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Financial Reporting CounciL

**Bulletin on Review of Annual Reports for the six months ended 30 June 2017**

**I Introduction**

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The annual report provides key information that enables a range of stakeholders (including shareholders, potential investors, regulators and the public) to understand a company’s financial performance, its business model, strategy for future growth and key risks.

It is therefore of fundamental importance that PIEs provide high quality reporting to users of annual reports. To this effect, FRC reviews the annual reports of Public Interest Entities (PIEs) to ensure that they comply with IFRS and the requirements of the Code of Corporate Governance (Code).

This bulletin provides information on the annual report reviews carried out during the six months ended 30 June 2017.

During this period, FRC reviewed the annual reports of 42 PIEs consisting of 19 group reviews, 11 full reviews and 12 follow-up reviews.

* 1. **Group Reviews and Full Reviews**

FRC conducted the review of annual reports of entities within groups and other individual entities.

FRC has reviewed the annual reports of 3 groups of companies which consisted of 19 PIEs. Also, the annual reports of 11 other individual entities were reviewed during that period.

The year ends of the annual reports reviewed were as follows:

* 1 annual report with reporting date December 2014
* 27 annual reports with reporting date June 2016; and
* 2 annual reports with reporting date December 2016.

The table below indicates the categories of PIEs and their corresponding sectors of business.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Types of PIEs** | **Sectors** | | | | | | | |
| **BIF** | **Commerce** | **Industry** | **Investment** | **Leisure & Hotels** | **Property Development** | **Transport** | **Total** |
| Listed on SEM | 2 | 2 | 2 | 6 | 1 | 1 | 1 | 15 |
| Financial institutions regulated by BOM | 2 | - | - | - | - | - | - | 2 |
| Financial institutions regulated by FSC | 6 | - | - | - | - | - | - | 6 |
| Category 4 PIEs as per the FRA[[1]](#footnote-1) | - | - | - | 1 | 5 | - | - | 6 |
| SOEs as per the First Schedule of FRA | - | - | 1 | - | - | - | - | 1 |
| **Total** | **10** | **2** | **3** | **7** | **6** | **1** | **1** | **30** |

Details of Group reviews and full reviews conducted by FRC are described below:

1. **Group Reviews**

The objective for reviewing PIEs within the groups is to have a better understanding of the group structure and the businesses undertaken within the groups, which in turn provides deep insight in the disclosures made by the companies in their respective annual reports.

This type of review also helps to identify any irregular related party transactions among the entities within the groups, which might not be possible if an individual approach is adopted for companies within a group.

Group reviews were mainly based on focused areas of IFRSs significant to the business of the respective PIEs. In this regard, the objectives of the Group review exercise are to:

1. assess the financial situation of the group and its subsidiaries (liquidity and financial performance of the group and its subsidiaries);
2. evaluate the accounting policies adopted by the group and its subsidiaries (eg, exemption for consolidation (IFRS 10), Fair value (IFRS 13), Revenue Recognition (IAS 18), etc);
3. focus on risky sectors such as construction, leisure and hotels, textile, insurance, and banking within the group; and
4. assess key IFRSs relevant to the activities of the Group.

For the six months ended 30 June 2017, FRC carried out the review of 3 groups with 19 PIEs as described below:

1. The first group (‘Group 1’) of companies selected for review, consisted of 3 companies which meet the definition of Public Interest Entities under the Financial Reporting Act.

This group of companies operates under the following clusters:

1. Foods distribution and manufacturing;

2. Automobile;

3. Banking;

4. Financial Services; and

5. Shipping & Logistics.

An analysis of the review of Group 1 by types of PIEs and their corresponding sectors is set out in the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Types of PIEs** | **Sectors** | | |
| **BIF** | **Commerce** | **Total** |
| Listed on SEM | - | 1 | 1 |
| Financial institutions regulated by BOM | 1 | - | 1 |
| Financial institutions regulated by FSC | 1 | - | 1 |
| **Total** | **2** | **1** | **3** |

1. The second group reviewed (‘Group 2’) had 6 entities classified as Public Interest Entities under the Financial Reporting Act. All the 6 PIEs within Group 2 were in the hotel industry. This group of companies consisted of 1 listed entity and 5 entities under Category 4 PIEs.
2. FRC also conducted the review of a third group of companies (‘Group 3’) which had 10 Public Interest Entities, as defined under the Financial Reporting Act.

Group 3 had the following clusters:

1. Banking;

2. Non-banking financial; and

3. Other Investments.

|  |  |  |  |
| --- | --- | --- | --- |
| **Types of PIEs** | **Sectors** | | |
| **BIF** | **Investment** | **Total** |
| Listed on SEM | 1 | 3 | 4 |
| Financial institutions regulated by BOM | 2 | - | 2 |
| Financial institutions regulated by FSC | 3 | - | 3 |
| Category 4 PIEs as per the FRA | - | 1 | 1 |
| **Total** | **6** | **4** | **10** |

1. **Full reviews of other individual entities**

FRC also selected the annual reports of the following PIEs for its review exercise:

* Entities which are listed on the Stock Exchange of Mauritius;
* PIEs that scored a grade 3 in its previous review;
* PIEs for which complaints were received; and
* State Owned Enterprises (SOEs) listed in the First Schedule of the Financial Reporting Act 2004.

For the six months ended 30 June 2017, FRC conducted the annual report reviews of 11 other entities. The table below illustrates categories of PIEs per sector:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Types of PIEs** | **Sectors** | | | | | | |
| **BIF** | **Commerce** | **Industry** | **Investment** | **Property Development** | **Transport** | **Total** |
| Listed on SEM | - | 1 | 2 | 3 | 1 | 1 | **8** |
| Financial institutions regulated by FSC | 2 |  | - | - | - | - | **2** |
| SOEs as per the First Schedule of FRA | - | - | 1 | - | - | - | **1** |
| **Total** | **2** | **1** | **3** | **3** | **1** | **1** | **11** |

* 1. **Follow up reviews**

FRC undertook follow-up reviews to assess the extent to which findings raised on previous reviews had been satisfactorily addressed by the PIEs. New issues such as the application of new standards, amendments to standards and regulations arising during the course of the follow-up reviews of the annual reports were also considered.

For the period under review, 12 follow up reviews were undertaken. These consisted of PIEs which had obtained Grade 2B or had other specific issues that were identified in the previous reviews.

The following table analyses the follow up reviews of PIEs by sectors:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Types of reviews** | **Sectors** | | | | | | |
| **BIF** | **Commerce** | **Industry** | **Property Development** | **Leisure & Hotels** | **Others** | **Total** |
| Listed on SEM | - |  | 1 | - | 1 | 1 | **3** |
| Regulated by BOM | 1 |  | - | - | - | - | **1** |
| Category 4 PIEs as per the FRA | - | 2 | 4 | 1 | 1 | - | **8** |
| **Total** | **1** | **2** | **5** | **1** | **2** | **1** | **12** |

**II Overview of findings from annual report reviews**

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Section 75 of Financial Reporting Act requires a Public Interest Entity to prepare its financial statements in compliance with IFRS and to adopt corporate governance in accordance with the National Code of Corporate Governance.

As mentioned above, FRC conducted group reviews of 3 groups of companies (which consisted of 19 PIEs), full reviews of 11 other individual entities and 12 follow up reviews for the six months ended 30 June 2017.

From these reviews, FRC noted that in most cases the PIEs had not complied fully with the requirements of the following IFRS:

1. IAS 1, Presentation of Financial Statements
2. IAS 17, Leases
3. IAS 24, Related Parties
4. IFRS 7, Financial Instruments: Disclosures
5. IFRS 13, Fair Value Measurement

The report on Corporate Governance provided in the annual reports of the PIEs was also reviewed and non-compliances with the National Code of Corporate Governance were identified in the following areas as part of the review of the other entities:

1. Disclosures on board committees (section 3 of the code)
2. Details of non-audit services (section 6 of the code)

Details of the non-compliances raised during the review exercise are provided at parts A and B below.

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[**PART A – Group Reviews and Full Reviews**](#_Hlk395610325)

1. Main findings from the group reviews
   1. [Compliances with regard to International Financial Reporting Standards (IFRSs)](#OLE_LINK1)
   2. [Other issues](#Other)

1.3 [Issues raised with auditors](#Issues)

2.0 Main findings from full reviews of other entities

2.1 [Compliances with regard to International Financial Reporting Standards (IFRSs)](#Compliances)

* 1. [Compliances with regard to corporate governance](#OLE_LINK4)
  2. [Reporting by Auditors in compliance with Section 39(3) of the FR Act](#Reporting)

2.4 [Audit and non-audit fees](#AFees)

2.5 [Non-financial information](#Non)

2.6 [Market Capitalisation](#Market)

**[PART B - Follow up reviews of Annual Reports](#_Hlk395610500" \s "1,36264,36309,0,,PART B - Follow up reviews of an)**

**PART C - Grading of Annual Report Reviews**

**[PART D - Conclusion](#_Hlk395610793" \s "1,43050,43070,0,,PART D - Conclusion)**

**PART A – Group Reviews and Full Reviews**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

* 1. **Main findings from Group Reviews**

FRC had selected 19 PIEs for group reviews. These included 7 listed entities, 2 financial institutions regulated by BOM, 4 financial institutions regulated by FSC and 6 Category 4 PIEs.

The sectors under which they operate are illustrated in the table below

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Types of PIEs** | **Sectors** | | | | |
| **BIF** | **Commerce** | **Investment** | **Leisure & Hotels** | **Total** |
| Listed on SEM | 2 | 1 | 3 | 1 | 7 |
| Financial institutions regulated by BOM | 2 | - | - | - | 2 |
| Financial institutions regulated by FSC | 4 | - | - | - | 4 |
| Category 4 PIEs as per the FRA | - | - | 1 | 5 | 6 |
| **Total** | **8** | **1** | **4** | **6** | **19** |

For the purpose of this review, FRC had focused on the following areas and IFRSs relevant to the group’s businesses:

* New accounting standards
* Business combinations
* Related parties transactions
* Asset valuations
* Estimates/judgment – reasonableness
* Operating segments
* Retirement benefit obligations (Pension schemes)
* Accounting policy for revenue
* Disclosure Initiative (IAS1) – relevancy of accounting policies
* Any other material issues affecting the PIEs

Based on the focused areas identified, the following main non-compliances had been noted from the group reviews:

* 1. **Compliances with International Financial Reporting Standards (IFRSs)**

1. IAS 1, Presentation of Financial Statements

**FRC informed 6 PIEs** [3 listed in Investment, 1 regulated by BOM, 1 regulated by FSC and 1 PIE in Category 4] **within the groups** **of non-compliances in respect of the following requirements of IAS 1:**

* Accounting policies on defined contribution plan and hedge accounting;
* Detailed information on other receivables, other payables, administrative expenses and operating expenses; and
* The judgements and assumptions applied in the preparation of financial statements.

1. IAS 17, Leases

**FRC noted that 2 listed PIEs** (1 Investment and 1 Leisure and Hotel) **within the groups** **had not complied with the following requirements of IAS 17:**

* + Description of operating lease; and
  + Lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.

1. IAS 24, Related Parties

**FRC informed 7 PIEs in the groups** [2 listed (1 BIF and 1 Investment), 1 regulated by BOM, 3 regulated by FSC and 1 PIE in Category 4] **of issues relating to IAS 24 requirements:**

* Classification of key management compensation;
  + Terms and conditions of related parties’ outstanding balances including whether they are secured, and the nature of consideration to be provided in settlement; and
  + Nature of related party relationship as well as information about related party transactions and outstanding balances.

1. IFRS 7, Financial Instruments: Disclosures

**FRC informed 2 PIEs** [1 listed in Investment and 1 regulated by FSC] **within the groups, of their non-compliances with the following requirements of IFRS 7**:

* + Objectives, policies and processes for managing financial risks and the methods used to measure the risk;
  + Sensitivity analysis with respects to interest rate risk; and
  + Description of the collateral held by the entity as security and other credit enhancements.

(d) IFRS 13, Fair Value Measurement

**From the annual reports of 4 PIEs** [2 listed (1 BIF and 1 Investment), 1 regulated by BOM and 1 regulated by FSC] **of the groups, FRC identified issues which related to the following requirements of IFRS 13:**

* The level of the fair value hierarchy within which the fair value measurements of assets and liabilities are categorised in their entirety; and
* Description of the valuation technique(s) and the inputs used in fair value measurement.
  1. **Other issues**

Furthermore, FRC observed the following issues arising during the course of the group reviews:

1. 1 listed PIE involved in Leisure & Hotel had appointed its non-independent chairperson as chairman of its Corporate Governance Committee even though the majority of this committee were not independent non-executive directors. This was not in line with Section 3.9.2 of the Code of Corporate Governance.
2. 3 PIEs [1 listed in Investment and 2 financial institutions regulated by FSC] had inconsistencies in reporting. The entities had provided explanations for not having executive directors, board evaluations and board committees in their corporate governance reports. However, there were no references to the relevant sections of the code of corporate governance for these non-compliances in the statements of compliance.
   1. **Issues raised with auditors**

FRC also monitored the services provided by the auditors as well as other issues involving the work of the auditor.

**During the course of its review, FRC informed the auditors of 4 PIEs** **within the groups** [1 regulated by FSC and 3 Category 4 PIEs] **of the following issues:**

1. Provision of other services

The auditors of 2 PIEs [1 regulated by FSC and 1 Category 4 PIEs] within the groups had provided other services relating to tax advisory services and accounting review.

1. Going concern risk

2 entities in Category 4 PIEs in the groups had indicators of going concern risks that may cast doubt on the entity’s ability to continue as a going concern.

1. **Main findings from Full Reviews of other entities**

With respect to the 11 other PIEs reviewed, FRC identified issues relating to the following areas of corporate reporting during the six months ended 30 June 2017:

* 1. **Compliances with International Financial Reporting Standards (IFRSs)**

1. IAS 1, Presentation of Financial Statements

**2 PIEs** [1 regulated by FSC and 1 State Owned Enterprise as per the First Schedule of FRA] **had not disclosed the following in their annual reports:**

* Relevant accounting policy for defined contribution plan;
* Presentation of a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements; and
* Information on other receivables, other payables and other income.

1. IAS 19, Employee Benefits

**With regard to IAS 19, FRC queried 2 PIEs** [1 listed in Commerce and 1 State Owned Enterprises as per the First Schedule of FRA] **in respect of the following:**

* Description of risks to which the entity was exposed through its defined benefit plan; and
* Information about the maturity profile of the defined benefit obligation.

1. IAS 24, Related Parties

**FRC informed 2 PIEs** [1 listed in Property Development and 1 regulated by FSC] **that they had not disclosed the terms and conditions of related parties’ outstanding balances including whether they are secured, and the nature of consideration to be provided in settlement.**

1. IFRS 7, Financial Instruments: Disclosures

From the review exercise, **FRC observed that 2 PIEs** [1 regulated by FSC and 1 State Owned Enterprise as per the First Schedule of FRA] **had partly complied with IFRS 7.**

The following disclosures as per IFRS 7 were found missing:

* Management of financial risks; and
* Maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
  1. **Compliances with corporate governance**

The National Code of Corporate Governance aims at establishing principles for good corporate governance leading to transparency, accountability and a long-term perspective.

Section 75(2) of the FRA stipulates that every PIE shall adopt corporate governance in accordance with the Code of Corporate Governance (‘Code”). The ‘comply or explain’ principle forms the basis of this Code. Through this principle, companies that depart from the relevant corporate Governance Code are required to explain in their corporate governance statement which parts of the Code they depart from and the reasons for doing so.

FRC noted that all the 11 other entities had submitted a corporate governance report and that 7 out of these 11 PIEs had partly complied with the Code.

Also, FRC observed that the non-compliances and explanations provided for not complying with the National Code of Corporate Governance related mainly to the following:

* Composition of the Board (section 2 of the code);
* Information on board committees (section 3 of the code); and
* Description of non-audit services (section 6 of the code).

1. Information on the Board of Directors

As per the code of corporate governance of Mauritius, a company should have appropriate balance of executive, non-executive and independent directors. This enables the company to make sound decision with competent board members having proper level of qualifications and experience.

During the course of the annual report reviews, FRC noted the following in respect of board composition:

* Minimum requirement of having at least 2 independent directors on the board of directors

As depicted in table below, out of 11 PIEs, 9 entities had at least 2 independent directors on their boards in line with section 2.2.2 of the code of corporate governance. The remaining entities explained the reason for not having independent directors.

|  |  |  |  |
| --- | --- | --- | --- |
| **PIEs** | **Section 2.2.2** | | |
| **Reported on the requirement that all companies should have at least two independent directors on their boards** | **Explanations provided** | **Total** |
| Listed on SEM | 6 | 2 | **8** |
| Regulated by FSC | 2 | - | **2** |
| SOE as per the First Schedule of FRA | 1 | - | **1** |
| **Total** | **9** | **2** | **11** |

The explanations provided by the PIEs are described below:

* The Board was of the view that its present composition was adequately balanced and that current directors had the range of skills, expertise and experience to carry out their duties properly.
* The Board was of the opinion that the experience and professionalism of its current directors enables it to operate as per the spirit of the Code of Corporate Governance.
* The minimum requirement of having 2 executive directors in the board of directors

The table below indicates the level of compliance with the minimum requirement of having 2 executive directors in the boards.

|  |  |  |  |
| --- | --- | --- | --- |
| **PIEs** | **Section 2.2.3** | | |
| **Reported on requirement that all companies should have at least two executive directors on their boards** | **Explanations provided** | **Total** |
| Listed on SEM | 5 | 3 | **8** |
| Regulated by FSC | 1 | 1 | **2** |
| SOE as per the First Schedule of FRA | 1 | - | **1** |
| **Total** | **7** | **4** | **11** |

7 out of the 11 PIEs met the minimum requirement of having 2 executive directors on board as per the code of corporate governance. The remaining explained the reasons for not having executive directors on their boards.

The explanations provided by the PIEs are described below:

* The Board considered that its current size, structure and composition was appropriate for the type of activity in which the entity is engaged and for the effective discharge of the Board’s responsibilities.
* The Board was of view that given the nature of business of the Company, one executive director is sufficient.
* The management of the company’s operation was undertaken by a CIS Manager, which had a management contract with the entity.

1. Information on Board Committees

Board committees are a mechanism to assist the board and its directors in discharging their duties through a more comprehensive evaluation of specific issues. As per the code of corporate governance, all companies should have, at a minimum, an audit committee and a corporate governance committee except for, subsidiary companies which would not be expected to have separate sets of board committees.

From the table below, 9 out of 11 PIEs had provided information on board committees. The remaining either explained the reason for not having board committees or did not comply at all with this requirement:

1. PIE stated that it had not set up various board committees due to the nature of the company’s business.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **PIEs** | **Section 3** | | | |
| **Reported on the requirement that all companies should have, at a minimum, an audit committee and a corporate governance committee** | **Explanations provided** | **Not Reported on the requirement that all companies should have should have, at a minimum, an audit committee and a corporate**  **governance committee and no explanations provided** | **Total** |
| Listed on SEM | 7 | 1 | **-** | **8** |
| Regulated by FSC | 2 | - | - | **2** |
| SOE as per the First Schedule of FRA | - | - | 1 | **1** |
| **Total** | **9** | **1** | **1** | **11** |

1. Description of non-audit services
2. The Code of Corporate Governance requires companies to disclose descriptions of non-audit services. This provides useful information to investors and other financial statements’ users which enable them to evaluate potential conflicts of interest and biases in auditors’ reports and financial statements.

The table below shows details of the PIEs complying with this section of the code of corporate governance.

|  |  |  |  |
| --- | --- | --- | --- |
| **PIEs** | **Section 6.3** | | |
| **Reported on description of non-audit services** | **Not reported on description of non-audit services** | **Total** |
| Listed on SEM | 6 | 2 | 8 |
| Regulated by FSC | 2 | - | 2 |
| SOE as per the First Schedule of FRA | 1 | - | 1 |
| Total | 9 | 2 | 11 |

Out of the 11 PIEs reviewed, 2 PIEs had not complied with the above requirement of the code of corporate governance.

1. Also, as per Section 221 of the Companies Act 2001 entities are required to state the amounts payable by the company for audit fees and, as a separate item, fees payable by the company for other services.

In this respect, the following observations were made for the 11 reviews:

* **2 PIEs** [1 regulated by FSC and 1 State Owned Enterprise as per the First Schedule of FRA] **had paid fees for audit services only.**
* **9 PIEs** [8 listed (1 Commerce, 2 Industry, 3 Investment, 1 Property Development and 1 Others) and 1 State Owned Enterprise as per the First Schedule of FRA] **had disclosed fees paid for audit services as well as ‘other services’ provided by the same firms of external auditors. The ‘other services’ rendered by the auditors consisted mainly of taxation services.** 
  1. **Reporting by Auditors in compliance with Section 39(3) of the FR Act**

Section 39(3) of the FRA requires an auditor to report whether the disclosures made in the corporate governance report are consistent with the Code. The format of this report on corporate governance by auditors is laid out in the Guidelines on compliance with corporate governance – Government Gazette No. 64 of 20 July 2013, General Notice No. 1819.

**It was good to note that the auditors of the 11 PIEs reviewed had reported on the consistency of the requirements of the Code.**

* 1. **Non-financial information**

A good annual report always addresses all the required relevant information in respect of the entities’ activities, objectives and strategic plans, firms’ values and principles, factors affecting its environment and its performance.

From the 11 annual reports reviewed, FRC made the following observations:

* 27% of companies discussed their corporate strategies
* 27% of the entities made disclosures regarding their business objectives;
* 18% of firms discussed values and principles;
* 100% of the PIEs provided a description of their businesses and scope; and
* 36% mentioned the external forces affecting the entities such as customer, suppliers and competitors.

FRC encourages PIEs to report on relevant non-financial information which will help users of accounts to interpret the financial information provided in the annual reports.

* 1. **Market Capitalisation**

Market capitalisation is calculated by multiplying a company's shares outstanding by the current market price of one share. This figure is used to determine a company's size, provides an indication of its value and its net worth.

For the six months ended 30 June 2017, FRC reviewed the annual reports of 8 listed companies and noted that their market capitalisation approximately totalled Rs 66,200,791,959.

The PIEs with the highest market capitalisation were involved in industry. The PIEs with the lowest market capitalisation were engaged in property development and transport.

**PART** **B - Follow up reviews of Annual Reports**

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As mentioned above, FRC has carried out 12 follow up reviews for the six months ended 30 June 2017. During these follow-up reviews, FRC considered whether the issues previously raised in previous full annual report reviews had been properly addressed in the PIEs’ latest annual reports and whether there are still recurrent issues from previous reviews. This would ensure that PIEs had taken corrective actions subsequent to FRC’s previous letters of observations.

From the follow up review exercise, FRC observed the following issues:

1. Recurrent non-compliances

T**he following were not properly addressed in the current annual reports of 6 PIEs [1 Listed in Industry, 1 regulated by BOM and 4 in Category 4]**:

1. IFRS issues

* Description of the nature and purpose of reserve within equity (IAS 1).
* Qualitative information on capital risk management (IAS 1).
* Disclosures about gratuity on retirement (IAS 19).
* Information on key management personnel (IAS 24).
* Terms and conditions attached to related party balances (IAS 24).
* Management of financial risks (IFRS 7).
* Description of the valuation technique used in the fair value measurement of financial assets (IFRS 13).

1. Corporate governance issues

* Nature of non-audit services (section 6 of the code).
* Detailed time table specifying important events (section 8 of the code).
* Attendance details for directors (section 8 of the code).

1. Other non-compliances arising from the follow-up reviews

**FRC informed 5 PIEs** [1 listed in Commerce and 4 PIEs in Category 4] **of the following new IFRS issues arising from its follow up reviews:**

* Retrospective application of IAS 19 (IAS 8).
* Description of risks to which the entity’s defined benefit plan are exposed (IAS 19).
* Effect of the defined benefit plan on the entity’s future cash flows (IAS 19).
* Terms and conditions attached to related party balances (IAS 24).
* Description of the valuation technique used in the fair value measurement of financial assets (IFRS 13).
* The level of the fair value hierarchy within which the fair value measurements of assets are categorised (IFRS 13).

**PART C - Grading of Annual Report Reviews**

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As part of the review process, FRC assigns grades to PIEs which provide guidance to categorise the quality of reporting by PIEs. Grades are assigned to the PIEs after considering the comments from the PIEs on the findings of the reviews. Out of the 42 annual reports reviewed (30 group reviews and full reviews and 12 follow-up reviews), FRC had graded the quality of the 37 annual reports reviewed (25 group and full reviews and 12 follow up reviews) for the six months ended 30 June 2017.

The grading allocated to the PIEs was based on the following four levels:

* Good (Grade 1)
* Acceptable with limited improvements required (Grade 2A)
* Acceptable overall with improvements required (Grade 2B)
* Significant improvements required (Grade 3)

The grades of the annual report review were determined mainly by the nature of non-compliances raised with respect to IFRS, auditors’ report, corporate governance and other issues arising such as non-compliances with regulations, going concern problem and independence of auditors amongst others. This would highlight areas in which there is room for improvement and helps drive quality reporting.

Out of the 37 PIEs reviewed, FRC noted that:

* 5 PIEs received a grade 1;
* 28 PIEs a grade of 2A; and
* 4 PIEs had obtained grade 2B.

Those with grade 2A have no significant non-compliances whilst those having grade 2B had various non-compliances.

The table below shows an analysis of the grading obtained by types of PIEs.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Types of PIEs** | **Full Reviews** | | | **Follow-up Review** | **Total** |
| **Grade 1** | **Grade 2A** | **Grade 2B** | **Grade 2A** |  |
| Listed on SEM | 2 | 10 | 2 | 3 | **17** |
| Regulated by BOM | - | 2 | - | 1 | **3** |
| Regulated by FSC | - | 5 | - | - | **5** |
| Category 4 PIEs as per the FRA | 3 | - | - | 8 | **11** |
| SOEs as per the First Schedule of FRA | - | - | 1 | - | **1** |
| **Total** | **5** | **17** | **3** | **12** | **37** |

**PART D -** **Conclusion**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

FRC noted that there is a good level of compliance with International Financial Reporting Standards and the Code of Corporate Governance among PIEs in general. This was reflected by the grades scored by the PIEs.

Going forward, FRC also expect companies to continue to work cooperatively with the FRC to ensure that issues are satisfactorily addressed, and the quality of reporting is good.

**Financial Reporting Council**

**13 July 2017**

1. ‘*Category 4 PIEs’ comprises any company or group of companies having, during 2 consecutive preceding years, at least 2 of the following –*

   * *an annual revenue exceeding 200 million rupees;*
   * *total assets value exceeding 500 million rupees;*
   * *a number of employees exceeding 50.*

   *The definition of PIE under this category has been amended through Regulations published in Government Gazette No 105 of 3 December 2016 which is effective as from July 2017.* [↑](#footnote-ref-1)