



# FINANCIAL REPORTING COUNCIL

**Bulletin on Review of Annual Reports for the six  
months ended 31 December 2018**

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## I Introduction

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The Financial Reporting Council (FRC) reviews annual reports of Public Interest Entities (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.

This contributes to improvement in quality reporting and good governance of PIEs by ensuring that the annual reports present a comprehensive and objective assessment of the activities of the companies, whilst allowing the stakeholders to understand how the entities are managed.

During the six months ended 31 December 2018, FRC performed annual report reviews of 43 PIEs consisting of 1 group review (comprising of 3 PIEs), 17 full reviews and 23 portfolio reviews.

The table below indicates the categories of PIEs and their corresponding sectors for full annual report reviews:

Types of reviews	Sectors								
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Others	Property Development	Sugar	Total
Listed on SEM	-	4	1	3	2	1	1	1	<b>13</b>
Financial institutions regulated by BOM (excluding cash dealers)	11	-	-	-	-	-	-	-	<b>11</b>
Financial institutions regulated by FSC	5	-	-	1	-	-	-	-	<b>6</b>
Category 4 PIEs as per the FRA	-	10	-	-	-	-	-	-	<b>10</b>
SOEs as per the First Schedule of FRA	-	2	-	-	-	1	-	-	<b>3</b>
<b>Total</b>	<b>16</b>	<b>16</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>43</b>

This bulletin focuses on the main observations noted with respect to IFRSs and corporate governance, following FRC's reviews of the PIEs' annual reports.

## **A. Group Reviews and Full Reviews**

For the period under review, FRC carried out the review of annual reports of entities within groups and other individual entities.

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

### **(a) 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 these group of companies in their 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 each entity within the group.

With respect to the group review, FRC had reviewed the annual reports of 1 group of companies which consisted of 3 PIEs. These 3 PIEs are classified under Category 4 PIEs operating in the commerce sector.

### **(b) Full reviews of entities on an individual basis**

FRC also reviewed the annual reports of entities on an individual basis. The PIEs selected for the review exercise were:

- Entities which are listed on the Stock Exchange of Mauritius;
- Companies that scored Grade 3 in its previous review; and
- PIEs for which complaints were received.

For the six months ended 31 December 2018, FRC conducted the annual report reviews of 17 entities on an individual basis. The table below illustrates categories of PIEs per sector:

Types of PIEs	Sectors				
	BIF	Commerce	Investment	Others	Total
Listed on SEM	-	-	1	-	1
Financial institutions regulated by BOM	3	-	-	-	3
Financial institutions regulated by FSC	2	-	1	-	3
Category 4 PIEs as per the Financial Reporting Act ("FRA")	-	7	-	-	7
SOEs as per the First Schedule of FRA	-	1	-	2	3
<b>Total</b>	<b>5</b>	<b>8</b>	<b>2</b>	<b>2</b>	<b>17</b>

## B. Portfolio reviews

As from August 2018, FRC has adopted a new methodology for its review exercise. In this regard, the annual reports of PIEs are reviewed on a portfolio basis and for the period under consideration, that is for the six months ended 31 December 2018, FRC has considered entities listed on the Stock Exchange of Mauritius and financial institutions regulated by the Bank of Mauritius and the Financial Services Commission.

For this type of review, FRC has designed a new methodology manual which amongst others comprise of the following areas of reviews:

- i) Understanding the entity;
- ii) Risk Assessment;
- iii) Application of complex IFRSs; and
- iv) Identification of risky areas such as revenue and related parties.

This would help FRC to:

- v) Better understand the PIEs;
- vi) Be up to date with the PIEs instead of only review the annual reports only after 6 months after the closing date;
- vii) Assess the risk associated with PIEs within the portfolio; and
- viii) Improve trend monitoring and sector analysis over the years.

For the period ended 31 December 2018, FRC has conducted the annual report review of 23 PIEs.

The following table analyses the portfolio reviews of PIEs by sectors:

Types of PIEs	Sectors								Total
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Others	Property Development	Sugar	
Listed on SEM	-	4	1	2	2	1	1	1	12
Financial institutions regulated by BOM	8	-	-	-	-	-	-	-	8
Financial institutions regulated by FSC	3	-	-	-	-	-	-	-	3
<b>Total</b>	<b>11</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>23</b>

## II Overview of findings from annual report reviews

Section 75 of the FRA 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 43 PIEs consisting of 3 group reviews, 17 full reviews and 23 portfolio reviews for the six months ended 31 December 2018.

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

- (a) IAS 1, Presentation of Financial Statements
- (b) IAS 19, Employee Benefits
- (c) IAS 24, Related Parties
- (d) IAS 36, Impairment
- (e) IFRS 3, Business Combinations
- (f) IFRS 7, Financial Instruments: Disclosures
- (g) IFRS 13, Fair Value Measurement

Also, FRC had identified non-compliances with the National Code of Corporate Governance ('Code') and had taken note of explanations provided by PIEs for not complying with the Code in the following areas, as part of the full reviews of the PIEs:

- (a) Detailed directors' remuneration (section 2 of the Code); and
- (b) Description of non-audit services (section 6 of the Code).

Details of the non-compliances identified by FRC are provided at parts A and B below.

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## PART A – Group Reviews and Full Reviews

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### 1.0 Main findings from Group Reviews

As indicated above, FRC had selected 3 entities classified under Category 4 PIEs for group reviews. These PIEs were from the commerce sector.

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, no significant issues were identified from the group reviews.

### 2.0 Main findings from Full Reviews as an individual basis

With respect to the 17 other PIEs reviewed, FRC identified issues relating to the following areas of corporate reporting during the six months ended 31 December 2018:

#### 2.1 Compliances with International Financial Reporting Standards (IFRSs)

- (a) IAS 1, Presentation of Financial Statements

**14 PIEs** [2 regulated by BOM, 4 regulated by FSC, 5 Category 4 PIEs and 3 SOEs] **had not disclosed the following in their annual reports:**

- Relevant accounting policies for operating lease, computer software, available for sale investments, held to maturity investments, investment in associate, financial liabilities measured at fair value through profit or loss, property, plant and equipment, dividend income, interest income;
- Description of items grouped under items that will or will not be reclassified to P&L;
- Description of the nature and purpose of each reserve within equity;

- Comparative information made for intangible assets;
- The judgements and assumptions applied in the preparation of financial statements;
- Detailed information on other income, rental income and management expenses; and
- Information on reclassification of items in the financial statements.

(b) IAS 19, Employee Benefits

**With regard to IAS 19, FRC queried 5 PIEs [1 listed in Leisure & Hotels, 2 Category 4 PIEs and 2 SOEs] in respect of the following:**

Defined benefit plans

- Fair value of the plan assets into classes that distinguish the nature and risks of those assets;
- Fair value of the entity's own transferable financial instruments held as plan assets;
- Description of risks to which the entity was exposed through its defined benefit plan;
- Significant actuarial assumptions used to determine the present value of the defined benefit obligation;
- Description of any funding arrangements and funding policy that affect future contributions and the expected contributions to the plan for the next annual reporting period; and
- Sensitivity analysis for actuarial assumption.

Defined contribution plans

- Amount recognised as expense for defined contribution plans.

(c) IAS 24, Related Parties

**FRC informed 6 PIEs [1 listed in Leisure & Hotels, 1 regulated by BOM and 4 regulated by FSC] of issues relating to IAS 24 requirements:**

- Classification of key management compensation; and
- Terms and conditions of related parties' outstanding balances including whether they are secured, and the nature of consideration to be provided in settlement of outstanding balances.

(d) IFRS 7, Financial Instruments: Disclosures

From the review exercise, **FRC observed that 5 PIEs [2 regulated by FSC, 1 Category 4 PIE and 2 SOEs] had partly complied with IFRS 7.**

The following disclosures as per IFRS 7 were found missing:



- Management of financial risks;
- Description of collaterals;
- Sensitivity analysis for each type of market risk to which the entity is exposed;
- Maturity analysis for financial liabilities; and
- Reconciliation of changes in provision for impairment for trade receivables.

## 2.2 Audit and non-audit fees

From the full reviews, FRC observed that some licensed auditors had provided non-audit services to PIEs such as tax services.

In accordance with legal requirements and under the Code of Corporate Governance, PIEs are required to disclose the following information for the non-audit services rendered by their external auditors in their annual reports:

- (a) Separate disclosure of the amount paid for non-audit services as opposed to audit services (section 221 of the Companies Act 2001 *Contents of annual report* refers).
- (b) Description of non-audit services rendered by the external auditor in their annual reports stating particulars of the nature of the services and amounts paid for each nature of services.

With respect to audit and non-audit fees, the following observations were made for the 17 reviews:

- **13 PIEs** [2 regulated by BOM, 2 regulated by FSC, 6 PIEs in Category 4 and 3 SOEs] **had paid fees for audit services only.**
- **3 PIEs** [1 listed in Investment, 1 regulated by BOM, and 1 PIE in Category 4] **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 PIE regulated by FSC had not disclosed the audit and/or non-audit fees after having complied with section 218(2) of the Companies Act 2001.**

## PART B – Portfolio Reviews

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### 3.0 Main findings from Portfolio Reviews of PIEs

With respect to the 23 PIEs reviewed, FRC identified issues relating to the following areas of corporate reporting during the six months ended 31 December 2018:

#### 3.1 Compliances with International Financial Reporting Standards (IFRSs)

(a) IAS 1, Presentation of Financial Statements

**FRC informed 3 PIEs** [2 listed (1 Industry and 1 Property Development) and 1 regulated by BOM] **of non-compliances in respect of the following requirements of IAS 1:**

- Information on capital risk management;
- Details of the registered office’s address of the entity; and
- Description of the nature and purpose of other reserves.

(b) IAS 19, Employee Benefits

**With regard to IAS 19, FRC queried 4 PIEs** [3 listed (1 Commerce, 1 Industry and 1 Property Development) and 1 regulated by BOM] **in respect of the following:**

- Description of risks to which the entities were exposed through their defined benefit plans; and
- Amount recognised as an expense for defined contribution plans.

(c) IAS 24, Related Parties

**From the annual reports of 5 PIEs** [2 listed (1 Commerce and 1 Others), 2 regulated by BOM and 1 regulated by FSC], **FRC identified issues, which related to the following requirements of IAS 24:**

- 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.

(d) IAS 36, Impairment

**FRC observed that 3 listed PIEs** (2 Commerce and 1 Property Development) **had not disclosed the following in their annual reports:**

- Events and circumstances that led to the recognition or reversal of the impairment loss;
- Description of a cash generating unit);
- Recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use; and
- Amount of impairment loss recognised for each cash generating unit.

(e) IFRS 3, Business Combinations

**FRC noted that 4 listed PIEs (2 Commerce, 1 Investment and 1 Others) had not complied with the following requirements of IAS 17:**

- Primary reasons for the business combination;
- Qualitative description of the factors that make up the goodwill recognized;
- Amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period; and
- Revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period.

(f) IFRS 7, Financial Instruments: Disclosures

**From the review exercise, FRC observed that 5 PIEs [3 listed (1 Industry, 1 Commerce and 1 Sugar), 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;
- Sensitivity analysis for interest rate and currency risks;
- Information on fair value and cash flow hedges;
- Fair value of the collateral held, the fair value of any such collateral sold or repledged and the terms and conditions associated with its use of the collateral; and
- Maturity analysis for non-derivative financial liabilities.

(g) IFRS 13, Fair Value Measurement

**From the annual reports of 6 PIEs [3 listed (1 Industry, 1 Commerce and 1 Sugar), 2 regulated by BOM, 1 regulated by FSC], FRC identified issues which related to the following requirements of IFRS 13:**

- Description of the valuation technique(s) and the inputs used in fair value measurement; and

- Levels of fair value hierarchy under which land and buildings had been classified.

### **3.2 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.

Until 2017, the Old Code of Corporate Governance was applicable. 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 2017, a New 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 New 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).

The New Code is not mandatory for the financial years under review of these 23 PIEs. FRC noted that all the 23 entities had submitted a report on corporate governance. With respect to these 23 entities, FRC observed that:

- 20 PIEs are still reporting on the requirements of the Old Code; and
- 3 PIEs have early adopted the New Code.

#### **3.2.1 Application of the New Code of Corporate Governance**

The New 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 New 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

With regard to the 3 PIEs that had adopted the New Code, 1 PIE had complied with all the 8 principles of the Code of Corporate Governance; whilst the remaining 2 PIEs had provided explanations in respect of the following principles:

(a) Principles 1: Governance Structure

- The board had not yet assessed its Charters. The frequency at which the Board would assess the Charters had not yet been discussed at the time of publication of the Annual Report.
- A Code of Ethics was not yet implemented as the PIE would consider same during the next financial year.

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

- The Chairperson of the Audit Committee was not an independent director. The Board considered that the latter had substantial accounting and financial experience to chair the Committee.
- There was no gender diversity on the Board. A suitable candidate that would create gender balance was found towards the end of 2017.

(c) Principles 3: Director Appointment Procedures

Succession plan of the entity had not been disclosed in the Corporate Governance Report. The succession plan of the Company would be considered during the next financial year.

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

- No evaluation of the effectiveness of the Board, its committees and its individual directors was conducted as there was a recent change in the composition of the Board and hence the evaluation exercise would be conducted at a later stage.
- Total remuneration on an individual basis had not been disclosed for reasons of confidentiality and due to commercial sensitivity of the information.
- With respect to the independent board evaluation that had not been conducted at year end, this had been conducted in Jan 2018, that is after the reporting date.

### **3.2.2 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 20 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 20 PIEs 16 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	9	1	10
Regulated by BOM	3	4	7
Regulated by FSC	3	-	3
<b>Total</b>	<b>15</b>	<b>5</b>	<b>20</b>

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 its composition had a wide range of experience and skills that ensured that the company was managed and supervised as required under the Companies Act 2001.
  - The entity was exempted from the requirement of having independent directors pursuant to the BOM guideline on corporate governance.
- The minimum requirement of having 2 executive directors in the board of directors

The figure 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	8	2	10
Regulated by BOM	6	-	6
Regulated by FSC	3	1	4
<b>Total</b>	<b>17</b>	<b>3</b>	<b>20</b>

- 17 out of 20 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 given the size and structure of the company, the appointment of a second Executive Director was not considered necessary. The company also had a strong Executive Senior Management, including a General Manager which attended and participated in Board meetings.
- The Board was of the opinion that in view of its size, having the CEO and the Financial Controller attending Board and Board Committees' meetings, whenever required, was in accordance with the Code's spirit regarding executive presence on the Board.
- The Board considered that the presence of one Executive Director was appropriate and was in line with the company's operations. The Directors brought a wide range of experience and skills to the Board and ensured that their responsibilities did not interfere with their responsibilities as Directors of the company.

#### **(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.

- Establishment of audit and corporate governance committees

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, FRC noted the following:

- a) 14 out of the 20 PIEs had audit and corporate governance committees.
- b) 6 PIEs had not set up board committees, but explanations provided in this regard. The PIEs explained the following:
  - The Board had delegated authority to the Audit Committee and Corporate Governance Committee of its management company to provide assistance in discharging its duties and responsibilities.
  - Due to the nature of the business, issues addressed by an Audit Committee and a Corporate Governance Committee were taken up at the subsidiary level.
  - There was no corporate governance committee as all the corporate governance matters were taken up at board level.
  - The Company being part of a group of companies had its corporate governance functions as well as the audit committee functions discharged by the Board Committees set up by its holding company.

PIEs	Section 3.5		
	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	8	2	10
Financial institutions regulated by BOM	4	3	7
Financial institutions regulated by FSC	2	1	3
<b>Total</b>	<b>14</b>	<b>6</b>	<b>20</b>

- **Composition of board committees**

In considering the composition of the board committees, the board should have regard to ensuring a range of skills, experience, knowledge and professional qualifications to meet the requirements of the Code. The Code suggests that all board committees, should, as far as possible, only comprise of members of the board and should have a majority of non-executive directors. Also, it is recommended that the majority of the non-executive directors serving on these committees are independent.



The table below denotes the level of compliance with respect to composition of board committees:

PIEs	Section 3.9		
	Met the requirement of the Code on composition of board committees	Explanations provided	Total
Listed on SEM	8	2	10
Regulated by BOM	6	1	7
Regulated by FSC	3	-	3
<b>Total</b>	<b>17</b>	<b>3</b>	<b>20</b>

As shown in the above table, 17 PIEs met the requirement of the Code with regard to composition of the board committees. The remaining 3 PIEs that had not complied with this requirement of the Code, provided the following explanations:

- Though the Audit Committee and the Corporate Governance Committee were not chaired by an Independent Non-Executive Director, the Board was satisfied with the skill, experience and independence of mind of the Committees members and that the members fulfilled their assignment of assisting the Board and its Directors in discharging their duties through a more comprehensive evaluation of specific issues, followed by well-considered recommendations to the Board.
- The Board had delegated authority to the Audit Committee and Corporate Governance Committee of its management company to provide assistance in discharging its duties and responsibilities.
- The entity did not independent directors that were part of the board committees as it was exempted from the requirement of having independent directors pursuant to the BOM guideline on corporate governance.

**(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			Total
	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	
Listed on SEM	1	8	1	10
Regulated by BOM	3	3	1	7
Regulated by FSC	-	3	-	3
<b>Total</b>	<b>4</b>	<b>14</b>	<b>2</b>	<b>20</b>

From the above, it is noted that:

- 4 out of 20 PIEs reported on individual remuneration;
- 14 PIEs explained the reason for not disclosing information on individual remuneration of directors; and
- 2 PIE 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		Total
	Reported on description of non-audit services	Not reported on description of non-audit services	
Listed on SEM	10	-	10
Regulated by BOM	5	2	7
Regulated by FSC	2	1	3
<b>Total</b>	<b>17</b>	<b>3</b>	<b>20</b>

Out of the 20 PIEs reviewed, 2 PIEs had not complied with the above requirement of the code of corporate governance.

## **B. Part-compliance with corporate governance**

Out of the above 23 PIEs that had submitted corporate governance reports, 8 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 3.2.2A (c) above refers); and
- (ii) Description of non-audit services (part 3.2.2A (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) Content of the Statement of Compliance (Guidelines on Compliance with Corporate Governance – Government Gazette No. 32 of 13 April 2013, General Notice No. 1016).

### **3.3 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. 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 23 PIEs reviewed had reported on the consistency of the requirements of the Code.**

## **4.0 Liquidity risk**

During its review exercise, FRC made a trend analysis of the financial position and performance of entities. From this analysis, FRC noted that 2 listed PIEs (1 Commerce and 1 Property Development) had the following indicators of potential going concern problem occurring over the years:

- Loss for the year;
- Negative cash flows;
- A net current liability situation;
- Accumulated deficit; and
- High gearing ratio.

The companies were requested to submit the remedial actions that they would take to enhance their liquidity situations.

## **PART C - Conclusion**

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During the course of the annual report reviews, FRC noted that PIEs had taken into consideration FRC's comments and had hence included appropriate disclosures in their annual reports. This had led to fewer queries being raised with companies and contributed to an improvement in the level of corporate reporting of PIEs.

Going forward, FRC would continue to use its new methodology on Annual Report Review whereby entities are reviewed on a portfolio basis. This will ensure FRC understand PIEs and monitors them in a more effective manner to ensure quality reporting.

Furthermore, FRC would conduct the annual report reviews in light of changes in the business model of the PIEs, application of the New Code of Corporate Governance and laws and regulations and new/revised standards affecting the annual reports of the PIEs.