



FINANCIAL REPORTING COUNCIL

Bulletin on Review of Annual Reports for the six months ended 30 June 2019

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PART A - Introduction

The Financial Reporting Council ('FRC') is responsible for monitoring the quality of reporting by Public Interest Entities ('PIEs') in Mauritius. It is mandatory for PIEs to prepare their financial statements using the IFRS framework and to report on the application of the National Code of Corporate Governance in their annual reports. FRC reviews annual reports of PIEs to ensure compliance with the requirements of International Financial Reporting Standards ('IFRSs') and the Code of Corporate Governance ('Code') pursuant to section 76(1) of the Financial Reporting Act ('FRA').

The review of the annual reports of PIEs by FRC urges the PIEs to ensure compliance with the accounting standards in terms of recognition, measurement and disclosures and the Code to the benefit of all users of annual reports.

For the six months ended 30 June 2019, 145 annual reports of 30 PIEs over a period of 3 to 5 years, were analysed to allow FRC to:

- i) Understand the performance of the PIEs during the year and raise alarm bell where necessary;
- ii) Be up to date with the PIEs instead of reviewing the annual reports only after 6 months after the closing date;
- iii) Improve trend monitoring and sector analysis over the years;
- iv) Assess the application of complex IFRSs; and
- v) Assess the risk associated with the PIEs, in terms of going concern, valuation, revenue recognition and related parties.

The PIEs selected for review were entities listed on the Stock Exchange of Mauritius and financial institutions regulated by the Bank of Mauritius and the Financial Services Commission.

The table below indicates the categories of PIEs and their corresponding sectors selected for reviews:

Types of reviews	Sectors						No of annual reports reviewed
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Total	
Listed on SEM	-	5	8	2	2	17	85
Financial institutions regulated by BOM (excluding cash dealers)	8	-	-	-	-	8	37
Financial institutions regulated by FSC	5	-	-	-	-	5	23
Total	13	5	8	2	2	30	145

PART B- Overview of findings from annual report reviews

This bulletin focuses on the main observations noted from the annual report reviews of the PIEs with respect to compliance with IFRSs and corporate governance.

For the six months ended 30 June 2019, FRC made the following observations from the reviews of 145 annual reports of the 30 PIEs over a period of 3 to 5 years with respect to the requirements of IFRSs and the Code of Corporate Governance:

(a) Compliance with IFRSs

In most cases, the PIEs had not complied fully with the requirements of the following IFRSs:

- (i) IAS 1, Presentation of Financial Statements (2 PIEs);
- (ii) IFRS 7, Financial Instruments: Disclosures (4 PIEs); and
- (iii) IFRS 13, Fair Value Measurement (3 PIEs).

(b) Compliance with the Code of Corporate Governance

Until 2017, PIEs were required to apply the Old Code of Corporate Governance. In 2016, a Revised Code of Corporate Governance had been issued which becomes effective to companies' reporting with financial years starting on or after 1 July 2017.

Out of the 30 PIEs reviewed, FRC observed the following with respect to the adoption of the Code of Corporate Governance:

- 13 PIEs with financial years starting 01 July 2017 had mandatorily applied the Revised Code;
- 1 PIE had early adopted the Revised Code; and
- 16 PIEs were still reporting as per the requirements of the Old Code (not yet effective for the year under review).

Also, as part of the portfolio reviews of the PIEs, FRC had identified non-compliances with the Code and the guideline on Corporate Governance in the following areas:

- (i) Detailed directors' remuneration (3 PIEs);
- (ii) Description of non-audit services (2 PIEs); and
- (iii) Submission and content of statement of compliance (5 PIEs).

In cases of non-compliances with the specific requirements of the Code, the PIEs provided explanations in the following areas:

- (a) Governance Structure;
- (b) The Structure of the Board and its Committees;
- (c) Director Appointment Procedures;
- (d) Director Duties, Remuneration and Performance;
- (e) Risk Governance and Internal Control; and
- (f) Description of non-audit services.

Details of the non-compliances identified by FRC and the explanations provided by PIEs are at part C below.

PART C- Main findings from Portfolio Reviews of PIE

With respect to the 30 PIEs reviewed, FRC identified issues relating to the following areas of corporate reporting during the six months ended 30 June 2019:

1.0 Compliances with International Financial Reporting Standards (IFRSs)

(a) IAS 1, Presentation of Financial Statements

FRC informed 2 PIEs regulated by FSC of non-compliances in respect of the following requirements of IAS 1:

- Measurement basis used for property, plant and equipment; and
- Classification of retirement benefit obligations in the Statement of Financial Position.

(b) IFRS 7, Financial Instruments: Disclosures

From the review exercise, FRC observed that 4 PIEs (2 listed (1 Industry and 1 Investment), 1 regulated by BOM and 1 regulated by FSC) had partly complied with IFRS 7.

The following disclosures as per IFRS 7, were found missing:

- Objectives, policies and processes for managing risks; and
- Sensitivity analyses for financial risks.

(c) IFRS 13, Fair Value Measurement

From the annual reports of 3 PIEs [1 regulated by BOM and 2 regulated by FSC], FRC identified issues which related to the following requirements of IFRS 13:

- Description of the inputs used in fair value measurement; and
- Level of fair value hierarchy under which land and buildings had been classified.

2.0 Compliances with corporate governance

As per section 75(2) of the FRA, PIEs are required to adopt corporate governance in accordance with the National Code of Corporate Governance.

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

As mentioned in part B above, the Old Code of Corporate Governance was applicable till 2017. Through the principle of this Code, companies that depart from the relevant requirements of the Code of Corporate Governance are required to explain in their

corporate governance statements which parts of the Code they have departed from and the reasons for doing so.

In 2016, a Revised Code of Corporate Governance was launched which is applicable as from the reporting year ended on or after June 30, 2018. The main change brought about by the Revised Code is that it introduces a Principles-based approach. These Principles must be applied and the Company must explain how the Principles were applied (Apply and Explain).

With regard to the adoption of the Code of Corporate Governance, FRC noted that:

- 13 PIEs with financial years starting 01 July 2017 had mandatorily applied the Revised Code;
- 1 PIE had early adopted the Revised Code; and
- 16 PIEs were still reporting as per the requirements of the Old Code.

2.1 Application of the Revised Code of Corporate Governance

The Revised Code sets out relevant principles, and requires application on an “apply and explain” basis. The following eight corporate governance principles have been designed to be applicable to all organisations covered by the Revised Code:

- Principle 1: Governance Structure
- Principle 2: The Structure of the Board and its Committees
- Principle 3: Director Appointment Procedures
- Principle 4: Director Duties, Remuneration and Performance
- Principle 5: Risk Governance and Internal Control
- Principle 6: Reporting with Integrity
- Principle 7: Audit
- Principle 8: Relations with Shareholders and Other Key Stakeholders

Out of the 14 PIEs that had adopted the Revised Code, FRC observed that:

- 6 PIEs had applied all the 8 principles of the Revised Code of Corporate Governance;
- 1 had partly applied the Revised Code of Corporate Governance; and
- 7 PIEs had provided explanations for not applying the Revised Code.

The PIE that had partly complied with the Revised Code had not provided details of the non-audit services provided by the auditor as per Principle 7 of the Revised Code. Also, FRC noted that this PIE had provided explanations in the corporate governance report regarding election of directors. However, same had not been referenced in the statement of compliance.

Details of the explanations provided by the PIEs that have not applied the Revised Code are as follows:

(a) Principles 1: Governance Structure

- The entity had not published the recommended documents on its website.
 - For confidentiality issues and in order not to slow down the access to the website, the Board was of the view that the documents recommended to be accessible on the website would not be uploaded. The documents were available upon request at the registered office of the company.
 - The entity had not included in its website its constitution, Board charter and Code of ethics. Necessary actions had been taken so that the required documents and information would be available on the company's website.
 - The PIE stated that a web page dedicated to Corporate Governance was under construction.

(b) Principles 2: The Structure of the Board and its Committees

- There was no gender diversity.
 - The Board was actively looking for a suitable candidate to improve women presence on the Board.
 - The Board was in the process of seeking a suitably qualified female candidate to be appointed as additional independent director on the Board.
- The entity had appointed only one executive director on its Board.
 - Due to the size of the company, the Board was of opinion that one director was sufficient.
 - The Board was considering the appointment of a second executive director on the Board.
 - The management of the Company's operations was undertaken by the CIS Manager, who had a management contract with the entity.
- The Chairperson of the Board was not independent.

The Board is of view that, although the Chairperson had been a director for several years, his independence was not underpinned as he had always demonstrated independent high levels of professional judgement and objectivity in his participation at both Board and Committee levels which had always been in the best interests of the Company.

- The Audit Committee consisted of only 2 members. An additional member would be appointed to this Committee.
- The Audit and Risk Management Committee (ARMC) was only composed of non-executive director and one independent non-executive director.

The Board was in the process of seeking a suitably qualified independent director to sit on the ARMC and the composition of the ARMC would be reviewed accordingly.

- There was inadequate number of independent directors on the Board.

The Board would recommend the appointment of a number of Independent directors at the next Annual Meeting of shareholders of the Company to comply with the principles of the Code.

(c) Principles 3: Director Appointment Procedures

Every Directors were not elected or re-elected every year by separate resolution at the Annual Meeting of shareholders.

The PIE explained that the rotation plan of the Directors, as per the Constitution of the Company and which was reviewed by the Corporate Governance Committee, provided for election/re-election of three Directors every year at the Annual Meeting of shareholders.

(d) Principles 4: Director Duties, Remuneration and Performance

- No evaluation of the company secretary, the Board and committees was conducted.
The Board intended to perform an annual evaluation of the company secretary, the Board and committees as from next reporting period.
- Remuneration on an individual basis had not been disclosed for reasons of confidentiality and due to commercial sensitivity of the information.
- Individual director's evaluations had not been undertaken. The PIE explained that a formal evaluation of the collective performance of the Board of directors was carried out during the year.

(e) Principles 5: Risk Governance and Internal Control

The Company did not have a whistle-blowing policy in place.

In the absence of a whistle-blowing policy, the entity stated that stakeholders were encouraged to report any complaints or suspected wrong practice within the Company to the Audit and Risk Committee.

2.2 Compliance with the Old Code of Corporate Governance

With respect to compliance with the Old Code, the following were observed from the annual report reviews of the 16 PIEs that had submitted a corporate governance report:

A. Key areas of corporate governance disclosures

(a) 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 making with competent Board members with proper level of qualifications and experience.

During the course of the annual report reviews, FRC noted major non-compliances relating to the composition of the Board – the minimum requirement of executive and independent directors was not met.

- Minimum requirement of having at least 2 independent directors on the Board of directors

As depicted in figure below, out of 16 PIEs 13 entities had at least 2 independent directors on their Boards in line with section 2.2.2 of the Code of the corporate governance. The rest 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	5	2	7
Regulated by BOM	4	1	5
Regulated by FSC	4	-	4
Total	13	3	16

The explanations provided for not complying with this section of the Code of corporate governance included the following:

- The Board was of the opinion that the sole independent director was an individual of high caliber and credibility and was free from any business or other relationships, which would materially affect his ability to exercise such independence. The remaining Board was composed of non-executive directors who also played a vital role in providing independence of judgment in all circumstances.

- The Board would consider the appointment of a second independent director in due course.
 - The Board was of the view that the current Board and committee composition was in line with regulatory requirements. Going forward, the PIE would re-assess the changes in its operating environment, including the Revised Code of Corporate Governance, and consider measures to comply with all relevant requirements.
- 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 their Boards.

PIEs	Section 2.2.3		
	Reported on the requirement that all Boards should have at least two executives as members	Explanations provided	Total
Listed on SEM	6	1	7
Regulated by BOM	1	4	5
Regulated by FSC	2	2	4
Total	9	7	16

- 9 out of 16 PIEs met the minimum requirement of the Code of corporate governance for having at least 2 executive directors in the Board of directors. The rest explained the reasons for not having executive directors on its Board.

The explanations provided by the PIEs were described below:

- The Board was of the view that the presence of 1 executive director was adequate as the PIE had limited operations. The Board would appoint an additional executive director in the future, depending on the growth of the entity.
- The Board was of opinion that the spirit of the Code was met through the attendance and participation of the Deputy Chief Executive Officer and other Senior Executives during Board deliberations.
- Although the Company had not appointed any executive director, a clear reporting structure had been put in place to effectively manage the day to day affairs of the Company.

- In determining the adequacy of its composition, the Board considered the qualifications and experience of the Board members.
- The Board was satisfied that given the size and structure of the company, the appointment of a second executive director was not considered necessary.
- The Board was of the view that the current Board and committee composition was in line with regulatory requirements. Going forward, the PIE would re-assess the changes in its operating environment, including the Revised Code of Corporate Governance, and consider measures to comply with all relevant requirements.

(b) 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.

As shown in the table below, 1 listed PIE had not set out an Audit and Corporate Governance Committee. This PIE explained that this function had been entrusted to the Audit and Corporate Governance Committee of a related company.

PIEs	Section 2.2.3		
	Met the requirement that all companies should have, at a minimum, an Audit Committee and a Corporate Governance Committee	Explanations provided for not meeting the requirement of the Code	Total
Listed on SEM	6	1	7
Financial institutions regulated by BOM	5	-	5
Financial institutions regulated by FSC	4	-	4
Total	15	1	16

(c) Detailed directors' remuneration

Disclosures on directors' remuneration provide a control mechanism that seeks to ensure that there is alignment of directors' interests with that of shareholders.

The table below indicates details of individual remuneration of directors.

PIEs	Section 2.8.2			
	Reported on the disclosure requirement of remuneration paid to each director on an individual basis	Explanations provided	Not Reported on the disclosure requirement of remuneration paid to each director on an individual basis	Total
Listed on SEM	4	2	1	7
Regulated by BOM	2	3	-	5
Regulated by FSC	2	-	2	4
Total	8	5	3	16

From the above, it is noted that:

- 8 out of 16 PIEs reported on individual remuneration;
- 5 PIEs explained the reason for not disclosing information on individual remuneration of directors; and
- 3 PIEs had not made disclosure on individual remuneration.

The explanations given for not disclosing detailed remuneration of directors on an individual basis were that information regarding same was of a sensitive and confidential nature.

(d) Description of non-audit services

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	1	7
Regulated by BOM	5	-	5
Regulated by FSC	4	-	4
Total	15	1	16

Out of the 16 PIEs reviewed, 1 PIE had not complied with the above requirement of the Code of corporate governance.

B. Partial-compliance with the Code of Corporate Governance

Out of the above 16 PIEs that had submitted corporate governance reports, 3 PIEs had partly complied with the Old Code as they had not complied with some specific requirements of the Code and had not provided explanations regarding same.

The common non-compliances raised for those PIEs that had partial compliances with respect to the key areas of corporate governance, were as follows:

- (i) Detailed directors' remuneration (part 2.2.2A (c) above refers); and
- (ii) Description of non-audit services (part 2.2.2A (d) above refers).

Also, FRC identified some uncommon non-compliances issues with respect to the following:

- (i) A detailed time table specifying important events (section 8 Communication and Disclosure);
- (ii) Material clauses of the company's constitution (section 8 Communication and Disclosure); and
- (iii) The number of times in the year the Board and committees met, plus attendance details for directors (section 8 Communication and Disclosure).

2.3 Compliance with the guidelines on Compliance with the Code of Corporate Governance.

In 2013, FRC had issued Guidelines on Compliance with the Code of Corporate Governance pursuant to Sections 6(2)(f) and 75 of the Financial Reporting Act. This guidelines set out the essential principles of Corporate Governance and facilitate the compliance and monitoring tasks of FRC.

The above guideline on corporate governance requires the PIEs to interalia:

- (a) Submit a statement of compliance together with the Corporate Governance Report and the Annual Report.
- (b) State the extent of their compliance with the requirements of the Code of Corporate Governance; and
- (c) Give explanations in the Statement of Compliance whenever they had not complied with any requirement of the Code.

For the six months ended 30 June 2019, FRC observed that 4 PIEs (2 listed in Commerce, 1 regulated by BOM and 1 regulated by FSC) had partly complied with this guideline on corporate governance.

For the PIEs that had partly complied with the guideline on corporate governance, the following were observed:

- 3 PIEs (2 listed in Commerce and 1 regulated by BOM) had provided explanations in the corporate governance report for not complying with the requirements of the Code of Corporate Governance regarding directors' remuneration and company's website. However, same had not been referenced or included in the statement of compliance.
- 1 PIE regulated by FSC had not included a statement of compliance in its annual report.

2.4 Reporting by Auditors in compliance with Section 39(3) of the FRA

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. Also, FRC had published guidelines on corporate governance for auditors to assist in the reporting of auditors on corporate governance and help compliance with the Code as detailed below:

- In 2013, FRC issued the Financial Reporting Council (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2013 which provides for the format of the auditors' reports as per the requirements of the Old Code of Corporate governance.
- In 2019, the above guideline was revoked and was replaced by the Financial Reporting Council (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2019 - Government Gazette No. 17 of 23 February 2019, General Notice No. 35 which updates the form and content of auditors' reporting on corporate governance, in line with the principles of the Revised Code of Corporate Governance.

From the 30 Annual Reports reviewed, FRC observed that the auditors of:

- **29 PIEs [17 listed (6 Commerce, 7 Industry, 2 Investment and 2 Leisure & Hotels), 8 regulated by BOM and 4 PIEs regulated by FSC] had reported on the consistency of the requirements of the Code; and**
- **1 regulated by FSC had not reported on the consistency of the requirements of the Code.**

PART C – Follow up issues

During the reviews carried out for the six months ended 30 June 2019, FRC considered the issues noted from the PIEs' annual reports reviews that would require follow up in the PIEs' next annual reports.

For the period under review, FRC observed that 3 listed PIEs (1 Commerce, 1 Industry and 1 Investment) required close monitoring and follow up in the following areas:

- Going concern;
- Results of Amalgamation; and
- Composition of Board committee.

Financial Reporting Council
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