

Ref#750305

06 September 2019

Tania Wimberley

JSE Limited
One Exchange Square
Gwen Lane
Sandown
Sandton

Email: TaniaW@jse.co.za

Dear Madam

SAICA FOLLOW UP LETTER TO THE PROPOSED AMENDMENTS TO THE JSE LISTING REQUIREMENTS COMMENT LETTER

In response to the public consultation on the proposed amendments to the JSE Listing Requirements, SAICA submitted a comment letter that highlighted concerns noted, specifically in relation to Item 14 of the JSE Consultation Paper, namely CEO and Financial Director Confirmation.

Subsequent to SAICA's submission of the comment letter, discussions were held with Tania Wimberley, Head of Financial Reporting at the JSE Limited where further insight on the proposed amendments was shared. Herewith, please find our understanding of the key points from discussions held and any further action that has been agreed be taken in addressing our concerns.

This letter thereby confirms that SAICA has no further objections and are therefore satisfied with the proposed amendments.

Please do not hesitate to contact us should you wish to discuss the contents of this letter. You are welcome to contact Hayley Barker Hoogwerf (hayleyb@saica.co.za).

Yours sincerely

Signed electronically

Hayley Barker Hoogwerf

Acting Senior Executive: Assurance and Practice

SAICA'S COMMENTS

Item 14: CEO and Financial Director Confirmation

1. Below, please find a summary of the initial concerns noted and key points from the further discussions held:
2. The CEO and financial director must confirm that the *internal financial controls are adequate and effective*. The proposed amendments do, however not make reference to any recognised controls framework, or provide guidance in terms of when internal financial controls are considered to be adequate and as such, it is not clear when the CEO and financial director can confirm that the internal financial controls are considered to be adequate.
 - a. The required statement must be read in conjunction with principle 15 of King IV, which first and foremost requires the CEO and financial director, as part of their roles and responsibilities to implement a system of internal financial controls that is adequate and effective. The proposed amendments do not prescribe a framework for the CEO and financial director to follow in implementing such a system of internal financial controls. Rather, it is based on the principles already contained in King IV and what a reasonable director would implement as part of their roles and responsibilities. If there is an issue, the CEO and financial director must then be able to demonstrate that it was not a breakdown in the internal financial controls that gave rise to such an issue. This statement does not introduce a new requirement as the CEO and financial director of listed entities are currently required to apply the principles of King IV.
3. SAICA is satisfied with the reason for not prescribing an internal framework and that, at this stage no further amendments or actions are required on this point.
4. The proposed amendments make reference to the *combined assurance model*. With the external auditor forming part of the combined assurance model, we would like to clarify that the external auditor does not provide assurance on the adequacy and effectiveness of the internal financial controls as part of the engagement to audit the financial statements.
 - a. The response from the JSE Limited was as follows:

“We believe that King IV is clear that management is the first important key in the combined assurance model. They are responsible for line management, risk management. Principle 15 is not just about assurance providers. The proposed wording change (see below) would make this clear, and address your concern that management must take active responsibility. We believe that a guidance letter could also be issued to ensure full understanding in this regard.

In this regard, we believe that amending the wording as such could address the comment you made.

‘The internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having applied fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code’.”
5. SAICA is satisfied that the proposed wording change addressed the concern initially noted.

6. ISA 720 (Revised)¹, defines *other information* as financial or non-financial information (other than financial statements and the auditor's report thereon) included in the entity's annual report. Since the proposed amendments require the CEO and financial director's statement relating to the confirmation of their responsibilities in respect of the audited annual financial statements and internal financial controls to be included in the annual report, it is SAICA's view that this would constitute *other information* as defined in ISA 720 (Revised).
7. A proposal to overcome the challenge identified is for the proposed amendments to not require this statement be included in the annual report but rather require the CEO and financial director to make such a statement directly to the JSE, outside of the annual report.
 - a. The JSE Limited is not in favour of the proposal of this statement being outside of the company's annual report as they want this information in the public domain. The JSE Limited indicated that since they are not experts in the auditing standards, they cannot advise on the way forward on this matter. They did, however indicate that they are in favour of the auditor reporting inconsistencies between their knowledge and understanding and the information reported by the CEO and financial director. It was mentioned that a long lead time is anticipated, which will allow auditors sufficient time to determine the way forward.
8. These comments have been noted and when the final amendments are approved, SAICA will relook at this in assisting auditors in determining the way forward.
9. In adding to this concern, questions were raised around whether the CEO and financial director are to use the standard wording contained in the proposed amendments; or are they required to tailor this to reflect their specific set of circumstances.
 - a. The JSE Limited indicated that this will be standard wording. The intention is not for the statement to include specific details of any breakdowns in the controls.
10. While we acknowledge and accept this proposed amendment at this stage, we suggest that as this new requirement evolves, the JSE Limited consider requiring expanded disclosure as this provides clear and more transparent disclosure that adds more value to the user.
11. In relation to the statement *Where we are not satisfied we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action*; concerns were noted in that this statement may be interpreted to mean that the CEO and financial director do not have to disclose any fraud and error to the audit committee or auditors if the necessary remedial action has been taken and are therefore satisfied that the internal financial controls are adequate and effective. All fraud should, however be brought to the attention of the auditors and the audit committee. We therefore suggest that the JSE Limited revisit the wording of this sentence.
 - a. This comment arose as it was not clear that there are two distinct steps here, namely disclosure to the audit committee and auditors and remedial action. In reading this again, SAICA believes that the solution to this is to include a comma after the *Where we are not satisfied*,

¹ ISA 720 (Revised), *The Auditor's Responsibilities in Relation to Other Information*.