

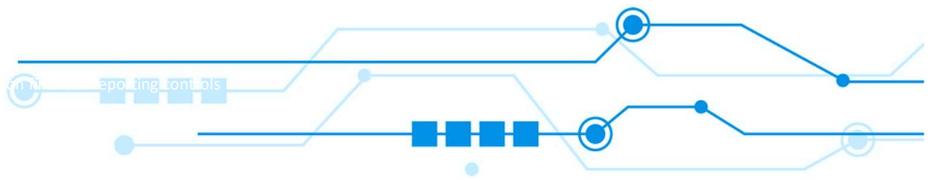
NEDs in Conversation (10 min read)
JSE paragraph 3.84 (k) of the Listings
Requirements

Summary of discussions | 12th October 2020



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Putting the spotlight on financial reporting controls

Whilst management teams are responsible for the effectiveness of financial controls, the board (and Audit Committees) is ultimately accountable for oversight and governance of those controls.

Setting the scene

The JSE introduced paragraph 3.84 (k) of the Listings Requirements in December 2019 that requires sign off by the CEO and Finance Director on a prescribed statement on the effectiveness of financial controls. The effective date for the new requirement was extended by the JSE to years ending on or after 31 December 2020 following the Covid-19 situation. Given the extensive assurances provided in the required statement the JSE were requested to provide more clarity and guidance to issuers in meeting these requirements.

Following extensive engagement with stakeholders the JSE issued a guidance letter on 17 July 2020. The letter mainly clarifies and explains certain terms including application of materiality, clarifying that the “financial controls” referred to are linked to the preparation of financial statements and that amendment of the prescribed wording is not permitted. As indicated by the JSE a guidance document on the practical application of the new requirement by issuers was issued by SAICA on 6 August 2020.

The required statement issued by the CEO and FD is pertinent and parallel to the statement issued by the Audit Committee. In addition, the JSE-LR 3.84 (g) (ii) dealing with Audit Committee oversight on financial reporting at all consolidated subsidiaries has been amended and becomes effective years ending 31 December 2020.

Panel of speakers

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Supporting reading materials

SAICA Guidance document issued 6th August 2020





“Financial reporting has, at times, been seen as the poor cousin of operating and compliance risk management.”

Mark Hoffman
Deloitte Africa

JSE 3.84 (k) financial controls responsibility statement

The CEO and financial director responsibility statement must be made by them after due, careful and proper consideration of same as follows:

The directors, whose names are stated below, hereby confirm that –

- a) The annual financial statements set out on pages [...] to [...], fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
- b) no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
- c) internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and
- d) the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. 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.

Signed by the CEO and financial directors
[Own emphasis added]

The question was raised, who could assist with implementation guidance?

SAICA played an important role in partnering with stakeholders across the ecosystem who are being impacted by the 3.84 (k) Listings Requirement including auditors, preparers, CFO’s and audit committee members. Advocacy was a key driver in their decision to play this role with the aim of providing supporting guidance through engagement with members.

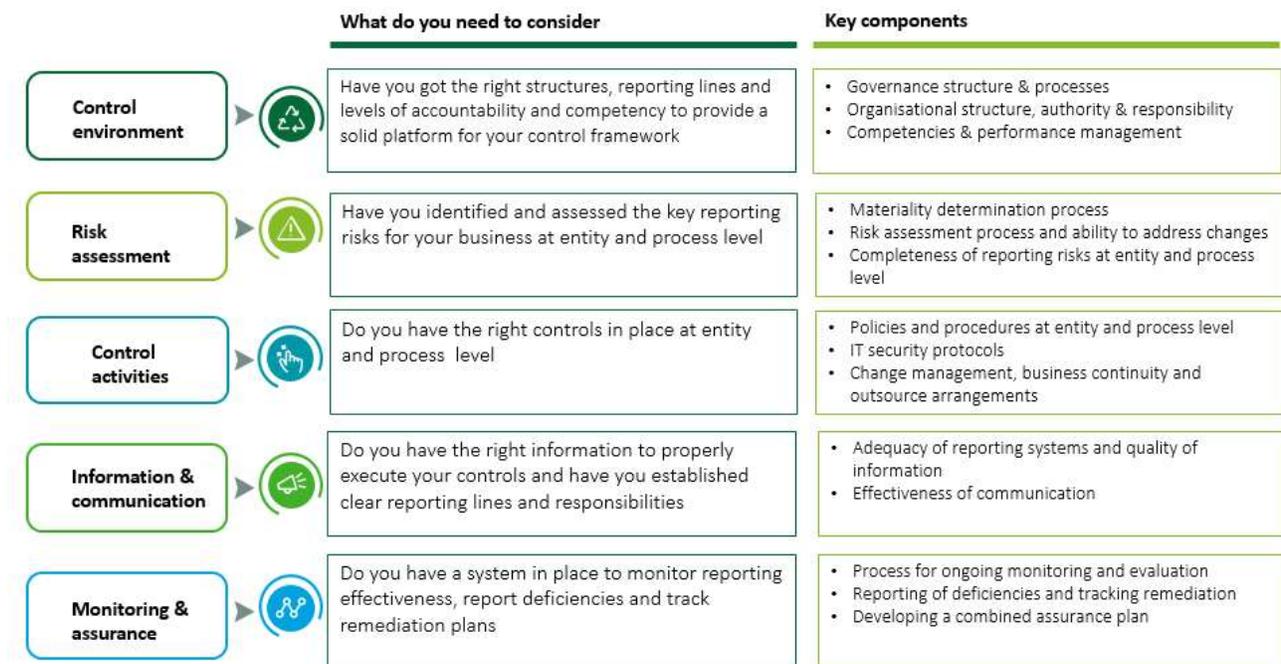
The 3.84 (k) Listings Requirement creates additional emphasis on the underlying governance structures and an opportunity for Audit Committees to challenge; find more detail related to the existing processes; and reflect on the adequacy for what is currently in place.

“This is an opportunity for Audit Committees to adopt an ‘under the bonnet’ assessment.”

Mark Segal
SAICA

Where to get started?

Whilst a framework is not prescribed by the new Listing Requirements, it is recommended to apply the COSO framework as a benchmark against the five key areas as outlined in the diagram below.



Key question from the NEDs

Can Audit Committees rely on the external auditors to provide assurance on financial reporting controls?

With input from and consultation with relevant stakeholders, SAICA are in the process of finalising a guidance document for auditors which Audit Committee members are encouraged to read once released. However, complete reliance on the auditors to test the design and operating effectiveness of financial reporting controls is not feasible. Where auditors do test the design and operating effectiveness of selected controls this would corroborate or could call to question management's conclusion and reporting on such controls.

Has South Africa, in comparison to global markets, spent enough time on financial reporting controls?

Financial reporting has, at times, been seen as the poor cousin of **operating and compliance risk management**. However, we have seen a recent global shift in the prioritisation of financial reporting risk management given the need for business to build trust in the financial markets and more widely amongst stakeholders. We expect this new Listing Requirement to bring financial reporting controls further up the list of priorities and in turn test the adequacy of underlying reporting systems.

Key contacts

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This summary is based on a virtual event with the same title that was hosted by Deloitte Africa's head of Financial Services and board member, **Nina le Riche**, on 12th October 2020. Speakers included:

- **Milton Segal:** Head of Corporate Reporting, SAICA
- **Mark Hoffman:** Partner, Deloitte Africa
- **Kavita Vanmali:** Director, Deloitte Africa

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