

Why your company's Public Interest score matters



The recent additions to the Companies Regulations published in 2011 (the Regulations), serve as an essential guideline for companies in respect of their financial reporting requirements.

The Regulations introduced a new points system in South Africa to determine a company's Public Interest (PI) score, and also indicate which reporting standard should be applied to review their financial statements. The PI score must be submitted together with their financial statements to the *Companies and Intellectual Properties Commission (CIPC)* on an annual basis.

What exactly is a company's Public Interest score?

A company's PI score is an indication of the degree of public interest in the company and also a reflection of its success and wellbeing. Before the Regulations were published, *all companies were required to audit their annual financial statements.*

According to the *Companies Act 71 of 2008* as well as the Regulations, all companies are required to calculate their PI score at the end of their financial year to determine how the company's financial statements should be reviewed.

According to section 127(2)(b) of the Regulations, companies other than state-owned companies, are categorised according to their PI score, which is defined as follows:

(i) "Large companies", being any company, whose most recent public interest score is 500 or more;

(ii) "Medium companies" being any company whose most recent public interest score is at least 100 but less than 500; and

(iii) "Small companies" being any company, whose most recent public interest score is less than 100.

Why is your company's public interest score important?

The PI score of a company determines which financial standards it must use; whether its financial statements should be independently reviewed or audited; if it is necessary for a company to appoint a Social and Ethics Committee; and which person would be suitable to perform the independent review.

How do I calculate my company's public interest score?

The PI score is calculated on a points system, influenced by financial and structural factors in the company.

In terms of the Regulations, the PI score is calculated based on the following:

- One point will be allocated per employee. The calculation is based on the number of employees of the company during that specific financial year;
- One point for every R1 million (or portion thereof) in third-party liability at the end of the financial year. A company will calculate their third-party liabilities, particularly any creditors, debts outstanding, or instalments owed to third parties;
- One point for every R 1 million (or portion thereof) in turnover during the financial year; and
- One point for every individual who has a direct or indirect beneficial interest in any of the company's issued securities, i.e. shareholders in the company.

In the case of a non-profit company, one point will be allocated for every member of the company, or a member of an association.

If a company's PI score is 350 or more within their financial year, their annual financial statements are required to be audited. If a company's PI score is between 100 and 349, and their financial statements were compiled internally, an audit would be required unless the financial statements were independently reviewed in accordance with relevant financial reporting standards.

In terms of the Regulations, *a Social and Ethics Committee must be appointed by a company which within any two prior years had scored above 500 points.*

Conclusion

Companies are now evaluated individually on their performance. The calculation of the PI score has provided companies with the necessary guidelines to ensure that the correct reporting standard will be applied to their financial statements. When calculating the company's PI score, it would be advisable to approach the company's auditors to ensure a successful outcome.

As *SA's leader in Legal Compliance and Transformation Solutions*, our professional team at SERR Synergy assists business owners to make sense of South Africa's stringent laws by ensuring that business policies and practices are aligned accordingly. Please *contact any of our nationwide offices* for more information about the relevant legislation for your business legal compliance.

About the Author: Deidré Baker obtained her BCom Law and LLB degrees from the North-West University and was admitted as an attorney of the High Court of South Africa in 2022. Deidre joined SERR Synergy in February 2022, where she currently holds the position of Corporate Legal Advisor. She finds her passion in delivering quality service for clients in need of sound legal advice, and prides herself in her work ethics and the opportunity to successfully assist companies with their *B-BBEE ownership*.

©SERR Synergy, www.serr.co.za