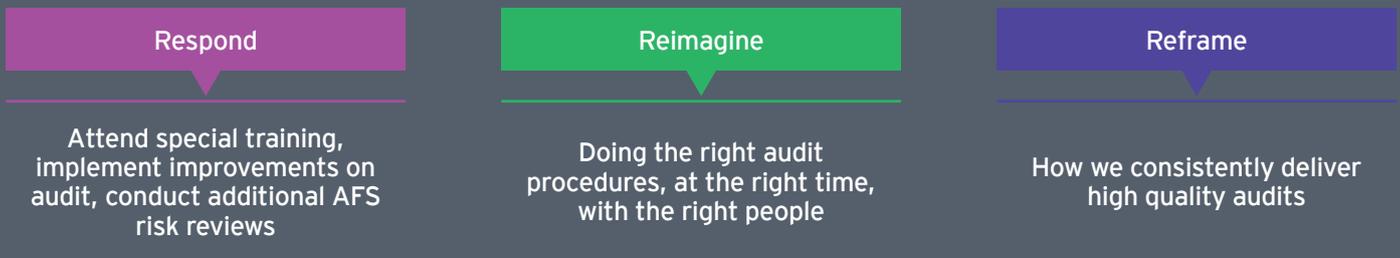
Our culture is built from the ground up on a foundation of quality and we encourage and drive these focal points from a personal level right through to recognition to continue to cultivate and grow our objectives.

Fusion is our long-term quality initiative, launched to ensure that we consistently deliver high quality audits. To reduce regulatory findings and address new and emerging risks from the environment our clients find themselves operating in, we focus on improving the way our people, skills and tools come together to ensure high quality audits are executed.

The following local and international industry developments require a different approach to audit quality:



Fusion involves focus in the following areas:



In addition to Fusion, a number of other initiatives have been implemented to promote, facilitate and monitor the quality standards of EY South Africa. Some of these such as EY Canvas and Milestones as well as more sophisticated Artificial Intelligence (AI) tools, allow the QEL to build a picture of audit quality performance in real time. This, in turn, gives greater clarity over resource deployment to support audit teams.

Beyond resource deployment there are initiatives such as the manager peer review programme and PLOT which is spearheaded by the QEL in order to proactively maintain high quality standards as well aligning with regulators and external review standards.

Review and consultation

Reviews of audit work

Our 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 team members 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

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

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

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

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.

Our 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 (EQR)

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 are 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

We have designed and implemented a comprehensive set of audit quality control policies and practices. These policies and practices meet the requirements of the ISQC1 issued by the IAASB. Our adopted policies and procedures are supplemented as necessary to comply with local laws and professional guidelines, as well as to address specific business needs.

EY Global Practice Level Reviews (PLR)

At least once every three years, there is an EYG review of our audit quality policies and implemented procedures. Experienced reviewers, external to EY South Africa, test extensive samples and complete detailed work programs to determine whether we are complying with requirements of ISQC1.

Audit Quality Reviews (AQR)

EY South Africa is responsible for establishing and administering 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 our policies and procedures of 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 South Africa:

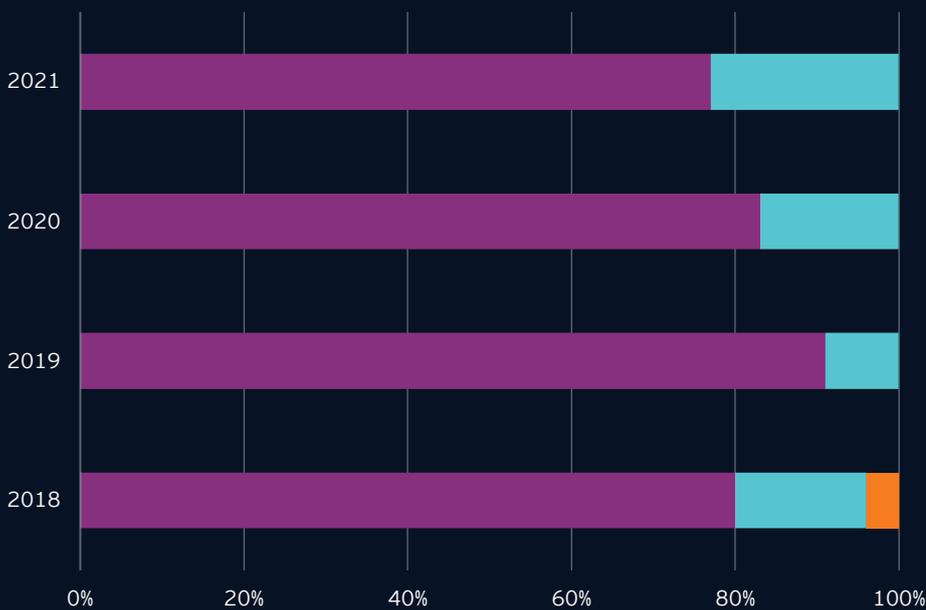
- a. is conducting audit engagements in accordance with relevant professional standards and in accordance with our applicable policies, and
- b. has established and documented adequate control policies and procedures and is complying with them.

Each EY South Africa partner is reviewed at least once every three years. New partners are reviewed in the year following their appointment. Should the outcome of a review be unsatisfactory, the partner will be subject to re-review in the following year.

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 Leader, together with the PPD, are notified of all "3" rated partners, and the findings of "2" and "3" rated engagements are taken into account when determining partner remuneration.

EY South Africa AQR results:



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.

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.

Alongside are some of the indicators that we currently monitor, along with the threshold set under EYG policies.

AQI	Expectation
Partner involvement	5,5% - 7%
Total executive involvement	21,5 - 25,5%
Overall partner utilisation	<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%
People Quality Survey Results	>85%
Late archives (<20 days)	<5%
Milestone compliance	100%
Manager utilisation	<80%
Restatements	1%



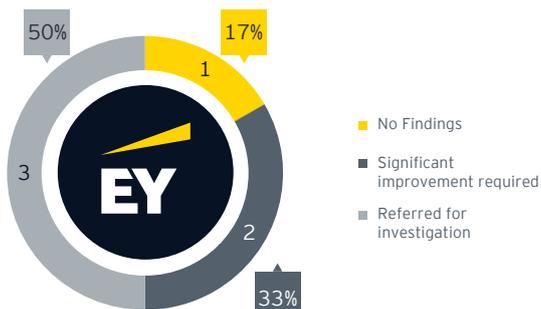
External quality reviews

The IRBA performs annual inspections of EY South Africa. 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 firm/engagement partner in the formal inspections report:

- ▶ Firm-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.

2020 Engagement level findings



2020 Firm level findings

Cycle Seven introduced the concept of escalating engagement-level findings to firm level, regardless of whether an ISQC1 firm level review was conducted.

In 2020, five findings were escalated to firm level in the following areas:

1. System of Quality Control
2. Engagement Quality Review process
3. Evaluation of the Summary of Audit Differences (SAD)
4. Inadequate Audit Procedures Performed on the Statement of Cashflows
5. Inadequate Documentation of the Appropriateness of the application of the requirements of International Financial Reporting Standards (IFRS) and Related Disclosures

Firm finding 1,2 and 3 are repeat findings, while firm finding 4 and 5 are new findings in the 2020 inspection year. We had no findings in the current period relating to Analytical Review or Independence which occurred in the prior period.

Our root cause analysis identified the following themes:

- ▶ Knowledge gaps relating to specific aspects of audit documentation requirements
- ▶ Accountability
- ▶ Team leverage concerns

Whilst we believe our quality control practices remain effective, we do acknowledge that the deficiencies highlighted through both our internal reviews (AQR) and the IRBA engagement level inspections point to certain areas that require improvement and more guidance. The below are specific action plans implemented in response to the 2020 findings.

Response Category	Key Action Plans
Creating a Greater Awareness of Regulatory Findings	<ul style="list-style-type: none"> ▶ Partner to Partner Awareness sessions of findings were held, with open discussion. ▶ Multiple Training sessions for all levels of staff were held. ▶ Resources were prepared for discussion in all audit team planning meetings.
More Audit Tool / Template Enablement Forcing Behaviour	<ul style="list-style-type: none"> ▶ New Primary Substantive Procedures in relation to the auditing of Disclosures and Statement of Cashflows were released. ▶ New rules for Lead Schedules to ensure earlier audit of disclosures and accounting policies were released. ▶ SAD supplements were released to directly drive more explicit documentation and consistency when evaluating misstatement conclusions.
Additional EQR Support	<ul style="list-style-type: none"> ▶ Partner to partner EQR panel discussion were held, covering best review practices in the firm. ▶ Risk reviews were performed on prior year SADs of listed companies, with a view to recommend improvements. ▶ Coaching of EQR reviewers when SAD schedules include material audit differences.
Increased Focus on IFRS	<ul style="list-style-type: none"> ▶ Establishing 'IFRS Officer' role on audit engagements. ▶ Mandating use of Intelligent IFRS Checklist. ▶ Scope and detail of the IFRS technical reviewer will be increased. ▶ Enabler on typical non-cash items that should be eliminated in cash flow statements.
Stricter Policies	<ul style="list-style-type: none"> ▶ Lowering our tolerance level on unadjusted audit differences (individually and in aggregate on line items) where included on the SAD. ▶ Enhancing our consequence framework for executives and managers.
Greater Monitoring and Enhanced Firm Controls	<ul style="list-style-type: none"> ▶ Implementing notification system requiring teams to engage PPD when they intend to carry audit differences exceeding materiality. ▶ Additional business coaches to check and guide teams on SAD evaluations. ▶ Increased pro-active monitoring of partner and manager workload and rebalancing of portfolios.

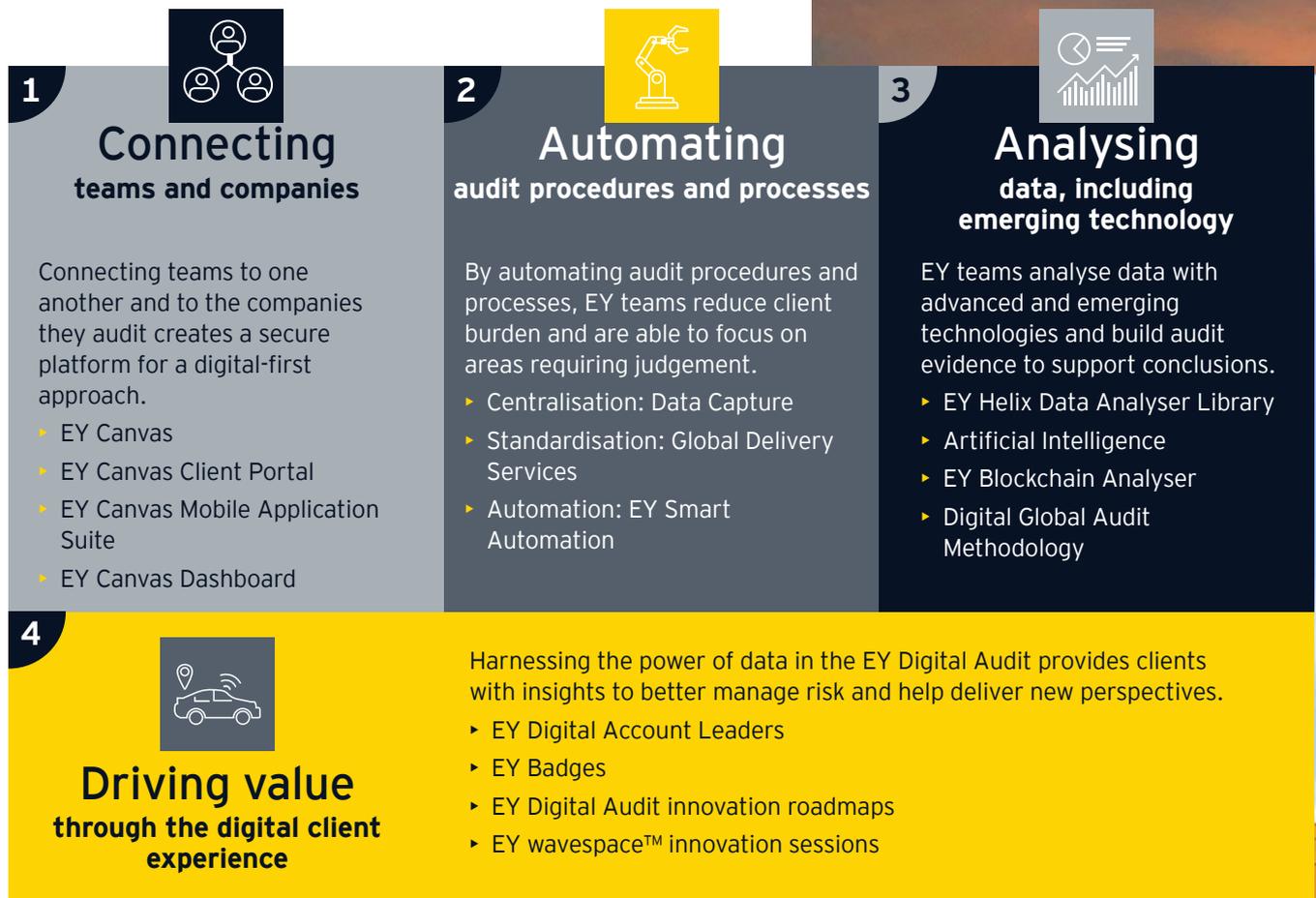
During 2021 we responded to an IRBA investigation, emanating from a 2019 inspection referral relating to independence. We await further communication on the matter from the IRBA.

EY South Africa is fully committed to building confidence and trust in the audit profession. We are adapting in response to the current climate of ever increasing scrutiny and change which has required that we move towards a state of 'agile constant reflection'.

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



Our Digital Audit approach 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 our 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, and
- ▶ 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 sets 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 our Digital Audit approach also allows us to address these market needs. The transformation is not just in technology but also in how our 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 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 Digital Audit approach

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

Digital Audit Methodology

Our 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 audit platform, and aligned with a new Digital Audit Methodology that sets out how our teams address audit objectives using digital solutions. This new methodology embeds the power of all our 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 our 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 our ability to analyse data and provide enhanced visibility over companies' financial reporting and processes.

Revenue and partner remuneration

Quality is at the center of our strategy and is a key component of our 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.

R3,5bn

TOTAL REVENUE

54%

Assurance

Partner remuneration

Our Performance Management System for partners, principals, executive directors and directors (PPEDDs) applies to all partners in EY South Africa. 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 priorities, of which quality is a significant component.

Our 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 our 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, and
- ▶ Contributing to protecting and enhancing our brand.

Our 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.



Corporate social responsibility

EY South Africa's corporate social responsibility initiatives is led by our **Ripples** programme. Our Ripples programme provides our employees with opportunities for volunteering work at a number of initiatives around the world. NextGen is our flagship women's development programme.

Detailed overview of the NextGen programme

In line with our purpose to build a better working world for our communities, EY South Africa's NextGen programme aims to develop the next generation of women leaders for Africa. The objective of the programme is to empower and aid girls from disadvantaged backgrounds.

More than academic and financial assistance, the programme strives to provide holistic development to the young girls to become well-rounded women leaders. From leadership skills training to academic tutoring and food parcels the programme is designed to increase their chances of success in the future. We also believe in uplifting the environment from which the girls come from and thus support extends to participants, their schools and their families.

A critical component of the NextGen programme is a series of themed leadership development programmes. These leadership development programmes give our participants the opportunity to acquire life skills, develop as young leaders, and to reflect on who they are and what they want to achieve in life. The courses are centred on inspiring the girls to believe in themselves as young African women and understand and identify the skills they require to achieve their full potential. The participants also take part in an annual regional camp where they are encouraged to identify their personal leadership styles and strengths and to put these into practice. A key focus area of the camp is on the principles of entrepreneurship, sustainability and social responsibility. During the camp, the girls are exposed to current leaders, a variety of speakers and relevant learning and empowerment topics. This exposure expands their view of the world and opens their minds to possibilities that many of them did not know existed.

NextGen development pillars



Personal Development

Communication skills
Department and personal grooming
 Self esteem and confidence
Social etiquette
 Public speaking skills



Leadership Development

Study skills
Time management
 Personal productivity
Stress management
 Health and nutrition



Career Development

Work place and business exposure
Educational Support
 Financial Support
Career guidance
 Mentorship

The programme consists of 30 learners in each grade from 10, 11 and 12, chosen from select disadvantaged schools across Gauteng, KwaZulu-Natal and the Western Cape. The programme currently consists of 288 young women from the school, university and alumni programmes. A dedicated team of EY South Africa employees manage the programme, from design, to project management, communication and execution of the programme.

When the programme was launched in 2012, the NextGen schools were identified through the assistance of the local Education Department based on Matric results and discipline and commitment to the programme.

Every year, along with the school principals and champion teachers our CSR team identifies potential candidates using the following criteria:

- ▶ potential to achieve academic excellence,
- ▶ leadership,
- ▶ community involvement, and
- ▶ a passion to develop Africa.

The programme is widely supported by our staff, who are in close contact with the participants and their schools. Frequent updates are sent through internally. Our team has strong communication lines with the selected schools' principals and champion teachers, as well as the participants themselves.

Details of the programme as well as its success have extended into the communities through participating schools and involved teachers and coaches.

The academic and developmental progress of our participants is tracked by means of regular reports from the participating schools and assessment of participant's progress at our camps.

In 2020, due to the covid crisis a virtual education catchup programme was run for NextGen learners and employees' children who attended Grade 10 - 12 at Curriculum Assessment Policy Statements (CAPS) aligned schools and enabled 130 learners to continue their school year. The learners were provided with laptops and mobile data to attend virtual classes in Accounting, English, Mathematics and Physical Science from June - December 2020. The teaching and tutoring were delivered by fully qualified and vetted educators and the classes took place on weekdays.

The results of the virtual education catch up programme was an overwhelming 100% pass rate for the NextGen class of 2020. Out of 22 matriculants nationally our learners obtained 58 distinctions and all of them received university entrance.

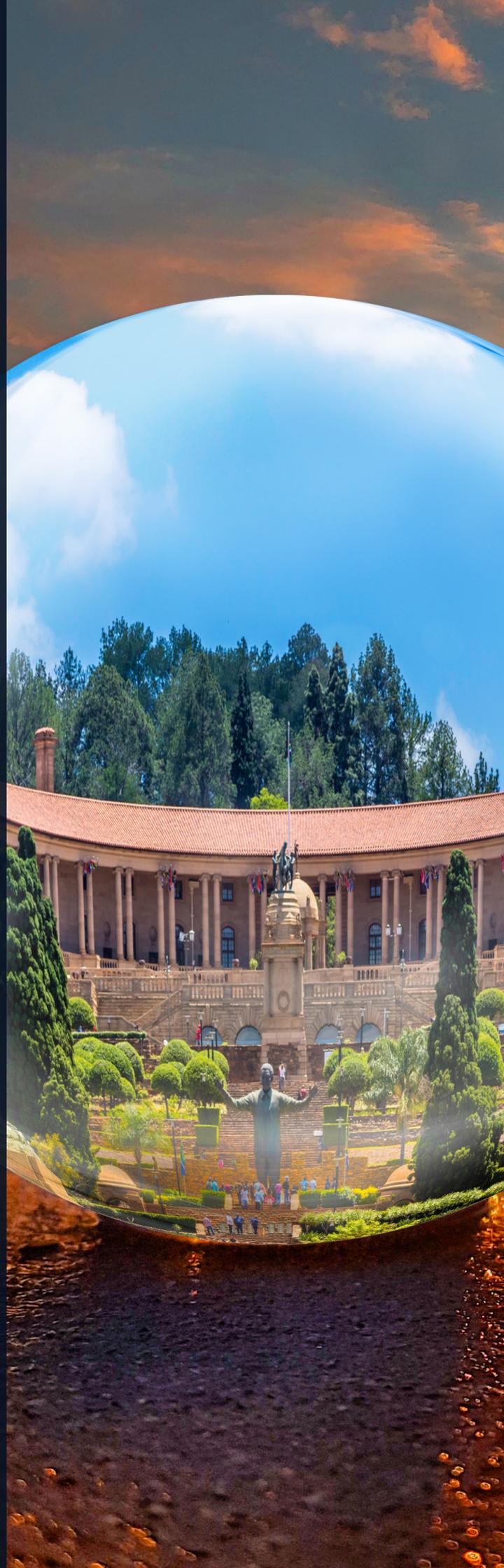
Our leadership team remain key sponsors and advocates of this initiative, with direct involvement through knowledge sharing, coaching and mentoring during our leadership development programmes camps and funding. In addition, each school of the participants has been 'adopted' by EY South Africa, which regularly caters to the needs of the school and the community.

All NextGen alumni at university are also given mentorship roles to the younger girls and play a key role in leading the leadership camps and acting as buddies. Progress is tracked through regular monitoring, assessment of the girls' successes and re-evaluating of our plans and activities. This takes the form of regular surveys and feedback sessions, interviews with school leaders, participants and programme partners.

Success highlights of the programme include:

- ▶ 100% pass rate at secondary school level - 9 consecutive years
- ▶ 100% university entrance passes in 2020
- ▶ The university students are studying a wide range of courses, such as:
 - ▶ MBChB (Medicine);
 - ▶ BSc Accounting;
 - ▶ B Com Accounting;
 - ▶ B Com Finance; and
 - ▶ B Com Law
- ▶ 2020 bursaries over R1.4 million awarded
- ▶ 7 NextGen girls have joined EY South Africa as trainees in our audit business. The program has also been adjusted to ensure we build pipeline so that we have young women with qualifications that are aligned with our business in order to place provide more with training contracts and on the job experience.

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





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.

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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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