

20 September 2012

Dear Company Secretary, Sponsor and Designated Adviser

AUDIT REPORT MATTERS

In terms of Section 3 of the JSE Listings Requirements (the “**Requirements**”), issuers have certain obligations with regards to periodic financial information and Practice note 1/2003 (the “**Practice note**”) provides further guidance on the announcement and publication of year end results. In addition, Section 22 of the Requirements deals with, inter alia, the auditor’s responsibilities as it relates to the periodic financial information published by issuers.

It has been brought to our attention that there is some confusion with regards to:

- the terminology used in Section 3 and 22 of the Requirements and the Practice note; and
- the obligations of issuers in obtaining an auditor’s report and submitting that report to the JSE.

This letter serves to clarify these matters.

Abridged report

Paragraph 3.21 of the Requirements has two criteria for an abridged report:

- it is a compulsory report that must be published on SENS; and
- it must be published when the company distributes its annual financial statements (“**AFS**”) to its shareholders i.e. the full AFS must be available when publishing the report.

Given the above, the references in the Practice note to abridged report in the table entitled “terms used herein” for abridged, preliminary and provisional reports may be confusing. Similarly the use of the term “condensed” may also be confusing. The words “abridged or condensed” should therefore be removed from the Practice note in the terms abridged, preliminary and provisional reports.

The Practice note will be updated in due course to reflect this.

Auditors’ responsibilities for an abridged report

In terms of paragraph 3.21 of the Requirements, an abridged report can only be issued when the full audited AFS have been distributed. Under the circumstances it would be impractical to expect an auditor to issue an additional audit report on the abridged report being published on SENS. The reference in paragraph 3.21 of



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the Requirements to the audit report refers to the audit report on the AFS and does not place an additional obligation on the issuer to obtain a separate audit report for the abridged report published on SENS.

Paragraph 3.21 of the Requirements will be updated in due course to read as follows:

Although the audit report of the auditor on the annual financial statements need not be included in the abridged report, the name of the auditor must be included and, if such report is modified, details of the nature of such modification shall also be stated therein. The abridged report is not required to be audited.

Modified audit report

Paragraph 3.25 of the Requirements refers to procedures that prevail when a modified auditors' report has been issued. Paragraph 22.6(b) of the Requirements makes similar reference to a modified audit report. International Standards on Auditing (“ISAs”) deal clearly with the modification of an auditors' opinion and no further clarification is needed for this term. From a reading of paragraphs 3.18 and 3.25 of the Requirements it is clear that the JSE use the term modified audit report to cover the following circumstances:

- a modified audit opinion;
- an emphasis of matter paragraph in the auditors' report; and
- a reportable irregularity paragraph in the auditors' report.

It would therefore be useful to include a definition of the term “modified auditors' report” in the Requirements so that it can be clearly distinguished from a modified audit opinion as envisaged in ISAs.

<i>Term</i>	<i>Meaning</i>
<i>modified auditors' report</i>	<i>An audit report that contains a modified opinion, an emphasis of matter paragraph or paragraph regarding a reportable irregularity as defined in the Auditing Profession Act</i>

The JSE is aware that ISAs require auditors to consider including an “Other Matters” paragraph in their report. The South African Auditing Practice Statement 3 issued by IRBA in June 2012 includes some examples of these sorts of reports. At this stage the Requirements place no obligations on parties with regards to an “Other matters” paragraph or for a paragraph dealing with “Other Legal and Regulatory Requirements” other than in the instances of a reportable irregularity as discussed above. We will continue to assess the situation and if we decide to change our approach, any potential changes to the Requirements will follow the normal due process.

No change reports

Paragraph 3.16, 3.21 and 3.22, as read with the Practice note, defines a no change report as:

“an announcement, not sent to shareholders, published only on SENS, stating that there have been no changes to any financial information previously published in a preliminary or provisional report”

It is clear that the concept of a no change report apply equally to preliminary and provisional reports. In order to avoid any uncertainty, paragraph 3.16 of the Requirements will be updated in due course to include the following:

If an issuer has published a provisional report, then, at the date of issue of its annual financial statements, such issuer must either comply with paragraph 3.21 as it relates to abridged reports, or publish an announcement stating that it has issued its annual financial statements and that it is not publishing an abridged report as the information previously published in the provisional report is unchanged.

Paragraph 3.22 of the Requirements

Paragraph 3.22 of the Requirements contains the exact wording as already set out in paragraph 3.18(f). The inclusion of this wording makes the paragraph lengthy and cumbersome to read. By comparison, paragraph 3.16 of the Requirements deals with the same concept with simple cross referencing to paragraph 3.18(f).

Furthermore whilst paragraph 3.22 of the Requirements does not provide any direct guidance on the review obligations for the auditor, paragraph 3.18 of the Requirements is the relevant section to consider as the heading implies.

In order to remove any uncertainty, the Requirements will be updated in due course to include reference to preliminary report in paragraphs 3.18 (e) and (f).

Paragraph 3.18(g) of the Requirements

Paragraph 3.18(g) of the Requirements was inserted some time ago, before the adoption of IASs. The JSE is unaware of any circumstances where an auditor has modified their report for this Requirement. Furthermore we believe that since the adoption of the IASs, there should be no circumstances under which the auditor's report would not already include the matters discussed in paragraph 3.18(g) of the Requirements. As such this Requirement is probably superfluous and the JSE is considering deleting it.

Obligation to submit copies of auditor's reports

Paragraph 3.18(i) of the Requirements deals with a procedural matter for the JSE and currently reads as follows:

- (i) if a review is required in terms of the above, a signed copy of the auditor's review opinion must be submitted to the JSE within 24 hours of the publication of the results*

The JSE no longer requires copies of all auditors' reports as these are available for inspection at the registered office and in terms of paragraph 22.6(b) of the Requirements the JSE places reliance on the auditor to ensure that the content of their report is not misrepresented,. Paragraph 3.18 (i) will therefore be amended to read as follows:

- (i) if the auditor issues a modified report, a signed copy of the auditor's report must be submitted to the JSE within 24 hours of the publication of the results.*

Scope of the auditor's report

It is important to note that the ISAs require that the auditor's report is included in any document that indicates that the auditor has reported thereon. It was not practical to pass this obligation on to issuers given the format in which financial results have been traditionally distributed i.e. on SENS. It is for this reason that the Requirements require extracts of the auditor's report to be included with the results and for the auditor's report to be available for inspection.

We note that it is common for an issuer to publish additional voluntary information with their financial results. In this regard, where the auditor's report is not actually included in the financial results it can be confusing and misleading for an investor to understand exactly what information the auditor's report covers. The JSE therefore believes that it would be appropriate for an issuer to clarify matters through the inclusion of the following wording in their results announcements where unaudited/unreviewed information is contained in a results announcement and the demarcation between the audited/reviewed information and unaudited/unreviewed information is not clear:

The auditor's report does not necessarily cover all of the information contained in this announcement/ financial report. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work they should obtain a copy of that report together with the accompanying financial information from the registered office of the company.

If a results publication does not contain the above wording, the assumption will be made that all of the information is in fact covered by the auditor's report. To avoid any confusion there is also nothing preventing an issuer from distributing the actual auditor's report with the financial information.

Should you have any queries regarding the content of this letter please contact Tania Wimberley at taniaw@jse.co.za.

Yours faithfully

A handwritten signature in black ink, appearing to be 'A.F. Visser', written over a light yellow rectangular background.

**A.F. VISSER: GENERAL MANAGER
ISSUER REGULATION**

Cc Accredited Auditors