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| logo Frc **ANNUAL REPORT** **For The Year 2014****March 2015** |

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# CHAPTER 1

# Corporate Governance Report

## 1.0 Objectives of the Financial Reporting Council

# The Financial Reporting Council (FRC) was established in January 2005, under the Financial Reporting Act (FR Act) 2004. The objectives of the Council as stipulated in section 4 of the Act are:

(a) To promote the provision of high quality reporting of financial and non-financial information by public interest entities (PIEs);

(b) To promote the highest standards among licensed auditors;

(c) To enhance the credibility of corporate reporting; and

(d) To promote quality in accountancy and audit services.

The strategies adopted by the FRC to meet the above objectives are in line with the functions specified in the paragraph below.

## 1.2 Functions of FRC

The functions of FRC as highlighted in Section 5 of the FR Act are as follows:

(a) monitor the practice of auditors with a view to maintaining high standards of professional conduct and practice;

(b) monitor and enforce compliance with International Financial Reporting Standards issued by the International Accounting Standards Board and the International Standards for Auditing;

(c) provide advisory, consultancy and informational services on any matter related to its functions;

(d) license auditors and maintain a register of licensed auditors;

(e) monitor compliance with the reporting requirements specified in the Code of Corporate Governance;

(f) advise the Minister generally on any matter relating to financial and non-financial reporting, accounting and auditing.

## 1.3 Composition of the Council

The FRC is governed by a Council constituted of the following as per section 7 of the FR Act 2004:

**Chairpersons:** Mr D.B. Seetulsingh, appointed on 20 January 2005 to June 2014

 Mr B.Domah, appointed on 13 June 2014

**Members:**

Mr Y. Googoolye, First Deputy Governor of the Bank of Mauritius, appointed on 01 August 2006;

Mrs D.P. Chinien, Registrar of Companies, appointed on 20 January 2005;

Miss C. Ah-Hen, Chief Executive, Financial Services Commission, appointed on 02 August 2011

Mr M.J. Lamport, Senior Lecturer, Faculty of Law and Management, University of Mauritius, appointed on 20 January 2005;

Mr T. Leung, Senior Manager of Ernst & Young, appointed on 20 January 2008;

Mr A. Kodabux, representative of MIPA, appointed on 06 December 2011 to October 2014;

Mr C. Ping Voon To Choon Kwee, Chairperson of MIPA, appointed in November 2013;

Mr D. Soochit, representative of MIPA, appointed in October 2014

Ms C. McIlraith, Chairperson of Mauritius Institute of Directors, appointed in October 2014;

Mr J. Benoit, Chairperson of Mauritius Institute of Directors, appointed in November 2013 to October 2014.

Attendance of members for meetings held from January to December 2014 is as shown below:

| **Council Members** | **No. of Meetings Attended** |
| --- | --- |
| Mr D.B. Seetulsingh *(Terms of office came to an end in June 2014)* | 2/3 |
| Dr S.G. Domah *(Appointed in June 2014)* | 4/4 |
| Mr Y. Googoolye | 3/7 |
| Mrs D.P. Chinien | 4/7 |
| Miss C. Ah-Hen | 6/7 |
| Mr M.J. Lamport | 6/7 |
| Mr Thierry Leung | 4/7 |
| Mr C. Ping Voon To Choon Kwee | 5/7 |
| Mr D. Soochit *(Appointed in October 2014)* | 2/2 |
| Mr A. Kodabux *(Terms of office came to an end in October 2014)* | 5/5 |
| Ms C. McIlraith *(Appointed in October 2014)* | 1/2 |
| Mr J. Benoit *(Terms of office came to an end in October 2014)* | 3/5 |

## 1.4 Compliance with the National Code of Corporate Governance

FRC complies with the principles of good governance as stipulated in the Code of Corporate Governance.

1. **Role and Functions of Council/CEO**

The role and the functions of the Board and the CEO are defined in the Financial Reporting Act. The CEO is responsible for the smooth running of the Council and to advise on the strategic direction of the FRC. The Council took decisions on strategic policies.

**(ii) Panel of Experts**

Three are four Panels as stipulated in S 17 of the Financial Reporting Act have already been established, namely:

* Audit Practice Review Panel (APRP)
* Financial Reporting Monitoring Panel (FRMP) and
* Standard Review Panel (SRP) and the
* Enforcement Panel (EP)

Members of both APRP and FRMP work in close collaboration with the employees of FRC, by providing expert advice on accounting and auditing issues during the review exercise.

Based on the findings of reviews, both FRMP and the APRP would refer cases to the EP, whenever appropriate actions/sanctions would be required.

The SRP became operational in the beginning of year 2014, and details of the work done by this panel are highlighted in Chapter 5

## (iii)  Internal Control/ Audit Committee

FRC submits its budget estimates to the Ministry of Finance and Economic Development and requests for adequate grant to finance the operation of FRC. The Ministry of Finance and Economic Development monitors the disbursement of grants and requests a quarterly report on the utilisation of funds.

Given the small size of the organisation and a budget of around MUR 22 million annually, the internal control procedure is built into the operating system.

At the moment, the FRC does not find the need to have a separate audit committee. The Chief Executive Officer oversees all the day-to-day activities of the Council.

The Council considers the management letter of the National Audit Office, and addresses any queries contained therein.

## (iv) Code of Ethics/Code of Conduct

The FRC has established a Code of Ethics for its employees, the members of the Council and members of the panels to promote ethical concerns such as objectivity, fairness, professionalism and confidentiality.

During the year 2013, FRC has issued a Code of Conduct to be adhered to by all employees. The aim of the code of conduct is to develop a common perspective toward a vision of ethical and professional behavior within the FRC.

To address the issue of confidentiality, oaths of confidentiality are taken by all members of the Council, members of the panels and the employees of FRC.

## (v) Membership of International Forum for Independent Audit Regulators (IFIAR)

FRC is a member of the International Forum for Independent Audit Regulators (IFIAR). The forum consists of 45 members and its main purpose is to share knowledge, and ensure that all members are aligning their strategies towards the main objective, that is ensuring and monitoring audit quality. The interaction with other members enables FRC to share experience on audit inspections and, also, assists in building capacity at the FRC.

FRC pays an annual membership fee of 10,000 euros to IFIAR. Being a member of IFIAR adds to the reputation of FRC. FRC is adopting the international concepts in its operating activities.

### (vi) Employees welfare and development

FRC ensures that the employees obtain sufficient and relevant training to enable them to perform their duties in a most effective and efficient way. The staff of the FRC is encouraged to undertake self-development learning, as it is imperative that they keep themselves updated as to what is happening in the financial markets, the developments in financial reporting and auditing standards and principles of corporate governance.

FRC subscribes to e-IFRS for all the technical staff since this allows them to make on-line research on the requirements and applications of IFRS. In-house training on the application of new IFRS and Auditing Standards is also developed for the benefit of the employees.

They are also given the opportunity to attend the annual workshop on audit inspection organised by IFIAR (please refer to paragraph 1.8)

### (vii) Performance Appraisal

Performance appraisal is carried out on annual basis. The appraisal system is a mechanism to assess the behaviour and technical capacity of the employees. The CEO assesses the performance of the employees in a transparent manner, through a face to face interview. The employees have to include the following in the performance appraisal form:

1. output for the preceding year;
2. outcome achieved;
3. their appreciation on the working environment;
4. the support they obtain from management;
5. Any further training they require to improve their performance;
6. Any further development to meet the objectives of FRC; and
7. How far they can contribute towards research and the issue of any research paper.

## (viii) Remuneration of Members , Chief Executive Officer and Senior Management

For the year 2014, the following remuneration including benefits was paid:

### Remuneration of Members of Council and Panels

|  |  |  |
| --- | --- | --- |
|  | **Council Members** | ***(Rs)*** |
| 1. | Mr Dheerujlall B. Seetulsingh | ***120,000*** |
| 2. | Dr Satyabhooshun Gupt Domah | ***182,295*** |
| 3. | Mrs Divanandum P. Chinien | ***60,000*** |
| 4. | Mr Matthew John Lamport | ***60,000*** |
| 5. | Miss Clairette Ah-Hen | ***60,000*** |
| 6. | Mr Thierry Leung | ***45,000*** |
| 7. | Mr Clifford Ping Voon To Choon Kwee | ***60,000*** |
| 8. | Mr Dwarka Soochit | ***15,000*** |
| 9. | Ms Catherine McIlraith | ***5,000*** |
| 10. | Mr Ameene Kodabux | ***45,000*** |
| 11. | Mr James K.D. Benoit | ***45,000*** |
| 12. | Ms Mohoni Nowbotsing (Secretary)  | ***60,000*** |
| 13. | Bank of Mauritius | ***60,000*** |
|  | **Panel Members**  |  |
|  | **Financial Reporting Monitoring Panel** | ***Rs*** |
| 1. | Mr Imrith Ramtohul | ***10,000*** |
| 2. | Mr James S.S. Leung Yin Kow | ***12,500*** |
| 3. | Mr Twaleb Butonkee | ***12,500*** |
| 4. | Mrs Hema Pawan | ***5,000*** |
| 5. | Mrs Jayshree Guness | ***10,000*** |
| 6. | Mrs Sehnaz Bibi Nunhuck | ***5,000*** |
|  | **Audit Practice Review Panel** | ***Rs*** |
| 1. | Mr John Chung Chung Wai | ***12,500*** |
| 2. | Mr Priyaved Jhugroo | ***12,500*** |
| 3. | Mr Louis Pascal Stephane Moutou | ***10,000*** |
| 4. | Ms Joan Jill Wan Bok Nale | ***2,500*** |
|  | **Standards Review Panel** | ***Rs*** |
| 1. | Mr Ahmad Abdool Gaffoor | ***22,500*** |
| 2. | Mr Chelven Chengabroyan | ***25,000*** |
| 3. | Mr Mootooganagen Ramen | ***22,500*** |
| 4. | Mr Prem Rambocus | ***25,000*** |
| 5. | Mr Yousouf Khan Hansye | ***22,500*** |
| 6. | Ms Varsha Bishundat | ***15,000*** |
|  | **Enforcement Panel** | ***Rs*** |
| 1. | Miss Clairette Ah Hen | ***27,500*** |
| 2. | Mrs Divanandum P. Chinien | ***22,500*** |
| 3. | Mrs Selvida Naiken | ***27,500*** |
| 4. | Mr Viswajithsing Tuhobol | ***27,500*** |

Remuneration, including other benefits to Chief Executive Officer amounted to **Rs 1,815,715.59.**

FRC has now 3 Managers who are responsible for the **(i) Audit Practice Review Unit, (ii) Financial Reporting Monitoring Unit and (iii) Standard Review/Training Unit**. Remuneration, including other benefits to these 3 Managers amounted to **Rs 4,150,199.30**.

## (ix) Profile of Members of Council, Panels and Chief Executive Officer

**The Council**

**Mr D.B. Seetulsingh S.C, Ex-**Chairperson

Mr Seetulsingh holds a degree in Philosophy, Politics and Economics from the University of Oxford and is a barrister-at-law of the Middle Temple. He is a Senior Counsel, a former Solicitor General of Mauritius and a former Judge of the Supreme Court. He has chaired several regulatory bodies and institutions with quasi-jurisdictional functions in the past, such as the Tax Appeal Tribunal, the Stock Exchange Commission, the Cane Millers’ and Planters’ Arbitration and Control Board, the Termination of Contracts of Service Board. He has been a member of the Board of Directors of Air Mauritius, a member of Bank of Mauritius Committee overseeing Offshore Banks and Chairperson of the Staff Committee of the University of Mauritius. He heads the National Human Rights Commission at present.

**Mr Yandraduth Googoolye**

Mr Yandraduth Googoolye has been First Deputy Governor of the Bank of Mauritius since July 2006. He started his career as Accountant at the Bank of Mauritius in 1985. He became Assistant Inspector of Banks (later restyled as Assistant Director - Banking Supervision) in 1987. He took charge of Banking Supervision in 1991 before becoming Director of the Operations Department in 1997. As Director-Accounting, Budgeting and Payments System since 2002, he has been the project coordinator for the establishment of a Real Time Gross Settlement System for the banking system in Mauritius and also responsible for the automation of the Clearing House. Mr Googoolye is currently a member of the Monetary Policy Committee.

**Mrs Divanandum Chinien**

Mrs Divanandum Chinien holds a B.A. (Hons) in Law from U.K. She is a barrister-at-law from the Middle Temple, London, UK. She was appointed Registrar of Companies in 1989. Since June 2009, she has also been the Director of Insolvency Services under the Insolvency Act 2009.

**Miss Clairette Ah-Hen**

Miss Clairette Ah-Hen is the Chief Executive of the Financial Services Commission (FSC). She has wide and in-depth experience in financial reporting and corporate capital structures. Before joining the FSC, she was responsible for monitoring compliance with financial reporting standards across the Sub-Saharan Africa for a large international accounting firm. She was the first Chief Executive Officer of the Mauritius Financial Reporting Council in 2005, and held the post of Senior Advisor for Corporate Affairs in the Ministry of Economic Development from 2003 to 2004. Prior to 2005, she was an Associate Professor and Dean of the Faculty of Law and Management of the University of Mauritius. Miss Clairette Ah-Hen has also chaired several Committees at national level on Accounting and Auditing Standards and worked in collaboration with the World Bank.

She holds an MPhil and a BA (Hons) in Accounting and Finance. She is a fellow member of the Institute of Chartered Accountants in England and Wales (ICAEW), and of the Chartered Institute of Management Accountants, UK (CIMA).

In her capacity as Chief Executive of the FSC, Clairette Ah-Hen currently occupies the post of Vice-Chairperson of the Committee for Insurance, Securities and Non-Bank Financial Authorities (CISNA) for the Southern African Development Community (SADC).

**Mr Matthew John Lamport**

Mr Matthew Lamport holds a Masters in Finance from the University of Mauritius. He has been a full time academic in the Department of Finance and Accounting at the University of Mauritius for the past six years and is currently Senior Lecturer. He is a member of the Association of Chartered Certified Accountants (ACCA). Mr Lamport specialises in teaching financial reporting and financial management to undergraduate and postgraduate students at the University of Mauritius. His research interests include quality of financial reporting, usefulness of annual reports to users, relevance of accounting metrics in explaining movements in stock prices, dividend policy, corporate social responsibility and capital structure.

**Mr Thierry Leung**

Mr Thierry Leung, Fellow of the Institute of Chartered Accountants, Director at Ernst & Young, is currently in charge of the Professional Practice Group. His main areas of responsibility are audit quality, learning and development, technology based audit tools, and knowledge and application of International Financial Reporting Standards, the Companies Act 2001, the Listing Rules and International Standards on Auditing.

**Mr Clifford Ping Voon To Choon Kwee**

Mr Clifford Ping Voon To Choon Kwee is currently Managing Director of OIS Mauritius involved in International Tax Advice and Outsourcing. Prior to that Mr Ping Voon To Choon Kwee has worked in the offshore industry in Mauritius where he specialized in offshore tax structuring. Mr Ping Voon To Choon Kwee has spent more than 15 years in Australia where he has been a consultant to various small to medium enterprises and he has also worked for over 10 years in the banking industry, namely with BNP Paribas and Westpac Banking Corp where he held senior positions principally in the Corporate Tax Department.

Mr Ping Voon To Choon Kwee is currently the Chairperson of the Mauritius Institute of Professional Accountants (MIPA) and is also the Economic Consul of the Chamber of Commerce and Industry for the Region of Nosy-Be & Diana in Madagascar.

Mr Clifford Ping Voon To Choon Kwee, a CPA from Australia, holds a Bachelor of Commerce (Major in Accounting, sub-major in Finance) from the University of Western Sydney, a Master of Commerce (Funds Management Specialization) from the University of New South Wales and a Master of Taxation Law from the University of Sydney.

**Mr Dwarka (Harish) Soochit FCCA,FCMA,CGMA**Dwarka Soochit is a fellow member of the Chartered Institute of Management Accountants (CIMA) and a fellow of the Association of Chartered Certified Accountants (ACCA). He is currently the director of BIT Consultants, a practice providing professional services in audit, domestic and international taxation, accounting and receivership. He currently sits on the board of the CIMA Africa Board Forum and the Mauritius Institute of Professional accountants (MIPA). He has 11 years of experience as a Finance Manager in the manufacturing industry and served as a manager in a medium sized practice for 7 years. For almost 2 years he has offered his expertise as the President of the CIMA branch in Mauritius. He was also a board member of the South African regional board.

**Ms Catherine McIlraith**

Catherine McIlraith, a Mauritian citizen, holds a Bachelor of Accountancy degree from the University of the Wiwatersrand, Johannesburg, South Africa and has been a member of the South African Institute of Chartered Accountants since 1992. She served her Articles at Ernst & Young in Johannesburg. She then joined the Investment Banking industry and has held senior positions in corporate and specialized finance for Ridge Corporate Finance, BoE NatWest and BoE Merchant Bank in Johannesburg. She returned to Mauritius in 2004 to join Investec Bank where she was Head of Banking until 2010.

Catherine McIlraith is a Fellow Member of the Mauritius Institute of Directors (“MIoD”). She is an Independent Non-Executive Director and a member of various Committees of a number of public and private companies in Mauritius including AfrAsia Bank Limited, CIEL Limited, Les Gaz Industriels Limited. She is also the Chairperson of the MIoD since October 2014.

**Chief Executive Officer**

**Mrs Selvida Naiken**

Mrs Selvida Naiken is a Fellow of the Association of Chartered Certified Accountants of England. She holds an MBA from the University of Mauritius, with specialisation in marketing. She also has a diploma in Social Work, a Certificate in Quality Assurance from the Institute of Quality Assurance, England and a Certificate in Fundamentals of Corporate Governance from the United Nations Institute of Training and Research (UNITAR). She was appointed Chief Executive Officer of the Financial Reporting Council in May 2008 after having been Officer-in-Charge from July 2007 to April 2008. Mrs Naiken reckons about 30 years in the public service and has worked in various fields before joining the Management Audit Bureau, Ministry of Finance. She has been a director on the Boards of various Statutory Bodies and Chairperson of the Port-Louis Fund, a subsidiary company of State Investment Corporation.

She has also served as member of the Council of the University of Mauritius from January 2012 to December 2014 and has chaired the Audit Committee.

**Members of the Financial Reporting Monitoring Panel**

**Mr Twaleb Butonkee**

Mr Twaleb Butonkee is the Chairman of the Financial Reporting and Monitoring Panel and is fellow member of the Institute of Chartered Accountants in England and Wales. He has a strong financial and professional services background and in-depth expertise in financial reporting, assurance, governance and risk management relevant to public interest entities operating in Mauritius. He is currently the national audit leader for Deloitte Mauritius.

**Mr James Leung Yin Kow**

Mr James Leung Yin Kow holds a Bachelor of Commerce (Honours & Summa Cum Laude) from McMaster University (Canada) and a Master of Arts in Economics from York University (Canada). He is also a CFA Charterholder since 2000. He was a member of a task team subcommittee for the Code of Corporate Governance (2004). Mr Leung has 13 years’ experience as Fund Manager and 3 years’ experience as Stockbroker.  He is currently Managing Director of Skanda Business Consultants Ltd which provides corporate advisory services and is a part time lecturer at the University of Mauritius as well as Open University.

**Ms Hema Pawan**

Ms Hema Pawan is a member of the Association of Chartered Certified Accountants (ACCA). She has over 7 years of experience in Auditing and Accounting. She has worked on the audit of several clients in the financial services sector, including investment companies and investment funds.

Ms Hema Pawan currently heads the technical desk at KPMG Mauritius. She was seconded to the Department of Professional Practice (DPP), the KPMG technical department in Johannesburg for an 18 months’ period. Ms Hema Pawan has been involved in the provision of IFRS technical accounting advisory services to KPMG staff and clients, including the preparation of accounting opinions, reviewing of annual financial statements and the presentation of IFRS training material. Ms Hema Pawan has also been a member of the financial instruments team (sub-unit) within DPP which focuses on developing tools, training, research and IFRS technical assistance in various financial instrument accounting matters.

**Mr Imrith Ramtohul**

Mr Imrith is actually the Senior Investment Consultant at Aon Hewitt Ltd, the Mauritian office of Aon Hewitt worldwide, which is present in 120 countries. He previously held positions at Mauritius Union Group, the Stock Exchange of Mauritius and at subsidiaries of South African banking groups Rand Merchant Bank and Nedbank.

Mr Imrith is a Member of the Financial Reporting Monitoring Panel (FRMP) and a Member of the CFA Institute Global Investment Performance Standards (GIPS) Investor/Consultant Subcommittee.

Mr Imrith has more than 14 years’ experience in the financial services sector. He holds the Chartered Financial Analyst designation and is a Fellow of the Association of Chartered Certified Accountants UK (FCCA). He graduated from the University of Cape Town with a Bachelor of Business Science (Honours) degree.

**Ms Jill Wan Bok Nale**

Ms Jill Wan Bok Nale is an Associate member of the Institute of Chartered Accountants in England and Wales (ICAEW). She holds a BSc (Hons) Accounting & Finance degree from the London School of Economics.

Ms Wan Bok Nale has worked for 7 years at Ernst & Young as Manager in Audit and Advisory Business focussing on Financial Services, as well as in Transaction Advisory Services on Valuations, Due Diligence and Financial Modelling. She has experience in the offshore asset management sector having overseen a portfolio of over 150 companies, and having held directorship in over 50 such entities including CIS and CEF.

Since her time at Ernst & Young, Jill has been designated as IFRS expert (Professional Practice Group) in charge of the technical desk, a position which she also subsequently maintained upon transition to the offshore sector.

**Mrs Jayshree Guness**

Mrs Jayshree Guness is a Fellow member of the ACCA and holds an MBA, International Business.

She has over 16 years’ experience in the financial services sector. She currently heads the Administration and Enterprise Risk Cluster at the FSC.

She has been appointed as member of the Financial Reporting Monitoring Panel since February 2013.

**Members of Audit Practice Review Panel**

**Mr Priyaved Jhugroo**

Mr Priyaved Jhugroo is a Fellow of the Institute of Chartered Accountants in England and Wales. Presently, he is the chairperson of the APRP.

**Mr John Chung Chung Wai**

John Chung Chung Wai holds a BSc Management Sciences degree from the London School of Economics. He is also a Fellow of the Institute of Chartered Accountants in England and Wales.

**Mr Stephane Moutou**

Mr Stephane Moutou is a Fellow member of the Association of Chartered Certified Accountants. He also holds an MSc in Risk Management and a BSc in Accounting & Finance from the University of Mauritius.

# CHAPTER 2

# Licensing of Auditors and Approval of Firm’s name

## 2.0 Licensing auditors and renewal of licence

Section 33(1) of FR Act 2004 stipulates that “no person shall hold any appointment, or offer any services for remuneration, as an auditor, unless he holds a licence…..” issued by the FRC. During 2014, fourteen auditors did not renew their licences and FRC licensed ten new auditors. As at December 2014, FRC has **one hundred and ninety five** licensed auditorson the register**.**

The tenure of the licence is for a calendar year period and has to be renewed. The auditors have to adhere to conditions attached to the licence which are as follows::

* to maintain a quality system, based on the International Standards on Quality Control (ISQC) in their practices;
* to be conversant and keep abreast with the requirements of International Standards on Auditing (ISAs) and exposure drafts issued by International Auditing and Assurance Standards Board (IAASB);
* to be conversant and keep abreast with all the requirements of International Financial Reporting Standards issued by International Accounting Standards Board;
* to maintain a Professional Indemnity Insurance;
* to ensure continuity of practice through making arrangements with another licensed auditor in case of incapacity or death.
* To ensure that audit work is being carried out in compliance with ISAs.

## 2.1 Authorisation to foreign auditors

In July 2009, amendments were brought to Section 33 of the Financial Reporting Act whereby a foreign auditor, that is, the auditor of a company holding a Category 1 Global Business Licence under the Financial Services Act, shall obtain approval of the Council before starting to practise.

As at December 2014, FRC had granted authorisation to eight foreign auditors.

FRC seeks confirmation on the good standing of auditors from their foreign regulatory bodies. The tenure of the authorisation is for one year and normally coincides with the expiry date of the authorisation given by the foreign regulators.

## 2.2 Approval of firm’s name

Section 35 (1) of the FR Act 2004 states that “no licensed auditor shall practise as an auditor in the name of a firm unless the name of the firm has been approved by the Council”.

For the year 2014, FRC approved seven new Audit Firms’ names and four names have been removed from the list, thus increasing the total number of firms from 95 in December 2013 to 98 as at 31 December 2014.

**2.3 Submission of list of Auditors**

FRC regularly submits the updated list of licensed auditors and approved audit firms’ names to the Registrar of Companies, Bank of Mauritius and the Financial Services Commission. These bodies will at their end ensure that only licensed auditors are performing audit for entities regulated or registered with them.

# CHAPTER 3

# Annual Report Reviews

**3.0 Introduction**

FRC reviews the annual reports of Public Interest Entities (PIEs) with the objective of promoting the provision of high quality reporting of financial and non-financial information which undoubtedly enhance the credibility of corporate reporting.

PIEs are required to comply with Section 75 of the Financial Reporting Act, while preparing their annual reports. In this respect, FRC verifies compliance, amongst others, with the following main issues:

* financial statements of the PIEs are in compliance with the requirements of International Financial Reporting Standards;
* financial statements are in compliance with relevant laws and regulations;
* reports on corporate governance are in compliance with the requirements of the National Code of Corporate Governance; and
* a statement of compliance with the Code signed by the Chairperson of the Board, has been submitted together with the annual report as stipulated in Section 75(3) of the Financial Reporting Act.

The definition of PIE has been revised following the amendments made to the Financial Reporting Act 2004 (FRA) through the Economic and Financial Measures (Miscellaneous Provisions) Act 2013 to include 16 State Owned Enterprises which are also required to prepare annual reports in compliance with the above reporting requirements. Therefore, FRC will review the annual reports of these SOEs for the year ended December 2014.

## Reviews conducted by FRC

1. **Reviews conducted since 2008**

FRC had started the annual report review function in the year 2008. As at 31 December 2014, FRC had conducted the review of 858 annual reports (full and follow-up reviews) as illustrated in the table below:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Categories** | **30 June 2009**  | **December 2010**  | **December 2011**  | **December 2012**  |  **December** **2013** | **December 2014**  | **Total**  |
| Listed | 63 | 64 | 46 | 56 | 54 | 53 | 336 |
| Other PIEs | 22 | 88 | 73 | 85 | 115 | 139 | 522 |
| **Total** | **85** | **152** | **119** | **141** | **169** | **192** | **858** |

1. **Reviews conducted in 2014**

During the year 2014, FRC conducted the review of 117 annual reports. Listed entities are mostly reviewed on an annual basis. The table below shows the number of times of review and the different sectors:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Sectors** | **1st review** | **2nd review** | **3rd review** | **4th review** | **5th review** | **6th review** | **Total** |
| **L** | **NL** | **L** | **NL** | **L** | **NL** | **L** | **NL** | **L** | **NL** | **L** | **NL** |
| Banking, Insurance and Finance |  -  |  12  |  **-**  |  2  |  |  2  |  -  |  8  |  1  |  -  |  1  |  -  |  **26**  |
| Commerce |  1  |  13  |  **-**  |  1  |  **-**  |  **-**  |  **-**  |  **-**  |  **1**  |  **-**  |  **2**  |  **-**  |  **18**  |
| Industry |  1  |  11  |  **1**  |  -  |  1  |  1  |  3  |  -  |  2  |  -  |  -  |  -  |  **20**  |
| Information Technology |  -  |  1  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  **1**  |
| Investments |  1  |  17  |  -  |  -  |  2  |  -  |  2  |  -  |  3  |  -  |  -  |  -  |  **25**  |
| Leisure & Hotels |  -  |  4  |  -  |  -  |  -  |  -  |  1  |  -  |  2  |  -  |  -  |  -  |  **7**  |
| Property Development |  2  |  3  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  **5**  |
| Sugar |  -  |  1  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  -  |  **1**  |
| Transport |  -  |  2  |  -  |  -  |  -  |  -  |  -  |  -  |  2  |  -  |  -  |  -  |  **4**  |
| Others |  -  |  5  |  -  |  2  |  -  |  -  |  2  |  -  |  -  |  -  |  1  |  -  |  **10**  |
| **Total** |  **5**  |  **69**  |  **1**  |  **5**  |  **3**  |  **3**  |  **8**  |  **8**  |  **11**  |  **-**  |  **4**  |  **-**  |  **117**  |

**Note: L = Listed, NL = Non-listed**

**(iii)**  **Follow-up reviews of annual reports**

FRC also undertook follow-up reviews of annual reports to assess the extent to which findings raised on previous reviews had been satisfactorily addressed by the PIEs. FRC also considered the applications of new IFRS. Seventy-five reviews were carried out falling into the following categories:

 Listed on SEM 21

 Regulated by BOM 2

 Regulated by FSC 16

 Other PIEs 36

## Quality level in Reporting

FRC has established a grading system in September 2013 in order to be more consistent in its approach of assessing the quality of corporate reporting by PIEs. For the year under review, FRC has graded the quality of the 192 annual reports reviewed (117 full reviews and 75 follow up reviews).

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)

Grade 1 is given when the PIE has fully complied with the requirements of the Financial Reporting Act. The PIE has complied in all material aspects with the requirements of the IFRS, the requirements of the National Code of Corporate Governance and the overall information provided in the annual report depicts transparency and coherence.

Grade 2A is allocated, when the annual report contains non-compliances which have no serious impact on the quality of the corporate report. For example, there are issues such as non-disclosures as required by certain IFRS which are useful to better understand the Financial Statements, or there has been departure from the requirements of the National Code of Corporate Governance and no explanations have been provided.

Grade 2B is allocated when there are major departures from compliance with IFRS and also with the National Code of Corporate Governance which definitely impact on the quality of the corporate report.

Grade 3 is allocated when the PIE has not complied with fundamental requirements of the IFRS which are essential information to enable users of financial reports to make useful decision. Also, when the PIE has not complied with the National Code of Corporate Governance and failed to provide reasonable explanations.

* 1. **Grading of PIEs (full and follow up reviews)**

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

|  |  |  |  |
| --- | --- | --- | --- |
| **Types of PIEs** | **Full Review****Grades** | **Follow-up Review****Grades** | **Total** |
| **1** | **2A** | **2B** | **3** | **1** | **2A** | **2B** | **3** |  |
| Listed on SEM | 2 | 18 | 11 | 1 | 7 | 12 | 2 | 0 | 53 |
| Financial institutions regulated by BOM (excluding cash dealers) | 3 | 7 | 2 | 0 | 0 | 2 | 0 | 0 | 14 |
| Financial institutions regulated by FSC | 1 | 10 | 5 | 1 | 1 | 10 | 5 | 0 | 33 |
| Category 4 PIEs as per the FRA | 2 | 23 | 31 | 0 | 10 | 23 | 2 | 1 | 92 |
| **Total** | **8** | **58** | **49** | **2** | **18** | **47** | **9** | **1** | **192** |

From the above table, the 192 PIEs comprised of 117 full reviews and 75 follow up reviews.

1. **Grading of the PIES with respect to full reviews**

Out of the 117 full reviews, it can be seen that 56 % (66/117) were of good and acceptable level of quality in corporate reporting. The remaining 44 % received low grading, either a 2B or 3, meaning that the level of reporting required major improvement.

From the 51 PIES which received 2B or 3 grades, 12 entities are listed on the Stock Exchange, 2 are regulated by the Bank of Mauritius and 6 are regulated by the FSC, that is, about 40%. FRC has communicated the findings with the respective regulatory bodies.

With respect to the above 3 PIEs (2 full review and 1 follow-up review) that had been rated grade 3. The PIEs were informed of the major non-compliances identified with respect to IFRS and the code of corporate governance. They undertook to take remedial actions in all aspects.

1. **Grading of PIEs (follow up reviews)**

As regards to the grading of the 75 PIEs for which follow-up reviews were conducted, FRC observed the following:

* 46 PIEs were not previously graded as FRC’s grading system was not yet implemented (i.e. review was carried out before September 2013).
* 29 PIEs had received a grade 2B in their previous reviews. Out of these 29 PIEs, the following were noted:
* 6 PIEs received grade 1
* 17 PIEs had been granted grade 2A; and

- 6 PIEs obtained the same grade (2B)

It can be clearly seen that there was an improvement in corporate reporting. 23 PIEs had moved from grade 2B to grade 1 or 2A.

##  Trend in quality reporting

The grading structure clearly showed that there was an increasingly good level of corporate reporting by the PIEs in general. FRC also observed that the mindset of people towards corporate reporting has changed.

The annual report should not be considered as a mean to comply with regulatory requirements, but as a communication tool for stakeholders to understand the business of the entity – giving clear insights into the companies values, strategy, vision, internal structures and operational aspects. There is an increased focus on articulating strategic factors that contribute to performance in a concise and understandable way.

Regulation is an increasingly important driver of promoting quality in corporate reporting, but frameworks such as guidance from regulators such as Companies Division, Financial Services Commission and Stock Exchange of Mauritius would also assist driving up reporting quality level. Alongside the overall growth in reporting, integration of financial and non-financial information is also important for an improvement in quality reporting.

##  Findings from the Review

During the course of its annual report review exercise, FRC noted the following non-compliances raised with respect to IFRS and code of corporate governance. Details of the findings are included in the six-monthly bulletins which are published on FRC’s Website. Some of main issues identified by FRC are highlighted below:

1. **Non-compliances with respect to IFRS**
* **Accounting policies**

FRC queried:

* Policy descriptions that summarised the standard;
* Policy descriptions that did not describe the company’s specific application in practice;

e.g.: investment properties valuation methods.

* Lack of policies for transactions or balances that were material to the business.
* **Revenue recognition**

FRC queried:

* Lack of explanation of the point at which risks and rewards are transferred to the customer for significant business streams, including stage of completion;
* Lack of specific clear policy for items such as IRS residences; and
* Failure to disclose revenue by different categories of revenue sources.
* **Property, plant and equipment**

FRC challenged:

* Revaluations of property, plant and equipment not made with sufficient regularity; and
* Unclear accounting policy for property, plant and equipment which contradicts the disclosure made in the note to the financial statements.
* **Employee Benefits**

FRC challenged non-disclosures of the following:

* The significant risk to which the entity is exposed through its defined benefit plan;
* The fair value of plan assets categorised into sub-classes;
* A sensitivity analysis for each significant actuarial assumption;
* A description of any funding arrangements and funding policy;
* The expected contributions to the defined benefit plan for the next annual reporting period; and
* Information about the maturity profile of the defined benefit obligation.
* **Financial Instruments**

FRC informed the PIEs of the following non-disclosures:

* Disclosures related to cash flow hedge;
* Management of financial risks;
* Information on credit risk such as:
	+ Amount that best represents the entity’s maximum exposure to credit risk.
	+ Information about the credit quality of financial assets that are neither past due nor impaired.
* An analysis of the age of financial assets that are past due as at the end of the reporting period but not impaired;
* Description, carrying amount, fair value and terms and conditions of collaterals; and
* Sensitivity analysis for each type of market risk to which the company is exposed and the methods and assumptions used in preparing the sensitivity analysis.
	1. **Compliance with the National Code of corporate governance**

FRC noted a remarkable level of compliance with the National Code of Corporate Governance. 112 PIEs out of the 117 have reported on compliance with the National Code, that is, a compliance level of 96%, compared with only 80% in the year 2013. The five PIEs which have not complied with the Code, comprised of two entities regulated by FSC and 3 other PIEs. FRC informed the FSC of the situation and has also sent letters to the PIEs reminding them of the requirements of the Financial Reporting Act.

During the course of the annual report review, FRC identified some major issues such as:

* No Statement of Compliance as required by Section 75(3) of the Financial Reporting Act 2004;
* Composition of the Board, more specifically on the number of executive and independent directors represented on the Board;
	+ Information on Board Committees;
	+ Details of exposure to key risks and management of these risks;
* Details of remuneration paid to each director on an individual basis; and
* Description of non-audit services.

##  Communication with the PIEs

In compliant with the review process, FRC informed the PIEs of the various weaknesses identified in various ways .

1. **Letters to PIEs**

Based on non-compliances identified, FRC liaised with the Chairman and the Managing Directors. FRC sent letter of observations to PIEs, informing them of its concerns in respect of non-compliances raised with respect to the content of their annual reports.

1. **Publication of bulletins**

FRC prepares half yearly bulletins on the annual reports reviews which are published on its website. In these bulletins, FRC reports its findings on non-compliances identified on areas of corporate reporting such as IFRS and code of corporate governance. The bulletins highlight the findings on the particular areas of corporate reporting common to the PIEs and the improvements that have to be made in line with the relevant legal and accounting requirements.

1. **Meetings with representatives of PIEs**

Meetings were held between the FRC and the representatives of the entity. FRC aims to receive the company’s explanations and concludes on the way forward.

During the year under review, FRC met the representatives of 5 PIEs for the year under review to discuss the points raised in the letters of observation issued to the PIEs. During the meeting, the following areas relating to IFRS and governance were discussed with the representatives of the PIEs:

* Description of non-audit services which was not included in the annual report;
* Accounting policies adopted by the company which were not in line with the requirements of the reporting standards;
* Composition of board - the minimum requirement of executive and independent directors was not met;
* Non-submission of Corporate Governance report; and
* Liquidity issues affecting the entity.
1. **Workshop organised by the FRC**

FRC organised a **Workshop on Quality Corporate Reporting – Roles of Board of Directors and Auditors** in August 2014. The objective of this workshop was to get the two major players in the reporting chain on board, that is, the Board and the Auditors.

FRC is of the view that although the responsibility to prepare useful and transparent annual reports lies with the Board, the auditor has a very important role to play in ensuring that information provided are fair and honest, that is, free from management bias.

FRC received positive feedback from the PIEs as they were informed of how to improve quality in corporate reporting and what are the responsibilities of the external auditors.

1. **Communication with auditors**

The duties of the auditors include ensuring completeness of the Financial Statements in respect of compliance with IFRS and the Code of Corporate Governance. In this respect, FRC sent letter to the auditors requesting for explanations on how the audit work has been done. Sometimes meetings were held at the seat of FRC. Some of the issues discussed with the auditors were as follows:

1. ***Auditor’s report on corporate governance***

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. From the annual report reviewed, FRC noted that some auditors did not report on corporate governance, as per the above section of the FRA.

1. ***Provision of other services by auditors***

The IFAC Code of Ethics provides safeguards that maintain the independence of the auditors. In this respect, FRC drew the auditors’ attention that non-audit services may create a self-review threat and that this may affect matters to be reflected in the financial statements.

1. ***Compliance with IFRS***

ISA 330 The Auditors’ Responses to Assessed Risks requires the auditor to perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework. In this regard, FRC apprised auditors of the respective PIEs reviewed that disclosures were not made in the financial statements of the PIEs in accordance with the following IFRSs:

* IAS 1 Presentation of Financial Statements;
* IAS 16 Property, Plant and Equipment;
* IAS 17 Leases;
* IAS 19 Employee Benefits;
* IAS 24 Related Party Disclosures;
* IAS 36 Impairment of Assets; and
* IFRS 13 Fair Value Measurement.
1. ***Going concern issue***

As per ISA 570 Going Concern, an auditor has to assess the going concern concept adopted by the entity. In several cases the auditors had not included “an emphasis of matter” paragraph in their audit report even though the entities had indicators of going concern issues. In this respect, FRC sought clarifications from auditors as to how the auditors got comfort from the audits that there were no risks of going concern for these PIEs.

* 1. **Cases referred to FRMP**

The Financial Reporting Monitoring Panel (FRMP) is responsible for reviewing, analysing and identifying any failure on the part of any public interest entity to comply with IFRS, code of corporate governance and any other financial reporting issues. It also considers the accounting treatments and other issues arising in annual reports.

During the year 2014, the FRMP met 5 times and considered cases relating to annual report reviews. Details of the issues discussed at the Panel were as follows:

1. **Going concern**

2 PIEs (1 PIE regulated by FSC and 1 Other PIE) had going concern issues.

In these instances, the Panel requested FRC to inform the Financial Services Commission and Registrar of companies on the financial position of the company.

The Panel also advised that a follow-up annual report review should be performed in 2015.

1. **Compliance with the code of corporate governance**

3 cases with respect to compliance with the Code of Corporate Governance were referred to the FRMP.

For 2 Other PIEs, the FRMP stated that a general explanation provided by the PIE was not acceptable. The PIEs had to provide explanations with respect to each requirement of the Code.

With respect to 1 Other PIE that had submitted a corporate governance report for 2 consecutive years, a meeting with the directors was arranged so that the Panel could assess whether the directors are committed to comply with the Code.

1. **Revenue recognition policy in respect of sales of real estates**

The directors of one listed company were requested to attend a FRMP’s meeting in order to provide clarifications on the revenue recognition policy for real estates.

Based on the above explanations, the FRMP decided that revenue derived from sales of properties and unsold apartments at group level, should be recognised under IAS 18 *Revenue* instead of IAS 11 *Construction Contracts*.

1. **Fair value of available-for-sale investments**

With respect to the valuation technique used and assumptions applied in determining the fair value of available-for-sale investments, the FRMP decided that necessary disclosures should be made in 1 listed PIE’s future financial statements, in accordance with IFRS 7 Financial Instruments: Disclosures and that the entity should be informed of same.

##  Communication with regulatory authorities / institutions

FRC had signed Memoranda of Understanding (MOU) with the following regulatory bodies / institutions:

1. Financial Services Commission;
2. Stock Exchange of Mauritius;
3. Mauritius Institute of Directors; and
4. Mauritius Institute of Professional Accountants.

These MOU enable FRC to have mutual consultation across a wide range of issues relevant in the corporate world and permit a greater degree of cooperation and information exchange between the regulators. In this respect, FRC shares the detailed outcomes of reviews of the PIEs to the above regulators in the form of quarterly or half-yearly reports.

FRC also liaises with other regulators such as the FSC and the Registrar of Companies where it considers that the matters that have come to its attention could be of significance to them in the discharge of their responsibilities. During the course of its annual report review exercise, FRC informed relevant regulatory bodies of the issues raised in respect of PIEs. Details of these issues were as follows:

* **Registrar of Companies**

FRC informed the Registrar of Companies of the following issues relating to annual report reviews:

* ***Going concern***

The annual report of 1 Other PIE indicated that it had going concern issues such as accumulated losses, net current liabilities and high gearing ratio.

* ***Filing of latest financial statements***

3 Other PIEs had not filed their latest financial statements within the prescribed time, as required by Section 215(1) of the Companies Act 2001.

* **Financial Services Commission(FSC)**

FRC drew the attention of the FSC of the following issues found during its annual report review:

* There were indications of going concern problem in the annual report of 1 CIS Manager;
* 1 PIE, licensed under Section 14 of the Financial Services Act (FSA), had not traded during the year under review and had the intention to wind up in the near future;
* It could not be ascertained whether 1 entity licensed under Section 14 of the FSA, is satisfying the specific conditions set out by FSC which requires the company to maintain a minimum paid up and unimpaired share capital and shareholder’s fund at the higher amount of Rs 10,000,000 or 5% of its total liabilities; and
* The annual reports of 2 CIS Managers were not available as they were not in operations and were looking forward to wind up the companies.

## The Way forward

**Framework on quality corporate reporting**

From the findings of review, and by the way the annual reports are presented, FRC observes that the corporate reports are prepared with a compliance paradigm. FRC wants to demonstrate that annual report is a communication tool, and it should be prepared as an informative document, giving the relevant information to various stakeholders. The annual report should tell a story on the entity.

In this context, FRC will work on a “framework on quality corporate reporting” which will guide the PIEs to balance communication and compliance. And the companies will no longer produce numerous, disconnected and static communications to their stakeholders.

# CHAPTER 4

# Audit Practice Reviews

**4.1 Introduction**

Pursuant to 77(1) of the Financial Reporting Act, FRC undertakes audit practice reviews of licensed auditors with the objectives of promoting the highest standards among licensed auditors and improving the quality of audit services provided by the auditors.

For the year 2014 FRC carried out 71 reviews in the following categories and 77 licensed auditors were reviewed:

|  |  |  |  |
| --- | --- | --- | --- |
| **Category of Reviews** | **No. of Reviews** | **Licensed Auditors Concerned** | **No. of Files Reviewed** |
| Full Reviews | 24 | 24 | 52 |
| Follow-up Reviews:* On-Site
* Off-Site
 | 55 | 55 | 5N/A |
| Thematic Reviews | 7 | 13 | 25 |
| Off-Site ISQC1 Reviews | 30 | 30 | N/A |
| **TOTAL** | **71** | **77** | **82** |

The review exercise comprised inspection of the firm’s quality system and engagement files to evaluate the quality culture prevailing at the audit practice and the level of quality audit services provided by the licensed auditors. FRC also assessed whether the measures the firms/licensed auditors had in place provided an adequate safeguard of audit quality in line with the requirements of:

* International Standards on Quality Control (ISQC 1)
* International Standards on Auditing (ISA)
* Code of Professional Conduct and Ethics issued by IFAC;
* FRC’s Licensing of Auditors Rules 2007; and
* Rules established by FRC on Audit Practice Review
	1. **Engagement File Grading System**

For the year 2014, FRC established a grading system to rate the engagement files reviewed during the audit practice review. The grading was in four categories as follows:

1. *Satisfactory (Grade 1)*
2. *Acceptable with minor improvements (Grade 2A)*
3. *Acceptable with significant improvements (Grade 2B)*
4. *Unsatisfactory (Grade 3)*

The table below summarises the grades assigned to the 52 engagement files during the full reviews in the following categories:

|  |  |  |
| --- | --- | --- |
|  Category of Entity  | **Grading of Engagement Files** |  |
| **1** | **2A** | **2B** | **3** |  |
| **PIEs** | 5 | 7 | 6 | 1 |  |
| **GBC** | 6 | 5 | 4 | 2 |  |
| **Private** | 0 | 0 | 5 | 2 |  |
| **Non-PIE** | 3 | 3 | 1 | 2 |  |
|  |   |   |   |   |  |
| **Total** | **14** | **15** | **16** | **7** | **52** |
| **% of Engagement Files** | **27 %** | **29 %** | **31 %** | **13 %** | **100 %** |

It can be noted from the above table that 56% of the engagement files has been rated grade 1 or grade 2A, implying that the quality of the audit performed was of acceptable level.

For those engagements files where grades 2B and 3 have been allocated are inspection findings related to audit engagements where deficiencies in audit procedures which indicate that the auditors did not obtain sufficient appropriate audit evidences to support the audit opinions.

A grade 3, is given when the audit performed is poor on both technical and procedural fronts. It could be seen from table above, that 44% of the engagement files received grades 2B and 3. The auditors whose files were rated grade 2B, were requested to provide remedial actions.

On a follow-up review, these auditors should be able to demonstrate that they have established the appropriate procedures and have also improved their technical expertise in auditing.

The seven files which were rated grade 3, were from 4 auditors, and the Audit Practice Review Panel has referred them to the Enforcement Panel.

* 1. **Findings of Reviews**

During the course of its audit practice review exercise, FRC identified various non-compliance with respect to ISAs, IFAC Code of Ethics and licensing rules. Details of the findings were included in the six-monthly bulletins and were published on FRC’s Website.

Some of main issues identified from the various types of reviews namely on-site full reviews, on-site follow-up review, off-site reviews and thematic reviews were as follows:

1. **Full Reviews**

FRC performed on-site inspections of various categories as shown in table below:

|  |  |  |  |
| --- | --- | --- | --- |
| **Category of Firms** | **Number of Audit Firms reviewed** | **Partners Reviewed for first time** | **Partners Reviewed for second time** |
|
| **Sole Practitioners** | 10 | 10 | - |
| **2-Partners Firm** | 8 | 6 | 2 |
| **Large firm** | 6 | 2 | 4 |
| **Total** | **24** | **18** | **6** |
|  |  | **24** |

The most commonly occurring deficiencies identified from the review exercise concern absence of understanding the entity and its environment (ISA 315), lack of auditor’s response to assessed risks (ISA 330), documentation of audit evidence regarding revenue (ISAs 230&500), related parties and going concern (ISAs 540&570), consideration of laws and regulations in an audit of financial statements (ISA 250), planning procedures, auditor’s responsibilities relating to fraud (ISA 240), analytical procedures, subsequent events, written representations and audit documentation (ISA series 500).

Based on the findings of the reviews, the Audit Practice Review Panel (APRP) has referred four cases to the Enforcement Panel (EP). The EP concluded that these were indeed very poor audits and the auditors have failed to comply with Section 39(2) of the Financial Reporting Act, which states that ***“No licensed auditor shall, in his report, express an opinion unless he has complied with the auditing standards”.***

Consequently the EP recommended the FRC to carry out a second full review of three of the 4 licensed auditors in the year 2015, whilst the fourth one has been put in a watch list as he has not renewed his auditor’s licence for the year 2015. The EP also recommended to inform these auditors not to undertake audit of Public Interest Entities until FRC is satisfied of the quality of audit services provided by them.

1. **Follow-Up Reviews**

Ten follow-up reviews were carried out in 2014 of which 5 were on-site and 5 off-site. On-site follow-up reviews were performed with respect to those practices where major shortcomings were observed during the first review exercise in year 2013. Whilst off-site reviews were done for auditors where certain policies/procedures were found to be missing during the previous reviews and the auditors were requested to provide feedback on the appropriate actions taken.

 With respect to on-site follow-up five engagement files which were previously assessed were selected for the exercise. Improvements were noted in 3 engagement files whilst for the other 2 no improvements were noted. The grades allocated to the files were as follows:

|  |  |
| --- | --- |
| **No. of Engagement Files** | **Movement in the Grade of the Engagement Files** |
|  | **Grade from First Review** | **Grade from Follow-Up** |
| 2 | 3 | 2B |
| 1 | 3 | 2A |
| 1 | 2A | 2B |
| 1 | 2B | 3 |

The APRP referred one case to the EP, where the engagement file was rated grade 3. The EP has recommended to issue a warning to the licensed auditor.

1. **Thematic Review**

FRC also conducted Thematic Review on “going concern” during the year 2014. The engagement files selected for the thematic review were based on the annual reports of those PIEs which had liquidity problems.

The purpose of this review was for the FRC to ascertain that:

1. The auditor has the appropriate procedures in line with the requirements of ISA 570, in place to conduct the relevant audit work where risk of ‘going concern’ has been identified; and
2. The appropriate audit work has been performed and documented by the auditor where the latter has identified going concern risk.

For this exercise 25 engagement files from the portfolios of 13 licensed auditors from 7 different audit firms were selected.

FRC noted from this review exercise that the audit teams had followed the required audit steps of the firm’s audit methodology, and these were evidenced by the audit work done with respect to assessment of going concern, and same were properly documented.

1. **Off-Site ISQC1/Audit Methodology Review**

FRC undertook off-site review for those licensed auditors who had no audit client as at the date of the review. The purpose of this review was to ascertain that these auditors have in place a quality control system as per the requirements of ISQC1 as this is one of the licensing conditions.

Thirty licensed auditors/firms were reviewed. From this exercise the following have been observed:

* 3 auditors did not have a documented quality control system at the time they were called for the review.
* About 25% of the auditors had no policies and procedures on the ISQC1 requirement for ‘Monitoring’.
* The 30 auditors had audit methodology which has been developed internally.
* Of those who have established the quality control system, the level of mapping of the requirements of ISQC1 were not sufficiently detailed in terms of policies and procedures.
* As most of these auditors are sole practitioners they therefore rely on CPD training courses to update their quality control system and audit methodology.

FRC recommended the auditors to take appropriate actions on the shortcomings identified during the review.

# CHAPTER 5

# Standard Review Unit

# 1.0 Introduction

In December 2013, FRC established the Standards Review Panel (SRP) pursuant to Section 17 of the Financial Reporting Act.

In this connection, FRC has set up a dedicated Standard Review Unit, with the main function to keep abreast of the development of Standards by International Bodies. The SRP works under that Unit. The duties of the SRP are as follows:

* Provide comments on the Standards issued by International Bodies
* to ensure publication of these Standards on FRC website
* to prepare guidelines on the application of complex Standards
* to work in close collaboration with local and international bodies for the submission of comments in both cases, that is
1. comments on Exposure Drafts
2. comments on post-implementation issues of IFRS

Given that one of the functions of the Council, to ensure co-ordination and cooperation with international institutions in the development and enforcement of financial reporting, accounting and auditing standards, FRC is now able to participate in the deliberations of Exposure Drafts issued by the IASB and IAASB.

The SRP reviews all the ED and revised Standards issued by the IASB, IAASB and IEASB. FRC submits its comments on ED and new Standards to the relevant International Bodies.

**2.0 Activities for the year**

 During 2014, the SRP has worked on several Exposure Drafts, new/revised Standards and on amendments brought to IFAC Code of Ethics by International Ethics Standards Board for Accountants (IESBA).

* **Comments letter on Exposure Drafts sent to IASB and IAASB**

The SRP has been effective in ensuring that public comments are communicated effectively to the International Bodies. The SRP has been monitoring developments at IASB and IFAC level, providing regular inputs and feedback to the IASB and IFAC. The FRC responded to a number of EDs, 4 issued by the IASB, 2 IAASB and 2 issued by IESBA, as shown in table below. This was done formally through comment letters on Exposure Drafts.

The table depicts the various ED worked on by the SRP

|  |  |  |
| --- | --- | --- |
|  | **Exposure Draft** | **Comments sent to:** |
| 1 | Post-implementation Review: IFRS 3 Business Combinations | IASB |
| 2 | Disclosure Initiative (Proposed amendments to IAS 1) | IASB |
| 3 | ISA 720, The Auditor's Responsibilities Relating to Other Information | IAASB via IFIAR |
| 4 | Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients | IESBA via IFIAR |
| 5 | Addressing Disclosures in Audit of Financial Statements | IAASB via IFIAR |
| 6 | Investment Entities: Applying the Consolidation Exemption | IASB |
| 7 | Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client | IESBA via IFIAR |
| 8 | Recognition of Deferred Tax Assets for Unrealised Losses - Proposed amendments to IAS 12 | IASB |

* **Revised IFRS**

During the year 2014, the SRP has reviewed eight revised IFRSs issued by IASB. Highlights of these IFRS together with the full IFRS were published on FRC’s website.

FRC has also published on the website the 2014 IFRS (Red Book) and is allowed by IASB Foundation to do so, through the waiver agreement signed by FRC and IASB.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **IAS/IFRS** | **Issue date** | **Effective date** |
| 1 | Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities  | December 2011 | 01 Jan 2014 |
| 2 | Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets  | May 2013 | 01 Jan 2014 |
| 3 | Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities | October 2012 | 01 Jan 2014 |
| 4. | Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting  | June 2013 | 01 Jan 2014 |
| 5 | IFRIC 21 Levies | May 2013 | 01 Jan 2014 |
| 6 | Amendments to IAS 16 and IAS 41 - Agriculture: Bearer Plants | June 2014 | 01 Jan 2016 |
| 7 | Amendments to IAS 27 - Equity Method in Separate Financial Statements | August 2014 | 01 Jan 2016 |
| 8 | Amendments to IAS 28 and IFRS 10 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | September 2014 | 01 Jan 2016 |

* **Financial Reporting Framework and Standards for small entities (FRSSE)**

High quality and comparable financial reporting will help the SME sector in achieving sustainable growth. The increasing significance of small entities in the economy has drawn the attention of the FRC and given rise to the proposed publication of a Financial Reporting Framework and Standards for small entities (FRSSE), including small private companies as defined by Companies Act 2001 and small limited partnerships as defined by the Limited Partnership Act 2011 and small statutory bodies as defined in the Statutory Bodies (Accounts and Audit) Act as amended in 2009.

The FRSSE will be beneficial to these entities in the following ways:

* + the small entities will prepare Financial Statements by adopting the international best practice
	+ this will enhance the transparency in reporting and would allow the entities to obtain finance more easily
	+ transparent reporting will also enable the other stakeholders to understand the business model of the entity and its direction.
* **The way forward for the year 2015**

The SRP will issue publications, such as highlights, educational materials with a view of improving understanding, communications and on implementation of accounting and auditing standard. Educational materials would mostly cover IFRS 15 and IFRS 9, which will be effective in January 2017 and January 2018 respectively.

# CHAPTER 6

# Enforcement Panel

**1.0 Introduction**

Pursuant to Section 17 of the FRA , the Enforcement Panel (EP) established at the FRC to fulfill the functions stipulated in Section 21 and are as follows:

1. *The Enforcement Panel shall consider any findings and recommendations referred to it by the Financial Reporting Monitoring Panel, the Audit Practice Review Panel, or the Council and shall, on the basis of the findings and recommendations determine the appropriate action to be taken.*
2. *The Enforcement Panel shall, within 15 days of the receipt of the findings and recommendations referred to in subsection (1) notify the public interest entity, the licensed auditor or audit firm, as the case may be, of its decision.*

The EP is accountable to the Council for the conduct of its functions and the achievement of its objectives which are:

1. Enforce compliance with financial reporting, accounting and auditing standards;
2. Enforce compliance with the FRA and the rules of the Council by conducting investigations and where appropriate imposing sanctions on licensed auditors, PIEs and officers of such entities;
3. ensure that policies and systems are developed to communicate issues of importance, as appropriate, to the Council.

In this perspective, the Enforcement Panel was set up.

**2.0 Cases considered during the year**

During 2014, the Panel considered five cases. The nature of the five cases were as follows:

1. A complaint was received on an auditor, and FRC has concluded that there is a breach of independence, that is the auditor was an alternate director of a subsidiary company and the auditor of the parent company. During the inquiry, the auditor has resigned as auditor. Given that the harm has already been done, the EP requested FRC to issue a warning to the licensed auditor and to recommend that such malpractice should not recur again.
2. A complaint was received as to the provision of accounting services by the audit firm…
3. Two auditors did not comply with the fundamental requirements of International Auditing Standards while performing the audits. Thus a breach of Section 39(2) of the Financial Reporting Act. The Panel recommended the FRC to perform fresh audit practice reviews and to charge them accordingly.
4. There was a further case where the auditor failed to comply with Section 39(2) of the Financial Reporting Act. But, he resigned as a licensed auditor before the EP took the required decision. The panel requested to put the auditor on a watch list, in case the person will renew his licence in the future and so the FRC would have all the relevant information to assess his eligibility before issuing a new licence.
5. In 2014, FRC had carried out an investigation further to a complaint made against an Audit Firm.
* The firm had three audit partners, two of them were licensed by FRC and one of them was not a licensed auditor.
* The audit partner who was a non-licensed auditor was also a Shareholder and Director of a Company bearing the same name as the Audit Firm, but which provides services other than audit. Another audit partner who was a licensed auditor of the Firm was also a director of that Company.
* The issue was that there were two separate entities, i.e, the Audit Firm and the Company bearing the same name as the Audit Firm. The complainant had appointed the Company to provide accounting services and believed that the accounting company and the audit firm is only one entity.
* FRC also noted that invoices used to claim for audit services and accounting services were drawn under the Audit Firm’s name. FRC’s view was that there was inadequate safeguard and the perception of not being independent could prevail.

 The Enforcement Panel took the decision the two entities should be distinct and that different invoices shall be used, bearing the name of the entity which provide the distinct service.

 The auditors were also reprimanded to consider the issue of independence, that by being Director of the Company which provide accounting services, care should be taken that such services are provided only to non-audit clients.

# CHAPTER 7

# Strategic Plan/Budget

## 7.0 Strategic Plan

FRC has prepared a strategic plan for the period 2013-2016. The plan highlights the main issues:

* the requirements of the Financial Reporting Act with respect to the objectives and functions of FRC;
* the plans for annual report review for the next three years; the objective of FRC is to review all the PIEs by the end of 2014;
* the plans of audit practice review; the target is to review all the licensed auditors by the end of 2014;
* the work plan for the Standard Review Unit, based mainly on the annual work plan of IASB and IAASB;
* other activities that will enable FRC to promote quality reporting and auditing;
* key performance indicators such as the number of reviews, the outcomes of the reviews.

## 7.1 Budget of FRC

FRC adopts a programme based budgeting, given that it is a requirement of the Statutory Bodies (Accounts and Audit) Act. The three main programmes of FRC are:

* Promoting quality reporting and monitoring compliance with the National Code of Corporate Governance
* Promoting Audit Quality
* Standards Review and Research

FRC’s budget focuses mainly on the above three programmes. A grant is received from the Ministry of Finance and Economic Development to finance the operating costs. FRC also obtains funds through the licensing of auditors, renewal of licences, approval of audit firm names and charges for audit practice reviews as follows:

|  |  |  |
| --- | --- | --- |
| Grant from the Government | **Rs** | ***20,453,000*** |
| Licensing/Renewal of auditors’ licence | **Rs** | ***2,185,786*** |
| Approval of firm names | **Rs** | ***28,000*** |
| Audit Practice Reviews | **Rs** | ***875,000*** |

## 7.2 Presentation of Financial Statements

FRC’s financial reporting is in compliance with IFRS. A set of Financial Statements is at Appendix 1.

# CHAPTER 8

# Future Plan of FRC

**8.0 Introduction**

Pursuant to Section 17, FRC has established all the required Panels as follows:

* Financial Reporting Monitoring Panel and the Audit Practice Review Panel in the year 2008;
* Enforcement Panel in the year 2012 and the
* Standard Review Panel in the year 2013.

Apart from the Enforcement Panel, all the other Panels are operating panels.

**8.1 Standard Review Unit**

As stated earlier, the Standard Review Panel has recently been set up. The Panel has among others the following functions:

* to review the Standards issued by International Bodies
* to ensure publication of these Standards
* to prepare guidelines on the application of complex Standards
* to work in close collaboration with local and international bodies for the submission of comments in both cases, that is
1. comments on Exposure Drafts
2. comments on post-implementation issues of IFRS

FRC devises annual plan based on the annual plan of IASB, IAASB and IESBA and work in close consultation with the Standard Review Panel.

The Standard Review Unit will enable the FRC to assist the Accounting Profession in Mauritius, in keeping abreast of all new, updated and revised International Standards. FRC would also act as the interface between the Accounting Profession and the International Setting Bodies.

##  8.2 Review of Annual Reports of PIES/SOEs

With the recent amendments brought to the FR Act to include the main commercial State Owned Enterprise in the definition of PIEs, FRC has the responsibility to closely monitor these entities. Reports will be submitted to the Ministry of Finance & Economic Development on their financial and non-financial performance.

By reviewing the annual reports of Public Interest Entities and monitoring the quality of published accounts, FRC contributes towards establishing Mauritius as a leading regional financial centre with a modern and well-regulated infrastructure.

FRC expects to complete the review cycle by 2015, that is, all PIES will have been reviewed at least once by the end of 2015.

FRC will also critically assess the financial situations of the PIEs and will refer cases which the FRMP identifies as PIES with financial difficulties to the Director of Insolvency pursuant to requirements of the Insolvency Act.

## 8.3 Audit Practice Review

FRC has been able to complete a first cycle of review of all auditors. Licensed auditors who do not have audit clients have been reviewed off-site. Even though they did not have any audit clients, they have to comply with licensing rules and ensure that they have the policies and procedures in place, to be able to deliver quality audits whenever they contract an audit assignment.

FRC has started its second cycle of review in 2015, to verify whether recommendations proposed in the first review have been considered by the auditors.

FRC will as far as possible relate functions of the annual report review with those of audit practice review thereby improving synergy and increasing the effectiveness of both functions. Thus issues identified during the annual report reviews will be discussed with the auditor to be reviewed.

FRC will devolve more resources on the review of engagement files of off-shore entities. The work done by the auditors for these entities will definitely impact on the reputation of the off-shore industry.

**8.4 Workshops to be organised**

# For the year 2015, FRC will organise workshops for professional accountants on IFRS, ISA and updates on IFAC Code of Ethics. FRC has also planned to hold an “inspection workshop” similar to the one held in 2012. FRC will disseminate to the licensed auditors the findings of the audit practice reviews and the necessary corrective and preventive actions to put in place. In that connection, FRC will issue a guidance on audit quality.

# CHAPTER 9

# Conclusion

The functions of FRC as highlighted above, primarily aim at building a strong financial reporting infrastructure. By ensuring that PIEs and Auditors comply with high quality recognised Standards in auditing, financial reporting and ethics, FRC is contributing towards the growth of the economy and in the building of a strong capital market.

The focus nowadays is more on good and quality corporate reporting. Investors and other stakeholders need meaningful, comprehensive information about an entity’s strategies and how it is creating value in the short, medium and long term. Thus, companies have to respond to dramatic changes and to adapt to fast-moving global issues, economic uncertainties and new technologies.

Investors also wish that the Audit Report be more informative and relevant. The Audit report gives them comfort that the information provided in the corporate report is reliable, true and fair. There has been a lot of criticism on the audit report which is considered as a boiler plate. The audit report fails to demonstrate how the audit work has been carried and what are the critical or material issues that have been addressed by the auditor.

As the auditor’s report is the key deliverable in the audit process, changes in auditor reporting will likely have positive impacts on audit quality and users’ perception. This in turn may increase the confidence that users have in the audit and in the financial statements.

The time for rethinking the auditor’s report is now. The perceived value of the Financial Statement audit, and therefore the relevance of the auditing profession at large is contingent on enhancing the auditor’s report. Users want to have more pertinent and tailored audit report.

There is significant potential for the auditor to provide more substance and transparency. As Emile Woolf, the Director, Hyperion Insurance Group UK, pointed out, that the audit focus must shift, “assessing the sustainability of management’s business plan is the key to a solid audit” (Accountancy Magazine; January 2015).

The IAASB has developed a proposed new Standard; ISA 701, **Communicating key audit matters** in the Auditor’s Report, which establishes what the report should include regarding key audit matters and how those matters are determined.

Key audit matters are main issues selected from items communicated with those charged with governance - that, in the auditor’s professional judgement, are most significant in the audit of the financial statements. The IAASB is proposing that key audit matters should be communicated in the auditors’ report for audits of Listed Entities. FRC could extend the scope of the ISA 701 to make it applicable to the audit of Public Interest Entities, because the new format of the audit report will provide users with more useful knowledge based on the audit performed.

Also, FRC noted that with the development of updated and revised financial Standards, reporting involves more complexity, more areas of judgment and more qualitative disclosures. The report should have more communicative value. FRC is working on a “framework for quality corporate report” which would highlight the contents of an annual report that would enable users to assess the entity management of resources, the performance and how value is being created.

**Prepared by**

**FRC**

**19 March 2015**