FRC
MAURITIUS
FINANCIAL REPORTING COUNCIL

Bulletin on Review of Annual Reports for the six months ended 31 December 2019

FINANCIAL REPORTING COUNCIL

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PART A - INTRODUCTION

As part of its functions, the Financial Reporting Council ('FRC') seeks to promote high quality reporting by reviewing the annual reports of Public Interest Entities (PIEs). In these annual report reviews, FRC monitors the annual reports of PIEs to ensure that they are in 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').

For the purpose of these annual report reviews, FRC identifies issues which requires correction or improvement for PIEs. This would help PIEs improve their corporate reporting and provides a spur to good practice in good governance and financial reporting.

For the period June 2019 to December 2019, FRC had carried out Portfolio Reviews. FRC has initially conducted the annual report review of the PIEs on a portfolio basis for a period of 3 to 5 years. Subsequently, FRC is conducting yearly portfolio reviews for the above PIEs so as to update the particulars of these PIEs, taking into consideration new business activities, material transactions and new IFRSs and legal requirements.

Of note the PIEs in the portfolio comprised of entities listed on the Stock Exchange of Mauritius and financial institutions regulated by the Bank of Mauritius and the Financial Services Commission, as defined under Categories 1, 2 and 3 of the First Schedule of the FRA.

This type of portfolio reviews would 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.

For the six months ended 31 December 2019, FRC carried out portfolio reviews of 55 PIEs. Out of these 55 PIEs, 47 had been reviewed on a portfolio basis for the first time for a period of 3 to 5 years and the remaining 8 PIEs had undergone portfolio reviews for the second time for a period of 1 year.

"For the six months ended 31 December 2019, FRC carried out portfolio reviews of 55 PIEs."

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	Industry	Investment	Leisure & Hotels	Property Development	Sugar	Transport	Others	Total	
Listed on SEM	4	7	14	4	1	1	1	3	**35**	**141**
Financial institutions regulated by BOM (excluding cash dealers)	12	-	-	-	-	-	-	-	**12**	**43**
Financial institutions regulated by FSC	8	-	-	-	-	-	-	-	**8**	**33**
SOEs as per the First Schedule of FRA	-	-	-	-	-	-	-	-	-	-
Total	**24**	**7**	**14**	**4**	**1**	**1**	**1**	**3**	**55**	**217**

As shown in the table above, FRC had not conducted annual report reviews of SOEs. In 2020, FRC would start reviewing the annual reports of these SOEs as and when the annual reports are received.

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 31 December 2019, FRC made the following observations from the reviews of 217 annual reports of the 55 PIEs 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 (8 PIEs);

(ii) IAS 19, Employee Benefits (6 PIEs);

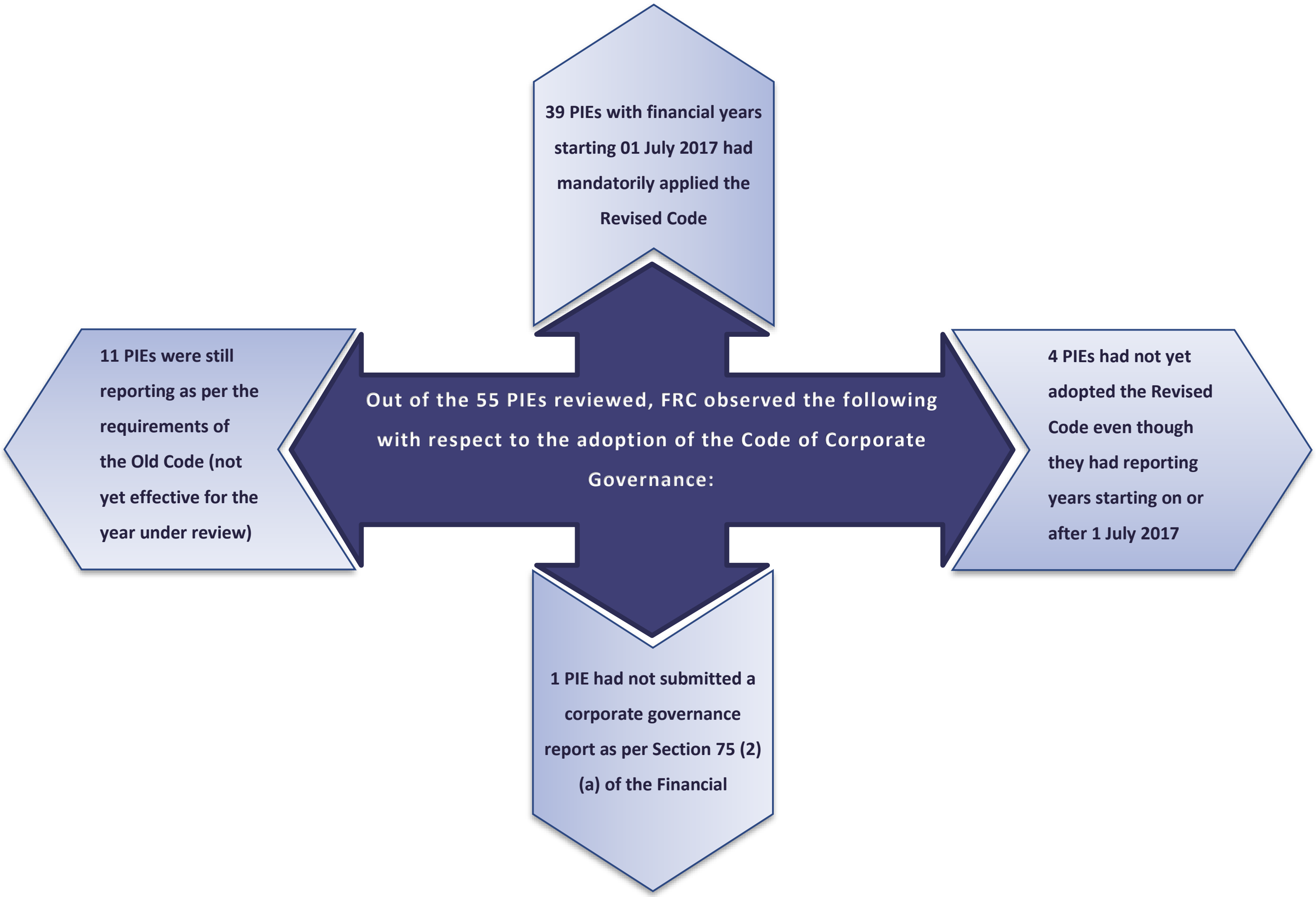
(iii) IFRS 7, Financial Instruments: Disclosures (6 PIEs); and

(iv) IFRS 13, Fair Value Measurement (4 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 55 PIEs reviewed, FRC observed the following with respect to the adoption of the Code of Corporate Governance:



Also, as part of the portfolio reviews of the PIEs, FRC noted that 10 PIEs had partly complied with the Revised Code of Corporate Governance. The main non-compliances were in the following areas:

(a) Governance Structure;
(b) Website uploads;
(c) Risk Governance; and
(d) Description of non-audit services.

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) Audit.

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 PIES

With respect to the 55 PIEs reviewed, FRC identified issues relating to the following areas of corporate reporting during the six months ended 31 December 2019:

1.0 COMPLIANCES WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

(a) IAS 1, Presentation of Financial Statements

FRC informed 8 PIEs (7 listed (2 Industry, 4 Investment and 1 Transport) and 1 regulated by FSC] **of non-compliances in respect of the following requirements of IAS 1:**

- Accounting policies on dividend income and measurement of property, plant and equipment;
- Detailed information on expenses;
- Information on par value of shares; and
- Presentation of items of Other Comprehensive Income that will or will not be reclassified to Profit & Loss.

(b) IAS 19, Employee Benefits

With regard to IAS 19, FRC queried 6 PIEs [5 listed (1 BIF and 4 Investment) and 1 regulated by FSC]. The following observations were made in respect of these 5 entities:

- **5 listed PIEs** (1 BIF and 4 Investment) **had partly complied with IAS 19.** The following common non-compliances were noted:

  - Amount recognised as an expense for defined contribution plans;
  - 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 PIE regulated by FSC had not complied at all with the requirements of IAS 19.**

(c) IFRS 7, Financial Instruments: Disclosures

From the review exercise, FRC observed that 6 PIEs (4 listed (3 Investment and 1 Sugar) and 2 regulated by FSC] **had partly complied with IFRS 7.**

With respect to the 55 PIEs reviewed, FRC identified issues relating to corporate reporting during the six months ended 31 December 2019

8 PIEs (7 listed (2 Industry, 4 Investment and 1 Transport) and 1 regulated by FSC] had partly complied with the requirements of IAS 1.

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

- Objectives, policies and processes for managing risks;
- Sensitivity analyses for financial risks; and
- Fair value and terms and conditions of collaterals.

(d) IFRS 13, Fair Value Measurement

From the annual reports of 4 PIEs (2 listed in Industry and 2 regulated by FSC], **FRC identified issues which related to the following requirements of IFRS 13:**

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

6 PIEs (4 listed (3 Investment and 1 Sugar) and 2 regulated by FSC] had partly complied with IFRS 7.

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.

In accordance with section 65(c) of the Financial Reporting Act 2004, The National Committee on Corporate Governance had issued the Second Edition of the National Code of Corporate Governance (the 'Code') which had been published in the Government Gazette (General Notice No. 1804 of 2016) in 2016.

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).

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.

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

Revised Code of Code of Corporate Governance

(a) 39 PIEs with financial years starting 01 July 2017 had mandatorily applied the Revised Code;
(b) 4 PIEs had not yet adopted the Revised Code even though they had reporting years starting on or after 1 July 2017; and
(c) 1 PIE had not submitted a corporate governance report as per Section 75 (2) (a) of the Financial Reporting Act.

Old Code of Corporate Governance

(a) 11 PIEs were still reporting as per the requirements of the Old Code (not yet effective for the year under review).

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

44 PIEs had annual reports with reporting periods starting on or after 1 July 2017 and thus had an obligation to comply with the Revised Code of Corporate Governance. Out of these 44 PIEs, FRC observed the following:

(a) 39 PIEs had reported on the Revised Code of Corporate Governance;
(b) 4 PIEs had provided corporate governance reports which were in line with the Old Code of Corporate Governance and had thus not yet adopted the Revised Code; and
(c) 1 PIE had not submitted a corporate governance report as per Section 75 (2) (a) of the Financial Reporting Act.

(a) Adoption of Revised Code of Corporate Governance

With respect to the 39 PIEs that had reported on the Revised Code, the following were noted:

4 PIEs had not yet adopted the Revised Code even though they had reporting years starting on or after 1 July 2017.

1 PIE had not submitted a corporate governance report as per Section 75 (2)(a) of the Financial Reporting Act.

- 11 PIEs had fully applied the 8 principles of the Revised Code of Corporate Governance;
- 18 PIEs had provided explanations for not complying with some sections of the Revised Code of Corporate Governance; and
- 10 had partly applied the Revised Code of Corporate Governance.

A. Details of non-compliances for PIEs who had partly complied with the Revised Code of Corporate Governance

For those 10 PIEs where FRC noted partial compliance, the following common non-compliances were identified:

- No statement that the Board has approved appropriate job descriptions of the key senior governance positions.
- No disclosure of organisation chart.
- No description of each of the principal risks and uncertainties faced by the organisation.
- No detailed description of non-audit services provided by the external auditor.
- No affirmation that the Board is responsible for the preparation of accounts that fairly present the state of affairs of the organisation.
- No dedicated website had been set up by the entity where important documents required by the Revised Code of Corporate Governance would be published.
- The entity's website did not include important document such as:
  - Short biographies of the directors and the company secretary
  - The organisation's constitution
  - The conflicts of interest and related party transactions policies
  - The information, information technology and information security policies
  - Appropriate job descriptions of the key senior governance positions
  - An organisational chart
  - A statement of major accountabilities within the organization

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

With respect to the 18 PIEs that have not provided explanations for not applying the Revised Code, the following were noted:

- *Principle 1: Governance Structure*

- The Board had not adopted a charter.
  - The Board Charter would be approved during the next financial year.

18 PIEs had provided explanations for not complying with some sections of the Revised Code of Corporate Governance.

10 PIEs had partly applied the Revised Code of Corporate Governance.

- The entity intended to adopt a board charter in its next financial year wherein it would clearly define the responsibilities, terms of reference and operation of the Board.

- The entity did not have a dedicated website

  - The Company is working on the setting up of a website.

  - The PIE stated that a web page dedicated to Corporate Governance was under construction. Same would be launched in the course shortly.

- *Principle 2: The Structure of the Board and its Committees*

- The entity had only 1 Executive Director

  - The Chief Executive Officer was the only Executive Director and he was supported by a robust executive management team.

  - The board considered that the executive management of the company was sufficiently represented on the board through its current executive director, who as Chief Executive Officer was actively involved in the day to day management of the company.

- The Board has only 1 independent director

  - Given that the sole business activity of the Company was to act as General Partner and Manager to another entity, the Board had not deemed it necessary to appoint more independent directors.

- There was no gender diversity.

  - The entity stated that it was still at its development stage. It would consider a female member if the appropriate profile is available.

  - The PIE explained that gender remained an important aspect of the overall diversity, and was a factor that the Board will take into consideration for future nominations.

- The Chairman and CEO was the same person

  - Given the organisational structure of the entity, the Board of Directors believed that the role of the Chairman and CEO was efficiently carried out by the same person.

- The Chairman of the audit committee was not an independent

  - The Board believed that the chairman of the audit committee had the requisite skills and experience to chair this committee.

- Audit and Risk Management Committee and Corporate

The 18 PIEs that have not provided explanations for not applying the Revised Code, had not complied with the following Principles of the Revised Code of Corporate Governance:

- 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 7: Audit

Governance Committee were not established

- o Audit and Risk Management Committee and Corporate Governance Committee were implemented at the level of its parent company.

- o The entity stated that its business model did not require the setup of board committees.

- ▪ *Principle 3: Director Appointment Procedures*

- The entity did not develop a Succession Plan

- o The Company would approve its Succession Plan during the next financial year.

- o The company had not yet developed a new succession plan due to a change in its shareholding.

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

- o The board did not consider this practice to be in the best interest of the Company. Furthermore, in accordance with its entity's Constitution, not more than one third of the Directors in office should retire at every Annual Meeting.

- The Company did not provide induction and orientation processes

- o The entity stated that it had appointed directors who were professionals and experienced in their respective fields and who were able to contribute effectively to the Board. They were encouraged to enhance their knowledge and competencies through regular professional development courses.

- ▪ *Principle 4: Director Duties, Remuneration and Performance*

- Board or Director performance evaluation was not conducted

- o The entity explained that the Board and Directors' evaluation exercise would be conducted during the next financial year.

- Details of remuneration paid to each individual Director were not disclosed

- o Remuneration on an individual basis had not been disclosed for reasons of commercial sensitivity of the information.

- ▪ *Principle 5: Risk Governance and Internal Control*

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

- o This was presently under review for potential future implementation.

In some cases, remuneration of directors had not been disclosed on an individual basis for reasons of commercial sensitivity of the information.

- The entity did not establish a risk management framework
  - The PIE stated that it would implement a Risk Management Framework during the next financial year.

- *Principle 7: Audit*

- There was no internal audit function
  - The Board believed that there was no need for an internal audit function since the cost of implementing an Internal Audit function outweighed the benefit of having one.
  - The Board was considering outsourcing the internal audit function in view of further reinforcing controls.

(b) Reporting of PIEs under the Old Code of Corporate Governance

As stated above, the Old Code was applicable till 2017 whilst the Revised Code of Corporate Governance issued in 2016, is applicable as from the reporting year (financial period) ending 30 June 2018.

From its annual report reviews, FRC observed that 4 PIEs with financial year starting on or after 1 July 2017 had wrongly prepared their corporate governance reports under the Old Code of Corporate Governance. These PIEs should have applied the Revised Code of Corporate Governance which became effective based on their reporting periods.

As such, reporting on Corporate Governance with respect to the Old Code is not appropriate for these 4 PIEs. FRC is closely monitoring these PIEs and they would be expected to submit corporate governance reports which are in accordance with the Revised Code in their next annual Reports.

(c) Non-submission of corporate governance report

FRC noted that 1 PIE had disclosed some elements of corporate governance, such as directorship and risk management, in its annual report. However, this PIE had not submitted a full-fledged corporate governance report in compliance with the requirement of the Financial Reporting Act 2004.

The PIE was reminded of the requirement of section 75(2) of the Financial Reporting Act which refers to the need to adopt and report on corporate governance in accordance with the National Code of Corporate Governance.

FRC is closely monitoring 4 PIEs with financial year starting on or after 1 July 2017 that had wrongly prepared their corporate governance reports under the Old Code of Corporate Governance.

1 PIE had disclosed some elements of corporate governance, such as directorship and risk management, in its annual report. However, this PIE had not submitted a full-fledged corporate governance report in compliance with the requirement of the Financial Reporting Act 2004.

2.2 Compliance with the Old Code of Corporate Governance

Section 2.2.2			
PIEs	Reported on the requirement that all companies should have at least two independent directors on their Boards	Explanations provided	Total
Listed on SEM	5	1	6
Regulated by BOM	2	1	3
Regulated by FSC	2	0	2
Total	9	2	11

FRC observed the following from the annual reports of 11 PIEs who had reported on the Old Code of Corporate Governance:

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 11 PIEs 9 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.

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

  - The Board of the view that its current board members had a wide range of experience and skills and it ensured that the company was managed and supervised as required under the Companies Act 2001.
  - The entity did not have a Board of Directors locally given that its administration and operations had been conferred to a local management team.

- The minimum requirement of having 2 executive directors in the Board of directors.

11 PIEs had reported on the Old Code of Corporate Governance.

Out of the 11 PIEs, 9 entities had at least 2 independent directors on their Boards in line with section 2.2.2 of the Old Code of the corporate governance.

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	4	2	6
Regulated by BOM	0	3	3
Regulated by FSC	2	0	2
Total	6	5	11

- 6 out of 11 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 considered that the presence of one Executive Director was appropriate and was in line with the company's operations.

- The Board had only one executive director and this was resolved by the appointment of an executive director after the year end.

(b) 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 requirement that remuneration paid to each director shall be disclosed on an individual basis	Explanations provided	Total
Listed on SEM	4	2	6
Regulated by BOM	1	2	3
Regulated by FSC	1	1	2
Total	6	5	11

From the above, it is noted that:

- 6 out of 11 PIEs reported on individual remuneration; and
- 5 PIEs explained the reason for not disclosing information on individual remuneration of directors.

The explanations given for not disclosing detailed remuneration of directors on an individual basis were that:

6 out of 11 PIEs met the minimum requirement of the Code of corporate governance for having at least 2 executive directors in the Board of directors.

6 out of 11 PIEs reported on individual remuneration.

- Information regarding detailed director's remuneration was of a sensitive and confidential nature; and

- The entity did not have a Board of Directors locally and its administration and operations had been conferred to a local management team.

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. These 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 31 December 2019, FRC observed that **5 PIEs** [4 listed (1 Leisure & Hotels, 1 Property Development, 1 Industry and 1 Investment) 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:

- 1 listed PIE in Investment had provided explanations in the corporate governance report for not complying with the requirements of the Code of Corporate Governance regarding board charter, code of ethics and management of information technology and information security. However, same had not been referenced in the statement of compliance.

- 4 PIEs [3 listed (1 Leisure & Hotels, 1 Property Development and 1 Industry and 1 regulated by FSC]. that the Statement of Compliance had not been signed by the Chairman and a Director, as required by the Guidelines on compliance with corporate governance issued by FRC – Government Gazette No. 32 of

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.

5 PIEs [4 listed (1 Leisure & Hotels, 1 Property Development, 1 Industry and 1 Investment) and 1 regulated by FSC] had partly complied with this guideline on corporate governance.

13 April 2013, General Notice No. 1016.

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.

It was good to note that the auditors of the 55 PIEs reviewed had reported on the consistency of the requirements of the Code.

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 auditors of the 55 PIEs reviewed had reported on the consistency of the requirements of the Code of Corporate Governance.

PART D: FOLLOW UP ISSUES

During the reviews carried out for the six months ended 31 December 2019, FRC considered the issues noted from the PIES' annual reports reviews that would require follow up in the PIEs' next annual reports.

In this regard, FRC will carry out close monitoring and follow up regarding **6 PIEs** [3 listed PIEs (2 Investment and 1 Sugar), 2 regulated by BOM and 1 regulated by FSC] in the following areas:

- Going concern;
- Application of Revised Code of Corporate Governance;
- Adoption of IFRS 9 Financial Instruments; and
- Provision of other services.

FRC considered the issues noted from the PIES' annual reports reviews that would require follow up in the PIEs' next annual reports.