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Dear Imran

DELOITTE RESPONSE TO THE PROPOSED GUIDE FOR REPORTING RESPONSIBILITIES OF THE REPORTING ACCOUNTANT RELATING TO PROPERTY ENTITIES IN TERMS OF THE JSE LISTINGS REQUIREMENTS

We appreciate the opportunity to provide our comments on the Proposed Guide for *Reporting Responsibilities of the Reporting Accountant Relating to Property Entities in terms of the JSE Listings Requirements (the Proposed Guide)*, issued by the IRBA.

We have separated our comments into two sections:

- **Response to request for specific comments** – this provides comments to the specific questions posed by IRBA in the explanatory memorandum.
- **General comments on the proposed guide** – this provides other general comments based on the Proposed Guide.

RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

1. **Whether, in your view, sufficient guidance is provided for a JSE accredited reporting accountant to discharge his / her responsibilities in performing these engagements and reporting in terms of the JSE Listings Requirements.**
If not, please provide details of additional guidance you believe is necessary.

Yes, in our view sufficient guidance is provided for a reporting accountant of a property entity to fulfil the required responsibilities and reporting in terms of the JSE Listings Requirements.

However, the current scope of the guide includes only the reporting accountant's reports required in terms of paragraph 13.15 and 13.16(e) of the Listing Requirements (LR) specific to property entities in Section 13 of the LR. In terms of the LR Section 8 and 13 there are more scenarios where reporting accountants' reports are required. Although not all of these are within the scope of this guide, the following table is suggested to replace paragraphs 1, 5, 12 and 13 of the guide. This would provide a full context of which reports are required from a reporting accountant of a property entity for purposes of a prospectus, pre-listing statement or circular and which of those are then within scope of the guide.

National Executive: *LL Barn Chief Executive *AE Swiegers Chief Operating Officer *GM Pinnock Audit
*N Sing Risk Advisory *NB Kader Tax TP Pillay Consulting S Gwala BPaaS *K Black Clients & Industries
*JK Mazzocco Talent & Transformation *MJ Jarvis Finance *M Jordan Strategy *MJ Comber Reputation & Risk
*TJ Brown Chairman of the Board

A full list of partners and directors is available on request

* Partner and Registered Auditor

B-BBEE rating: Level 2 contributor in terms of the Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

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Financial information	LR reference	LR preparation requirements	Reporting accountant's responsibility	LR reporting requirements	Applicable reporting standard	Scope of this guide
Report of historical financial information for 3 years (in case of new listing)	8.2 and 13.4	<ul style="list-style-type: none"> 8.3 to 8.9 IFRS SAICA Financial Reporting Guides 	<p>(i) An audit opinion on financial information relating to the financial year immediately preceding the issue of the prospectus/pre-listing statement/circular; and/or</p> <p>(ii) either an audit opinion or a review opinion on financial information relating to the financial years prior to the financial year immediately preceding the issue of the prospectus or circular; and/or</p> <p>(iii) a review opinion on interim financial information.</p>	8.48(a) and 13.16(f)	ISA 700*	Not within scope
Pro forma statement of financial position - historical	8.15 and 13.4	<ul style="list-style-type: none"> 8.16 to 8.34 SAICA Guide on Pro forma Financial Information 	Report on whether the pro forma financial information has been compiled, on the basis required by the LR.	8.48(b) and 13.16(f)	ISA 700* or ISRE 2400** ISRE 2410***	Not within scope
Pro forma statement of financial position – assets and / or liabilities acquired in terms of the transaction (adjustment column)	13.4	<ul style="list-style-type: none"> 8.16 to 8.34 SAICA Guide on Pro forma Financial Information 13.16(a) to (d) 	A review opinion regarding the value and existence of the assets and/or liabilities being acquired, as reflected in the adjustment column of the pro forma statement of financial position.	13.16(e)	ISRE 2400** or ISRE 2410***	Within scope
Pro forma statement of financial position – acquisition of a business in terms of the transaction	13.4	<ul style="list-style-type: none"> 13.16 	If the subject matter is a company or a business, the underlying results must be audited.	13.16(e)	ISRE 2400** or ISRE 2410***	Not within scope
Forecast statement of comprehensive income (forecast information)	13.4	<ul style="list-style-type: none"> 13.12 to 13.14 13.18(d) and (e) 	Report on an entity's forecast statement of profit or loss and other comprehensive income and the vacancy and lease expiry profile of the property portfolio as a whole.	13.15	ISAE 3400*****	Within scope

Footnotes:

* International Standard on Auditing (ISA) 700 Forming an Opinion and Reporting on Financial Statements

** International Standard on Review Engagements (ISRE) 2400 Engagements to Review Historical Financial Statements

*** International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity

**** International Standard on Assurance Engagements (ISAE) 3420 Assurance Engagements to Report on the Compilation of Pro forma Financial Information Included in a Prospectus

***** International Standard on Assurance Engagements (ISAE) 3400 relating to the Examination of Prospective Financial Information and the IRBA guide entitled Reporting Responsibilities of the Reporting Accountant Relating to Property Entities in terms of the Listings Requirements;

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- 2. Whether you agree with the view of the CFAS that ISRE 2400 (Revised), Engagements to Review Historical Financial Statements (or ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity as applicable) is the appropriate assurance standard to be applied in an engagement in terms of section 13.16(e) of the Listings Requirements.**

If not, please advise which assurance standard you believe is more appropriate and provide your reasons therefor.

Yes, we agree that in a basic scenario where historical financial information is used to determine the existence and valuation of the assets and liabilities acquired, that ISRE 2400 or ISRE 2410 could be appropriate to perform such a review.

Paragraph 18 of the Proposed Guide refers to "The information relates to economic events that have occurred in the past even though the measurement of the assets and / or liabilities may be based on forecast assumptions e.g. growth rates, discount rates etc." Per the *SAICA Revised Guide on Pro forma Financial Information*, the pro forma information should include all appropriate adjustments which are considered necessary to give effect to the corporate action as if the corporate action had been undertaken at the commencement of the period being reported on or, in the case of a pro forma statement of financial position, at the date reported on. These are events that have not yet taken place, but is provided based on contracts at that point in time. In scenarios where acquisitions of assets or liabilities are, for example, dependent on a future share price, the valuation would be dependent on the best estimate of the future share price. Suspensive conditions may play a role in the measurement of assets or liabilities acquired. Other market related variables could also play a role: foreign currency or interest rates. These events are not economic events that have occurred in the past or circumstances at points in time in the past.

Some of the risks related to these transactions are embedded in the assumptions such as foreign currency, interest rates and future share prices. Although the auditor can assess the application of these assumptions, the sensitivity of these assumptions and impact of subsequent changes in these assumptions, after the measurement date, are not fully reflected in the information. Changes in the measurement assumptions or different measurements dates could have significant impact on the outcome of transactions.

We recommend that the JSE Listings Requirements should include a requirement to disclose the sensitivities of assumptions and the impact of subsequent events, such as a devaluation in exchange rates, on this information.

- 3. Whether, in your view, sufficient and appropriate guidance has been provided in Appendix 1 to this guide on illustrative assurance engagement risks and a reporting accountant's possible responses to these assurance engagement risks for consideration when the reporting accountant is engaged to report on forecast information in terms of paragraph 13.15 of the Listings Requirements.**

If not, please provide details of additional or amended guidance (illustrative assurance engagement risks and / or possible illustrative responses to the assurance engagement risks) you believe is necessary.

Yes, in most instances. However, our view is that all the procedures are not 'assurance' type procedures. Some of these are inquiry-based procedures without the necessary corroboration that would be required for a reasonable assurance opinion on the forecast information.

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We suggest some changes to the procedures and responses:

Page	Procedure/ response	Comment
p22 and 23	Response 2 and 3	Remove the "Through discussions with management..." and start sentence with "Obtain an understanding..."
p23	Response 3	Replace "they" with "these"
p24	Response 4	<p>Replace "Discuss...with management" with "Obtain and understanding of..."</p> <p>Add an additional response: "Assess whether the forecast financial information has been prepared on a basis consistent with the historical financial information and to provide a historical yardstick for considering management's assumptions."</p>
p28	Response 7	The last bullet indicates "Compared", this should be present tense "Compare"
p29	Risk 9	Add risk: "Completion date of development properties may be unrealistic based on business plan"
p30 and p32	Response 9 and 11	Expand on the response: "Discuss the business plan in connection with the property development with the property developer and evaluate critical assumptions applied in the forecast against the business plan, corroborate information as appropriate "
p33 and p35	Response 11 and 13	Change the response: "If available, review the letters of consent from potential tenants for reasonableness;" to "If available, obtain the letters of consent from potential tenants and evaluate if these were included in the forecast appropriately;"
p36	Response 14	Change "Review" to "Evaluate". This procedure forms part of the reasonable assurance opinion and "review" could be interpreted to not be a sufficient response to the risk.
p38 and p40	Risk and response 15 and 16	Include a reference to where the 10% originates from.
p43 and p44	Response 19 and risk 20	Include the reference to where the 15% originates from, LR 13.14(g), currently only referenced from response 20.
p45	Response 21	<p>The response appear to be inquiry-based, instead of appropriate evidence to mitigate the risk. Suggestion to change response to: "Discuss with management Obtain an understanding of the principles applied in determining the forecast property management fees and other portfolio expenses, inspect relevant contracts and recalculate any property management fees and other portfolio expenses and assess them for reasonableness."</p>
p47	Risk and response 23	<p>Additional risk to cater for the expected capitalisation of finance cost for development properties: "The forecast finance cost for development properties have not been appropriately allocated based on the development timelines and is inappropriately included in the forecast finance cost instead of considered in the valuation adjustments."</p> <p>A response to that: "Obtain an understanding of the principles applied in determining the forecast finance cost and evaluate based on the development plans and expected dates of issue of funding whether expected capitalised finance cost is appropriately excluded from forecast finance cost and included in the valuations adjustments."</p>
p48	Response 25	Change response to: "Through discussions with management, obtain an understanding of Evaluate whether the applicant issuer's pre-listing statement..."
p48	Response 26	Change the second bullet in the response to: "Review Inspect the individual property worksheets..."

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4. Whether you agree with the form and content of the report on other legal and regulatory requirements included in the Section 13.5 reporting accountant's report?

If not, please explain your reasons for disagreement and provide any alternative reporting options.

Yes, we agree with the form and content of the report.

GENERAL COMMENTS ON THE PROPOSED GUIDE

1. The concept of materiality is not discussed in the guide. Even though this guide is not meant to replace the standards, being silent on the matter may be perceived that determining materiality is not required or relevant. We propose the inclusion of the following paragraph before paragraph 19:

Materiality

The reporting accountant's determination of materiality is a matter of professional judgement, and is affected by the reporting accountant's perception of the needs of the intended users. The principles of each applicable standard should be applied to the different elements of the engagement for the reporting accountant's report.

2. We provide some general considerations to the report provided in Appendix 2:

Structure of the report

- 2.1 We suggest that more prominence is given to the procedures performed in concluding on the assumptions for the limited assurance conclusion. A separate heading "Procedures" could be included before the paragraph starting with: "The procedures we performed were based on our professional judgement and..."

We suggest that a heading is also provided for the reasonable assurance part of the report before the paragraph starting with: "Our procedures included:" to emphasize the inclusion of the procedures that explain the work effort performed by the practitioner.

Corrections

- 2.2 In the "Purpose of the report" paragraph reference is made to "Section 13.15", to be consistent with rest of the guide and report replace "section 13.15" with "paragraph 13.15". The same applies to two instances in the "Report on other legal and regulatory requirements" paragraph.

3. Under the JSE Listings Requirements, the issuer can submit a request for dispensation. We recommend the inclusion of the following paragraph after paragraph 36:

Dispensations

Requests for dispensation from the Listings Requirements can be submitted to the JSE. The following then applies:

- Every ruling request must be accompanied by a letter from an approved executive of the Sponsor / Designated Adviser, which letter must contain their detailed consideration of the matter the subject of the ruling request.
- A standalone letter from a listed company will not be considered as a valid ruling request.
- A ruling fee is payable.**

Footnote:

** Guidance letter dated 21 June 2012 – Rulings

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4. For completeness of references it is suggested that the references to the requirements for written representations are added to paragraph 26 in a footnote: ISRE 2400.20, ISRE 2410.34 or ISAE 3400.25 respectively.
5. Some suggested corrections or structure changes is provided below:

Page	Proposed edit/change
p11	Table of contents and p15 heading: Users of the reporting accountant's reports
p14 – par 8	Appendix 1: Illustrative assurance engagement risks and illustrative responses to the assurance engagement risks pertaining to an property entity's forecast information in terms of paragraph 13.15 of the LR;
p17	Include subheadings for "Adjustments to the pro forma statement of financial position" and "Forecast information" (similar to the section on "Designing and performing procedures") and then break paragraph 14 into two paragraphs. Refer to specific comments question 1 suggestion to remove paragraph 12 and 13.
p17	The heading, " <i>Subject matter: Adjustments included in the pro forma statement of financial position – historical financial information</i> ", is ambiguous as it refers to the key issue around whether ISRE 2400 or ISRE 2410 is the applicable standards in these review circumstances based on the definition of <i>historical financial information</i> , however it seems on the first read to mean the overall starting point for pro forma financial information. We recommend that heading is changed to "Standard applied in review of Adjustments to the pro forma statement of financial position"
p20	A reminder to update the footnote 28 before release of the final guide.
p50	First bullet refers to "Section 13.15", to be consistent with the rest of the guide amend to "paragraph 13.15".

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We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please do not hesitate to contact Liezl du Plessis, Partner, at 012 482 0126 or 082 374 2765.

Yours faithfully,



Liezl du Plessis
Deloitte & Touche
Partner