Proactive Monitoring
Limited scope thematic review:

Cash flow information and disclosures of liquidity and going concern

Date of issue: 6 October 2022

Contents

1. Introduction

1.1 Background

We remind readers of this report that we publish regular reports on our PM reviews on our website which inter alias explain the process applied to PM reviews and provide feedback on our findings

The JSE's proactive monitoring review process ("**PM review**") was first introduced in 2011 and has been subject to constant refinement. Previously published PM reports explain that the objective of PM reviews is to ensure the integrity of financial information and contribute to the production of quality financial reporting by entities listed on our markets.

The JSE regularly considers its activities, including best practice applied by other regulators, with the view to adapting review processes accordingly. In keeping with international developments, the JSE has introduced the concept of a limited scope thematic review process ("**LS review**") performed in parallel with the established detailed PM reviews.

1.2 New process

Our annual PM reports issued in November 2021 and February 2019 (available on the JSE website via this link) explain our approach to detailed reviews we have historically undertaken. These are compared against LS reviews below:

- ***Detailed reviews*** consider the AFS and interims (hereafter "**financial reports**") holistically. They are essentially a vertical review of an entire financial report for a specific issuer. Detailed reviews focus on identified risk areas and potentially material IFRS non-compliance matters, with no limit being placed on the scope of the review.
- In contrast ***LS reviews*** apply a horizontal lens to the financial report to focus on a specific area (or theme) across several issuers. LS reviews execute an in-depth review of specific focus areas and therefore limit the subject matters considered in those reviews.

Another key difference is the interaction with issuers.

- A detailed review leads to interaction with issuers to unpack the matters identified. The healthy debate that often surrounds a detailed review process is, in itself, important for the credibility of our markets.
- LS reviews on the other hand are predominantly desk-top based. Review staff consider only the information published in financial reports against a set of pre-defined questions and areas of analysis to identify potential areas of improvement and non-compliance of IFRS. We limit interactions with issuers to instances where we believed further information is critical to our understanding of the IFRS application by the issuer.

We explained the fundamental change we made to the selection process in our annual PM report issued in November 2021. The coverage we are seeking to achieve will be obtained through a combination of detailed and LS reviews. Therefore, when we select an issuer for review, it could undergo either the detailed or a LS review. In most instances we would not expect an issuer to undergo both a detailed review and LS review within their selection period.

Unlike the thematic review we undertook in 2019 (which related to compliance with what were then the new standards; IFRS 9 and 15) we did not pre-warn issuers that we selected of this pending LS review.

The primary objective of this LS review is to contribute to the future reporting of quality financial information by issuers. It is for that reason that the process applied, and findings reported, are largely agnostic to the materiality of any findings. A detailed review may have found similar discrepancies, but in those instances, we would only have raised questions with the issuer and reported such findings where we assessed that the potential impact could be material. This LS review report discusses both material and immaterial items and identifies examples of good reporting.

2. Details of this LS review

2.1 Scope

Our annual PM reports have regularly communicated non-compliance of IFRS matters related to the statement of cash flows ("**SCF**"). We considered these findings and the importance of providing useful and appropriate, IFRS compliant information in a strained post-Covid business environment. An issuer's ability to generate the necessary cash flows to settle scheduled liability (and other) payments greatly impacts its overall 'liquidity health'. Many going concern uncertainties, in turn, are linked to a deteriorating liquidity position at a financial reporting year end. Consequently, we modelled this LS review to assess compliance of (and usefulness of disclosures to) the following topics:

- The presentation of the SCF per *IAS 7: Statement of Cash Flows*;
- Liquidity-based disclosures (both in terms of *IAS 7* and *IFRS 7: Financial Instruments: Disclosures)* and their impact to debt covenants*;* and
- Going concern disclosures (per IAS 1.125).

2.2 Process

Our LS review evaluated financial reports of a review sample against the IFRS requirements of the abovementioned standards using a set of pre-determined questions. Our internal questionnaire assessed the appropriateness of information reported in the SCF (measured against other areas of the AFS and the requirements of IAS 7) as well as the nature (and usefulness) of disclosures made.

Our review of liquidity risk disclosures considered the quality and specific liquidity disclosures against *IAS 7* and *IFRS 7* after reflecting on the:

1. Quantitative information reported in the financial reports;
2. Potential liquidity risks discussed outside of the financial report; and
3. Linkage between all of the above information.

We considered the quality of the information provided in the financial report, looking for disclosures that were specific to the liquidity circumstances faced by the entity. We believe that application of a similar assessment would be helpful for issuers to apply.

We assessed the quality of going concern disclosures against the requirements of IAS 1.25, taking additional guidance from an educational document published by the International Standards Board ("**IASB**") in January 2021. We suggest that issuers similarly consider the IASB document, especially where significant judgement is exercised in the assessment of going concern.

3. Findings: Executive summary

3.1 Statement of Cash Flows

Our LS review once again identified non-compliance in terms of:

- Discrepancies between amounts and reasoning/ relationship to amounts reported in the SCF and other areas of financial reports;
- Inappropriate treatment of non-cash flow items; and
- Incorrect classification of cash flows between operating, investing and financing activities.

These items were identified in our previous detailed reviews and are captured in our combined findings report of PM reviews (issued in October 2021). As such we believe that the non-compliance was avoidable.

> We urge audit committees and non-executive directors to test the robustness of processes applied by the management team in considering the content of our PM reports (both this and previous reports) to mitigate against the occurrence of these types of errors.

Our detailed findings sections discuss the following topics not previously covered in our PM reports: disclosures of restricted cash; incomplete disclosures supporting material cash flows recorded in the SCF; treatment of bank borrowings; discontinued operations; editing ('copy and paste') errors made in interim results; and working capital movements in interims. It also points to gaps in the disclosure of the amendment to IAS 7: changes in liabilities arising from financing activities. We explain how this disclosure could be amended to make it useful to users.

3.2 Liquidity risk

We were pleased to find that issuers who had minimal (or no) liquidity risk concerns did not unnecessarily burden their financial reports with disclosure in this area. However, we noted varying levels of disclosure in financial reports of issuers for whom liquidity risk was a concern. We contrast examples of good and poor disclosure in our detailed findings section below. That section also sets out our findings regarding quantitative information in the maturity analysis section of AFS. This was incomplete or over-aggregated in certain instances.

3.3 Debt covenant disclosures

Most issuers provided generic statements of compliance (rather than factual and specific information) with respect to debt covenant targets. We explain why we believe this is an area where more specific information is useful to users of AFS.

3.4 Going concern disclosures

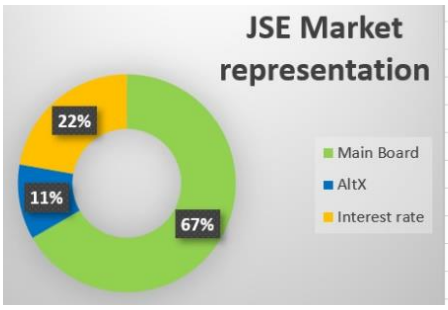
The IASB issued a useful education document on going concern in January 2021. They explain that a stressed economic environment impacts a wide range of factors affecting the going concern assessment and consequently elevates the exercise of significant judgement in this assessment. Our LS review identified varying degrees of disclosure in this area.

We emphasise the importance of disclosing company specific information and explanations to the nature of assumptions made by directors in their assessment of the going concern assumption.

4. Issuers reviewed

We reviewed the AFS of eighteen issuers and the interims of all equity issuers in our sample. Interest rate issuers are not required to prepare interims under the Debt Listings Requirements.

We followed a similar selection process used in our detailed reviews to ensure that we balanced our sample to include a cross section of sectors; types of issuers and sizes of issuer.



Some issuers have securities listed in both the equity and interest rate markets. The JSE market representation graph details the market in which the issuer was selected – noting that the issuer could have representation in more than one market.

Analysing the market capitalisation of issuers in the equity market, our sample comprised a wide spectrum of issuers. For the purposes of this report, we extracted the data at 31 December 2021 and have defined:

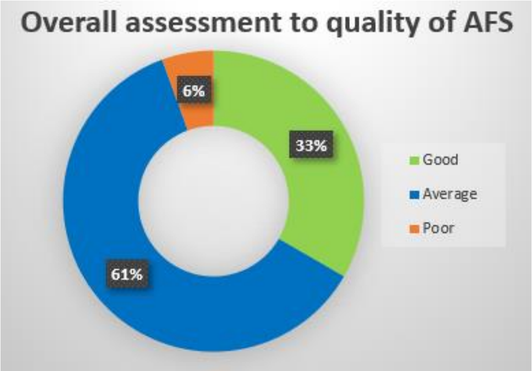
- Medium Cap: to be those issuers who had a market cap of less than R20 bn; and
- Small cap: to be those issuers who had a market cap of less than R1bn.

Eleven (out of eighteen) issuers were June 2021 year end reporters. This constituted the largest year end representation in our sample. Our cut off for the publication of results was June 2022 resulting in us considering the latest interims for December year ends but only August 2021 interims for February year ends.

5. Overall assessment to quality of financial reporting

As explained in the 'new process' section above, we report on all findings and other areas of improvement that have come to light during this LS review. We have intentionally not applied a 'materiality lens' as it is useful to highlight the types of IFRS matters we noted. Whilst a misstatement may not have led to a material misstatement for the issuer in our sample – similar circumstances applied to another issuer could be material to that issuer. We emphasise that the number of matters reported should be considered in the context of the educational intent for which this report is compiled.

In carrying out our LS review we formed an overall assessment to the quality of the information reported. We considered matters such as: the ease with which we were able to navigate financial reports to locate the information we were seeking; the existence of discrepancies; deficiencies to key information; and additional disclosures that were useful and went beyond the requirements of IFRS. Whilst the above assessment is subjective, the number of deficiencies and improvements identified in this report should be seen in the context of this overall assessment.



6. Purpose of this report

This report highlights the findings identified during our LS review, giving details of our expectations for financial reporting in the target areas covered. We set out identified areas of non-compliance to IFRS and also highlight instances of good reporting which, in certain instances, go beyond the minimum standards of the IFRS's themselves.

In the detailed sections of this report, we provide examples of 'good disclosure'. These highlight instances where we believe an issuer has demonstrated compliance with IFRS or presented particularly useful disclosures - in some cases going beyond the core requirements of IFRS. We similarly highlight instances where disclosures were found to be less useful (or were not in compliance with IFRS) and identify how that disclosure could have been improved.

Whilst we have identified what we regard as useful examples (to emphasise a specific point), our review only considered a sample of issuers. We make no assertions that this is the best manner in which to address an item. Finally, the inclusion of such examples does not imply that the remainder of that issuer's disclosures meet the tag of 'good reporting'.

We detail our findings from this LS review under the separate headings below.

7. Detailed findings: SCF

Our combined findings report of PM reviews (2011 – 2020; issued 31 October 2021) summarises key findings of our previous PM reviews and is available on our website (through this link). Pages 23 – 31 summarise 31 individual matters identified over the past 10 years where issuers had misapplied IAS 7 in their financial reports. An aspect that 'stands out' in the combined report is the repetition of common pitfalls (IAS 7 errors) made by issuers over time. Our LS review highlights instances where issuers have continued to repeat these types of errors.

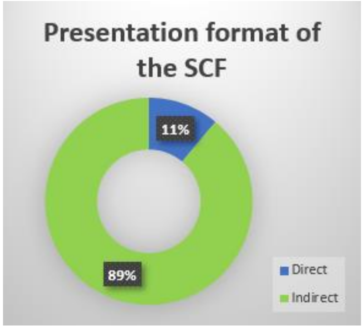
We strongly urge Management and Audit Committees to consider the findings of our most recent PM report as well as our combined report (updated annually) when preparing their financial reports.

Historical cash flow information is often used as an indicator of the amount, timing, and certainty of future cash flows (IAS 7.5) and enables users to develop models to assess and compare the present value of future cash flows (IAS 7.4). Paragraph 10 of IAS 7 requires an entity to report cash flows classified by operating, investing, and financing activities.

7.1 Operating activities

Cash flows from operating activities are primarily derived from the principal revenue-producing activities of the entity and include those cash flows that are not investing or financing activities (definition, IAS 7.6). Our LS review did not detect any instances of concern with respect to the classification of cash flows as operating activities.

IAS 7.18 permits an entity to report cash flows from operating activities using either the direct method (which is encouraged per paragraph 19) or the indirect method. By way of background, an overwhelming number of issuers in our sample presented the SCF using the indirect basis, with only two issuers using the direct method. Of those two issuers, one issuer presented a reconciliation of total earnings to cash utilised by operations (which we often see under the indirect method)

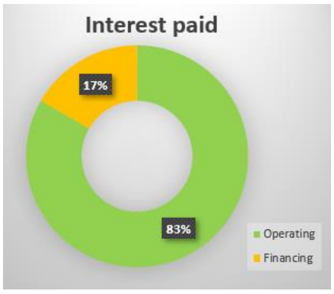


A procedure of our LS review was to re-trace key components used in the compilation of the SCF to other areas of the financial report. We interrogated items such as interest received and paid; amounts received from equity accounting of associates; non-cash items added back; tax paid; and other items. Our LS review revealed the following:

- For four issuers, we were unable to work back to the amount of 'tax paid' per the SCF using information such as opening and closing current tax due/ payable and the current tax charges per the income statement and other comprehensive income/ equity.
- For several issuers, the amounts for depreciation; amortisation; profit on sale of PPE or subsidiaries; impairments; fair value movements; equity-settled share-based payment expenses; finance charges on leases; capital portion of loans and lease repaid used in the compilation of the SCF differed from those presented in other areas of the AFS; and
- In one instance, an issuer did not appear to add back depreciation for right of use assets as a non-cash item when determining cash generated from operations. Whilst depreciation and amortisations for PPE; investment properties; and intangible assets were accounted for – we were unable to determine where depreciation of the right of use assets (introduced by IFRS 16.31) was added back when calculating cash generated from operations. This points to an inconsistent approach to the treatment of non-cash items.

7.1.1 Interest received and paid

IAS 7.31 requires interest and dividends received and paid to be disclosed in the SCF and to be classified in a consistent manner as either operating, investing, or financing activities. Operating activities was the predominant classification for interest received and paid with fourteen issuers classifying both interest received and paid as operating activities in their SCF.



All issuers in our sample separately disclosed interest received and paid on the face of the SCF or quantified these amounts in the footnotes to the SCF.

Identifying (and understanding) the cash effect of interests received and paid is an important aspect of financial reports for many users.

In many instances the quantum of interest reported in profit and loss (the "**income statement**") differed significantly from the cash flow interests received and paid. Whilst IFRS does not require disclosure of a separate note to the SCF, without an explanation of the cash and non-cash components it was often difficult to understand the relationship of interest received and paid in the income statement against that reported in the SCF.

The example disclosure (below) by an issuer reconciles interest amounts from the income statement to the SCF to illustrate the relationship of interest amounts in these two primary statements:

	2021 R'000	2020 R'000
Finance income received per the consolidated statement of cash flows		
Income per the statement of profit or loss	51 383	85 647
Interest imputed on post-retirement obligations	(3 365)	(4 964)
Amounts received	48 018	80 683
Finance charges paid per the consolidated statement of cash flows		
Charge per the statement of profit or loss	(744 783)	(795 910)
Unwinding of discount on puttable non-controlling interest liabilities	48 765	27 868
Interest imputed on post-retirement obligations and provisions	6 675	6 575
Amounts capitalised to borrowings	34 758	83 570
Amounts paid	(654 585)	(677 897)

Another example differentiates the cash and non-cash nature of interest income and expense items when listing these in the income statement note. Subtotals circled in green correspond to amounts recorded in the SCF.

Net financing expense	
Recognised in profit or loss:	
Interest income on bank deposits and investments	33 169
Other interest income	981
Financial income	34 150
Interest expense on financial liabilities measured at amortised cost	208 845
Cash interest expense	12 823
Lease liability interest expense (see note 24)	196 022
Other interest expense (see note 23.2)	11 416
Financial expense	220 261
Net financing expense	186 111

Our review revealed one issuer who reported both interest received and paid in the income statement being equal to the SCF – suggesting that all amounts represented actual cash flows. On inspecting the respective income statement notes we found that:

- A considerable proportion of interest income (81%) was accrued interest with respect to an employee share loan plan. The accrual was reflected as an asset within the trade and other receivables note; and
- The income paid line item included amortisation of a structuring fee incurred on a borrowing. Disclosures in the borrowing note showed that the structuring fee had

been paid upfront and was being systematically amortised over the period of the borrowing (possibly as part of the effective interest rate).

The above two components did therefore not represent cash flows during the period, and we would have expected interest received and paid in the SCF to have excluded the non-cash effects of these items.

7.2 Investing activities

Investing activities are defined as the acquisition and disposal of long-term assets and other investments not included in cash equivalents (IAS 7.6). IAS 7.16 explains that only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities.

Our review highlighted the following discrepancies with respect to investing activities.

Two issuers incorrectly classified cash outflows associated with increasing their ownership of existing subsidiaries as investing activities. In one case the issuer had classified a cash inflow (due to decreasing ownership in same subsidiary whilst retaining control) as a financing activity in the prior year but incorrectly classified the cash outflow due to a subsequent increase in ownership as an investing activity in the current year.

Irrespective of whether the shareholder interest increases or decreases, IAS 7.42A requires cash flows arising from changes in ownership interests that do not result in loss of control to be classified as financing activities.

7.2.1 Business combinations

IFRS 3.53 requires acquisition-related costs of a business combination to be expensed in the period these are incurred – unless they relate to issuing debt or equity securities. Whilst these costs may be related to an acquisition, the expenditure does not result in a recognised asset on the statement of financial position. Consequently, acquisition costs are not eligible for classification as investing activities (IAS 7.16). Our review noted:

- one issuer who misapplied IAS 7.16 in the current and prior year when incorrectly classifying acquisition costs as an investing activity: and
- another issuer who incorrectly classified acquisition costs of a business combination as investing activities in the prior year but correctly classified these costs as operating activities in the current year. No explanation was offered in the AFS for the inconsistent classification or why the prior period was not restated.

The next example (over the page) included a footnote to the business combination note which clearly quantified acquisition costs incurred in a business combination and identified the line item in the income statement where these costs were expensed. This type of disclosure may be useful for acquisitive issuers who want to draw attention to all aspects (and costs) associated with business combinations undertaken in a particular period.

………

Total identifiable net assets at fair value	215 505
Goodwill arising on acquisition	107 175
Purchase consideration	322 680
Net cash acquired with the business	(13 701)
Net cash consideration	308 979
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(1 924)
Net cash acquired with the business (included in cash flows from investing activities)	13 701

Transaction costs of R1.9 million were expensed and included in non-trading expenses.

IAS 7 does not explicitly define how contingent or deferred consideration should be classified in the SCF. Issuers should assess their specific fact pattern to determine whether the payment of the initially recognised deferred (or contingent) consideration represents:

- An investing activity – cash payments to acquire equity instruments of other entities (IAS 7.16(c); and/ or
- A financing activity if there is an implicit financing element (IAS 7.17(d)).

For any subsequent measurement of contingent and deferred consideration, it is appropriate to isolate what led to the subsequent measurement (where this is material) and classify the related cash flows accordingly.

7.2.2 Non-cash flow items

IAS 7.43 explains that investing (and financing) transactions that do not require the use of cash or cash equivalents are excluded from the SCF.

An issuer in the mining sector reflected investments in restoration and similar environmental trust funds on the statement of financial position and classified increases in (and refunds of) investments as investing activities in the SCF. Our LS review calculated that the movement between the opening and closing balance of these investments was reflected as an increase (or refund) on the face of the SCF – implying that all transactions in the period were cash flow transactions. On inspecting the individual notes to these investments, we identified potential non-cash items including fair value adjustments, accrued interest and 'other' adjustments which should have been excluded in the cash flow movement reflected in the SCF.

7.2.3 Disposals of assets

As explained above, one of our LS review procedures involved re-tracing key components of the SCF to other areas of the financial report. In interrogating the proceeds on disposal of PPE; investment property or similar assets we:

- identified the carrying amounts disposed of;
- noted any profit/ loss on disposal; and
- compared the result against the proceeds disclosed on the face of the SCF.

We were unable to recompute the proceeds disclosed for four issuers using this methodology. In one instance, the proceeds on disposal per the SCF were equal to the carrying amount disposed of in the PPE note. The issuer had however also reflected a profit on disposal of PPE, implying that the cash proceeds exceeded the carrying amount disposed.

We recognise that a drawback of our methodology is its assumption that all proceeds are received in cash in the same reporting period that the sale is recognised. This is obviously not always true. The issuer in the example below made the following helpful disclosure in the notes to the SCF highlighting that (in the prior year) a significant portion of the proceeds on disposal of PPE were still due to be received in cash.

Proceeds on disposal of property, plant and equipment	**2021 R'000**	2020 R'000
Disposal of property, plant and equipment – net book value (refer note 10)	**1 325**	5 390
(Loss)/Profit on disposal	**(1 325)**	922
	–	6 312
Deferred receivable	**–**	(5 476)
Proceeds on disposal	**–**	836

7.2.4 Additional disclosures required

When assessing the relationship of cash flow transactions to other items in the AFS, we noted the following instances where we believe greater clarification should have been provided in the AFS (IAS 1.17(c)):

- Two issuers disclosed significant cash flow proceeds in the SCF which we were unable to trace to related balances in the statement of financial position. In one case the description on the face of the SCF "acquisition of investment" was generic and it was not possible to determine the nature of the specific investment acquired. In the other case the Group reported substantial loans advanced and repaid to equity accounted entities in both the current and prior periods. As the loan balances were not separately disclosed in either the associate (or any other) note, it was not possible to assess what proportion of the loan balance had been advanced or repaid in the current year or how much of the loan balance was still carried on the statement of financial position at year end.
- A similar observation was made in the Company (i.e. separate) AFS of an issuer who reflected 'funds received from subsidiaries' as a cash inflow in the investing category of the SCF. This was the single largest cash flow recorded in the Company SCF but was neither explained nor referenced to a specific note to describe its nature. Whilst the Company presented a note listing amounts owing to/ by the subsidiaries – none of the balances in the current or prior year were seemingly large enough to relate to the quantum of cash receipt shown on the face of the SCF. What the SCF line item related to and how it 'qualified' as an investing activity was therefore not clear.

We remind issuers that IAS 1.17(c) requires an entity to provide additional disclosures when compliance with specific requirement in IFRS are insufficient to enable users to understand the impact of particular transactions, events and condition on the entity's financial position and financial performance.

7.3 Financing activities

Financing activities in the SCF are those activities that change the size and composition of the contributed equity and borrowings of an entity (IAS 7.6). Our LS review only detected one matter of concern to this classification category.

An issuer was embarking on a significant corporate action close to the financial period end. In anticipation of the corporate action becoming effective the issuer advanced funds to a group of shareholders for shares in a Group company which the issuer intended repurchasing. The amounts advanced accrued interest over the period from issue to settlement of the corporate action. An interest accrual was recorded in the trade and other receivables balance. The issuer incorrectly reflected both the amount advanced to shareholders (in anticipation of a committed share repurchase) and the accrued interest receipt as a financing cash flow in the SCF. Only the capital portion appears to have been a true cash flow. The interest accrual (reflected in trade and other receivables) should have been excluded from the SCF.

7.4 Cash and cash equivalents

IAS 7 provides separate definitions for the components used in the compilation of the SCF:

1. ***Cash*** – comprising cash on hand and demand deposits (IAS 7.6); and
2. ***Cash equivalents*** – defined as short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk of change in value (IAS 7.6).

IAS 7 imposes no further restrictions on the definition of cash ((1) above). Amounts that are 'cash on hand' or 'demand deposits' are classified as 'cash' for the purposes of the SCF – irrespective of the purpose for which these balances are held and irrespective of restrictions arising from contracts with third parties other than the financier (IFRIC agenda decision; September 2021). Demand deposits are not defined in IFRS but are commonly understood to be funds that can be withdrawn at any time, without advanced notice being required or any restrictions imposed by the financial institution.

Cash equivalents ((2) above) require further analysis and have been the subject of two further IFRIC agenda decisions (July 2009; and May 2013). IAS 7.7 explains that cash equivalents that are held for the purpose of meeting short-term cash commitments (rather than investment purposes) qualify as a cash equivalent if the instrument has a short maturity – say three months or less from the date of acquisition.

Three issuers in our sample did not provide a specific note in the AFS to cash and cash equivalents. Whilst IFRS does not specifically require such disclosure, we found the inclusion of a note breaking down the components of cash and cash equivalents balances useful.

Bank borrowings are generally financing activities (i.e. not cash) unless they:

- are repayable on demand;
- form an integral part of the entity's cash management; and

- have balances that often fluctuate between being positive to overdrawn (IAS 7.8).

If the above circumstances are met, bank borrowings are included as a component of cash and cash equivalents (IAS 7.8). Considering only the available information in the AFS, it was not possible to assess whether the above characteristics were met for overdrafts (and similar balances) classified as cash and cash equivalents in the SCF.

We found it interesting that issuers who presented overdraft facilities as a reduction to cash and cash equivalents in the SCF almost always presented these balances within borrowings or payables (rather than part of cash and cash equivalents) on the statement of financial position. This results in cash and cash equivalents being reflected at different amounts in the SCF and statement of financial position. Consequently, IAS 7.45 requires entities to present a reconciliation of amounts in the SCF with the equivalent items reported in the statement of financial position. Paragraph 46 further requires the entity to disclose the policy it adopts when determining the composition of cash and cash equivalents.

The following policy was an example of informative and concise disclosure in respect of IAS 7.46

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held at call with banks, net of bank overdrafts. In the statement of financial position, bank overdrafts are included in short-term interest-bearing loans.

The issuer provided the following explanation at the foot of the SCF with respect to the reconciliation required by IAS 7.45:

Net increase/(decrease) in cash and cash equivalents	**(3 726)**	125
Exchange rate profit/(loss) on foreign cash	**(892)**	1 549
Cash and cash equivalents at the beginning of the year	**13 219**	11 545
Cash and cash equivalents at the end of the year	**8 601**	13 219
Cash and cash equivalents – per statement of financial position	**8 763**	15 631
Bank overdraft	**(162)**	(2 412)

Whilst not all issuers disclosed similar policies or reconciliations, we considered the omission to be less of a concern where the classification of cash in the SCF and statement of financial position was straightforward.

On the composition of cash balances, we found the disclosures (below) to be particularly relevant. Cash and cash equivalent balances were quantitatively material for the issuer. The disclosures highlight currency and credit risk associated with cash and cash equivalents (IFRS 7.35M).

R million	2021	2020
Cash at the centre	**4 726**	12 723
Operating subsidiaries	**4 037**	2 908
	8 763	15 631
At year-end the Group's cash was invested at financial institutions with the following Moody's credit rating (unless otherwise indicated):		
Aa2	**1**	–
Aa3	**675**	4 071
A1	**2 073**	5 271
Ba1	**–**	6 076
Ba2	**5 509**	–
A- (GCR credit rating)	**100**	50
AA (S&P rating)	**400**	159
AA$_{(NA)}$ (GCR credit rating)	**3**	2
Cash on hand	**2**	2
	8 763	15 631
The cash is held in the following currencies:		
SA rand	**5 344**	4 196
British pound	**443**	7 924
USA dollar	**2 331**	2 929
Euro	**140**	196
Botswana pula	**53**	76
New Taiwan dollar	**55**	20
Kenyan shilling	**185**	144
Namibian dollar	**110**	44
Eswatini lilangeni	**34**	30
Other	**68**	72
	8 763	15 631
At year-end cash and cash equivalents earned interest at effective interest rates that varied between 0.001% and 7.00% (2020: 0.48% and 12.57%) per annum at local financial institutions and between -0.60% and 4.83% (2020: 0.02% and 6.90%) per annum abroad.		

7.4.1 Restricted cash

IAS 7.48 requires disclosure where cash and cash equivalent balances held by the entity are not available for use by the Group ("**restricted cash**").

A property issuer in our sample classified 'tenant deposits' as a component of cash and cash equivalents. Our experience from a previous detailed review is that these deposits are likely to be ring-fenced and not available for use by the Group (as it deems fit) in terms of either South African legislation, contractual requirements (or both). In these circumstances the restriction on the tenant deposit balances should have been identified. No such disclosure was forthcoming in the AFS.

The following good disclosure by an issuer identified not only that restrictions were applicable, but also described the nature thereof:

CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	2021 R'000	2020* R'000
Cash and cash equivalents		
Current, call and short-term deposit accounts	260 870	165 352
Restricted cash	11 998	8 671

* *Restated. Refer note 41.*

Restricted cash relates to:

– Surplus funds in the marketing funds: These funds are identified as "restricted" cash balances as the funds are not available for general use by the group but are only available to fund future marketing costs in accordance with franchise agreements concluded between the group and its franchisees (refer note 3.1.1).
– Unredeemed gift vouchers: Funds held by the group in respect of unredeemed gift vouchers are, in accordance with the applicable legislation, held in custody on behalf of the gift voucher holders until the date of expiration, and are accordingly treated as restricted cash as they are not available for general use by the group.

7.5 Non-cash items

The discussions above (in interest received and paid; investing activities; and financing activities sections) highlight instances where non-cash transactions appear to have been (inappropriately) described as being cash flow in nature.

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the SCF. These transactions should be disclosed elsewhere in the financial statements in a way that provide relevant information about these activities. (IAS 7.43)

Our LS review was not able to test the completeness of the types of disclosures required under the latter requirement of paragraph 43 – i.e. explaining significant non-cash investing and financing transitions in a way that provides relevant information about these activities. We noted only limited instances where issuers made specific reference to non-cash transactions in the financial reports. It is not clear whether these types of transactions did not exist or whether issuers simply neglect to make these disclosures.

In the example below, an issuer included the following note at the foot of the SCF to highlight significant non-cash transactions incurred (albeit in the prior year):

	2021 GBP	2020 GBP
Non-cash transactions:		
Acquisition of investments	–	(7,800,000)
Borrowings	–	7,800,000
Raising fee	–	75,001
Capitalisation of fees	–	(75,001)

7.6 Discontinued operations in the SCF

Reporting information of a discontinued operation isolates 'continuing' and 'discontinuing' operations in the income statement. Neither *IFRS 5: Non-current assets held for sale and discontinued operations,* nor IAS 7 provide specific guidance on how discontinued operations should be presented in the SCF. IFRS 5.33(c) only requires disclosure of the net cash flows attributable to operating, investing, and financing activities of the discontinued operation - explaining that these may be presented either in the notes or in the financial statements.

Three issuers in our sample reported discontinued operations in the current period of review, whilst a further two issuers disclosed discontinued operations in the comparative period.

Of the five issuers identified above, only one issuer reported net operating, investing, and financing cash flows relating to the discontinued operation on the face of the SCF (option A for the purposes of this report). The result of this presentation format is that the SCF (like the income statement) presents an isolated view of the business. If we assume (for example) that the discontinued operation represented 10% of the issuer's cash flows in each of the operating, investing, and financing categories – 90% of cash flows are therefore attributable to continuing operations. The result of applying an option A format is that:

- almost all line items represented on the face of the SCF relate only to continuing cash flows (90% of cash flows per activity); whilst
- one line item presented in each of operating, investing, and financing activities (10% of cash flows) represents the cash flows from discontinued operations.

Whilst the above presentation format clearly differentiated continuing cash flows (the 90%) from discontinued cash flows (the 10%) on the face of the SCF – it was difficult to correlate much of the SCF information to the other areas in the AFS (including the notes) which were presented from a Group (i.e. 100%) perspective.

The remaining four issuers did not separately disclose cash flows of the discontinued operation on the face of the SCF (option B). All lines on the face of the SCF therefore represented 100% of the Group (90% continuing and 10% discontinuing combined). These issuers disclosed the net operating, investing, and financing cash flows of the discontinued operation separately in the notes to the AFS.

> Whichever presentation format is applied – issuers should be mindful of applying that presentation format consistently to all line items presented in the SCF.

We found that, when presenting the SCF using option B above (i.e. all cash flows represented 100% of the Group) one issuer neglected to include interest paid for the discontinued operation in the 'interest paid' line item of the SCF. Using Option B, the SCF purported to represent the cash flows of the entire Group. The issuer correctly added back non-cash items of both continuing and discontinued operations and reflected tax paid for both continuing and discontinued operations in the SCF. When disclosing interest paid on the face of the SCF however – the issuer only included those costs related to continuing operations. The discontinued operations note in the AFS showed that the discontinued operation had also incurred interest charges. As there were of a similar nature to those incurred by the continuing operations, it is likely that the interest for the discontinued operation was also a cash flow which should have been included in the SCF.

7.7 SCF in interims

Our combined PM findings report refers to findings in our 2016 PM reviews in which we asked questions of issuers who had presented operating, investing, and/ or financing activities of the SCF as single line items in their interims (a two- or three-line SCF). We referred to the IFRIC agenda decision (July 2014) which stated that, to meet the requirements in paragraphs 10, 15, and 25 of IAS 34, a condensed SCF should include all information that is relevant in understanding the entity's ability to generate cash. We found one instance of an equity issuer who had aggregated investing and financing activities as single line items in the SCF of their interim results.

For two unrelated issuers we noted that the SCF in the unaudited interim results reflected incorrect prior period figures – i.e. not the period they purported to represent.

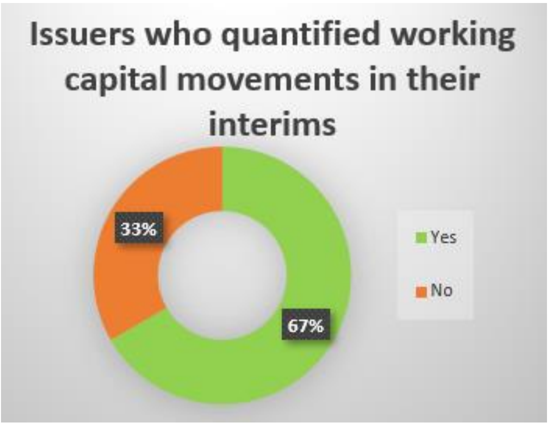
- In the first case the audited 2021 year-to-date column reflected amounts of the prior year-to-date (i.e. 2020 year end).
- In the second case investing activity figures of the current interim period SCF were replicated across both comparative columns (comparative interim period and comparative year ended columns) such that all three columns bore the same amounts for investing activities.

In both cases the prior year information was available in previous published reports - however these simple 'copy/ paste' errors could have been avoided if a more stringent review of the interims had been conducted before the interims were published. We remind issuers of principle (v) of the JSE Listings Requirements which requires all parties involved in the dissemination of information into the marketplace to observe the highest standards of care in doing so.

7.7.1 Working capital movements

The JSE has received enquiries as to why all issuers do not quantify the extent of working capital adjustments made when preparing the SCF in their interim results. We understand that this information is a key component of cash flow and other models that analysts compile.

Whilst there is no specific requirement in *IAS 34: Interim Financial Reporting* to do so, we were pleased to note that 10 of the 15 issuers who prepare interim reports did quantify working capital movements in their interims.



7.8 Changes in liabilities arising from financing activities

An amendment to IAS 7 (published in 2016, effective 1 January 2017) added paragraphs 44A-44E to IAS 7. The amendments require entities to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash flow changes (IAS 7.44A).

Paragraph 44B of IAS 7 identifies specific items to present in the disclosure, including:

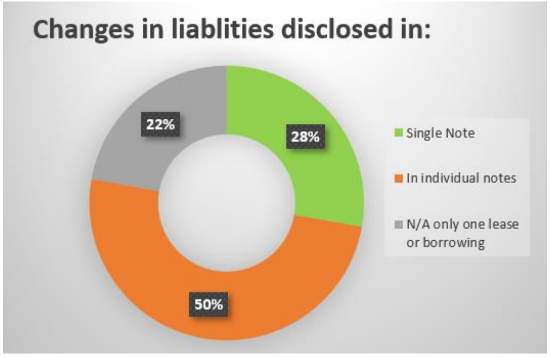
- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries;
- the effect of foreign exchange rates;
- fair value changes; and
- 'other' changes.

One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities (IAS 7.44D).

Paragraph 44D requires those entities who present a reconciliation (from opening to closing balances) to provide sufficient information to enable users to link items in the reconciliation to the statement of financial position and SCF.

By way of background our LS review identified that the issuers in our sample almost always fulfilled the requirements of IAS 7.44A by providing the reconciliation referred to in IAS 7.44D. There was no favoured aggregation or disaggregation method by which these disclosures were presented:

- Five issuers presented a single reconciliation for all liabilities arising from financing activities.
- Nine issuers included the reconciliation within the respective liability notes to the AFS.
- Four issuers had only one liability that was a financing activity (either a borrowing or a lease) and therefore disclosed the reconciliation in that note.



We noted the following anomalies with respect to the completeness of liabilities arising from financing cash activities:

- Two issuers neglected to present information in respect of their lease liabilities. They presented reconciliations for other liabilities – but not leases.
- One of the above-mentioned issuers had also neglected to present the disclosures for a significant financing activity that was specific to their business.
- Another issuer neglected to present the disclosures for derivative liabilities which had been classified as financing cash flows in the SCF.

All three issuers identified above presented reconciliations (IAS 7.44D) separately within the respective liability notes – highlighting a completeness deficiency by not ensuring that the required disclosures were followed through to all affected notes.

We also found the following disclosures (below) in the reconciliation of liabilities from financing activities to be too simplified. Whilst the cash flows highlighted in green carried through to financing activities per the SCF, all other movements for the period are aggregated as non-cash flow movements. The reconciliation does not identify any interest amounts (interests accrued or paid); liabilities assumed as a result of a business acquired in the current period (albeit that lease liabilities were insignificant); nor are the effects of foreign exchange quantified (IAS 7.44B(c)).

Reconciliation of liabilities arising from financing activities

R million	2020 Carrying value	*Loans advanced*	*Loans and leases repaid*	*Non-cash flow move-ments[1]*	2021 Carrying value
	15 288	**–**	**(7 089)**	**(378)**	**7 821**
Divisions A, B, C	4 371	**385**	**(421)**	**48**	**4 383**
	5 251	**29**	**(523)**	**(68)**	**4 689**
Other loans and leases	38	**–**	**–**	**2**	**40**
Total loan and lease liabilities (excluding bank overdrafts)	24 948	**414**	**(8 033)**	**(396)**	**16 933**
Per statement of financial position:					
Long-term and short-term loans	25 325				**15 379**
Current and non-current lease liabilities	2 035				**1 715**
Less: Bank overdrafts	(2 412)				**(162)**

[1] *Non-cash flow movements relate mainly to foreign exchange translation reserves, accrued interest, lease liabilities recognised in terms of IFRS 16 as well as the corresponding interest incurred and remeasurements.*

A number of reconciliations did not specify an interest payment as one of the cash flows made to reduce the liability – yet the SCF in these instances reflected interest payments for those liabilities. We noted this anomaly most often in the reconciliations of borrowings or long-term debt. Reconciliations for lease liabilities generally did disclose interest cash flows – even by the same issuers who had neglected to disclose an interest cash flow in the borrowings reconciliation. Consequently, the format of reconciliation applied to both sources of financing was different - reflecting (in our view) a 'complete' picture for leases liabilities against an aggregated reconciliation format for borrowings by these issuers.

It is possible that the quantum of interest accrued was equal to the cash interest paid (being an identical 'in' and 'out') and was therefore deemed irrelevant to the reconciliation of the opening to closing balance. Alternatively, issuers may have read IAS 7.44A to require only those cash flow changes *classified as financing activities* in the SCF to be identified in the reconciliation (interest cash flows may be classified as operating cash flows). In our view, such a literal reading is contrary to the examples in paragraph .44B - which require disclosure of cash flows not automatically classified as financing cash flows (e.g. obtaining or losing control of subsidiaries and changes in fair values).

IAS 7.44D requires the reconciliation to present sufficient information to enable users to link items in the reconciliation to the statement of financial position *and the SCF* (our emphasis added). Interest payments are a component of the cash flows that reduce the outstanding amount of liabilities. Consequently, in our view, reconciliations are most useful if they provide a complete picture for the period and reflect all cash flows – including interest cash flow payments made.

The following example provides a detailed reconciliation between the opening and closing balances for long-term borrowings. Amounts circled in green corresponded with amounts recorded in the SCF and the interest paid amount was traced to the interest paid note (before capitalisation of borrowing costs) in the income statement.

	2021 Rm
Reconciliation of long-term borrowings	
Opening balance	70 766
Incurred through XXX business combination	–
Proceeds from borrowings raised	3 722
Repayment of borrowings	(8 983)
Accrued interest	3 083
Interest paid	(3 082)
Fair value adjustments	375
Foreign exchange differences	(3 934)
Closing balance	61 947

The example below (for lease liabilities) is informative as it highlights the extent to which lease liabilities increased as a result of new stores being opened, and those liabilities raised for renewals of leases. The reconciliation also differentiates interest charges related to continuing and discontinuing operations which was useful disclosure. Whilst the payment did not identify the capital and interest portions of the lease payment made – the total payment (circled in green) was easily traced to the SCF comprising the capital portion repaid (financing activity per SCF) and the lease liability interest paid (disclosed in a note to the SCF).

Reconciliation of lease liabilities

As at 2020	2 685 717
Additions	1 034 678
New stores	324 860
Renewals	709 818
Interest	197 677
Continuing operations	196 022
Discontinued operations	1 655
Payments	(984 542)
Remeasurements, modifications and terminations	(10 616)
As at 2021	2 922 914

8. Detailed findings: Liquidity risk

Disclosure of the risks posed by the liquidity constraints of an entity and the actions the entity expects to take to mitigate those risks is of critical importance to users, especially in the current economic environment. We focused on issuers where cash flow or liquidity risk was highlighted in executive statements or identified as a key risk area in risk or similar reports. We also noted where the financial statements showed liquidity to be a particular concern (e.g. where current liabilities exceeded current assets). As part of our LS review, we considered the quality and specifics of disclosures made by issuers with respect to liquidity risk. We asked ourselves if the disclosures were boilerplate or whether they described circumstances specific to the issuer. The issuers for whom liquidity risk disclosures were important were generally those issuers for whom going concern was identified as a risk in the audit report; notes to the AFS or both.

We found that issuers who had minimal or no liquidity risk concerns did not provide much in the way of disclosure in this area – which we believe to be appropriate if the risk was not material or relevant to them.

We noted varying levels of disclosures in financial reports of issuers for whom liquidity was a concern. We demonstrate our findings in the following two extremes:

- In one case, an issuer provided detailed disclosures (as part of the going concern note) in which the issuer:
  - Identified the cash flow risks faced by the Group;
  - Set out the actions being undertaken to mitigate those risks;
  - Described the order in which they planned to apply funds to settle liabilities;
  - Provided an update to progress of the proposed plans at the reporting date; and
  - Highlighted the actions and consequences of a possible failure to implement the proposed action plans.

  These disclosures left little doubt as to how the group planned to address the liquidity constraints it faced.
- In contrast, another issuer – whose current liabilities exceeded current assets 24:1 times at year end – provided almost no insight as to how the Group planned to address liquidity constraints. Cash flow risk was described as the overriding risk in the executive statements. Whilst the issuer had received cash through a subscription agreement during the year and planned to rely on cash flows from a revenue stream that was likely to resume in forthcoming period - the AFS did not identify specific funds the issuer planned to access in order to settle its current liabilities. The issuer may have placed reliance on the fact that 99% of total borrowings and a sizable proportion of trade and other payables were owed to related parties and co-venturers. These 'patient' financiers may have been expected to be lenient in their extension of repayment timelines in the future. Even if this were the case, we would have expected the AFS to have provided more detail in this regard.

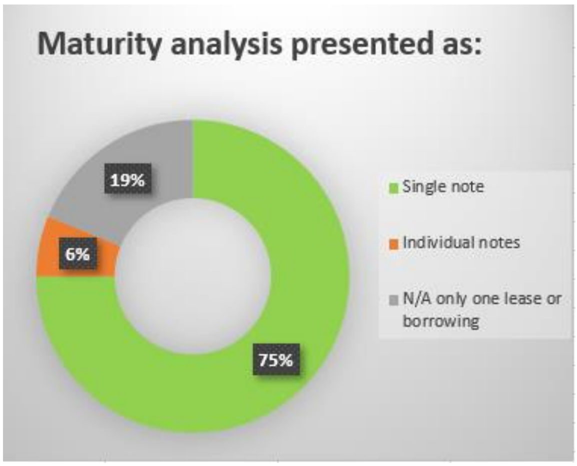
8.1 Maturity analysis

All issuers in our sample (as far as we could determine) presented undiscounted cash flows in their maturity analysis disclosures. Whilst not required by IFRS 7, many issuers choose to present the carrying amount alongside the total undiscounted contractual cash flow. This was useful – not only in tying the amounts to the

IFRS 7.39 requires disclosure of a maturity analysis for all financial liabilities reflecting the remaining contractual maturities. Paragraph B11D explains that the amounts disclosed are contractual undiscounted cash flows.

statement of financial position – but also to understand the impact of discounting to contractual cash flows.

Three issuers in our sample neglected to include finance lease liabilities in their maturity analyses. We remind issuers that the requirement to disclose liquidity information is one of *IFRS 7: Financial instruments: Disclosures* rather than *IFRS 9: Financial Instruments*. Whilst rights and obligations (financial assets and liabilities) to which *IFRS 16: Leases* is applied are scoped out of IFRS 9 – no such scope exemption exists in IFRS 7. Lease liabilities are therefore financial liabilities subject to the disclosure requirements of IFRS 7.



IFRS 7 does not dictate the aggregation level at which the information per paragraph 39 is to be shown. Most issuers in our sample elected to present a single note setting out contractual maturities for all financial liabilities. We believe a single note disclosure to be useful as it provides a 'consolidated view' of the contractual payments that will mature over time.

We evaluated the usefulness of the 'time bands' used to disaggregate contractual cash flows shown in the maturity analysis and remind issuers that the time bands suggested in the application guidance of IFRS 7 are merely examples. Paragraph B11 explains that the entity uses its judgment to determine an appropriate number of time bands to include in the maturity analysis.

We found the following example by an issuer to be over-aggregated with respect to providing information that was useful to users. The note (predominantly) splits information between current (first column) and non-current (second and third columns). These classifications are already adopted in the statement of financial position – albeit that the amounts below are undiscounted. Almost 82% of contractual cash flows are presented in the '1 to 5 years' time band and should (in our view) have been further disaggregated to provide meaningful information about liquidity risk. The issuer did provide compensating disclosure in another note listing the capital amounts and contractual maturity of each secured financial liability. As a standalone note however, we do not believe that the disclosures provided below are as useful as they could have been.

	LESS THAN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
2021				
Non-current liabilities				
Secured financial liabilities	-	1 579 937 884	151 615 084	1 731 552 968
Derivatives	-	57 450 711	-	57 450 711
Current liabilities				
Trade and other payables	74 892 978	-	-	74 892 978
Secured financial liabilities	121 214 622	-	-	121 214 622
	196 107 600	**1 637 388 595**	**151 615 084**	**1 985 111 279**

In contrast to the above disclosure, the example below shows a maturity analysis that provides granular disclosures of time bands and distinguishes contractual cash flows of continuing and discontinuing operations. The issuer had identified debt and liquidity as key risk areas in the AFS and the quantitative disclosure below highlights the impact of the immanent payment profile of financial instruments shortly after the year end.

2021 R'000	Note	3 months	3 months and 1 year	1 and 2 years	2 and 5 years	Over 5 years	Total
Continuing operations							
Borrowings and other financial liabilities	3	6 709	6 804 786	15 092	-	-	6 826 587
Lease liabilities	25	9 615	36 547	40 500	72 080	128 497	287 239
Derivatives		2 773	-	-	-	-	2 773
Bank overdraft	20	69	-	-	-	-	69
Trade and other payables	21	522 752	-	-	-	-	522 752
Total		**541 918**	**6 841 333**	**55 592**	**72 080**	**128 497**	**7 639 420**
Discontinued operation	5						
Borrowings and other financial liabilities		92 336	106 011	28 792	72 263	28 951	328 353
Lease liabilities		7 070	23 056	30 115	42 084	-	102 325
Deferred vendor liabilities		-	840 985	-	-		840 985
Derivatives		2 421	-	-	-	-	2 421
Bank overdraft		30 118	-	-	-	-	30 118
Trade and other payables		791 698	-	-	-	-	791 698
Total		**923 643**	**970 052**	**58 907**	**114 347**	**28 951**	**2 095 900**

In another example of good, granular disclosure, the issuer not only disaggregated the number of time bands in the table but also disclosed the corresponding carrying amounts for each financial liability. Disclosing the respective carrying amounts illustrates the impact that discounting has to the contractual maturities presented.

Contractual maturities of financial liabilities, including interest payments

		Undiscounted contractual cash flows					
	Carrying amount R'000	Total R'000	6 months or less R'000	6 – 12 months R'000	1 – 2 years R'000	2 – 5 years R'000	More than 5 years R'000
2021							
Borrowings							
Loans secured by mortgage bonds over fixed property	322 892	332 132	12 058	15 384	23 838	46 129	234 723
Loans secured by lien over certain property, plant and equipment	367 323	387 101	73 626	66 253	105 947	139 970	1 305
Unsecured loans	7 933 912	8 100 002	1 714 220	5 390 213	741 703	189 449	64 417
	8 624 127	8 819 235	1 799 904	5 471 850	871 488	375 548	300 445
RoU lease liabilities	5 491 895	5 560 549	548 416	548 416	993 239	2 196 997	1 273 481
Puttable non-controlling liabilities	4 058 561	4 306 043	67 391	7 363	135 272	4 096 017	–
Vendors for acquisition	199 174	201 792	148 783	27 059	10 499	15 451	–
Trade and other payables , excluding forward exchange contracts and value added taxation liability	20 371 291	20 371 291	20 371 291	–	–	–	–

9. Detailed findings: Debt covenant disclosures

Although IFRS does not currently require disclosure of debt covenants in the financial reports, our letter to the market of 10 September 2020 explained that investors need insights regarding the future cash flow position of the issuer in terms of:

- debt covenant triggers;
- the proximity to breaching those triggers; and
- the board's view of debt levels and how they would address any potential debt covenant triggers.

The disclosure of covenant information may (given certain circumstances applicable to the entity) be linked to the IFRS disclosures obligations of:

- going concern (IAS 1.25);
- the management of capital (paragraphs 134 to 136 of IAS 1); and
- the nature and extent of an entities risks exposure from financial instruments, including liquidity risk together with the steps entities are taking to manage those risk (paragraphs 31 to 32A of IFRS 7).

At the time of issuing our letter in 2020, we felt that this information was particularly relevant to users in assessing financial information in the time of the Covid-pandemic. The information is equally relevant to liquidity and going concern assessments in a post-pandemic environment.

Our LS scope review evaluated financial reports where financial liabilities were subject to debt covenants and then considered the disclosures made with respect to those covenants.

We found that, whilst the majority of issuers reported that they were in compliance with their debt covenants, (as is illustrated in the example below) most issuers neither:

- Identified the target covenant that the financial institution had imposed on the issuer; nor
- Disclosed their performance/ position against the target.

	2021	2020
Secured financial liabilities		
Bank X		
R200 million facility was settled on 15 November 2020.	-	150 000 000
Bank Y		
Facility B1 Secured by a mortgage bond over investment properties, bears interest at 3 month JIBAR + 2,20% (2020: 3 month JIBAR +2,20%), repayable in 5 years from advance date, current on 5 October 2022. The company is compliant in respect of loan covenants.	302 142 857	302 142 857
Facility D1 Secured by a mortgage bond over investment properties, bears interest at 3 month JIBAR + 2,40% (2020: 3 month JIBAR +2,40%), repayable in 3 years from advance date, current on 16 November 2023. The company is compliant in respect of loan covenants.	310 235 712	171 428 571

The proximity (extent of headroom) to breaching a debt covenant could be an important indicator to users of potential financial distress of an issuer. Similarly, if headroom targets are significantly exceeded this sends an equally important 'positive message' to users of financial reports.

We continue to encourage companies to consider the quality of information they provide regarding debt covenant information. If covenant information is to be disclosed, we urge issuers to consider whether their proposed disclosures present useful and entity specific information for users. Where an issuer has several individual borrowings that are subject to different debt covenant targets, a question could arise as to the most meaningful approach to disclosure without cluttering the AFS. In such instances information about the most significant borrowings could be presented. Alternatively, borrowings could be aggregated based on a range of similar target ratios with performances against those targets being disclosed.

> We believe that entity specific disclosure should always be favoured over generic or boilerplate statements about whether an issuer has, or has not, complied with debt covenants.

Although not part of our sample for this LS review, a previous detailed review in the 2021 provided us with an example of good disclosure of covenant-related information. The issuer discloses the covenant targets (dotted lines) and their compliance against covenant targets (solid lines) using a graphic presentation. This illustrates the extent to which covenant targets have been renegotiated (or changed as per original stepped targets) and demonstrates the issuers performances over the past financial year. The issuer provides further information (not replicated in the example below) to explain how EBITDA is calculated as well as defining what is excluded from net debt.

Liquidity management

During the current year, funding covenants remained consistently below the monthly covenant threshold levels set by lenders and returned to below the originally contracted net debt to EBITDA ratio of 3.0 times by 30 June 2021 and was 2.74 times at 30 September 2021.

Both of the group's covenants are computed based on a rolling 12 month EBITDA. The covenants benefited during the current year as the poor trading months from the prior year were replaced by stronger trading elevating the EBITDA. A stronger rand dollar exchange rate positively impacted the translation of US dollar denominated debt. Further steps were taken to renegotiate the group's funding facilities with covenant relaxations as set out in the table below. Despite the renegotiated relaxed net debt to EBITDA covenant of 3.5 times at 30 September 2021, the group achieved a net debt to EBITDA ratio of 2.74 times which was well within the originally contracted threshold of 3.0 times. This covenant will be measured quarterly but reported monthly to lenders for the ensuing financial year. The EBITDA interest cover ratio of 4.79 times has been adversely impacted by the inclusion of the ratchet interest costs of R87.8 million for the year.

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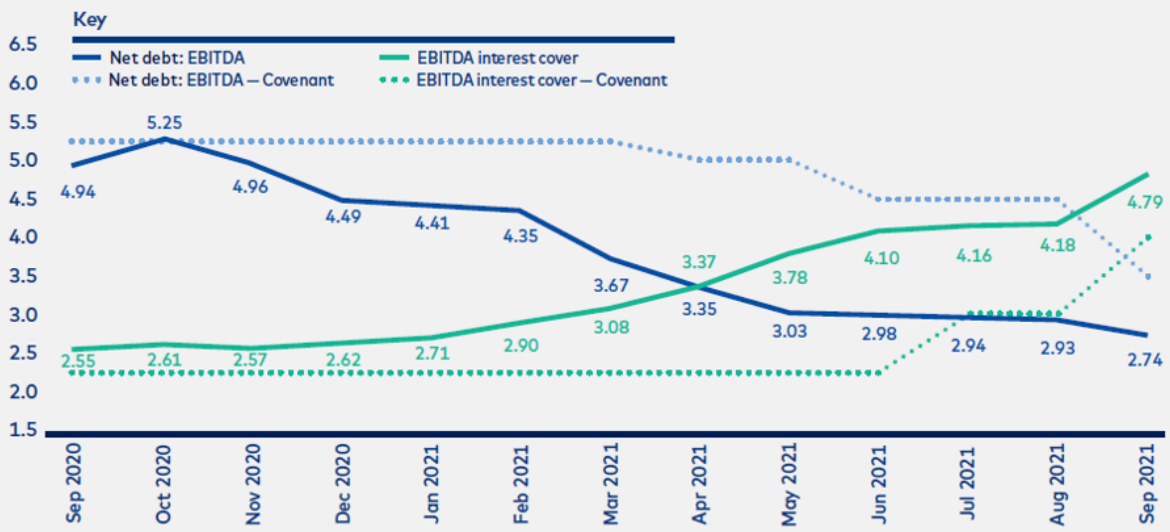
The group complied with its covenants at the quarterly measurement dates as follows:

Funding covenant levels for the year to September 2021 (%)



Covenant computations above reflect the adjustment for spot translation of the hyperinflationary economy – Zimbabwe.

10. Detailed findings: Going concern disclosures

IAS 1.25 requires management to assess the entity's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

The IASB published a document in January 2021 "*Going concern – a focus on disclosure*" in which the Board highlighted the importance of, not only the disclosure of IAS 1.25, but also other 'overarching' disclosure requirements in IAS 1 that interact with the going concern assessment

In its education document on going concern disclosures the IASB sites that, in the current stressed economic environment an entity may be affected by a wider range of factors affecting going concern than in previous assessments. Consequently, the exercise of significant judgement (for which details are required to be disclosed per IAS 1.122) and information about assumptions underpinning other areas of the AFS are elevated as these matters becomes more subjective.

Other than the brief disclosures made by an issuer (below) - none of the issuers in our sample made any specific mention of different scenarios or judgments considered when evaluating the appropriateness of the going concern assessment in their financial reports.

The following example by an issuer explains the use of both 'base case' and 'downside' scenarios considered when evaluating the going concern assumption. Whilst the issuer did not provide any quantitative information, identifying the nature of negative assumptions they considered when developing a downside scenario was useful and provides an insight to the risks management considered when concluding on the going concern assumption.

> COVID-19 continued to have a material impact on South Africa in 2021 and through this the Group focused on driving the recovery in the underlying business. We have seen a significant improvement in most key performance indicators.
>
> As part of preparing the financial results, the Group has performed a detailed going concern assessment. This assessment has relied on the Group's 2022 to 2024 business plan and has considered the profitability and solvency projections over the plan period. This business plan was presented in the context of a challenging local economic environment, with the impacts of COVID-19 continuing to affect our customers through 2021. Even under these conditions, the business plan delivered strong shareholder value creation while maintaining stable capital and solvency positions throughout the cycle. As part of the planning process, a downside scenario has also been modelled that examined a protracted inflation scenario in developed markets and further COVID vaccine challenges being experienced in emerging markets. The results show that the Group remains sufficiently capitalised with appropriate levels of liquidity and no material uncertainty in relation to the going concern has been identified in the base business plan as well as the downside scenario.
>
> Based on the above reviews, no material uncertainties that would require disclosure have been identified in relation to the ability of the Group to remain a going concern for at least the next 12 months. The directors therefore consider it appropriate for the going concern basis to be adopted in preparing the annual financial statements.

We found that the majority of issuers who did not identify any concerns or uncertainties to going concern in their AFS (i.e. clean going concern assessment) did not include any going concern disclosures in their subsequent interims. Whilst this may be appropriate in not cluttering the interims with unnecessary information – we remind issuers that paragraphs 15-35 of IAS 1 (which include paragraphs 25 and 26 on going concern) also apply to interim financial reports (IAS 1.4). The requirements to consider going concern are therefore equally relevant to interims as they are to AFS. If a statement to the appropriateness of the going concern assumption is made in the AFS one may ask why such a statement is not also made in the interims.

We noted that only a limited number of issuers indicated the period over which they considered the going concern assessment. Where issuers did reference a period - they referred to a period of twelve months from the date that the AFS were authorised. IAS 1.26 requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The IASB educational material (referred to above) reminds issuers that the twelve-month period in IAS 1.26 establishes a minimum - not a cap.

The audit reports of three issuers in our sample drew attention to material uncertainties that could cast significant doubt on the issuer's ability to continue as a going concern. We specifically included these companies in our sample to assess their level of disclosures to going concern. Our LS review revealed a diversity in the level of disclosure provided by these entities. We discuss two of these cases below.

Issuer One

- This issuer provided an extensive note explaining the basis for the directors concluding that the going concern assumption was appropriate. They explained the basis for their consideration including information to:
  - The current burden faced by the Group considering the quantum of debt, advisory fees and compounding interest;
  - Recent positive financial performances from continued operations;
  - Plans to restructure senior debt facilities and avenues for advancement of new debt facilities;

- Proposals with identified parties to recapitalise and restructure the Group, transferring certain identified assets to lenders through this process;
- Implications to the Group should the necessary shareholder resolutions on recapitalisation plans not be passed; and
- Their consideration of sensitivity analyses performed on liquidity forecasts and the risk that a combination of factors may occur simultaneously thereby negatively affecting the assessments made;

- In their unaudited subsequent interims the issuer disclosed a similarly comprehensive update to the above information impacting the going concern assessment.

We considered the above disclosures to be appropriate considering the requirements of IAS 1.25 and IAS 1.122.

Issuer Two

- The second issuer (like issuer one above) drew attention to the accumulated loss of the Group and the fact that current liabilities exceeded current assets.
- Other than pointing to the restructuring of one of its significant loans after the year end - no further insight was offered in the going concern note to explain on what basis the directors believed the going concern basis to be appropriate.
- In a separate note on subsequent events (not referenced in the going concern assessment) the issuer made a brief reference to a pending rights offer that would be voted on by shareholders at a future date. The successful implementation of the pending rights offer was, in all likelihood, a key assumption considered by directors in their going concern assessment – yet the note to going concern made no mention thereof.
- Furthermore, the issuer made no reference to any aspect of going concern in its subsequent interims.
    - The issuer released their interims only one and a half months after the AFS had been issued – AFS in which the auditors had drawn attention to a material uncertainty with respect to going concern.
    - On querying the appropriateness of such non-disclosure in the interims, the issuer explained to us that the interims (in their view) provided readily available information about profitability and the relationship of current assets to current liabilities so as to enable users to assess the going concern status of the Group.
    - The issuer also explained that disclosures to the appropriateness of the going concern assessment were addressed in a rights offer circular to shareholders published between the AFS and interim release dates.

With respect to the going concern disclosures identified in the AFS of the second issuer, we found these to be generic and provided little in the way of insight to *company specific* information or assumptions made by the issuer's directors in assessing that the going concern assumption was appropriate. As it relates to information presented in their 'subsequent events note', our combined PM report (Annexure 1 – activities of the FRIP, 2015 matter) refers. In that matter the FRIP cautioned against making fragmented disclosure of key pieces of information throughout the financial report. Furthermore, we remind issuers that financial statements are required to be comprehensive documents which disclose material information regardless of whether such information is available in other sources (paragraph .25, materiality practice statement).

Finally, given the material uncertainties identified in the previous AFS, we would have expected issuer two's interims to provide sufficient (entity and fact specific) information to update users on the going concern assessment (IAS 34.15 and IAS 1.25). We do not believe it appropriate that users are left to draw their own conclusions on such an important matter.

Whilst not being subject to any going concern uncertainties we found the following going concern disclosures by an issuer in the retail sector to be a good example of entity specific disclosures to the impact of Covid-19 and going concern.

The disclosures:

- Prioritise quantitative data;
- Provide insights to the principles applied in setting budgets; and
- Identify a break-even point at which point the issuers cash flow reserves would begin to be exhausted.

The directors have considered the group's projected cash flows for a period of 12 months following the date of issue of this report. The projected cash flows are based on the operating budgets approved by the board, which in turn are based on detailed operating plans prepared by the executives and approved by the board.

The following broad principles have been applied in setting the budgets:

- Restaurant turnovers (and resulting group revenue) are budgeted based on actual turnovers achieved over the past 12 months, taking cognisance of the group's experience during the first and second waves of infection. While the impact of subsequent waves of infection has not been specifically budgeted for, a conservative outlook has been adopted such that turnovers are budgeted to be lower than pre-COVID-19 levels in nominal terms until June 2022. It is anticipated that the roll out of vaccines locally should culminate in a reasonable degree of community immunity by the end of the 2022 financial year. Turnovers are accordingly expected to recover to 2019 financial year turnovers in nominal terms only during the 2023 financial year.
- Expense budgets are in line with actual costs incurred for the second half of the 2021 financial year, adjusted by inflation, known changes in operating capacity and the impact of key strategic projects. Most of the group's costs are relatively fixed in the short term and can therefore be forecast with a relatively high confidence level.

Based on the base case budgeted cash flows, the group will be able to meet its financial obligations for a period of at least 12 months from the date of this report.

In order to mitigate the significant uncertainty regarding the continuing financial impact of COVID-19 on the group and its impact on the going concern assessment, the board has considered alternative likely scenarios, all of which indicate that the group will be able to meet its obligations for a period of 12 months from the date of this report.

The break-even scenario indicates that, in the event that budgeted costs continue to be incurred, revenue would need to fall to 24% of that budgeted for the 12 months for the group's cash flow reserves to be exhausted by The directors consider the probability of this scenario materialising to be negligible, given the group's experience of the first, second and third waves. On this basis, the board has concluded that it is satisfied that the group will continue to trade as a going concern for at least a period of 12 months from the date of this report, and the financial statements have therefore been prepared on this basis.

Whilst not replicated in these extracts, the issuer also provided quantitative trading data (over the last 12 months) as part of the going concern note for the:

- Number of restaurants trading per month;
- Franchised restaurant sales as a percentage of the corresponding months; and
- Base franchise fees and marketing contribution fees as a percentage of restaurant turnover charged per month.