

# **THE REPORTING ACCOUNTANT'S REPORTING RESPONSIBILITIES IN TERMS OF SECTION 13 OF THE LISTINGS REQUIREMENTS OF THE JSE LIMITED RELATING TO PROPERTY COMPANIES**

## **Introduction**

The revision to the Listings Requirements of the JSE Limited (the .01 Listings Requirements) regarding the reporting accountant's reporting responsibilities in terms of Section 13 thereof, is effective from September 2005.

The reporting accountant performs this assurance engagement in .02 accordance with the International Standard on Assurance Engagements applicable to *The Examination of Prospective Financial Information* and the Revised *Guide on Forecasts* issued by The South African Institute of Chartered Accountants (SAICA).

## **Requirements for a reporting accountant's report**

In terms of Section 13 of the Listings Requirements, the reporting .03 accountant must amongst other things:

- (i) issue a special reporting accountant's report on the property forecast; and
- (ii) provide assurance on the lease profile and vacancy profile.

## **Specific work for the uncontracted income**

The work required to be performed on the uncontracted income, other .04 than for development property, must include, amongst other things:

- (i) an examination of the purchase agreement in which the seller provides certain warranties for rental;

**CIRCULAR 9/2005 THE REPORTING ACCOUNTANT'S REPORTING  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

- (ii) determining the reasonableness of assumed renewals of expiring leases, with particular reference to the rent in terms of the lease agreement compared to market related rentals;
  - (iii) confirmation with a prospective tenant that a new lease is in the process of being signed; and
  - (iv) confirmation that, unless the uncontracted rental falls into one of the three areas above, it has been excluded from the forecast.
- .05 In all instances, the reporting accountant must confirm that there is sufficient lead time built into the forecast to allow for an area to be refitted to the tenants satisfaction before accruing for the income.
- .06 In the case of development property, the reporting accountant must, amongst other things:
- (i) review the business plan in connection with the property development and discuss it with the property developer;
  - (ii) compare the levels of expected tenancy and the forecast rental escalations to the market averages for reasonableness;
  - (iii) review letters of consent from potential tenants and discuss them, on an individual basis, with the property developer and the future property manager; and
  - (iv) compare the forecast rental income to the historical revenues of similar listed companies for reasonableness and obtain explanations for significant differences.

**Format of the reporting accountant's report**

- .07 The reporting accountant's report must be in the format and include, at a minimum, the information as set out in Appendix I to this circular.

**Report on the vacancy and lease expiry profile**

- .08 If the vacancy and lease expiry information required in terms of paragraph 13.18 of the Listings Requirements is prepared on a forecast

**THE REPORTING ACCOUNTANT'S REPORTING CIRCULAR 9/2005  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

basis, the reporting accountant can include his/her findings on this in the special property forecast report. Alternatively he/she must issue a separate factual findings report thereon.

**Johannesburg  
August 2005**

**I Schoole  
Executive President**

**CIRCULAR 9/2005 THE REPORTING ACCOUNTANT'S REPORTING  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

**APPENDIX I**

**Illustrative example of an independent reporting accountant's unqualified assurance report on a property forecast, including the forecast vacancy profile and lease expiry profile**

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE PROPERTY FORECAST OF [COMPANY NAME]**

We have examined the property forecast and the related assumptions of ... (*the issuer*) for the financial year ending ... (*date*), amounting to an attributable net profit before distribution to ... (*nature of securities holders e.g. linked unitholders*) of ... (*amount*), as set out in paragraph ... of the circular to ... unitholders dated ... (*date*) (*the circular*), the forecast vacancy profile, by sector, by gross lettable area and the forecast lease expiry profile based on existing lease agreements, as set out in paragraphs .... and/to .... of the circular to .... unitholders (*collectively "forecast information"*).

*Directors' responsibility*

The directors are responsible for the forecast information, including the assumptions set out in *Note X*, on which it is based, and for the financial information from which it has been prepared. This responsibility, arising from compliance with the Listings Requirements of the JSE Limited, includes: determining whether the assumptions, barring unforeseen circumstances, provide a reasonable basis for the preparation of the forecast; whether the forecast information has been properly compiled on the basis stated; and whether the forecast information is presented on a basis consistent with the accounting policies of the company or group in question.

*Reporting accountant's responsibility*

Our responsibility is to provide a limited assurance report on the forecast information prepared for the purpose of complying with the Listings Requirements of the JSE Limited and for inclusion in the (*circular*) to ... (*the issuer's*) unitholders. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to *The Examination of Prospective Financial*

**THE REPORTING ACCOUNTANT'S REPORTING CIRCULAR 9/2005  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

*Information.* This standard requires us to obtain sufficient appropriate evidence as to whether or not:

- management's best-estimate assumptions on which the forecast information is based are not unreasonable and are consistent with the purpose of the information;
- the forecast information is properly prepared on the basis of the assumptions;
- the forecast information is properly presented and all material assumptions are adequately disclosed; and
- the forecast information, is prepared and presented on a basis consistent with the accounting policies of the company or group in question for the period concerned.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and, therefore, less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion.

*Information and sources of information*

In arriving at our conclusion, we have relied upon forecast financial information prepared by management of ... (*the issuer*) and other information from various public, financial and industry sources.

The principal sources of information used in arriving at our conclusion are as follows:

- The audited historical financial information and/or the unaudited management accounts of the underlying properties for the year ended 2004 (due to non coterminous year ends).
- Management prepared forecasts for the year ended ... (*date*).
- Discussions with the management of ... (*the issuer*) regarding the forecasts presented.
- Discussions with management of ... (*the issuer*) regarding the prevailing market and economic conditions.

**CIRCULAR 9/2005 THE REPORTING ACCOUNTANT'S REPORTING  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

- Discussion with the property valuers and the property managers with regard to the forecast expenses.
- Lease agreements for a sample of the properties.
- Valuation reports in respect of the properties.
- Property management agreement, asset management agreement, acquisition agreements, agreements with promoters and debenture trust deed.
- Term sheets and loan agreements from ... (*bank*).

*Procedures*

In arriving at our conclusion we have performed the following procedures:

Rental income (retail, industrial, commercial and residential)

- The forecast contracted rental income streams per the profit forecast, were selected for a sample of properties and agreed to the underlying lease agreements. The total coverage obtained was 70% of the forecast contracted rental income.
- The rental income streams from the above sample were recalculated to ensure accuracy of the information contained in the profit forecast.
- For that same sample of properties, forecast recoveries were compared to historical recoveries and the forecast operating expenditure for reasonableness. The terms of the leases were considered so as to ensure that the basis of the recoveries was correct.
- Forecast rental income resulting from profit warranties provided by the seller was agreed to the relevant purchase agreement.
- Existing lease agreements that will expire during the period under review were discussed individually with the property managers. Unless the existing tenant has indicated that it intends to vacate the premises, it has been assumed that the existing tenant will renew the lease agreement and the resultant uncontracted rental income has been included in the forecast [13.6(a) (iii)].

**THE REPORTING ACCOUNTANT'S REPORTING CIRCULAR 9/2005  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

- Space that is currently empty has been excluded from the forecast except where the property manager has demonstrated that the vacant space is in the process of being let but that the lease agreement in that regard had not been signed on the date of posting the circular.
- The vacancy levels per the forecast model were compared to the historical vacancy levels for reasonableness. Uncontracted rental income comprises ...% of the total forecast revenue [13.6(a)(iv)].

Rental income (development properties)

- The business plan in connection with the property development was reviewed and discussed with the property developer.
- The levels of expected tenancy and the forecast rental escalations were compared to the market averages for reasonableness.
- Letters of consent from potential tenants were reviewed and discussed on an individual basis with the property developer and the future property manager.
- The forecast rental income was compared to the historical revenues of similar listed companies for reasonableness, and explanations were obtained for significant differences.

Expenses

For a sample of properties, forecast expenses were compared to the historical expenses. Explanations were obtained for any significant differences. The total expenses tested amounted to ...% of the total forecast expenses. The rental agreements in respect of the [names] buildings are triple net agreements and therefore no operating or other costs relating to such buildings have been included in the forecast with the exception of the property management fee and a provision for RSC levies.

The detailed forecast expenditure was reviewed to ensure that all material expenditure items, as required by paragraphs 13.6 (a)(v) of the Listings Requirements, were disclosed. The explanations for variances of 10% or more between the historic and forecast expenditure line items were assessed for reasonableness.

**CIRCULAR 9/2005 THE REPORTING ACCOUNTANT'S REPORTING  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

Portfolio expenses

The forecast interest income, interest expense, property management fees and other portfolio expenses were assessed for reasonableness and, where applicable, recalculated. Certain expenses were also compared to similar expenses of other funds in order to assess their reasonableness.

Application of accounting policies

We ascertained that the accounting policies to be applied by ... in the future were applied consistently in arriving at forecast income, and agreed to the disclosed accounting policies and IFRS for the respective accounting period. Variances and matters of principle were primarily discussed with the Financial Director of ...(issuer).

Model review

In order to ensure that the forecast model for the property income and expenses was accurate and reliable, we performed a high level review to determine the consistency and mathematical accuracy of the model.

Vacancy profile and lease expiry profile

We reviewed the individual property worksheets to ascertain that the vacancy profile and the lease expiry profile included in the model was derived from the correct sources.

We compared the vacancy profile and lease expiry profile included in paragraphs .... and/to .... of the circular to the vacancy profile and lease expiry profile in the model and found them to be in agreement.

Accuracy of the information

We have relied upon and assumed the accuracy and completeness of the information provided to us in writing, or obtained through discussions from the management of ...(the issuer). While our work has involved an analysis of historical financial information and consideration of other information provided to us, our assurance engagement does not constitute an audit or review of historical financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements. Accordingly, we do not express an audit or review opinion thereon and assume no responsibility and make no representations in respect of the accuracy or completeness of any information provided to us, in respect of the



**THE REPORTING ACCOUNTANT'S REPORTING CIRCULAR 9/2005  
RESPONSIBILITIES IN TERMS OF SECTION 13  
OF THE LISTINGS REQUIREMENTS  
OF THE JSE LIMITED**

property forecast and relevant information included in the circular of ... (the issuer).

*Conclusion*

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that:

- i. the assumptions, barring unforeseen circumstances, do not provide a reasonable basis for the preparation of the forecast information;
- ii. the forecast information has not been properly compiled on the basis stated;
- iii. the forecast information has not been properly presented and all material assumptions are not adequately disclosed; and
- iv. the forecast information, is not presented on a basis consistent with the accounting policies of the company or group in question.

Actual results are likely to be different from the forecast, since anticipated events frequently do not occur as expected and the variation may be material; accordingly no assurance is expressed regarding the achievability of the forecast.

Our report and the conclusion contained herein is provided solely for the benefit of the board of directors of ... (*the issuer*) and existing and prospective unitholders of the issuer for the purpose of their consideration of ... (*the transaction*). This letter is not addressed to and may not be relied upon by any other third party for any purpose whatsoever.

Name  
Registered Accountant and Auditor  
Chartered Accountant (SA)  
Address  
Date

#101513