Nexia SAB&T

Training and Technical

CEO / CFO sign-off on internal financial control – JSE Listing Requirement 3.84(k)

October 2020

To ensure a higher level of accountability from executive management, the JSE Listing Requirement 3.84(k) requires the CEO and the financial director to sign a responsibility statement that they have implemented the necessary internal financial controls to ensure the financial statements are fairly presented and no facts have been omitted or untrue statements were made

JSE Listing Requirements includes specific responsibilities for the Chief Executive Officer (CEO) and the Financial Director (FD) in respect of:

- the audited annual financial statements; and
- the establishment and maintenance of internal controls.

Note: Directors to take active steps as would be expected of any executive director in exercising their fiduciary duty

In terms of 3.84(k) of the JSE Listing Requirements, the CEO and the FD responsibility statement must be made by them after due, careful and proper consideration of same as follows:

*(i)" 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 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*".

Above statements should be signed by the CEO and the FD

To ensure that the requirements of 3.84(k) is adhered to, the following should be considered:

1. Calculate materiality for reporting purposes – Materiality in paragraph (a) must be interpreted in the context of IFRS. The term 'material' should also be considered not only in the context of financial reporting but also financial and business risks to the extent that it could affect financial reporting.
2. Review adequacy of the control environment and policies over financial reporting controls (specific to your entity's needs).
3. Identify the business processes and controls that could affect your reporting environment (specific to your entity's needs).
4. Perform a risk assessment on these processes and determine what can go wrong from a financial reporting perspective.
5. Design and implement key controls to address the risks identified (taking into account possible limitations within key controls), as well the responsible parties to initiate and review.
6. Design a combined assurance programme to test the design and effectiveness of financial reporting controls.
7. Implement monitoring process to confirm that the control procedures have been implemented, and to identify and report deficiencies.
8. Implement a plan for control remediation (proactive steps)
9. Track the deficiencies with remediation based on materiality and risk assessment and report deficiencies to audit committee and external auditors.

The CEO and the FD must make a positive statement, under their names and signatures, in the annual report, that these obligations have been met.