FRC
MAURITIUS
FINANCIAL REPORTING COUNCIL

Bulletin on Review of Annual Reports for the six months ended 30 June 2021

FINANCIAL REPORTING COUNCIL

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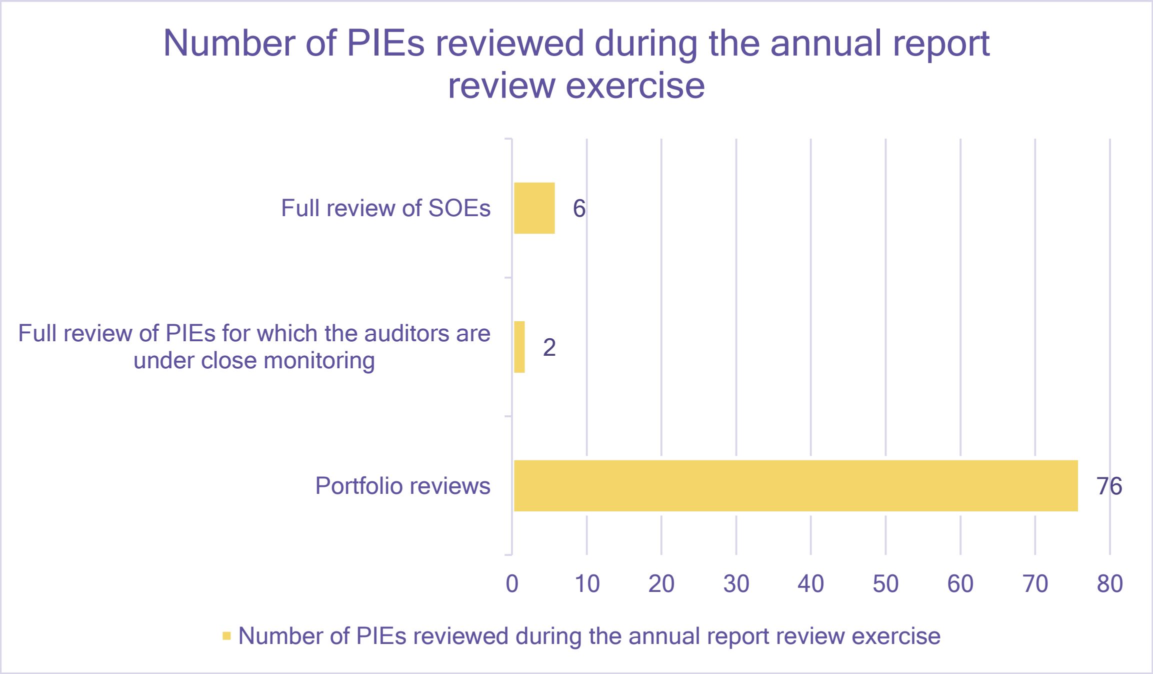
PART A – EXECUTIVE SUMMARY

The Financial Reporting Council (FRC) reviews annual reports of Public Interest Entities (PIEs) and State-Owned Enterprises (SOEs) classified as PIEs as part of its ongoing monitoring activities, in accordance with section 76(1) of the Financial Reporting Act ('FRA'). The FRC is operated with a view to encouraging quality disclosures in the annual reports of PIEs.

The annual report reviews are focused on compliance with the requirements of relevant accounting standards (IFRSs for PIEs other than SOEs) and IPSASs for SOEs classified as PIEs) and the National Code of Corporate Governance (Code). It is also essential that PIEs provide high-quality disclosures in view of the Covid-19 pandemic and its economic effects.

As illustrated in the diagram below, FRC carried out the reviews of 109 annual reports of 84 PIEs [76 Portfolio Reviews and 8 Full Reviews (2 PIEs for which the auditors are under close monitoring by the FRC and 6 SOEs)] for the six months ended 30 June 2021.



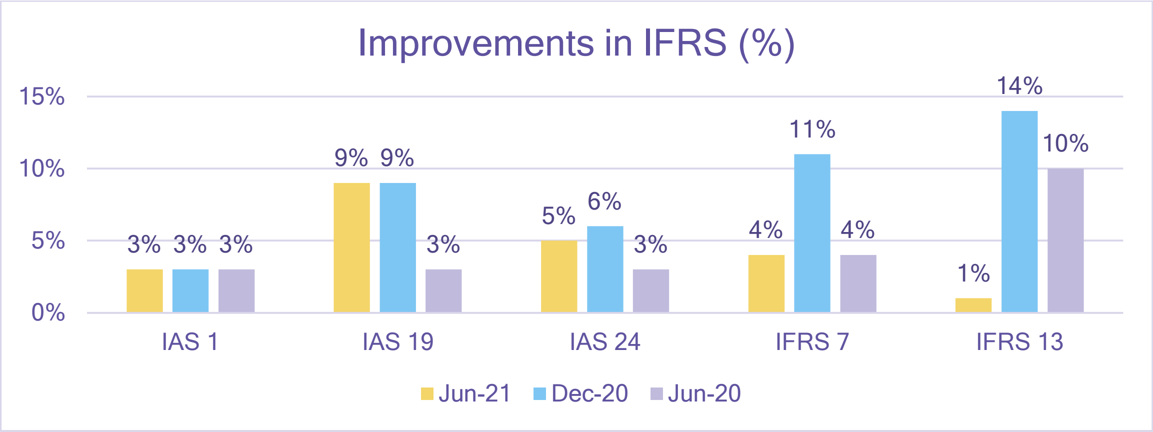
On the IFRS side, it was good to note that there was quality reporting among PIEs. From the above annual report reviews, it was noted that the topics most often raised with PIEs were with respect to presentation of financial statements, risks arising from financial instruments, employee benefits, related parties and leases. Part D analyses each of the above topics in further detail.

FRC noted that the level of reporting with respect to the following areas relating to IFRS remained stable, as compared to the periods June 2020 and December 2020:

- IAS 1, Presentation of Financial Statements;
- IAS 19, Employee Benefits;
- IAS 24, Related Party Disclosures; and
- IFRS 7, Financial Instruments Disclosures.

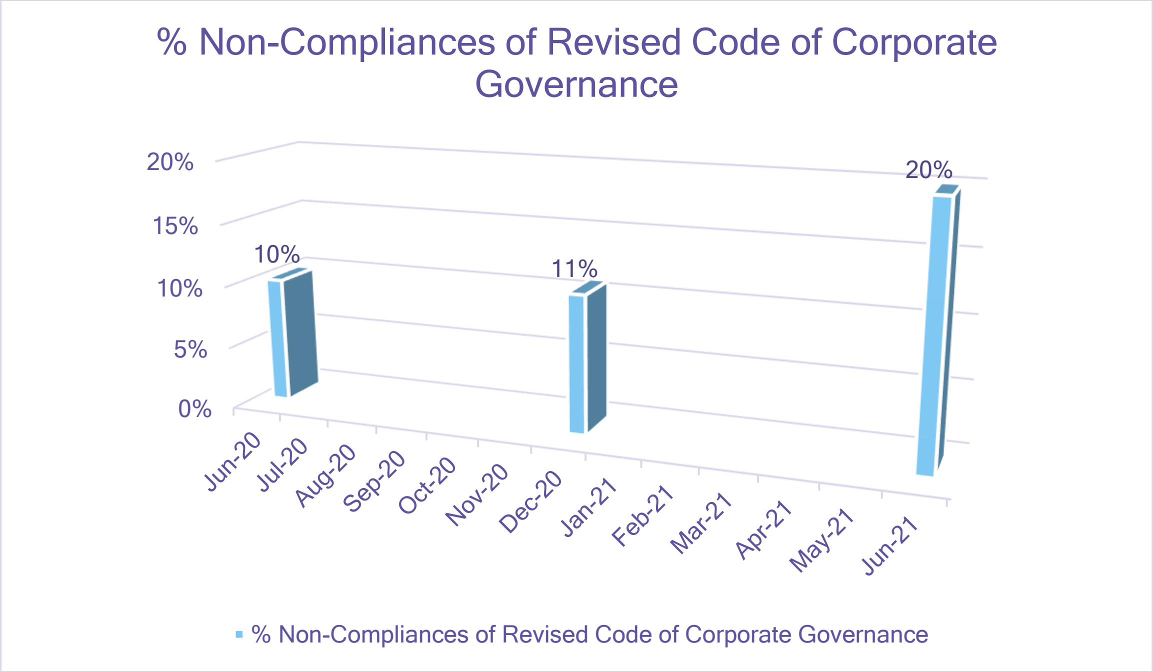
With respect to IFRS 13, it was good to note that there was a notable improvement in the level of corporate reporting as compared to the previous periods.

The diagram below further illustrates the percentage of non-compliances with the above-mentioned IFRSs in June 2020, December 2020 and June 2021:



With respect to corporate governance, it was noted that all the 84 PIEs had adopted the Revised Code of Corporate Governance which is effective for their reporting periods starting on or after 1 July 2017.

Out of the 84 PIEs that had reported on corporate governance, 17 PIEs had partly complied with the Revised Code of Corporate Governance. This represents a compliance rate of 20% as compared to the previous periods (December 2020: 11%, June 2020: 10%).



The common topics of non-compliances with the Revised Code, are set out below:

(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;

(f) Reporting with Integrity; and

(g) Audit.

Part D of this bulletin provides for further details on the non-compliances with the Revised Code.

With respect to the annual report reviews for the period ended 30 June 2021, it is noted that there was an increase in the percentage of non-compliances with the Revised Code as compared to previous periods. This is in line with the rise in the number of substantive letters issued to PIEs. From the reviews, FRC observed that the most frequent findings with respect to the Revised Code related to:

(a) Governance Structure;

(b) Director Duties, Remuneration and Performance; and

(c) Audit.

Nevertheless, it is noted that most PIEs (80%) complied with the requirements of the Revised Code of Corporate Governance and show appreciation of good corporate governance practices.

PART B - INTRODUCTION

An annual report should provide material and relevant information about PIEs' financial results and position, and assists stakeholders to assess its past performance, key risks and future prospects. Better disclosure improves transparency and promotes a fair, orderly and informed market. The coronavirus (COVID-19) pandemic has caused severe disruption to the operations of many entities and directly and/or indirectly affected the business development plans of entities across different industries. This has impacted on the financial performance and position of PIEs with financial year starting on or after 1 January 2020.

FRC reviewed the annual reports of PIEs for the years 2014 to 2020 during the six months ended 30 June 2021. The PIEs with a financial year-end date of 31 December 2019 provided a separate "subsequent event" note, which disclosed that the Covid-19 pandemic was a non-adjusting event, therefore, they considered that this did not have any impact on the carrying value of assets or liabilities at 31 December 2019. The operations, financial position and performance of most PIEs with financial years 2020, were slightly impacted by the pandemic. These PIEs disclosed the implications arising from the Covid-19 pandemic in their annual reports.

In this regard, FRC reviews the annual reports of Public Interest Entities (PIEs) in light of the requirements of relevant accounting standards[1] and the National Code of Corporate Governance (Code) and taking into consideration the impact of the COVID-19 pandemic to ensure quality reporting.

This bulletin identifies the key areas where findings were observed from FRC's annual report reviews for the six months ended 30 June 2021. It outlines FRC's view of the current state of corporate reporting for PIEs and expectations for improvements. Key audiences for this report are preparers and auditors of annual reports and investors.

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[1] Section 75(1) of the FRA requires PIEs classified under Categories 1 to 4 of the First Schedule of the FRA to prepare their financial statements in accordance with IFRSs.

Section 75(1A) of the FRA states that entities specified in the first column of the Third Schedule of the FRA should prepare financial statements in compliance with the International Public Sector Accounting Standards (IPSAS) issued .by IFAC.

For the period ended 30 June 2021, FRC had carried out Portfolio Reviews of 76 PIEs and Full Reviews of 8 PIEs [2 PIEs audited by auditors who required close monitoring and 6 SOEs]. The 6 SOEs adopted IPSAS and the other 78 PIEs prepared their financial statements in accordance with IFRSs.

"For the six months ended June 2021 FRC reviewed the annual reports of 84 PIEs."

The table below shows the number and types of PIEs reviewed and their corresponding sectors:

Types of reviews	Sectors								Total	No of annual reports reviewed
	BIF	Commerce	Industry	Investments	Leisure & Hotels	Sugar	Property Development	Others		
Listed on SEM	6	4	11	15	8	1	4	3	**52**	**75**
Financial institutions regulated by BOM (excluding cash dealers)	13	-	-	-	-	-	-	-	**13**	**13**
Financial institutions regulated by FSC	11	-	-	-	-	-	-	-	**11**	**11**
Category 4 PIEs as per the FRA	-	1	-	-	1	-	-	-	**2**	**4**
SOEs as per the First Schedule of FRA	-	4	1	-	-	-	-	**1**	**6**	**6**
Total	**30**	**9**	**12**	**15**	**9**	**1**	4	**4**	**84**	**109**

For the six months ended 30 June 2021, the following types of reviews have been carried out:

A. Portfolio Reviews

Initially, FRC established a portfolio of PIEs whose annual reports were reviewed on a portfolio basis for a period of 3 to 5 years. Subsequently, the annual reports of the PIEs within these portfolios are being monitored on a yearly basis. In this regard, the particulars of the PIEs within the portfolio are updated 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.

As stated above, FRC reviewed the annual reports of 76 PIEs on a portfolio basis for the six months ended 30 June 2021. Out of these 76 PIEs, 6 had been reviewed on a portfolio basis for the first time for a period of 3 to 5 years and the remaining 70 PIEs had undergone portfolio reviews for a period of 1 year.

The table below illustrates the categories of PIEs and their corresponding sectors for portfolio reviews:

Types of reviews	Sectors								
	BIF	Commerce	Industry	Investments	Leisure & Hotels	Sugar	Property Development	Others	Total
Listed on SEM	6	4	11	15	8	1	4	3	**52**
Financial institutions regulated by BOM (excluding cash dealers)	13	-	-	-	-	-	-	-	**13**
Financial institutions regulated by FSC	11	-	-	-	-	-	-	-	**11**
Total	**30**	**4**	**11**	**15**	**8**	**1**	**4**	**3**	**76**

B. Full Review of PIEs

Apart from the portfolio reviews, FRC also selected the annual reports of the following types of entities for the purpose of conducting full reviews:

- PIEs audited by auditors who are under close monitoring; and
- State Owned Enterprises (SOEs) listed in the First Schedule of the Financial Reporting Act 2004.

For the six months ended 30 June 2021, FRC conducted the annual report reviews of 8 PIEs [2 PIEs classified under Category 4 of the First Schedule of the Financial Reporting Act (1 Commerce and 1 Leisure & Hotels), audited by auditors requiring close monitoring and 6 SOEs].

PART C: ANNUAL REPORT REVIEWS: TREND IN QUALITY REPORTING

The objective of the FRC amongst others is to promote the provision of high-quality reporting of financial and non-financial information by Public Interest Entities (“PIEs”). To this effect, FRC reviews the annual reports of 84 PIEs for the six months ended 30 June 2021, as stated at Part A above.

FRC issued letters of observations to 35 companies on areas relating to IFRSs / IPSASs and Corporate Governance which represents 42% of the annual reports reviewed (31 December 2020: 31%, 30 June 2020:25%). It is to be noted that this represents an increase in the rate of the substantive letters issued to PIEs, as compared to the previous periods. This may be due to observations made with respect to new reporting requirements such as amendments to Companies Act regarding individual remuneration of directors and new IFRS 16 being adopted by the PIEs. Also, there was a rise in non-compliances noted with respect to IPSASs and the Revised Code of Corporate Governance as stated at Part A of this bulletin.

As with previous years, the majority of PIES duly noted the issues raised by FRC and agreed to make improvements to disclosures made in their annual reports in future. FRC would make follow up on such undertakings by reviewing the PIEs’ subsequent annual reports.

For the six months ended 30 June 2021, FRC had reviewed 84 PIEs which included 78 PIEs preparing their financial statements in accordance with IFRSs and 6 SOEs adopting IPSAS. As compared to the previous periods (30 June 2020 and 31 December 2020), it is observed that the common IFRS issues that arose throughout the periods 2020/2021 are in respect of terms and conditions of related party balances, objectives, policies and processes for managing risks and description of risks to which the plans expose the entities. Of note, the non-compliances observed throughout the periods were not with the same PIEs.

Also, there were new findings arising in the period under review in respect of IFRS 16 which became effective on 1 January 2019.

The table below depicts the following level of non-compliances with the most common IFRSs:

IFRS requirements	Level of non-compliances with IFRSs (%)		
	Six months ended 30 June 2021	Six months ended 31 December 2020	Six months ended 30 June 2020
Number of PIEs with IFRS non-compliances	78	35	71
IAS 1, *Presentation of Financial Statements*	3%	3%	3%
IAS 19, *Employee Benefits*	3%	9%	3%
IAS 24, *Related Party Disclosures*	5%	6%	3%
IFRS 7, *Financial Instruments Disclosures*	4%	11%	4%
IFRS 13, *Fair Value Measurement*	1%	14%	10%

From the above table, it is noted that the percentage of IFRS non-compliances had remained fairly stable as compared to the previous periods except for IFRS 7. With respect to IFRS 7, FRC observed a notable decrease in the level of non-compliances as compared to 2020. PIEs are therefore more compliant with relevant requirements of IFRSs in 2021.

On the Corporate Governance side, it is noted that there is generally a good level of compliance amongst the PIEs. All the 84 had reported on Corporate Governance, that is a reporting rate of 100% for the six months ended 30 June 2021 (December 2020: 94%, June 2020: 96%). This shows that there is an increase in the number of PIEs adopting the Revised Code of Corporate Governance.

Also, it is observed that 17 out of the 84 PIEs (20%) had partly complied with the Revised Code of Corporate Governance (December 2020: 4 PIEs (11%), June 2020: 7 PIEs (10%)). As compared to the previous periods, this represents a slight increase in the level of non-compliances with the Revised Code of Corporate Governance.

PART D: MAIN FINDINGS FROM REVIEWS OF PIES

During the six months ended 30 June 2021, FRC raised findings relating to the following areas of corporate reporting amongst the 84 PIEs reviewed:

1.0 COMPLIANCES WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

(a) IAS 1, Presentation of Financial Statements

FRC informed 2 PIEs [1 listed in Industry and 1 regulated by FSC] **of non-compliances in respect of the following requirements of IAS 1:**

- Information on capital risk management; and
- Presentation of the items to be reclassified or would not be reclassified to Profit or Loss in the Statement of Comprehensive Income.

(b) IAS 19, Employee Benefits

From the review exercise, FRC observed that 7 PIEs [4 listed (1 BIF, 1 Industry 1 Investments and 1 Property Development), **1 regulated by BOM, 1 regulated by FSC and 1 PIE classified under Category 4 of the FRA] had not disclosed description of risks to which the entities were exposed through their defined benefit plans as required by IAS 19.**

(c) IAS 24, Related Parties

From the annual reports of 4 PIEs [3 regulated by BOM and 1 PIE in Category 4 of the FRA]**, FRC identified issues, which related to the following requirements of IAS 24:**

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

(d) IFRS 7, Financial Instruments: Disclosures

From the review, FRC noted that 3 PIEs [2 listed (1 Industry and 1 Property Development) and 1 regulated by FSC] **had not disclosed the objectives, policies and**

7 PIEs [4 listed (1 BIF, 1 Industry 1 Investments and 1 Property Development), 1 regulated by BOM, 1 regulated by FSC and 1 PIE classified under Category 4 of the FRA] had partly complied with IAS 19.

processes for managing risks, as required by IFRS 7.

(e) IFRS 16, Leases

With regard to IFRS 16, FRC queried 3 PIEs [2 listed in 1 Investments and 1 PIE classified under Category 4 of the FRA] in respect of the following:

- The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position; and
- Maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

From the annual reports of 3 PIEs [2 listed in 1 Investments and 1 PIE classified under Category 4 of the FRA], FRC identified issues which related to the requirements of IFRS 16.

2.0 COMPLIANCES WITH INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

To ensure consistency in the application of accounting standard in the Public Sector and in line with Government reform to develop a modern accounting and reporting framework, the Financial Reporting Act has been amended to provide for the 16 Public Interest Entities (PIES) which are also listed in the Statutory Bodies (Accounts & Audit) Act to prepare their Financial Statements under accrual IPSAS.

FRC monitors the annual reports and corporate governance reports of the 16 statutory Bodies listed under the First Schedule of the Financial Reporting Act 2004. This ensures that they are in compliance with the International Public Sector Accounting Standards and the National Code of Corporate Governance, as per section 76 of the Financial Reporting Act.

For the six months ended 30 June 2021, FRC had reviewed the annual reports of 6 SOEs.

The following matters relating to IPSASs were queried for 5 SOEs:

(a) IPSAS 1, Presentation of Financial Statements

FRC informed 2 SOEs of non-compliances in respect of the following requirements of IAS 1:

- Accounting policies on operating leases; and
- Information that enables users of financial statements to evaluate

entity's objectives, policies and processes for managing capital.

(b) IPSAS 5, Borrowing Costs

From the annual reports of 2 SOEs, FRC noted that the following were not disclosed, as per the requirement of IPSAS 5:

- Accounting policy adopted for borrowing costs; and
- The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

(c) IPSAS 23 Revenue from Non-Exchange Transactions

From the annual reports of 2 SOEs, FRC identified issues, which related to the following requirements of IPSAS 23:

- Accounting policies adopted for the recognition and measurement of the grant received for capital projects funded by the government; and
- Presentation of item included under revenue from non-exchange transactions.

From the annual reports of 2 SOEs, FRC noted that the following were not disclosed, as per the requirement of IPSAS 5:

- Accounting policy adopted for borrowing costs; and
- The capitalization rate used to determine the amount of borrowing costs eligible for capitalization.

3.0 COMPLIANCES WITH THE NATIONAL CODE OF CORPORATE GOVERNANCE

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

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

The Old Code of Corporate Governance 2004 was applicable till 2017. The 'comply or explain' principle forms the basis of this Code.

In accordance with section 65(c) of the Financial Reporting Act 2004, The National Committee on Corporate Governance 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 Revised Code of Corporate Governance 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 and requires application on an "apply and explain" basis.

This means when a PIE declares full compliance with the Code, it should apply all the Principles and comply with all the Provisions of the Code. If a Provision is not complied with, a full and detailed explanation must be given.
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

With regard to the Code of Corporate Governance, FRC noted the following for the 84 PIEs reviewed:

<u>Revised Code of Code of Corporate Governance</u>

All the 84 PIEs had financial years starting on or after 01 July 2017 which means that they had to mandatorily apply the Revised Code of Corporate Governance. It was good to note that all the 84 PIEs had reported on the Revised Code.

For the 84 PIEs that had reported under the Revised Code, the following were noted:

- 35 PIEs had fully applied the 8 principles of the Revised Code of Corporate Governance;

- 32 PIEs had provided explanations for not complying with some sections of the Revised Code of Corporate Governance (Please see Paragraph A below); and

- 17 had partly applied the Revised Code of Corporate Governance (see Paragraph B below).

With respect to the level of compliance with the <u>Revised Code</u>, the following were observed:

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.

A. Details of explanations provided by the PIEs that have not applied the Revised Code

For those 32 PIEs that have provided explanations for not applying the Revised Code, the following were noted:

- *Principle 1: Governance Structure (4 PIEs)*

The main observations were in respect of the following:

- No disclosures of job descriptions and statement of accountabilities.
- No adoption of a Board Charter.
- No effective governance structure as per regulatory requirements.

The explanations provided with respect to the above non-compliances were as follows:

- The job descriptions and statement of accountabilities of key governance persons were in process.
- The Board Charter was being drafted and same would be adopted by the PIEs.
- The entity would appoint new directors to form part of the recomposed Board.

Principle 2: The Structure of the Board and its Committees (17 PIEs)

The main findings noted were with respect to:

- There were no separate corporate governance and remuneration committees.
- The Board of Directors did not have adequate number of independent directors.
- The entity had only 1 executive director.
- The term of office of the independent directors exceeded nine years.
- The Audit Committee did not have a majority of independent director.
- There was no gender diversity.

The explanations provided with respect to the above non-compliances were as follows:

- All matters pertaining to corporate governance were being discussed at Board level.
- The entity had been dispensed by its regulator from constituting a separate Remuneration Committee.
- The PIE being a wholly owned subsidiary of a foreign company had been dispensed by its regulator

32 PIEs have provided explanations for not applying 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

to appoint independent directors on the Board.

- The entity was in the process of recruiting an additional independent director and another executive director.

- The Board was of the opinion that the appointment of non-executive directors was sufficient to ensure independence.

- There was only one executive director on the Board. The entity was of the view that:
  - The attendance of senior executives at the meetings and sub-committees of the Board fulfilled the spirit of the Code, regarding executive's presence on the Board;
  - The Board was of an appropriate size and met the Company's business requirements; and
  - Its directors had the requisite skills, experience and knowledge to contribute effectively to the Company.

- The entity stated that the independent directors had demonstrated an independence of mind and judgement in the performance of their duties even though their term of office might exceed nine years. As such they would continue to be considered as independent directors.

- The Audit Committee was not composed of a majority of independent directors. The Board considered that the composition of this Committee had the right balance of knowledge and expertise and as a collective body they could scrutinise rigorously the relevant areas under their responsibility.

- Gender diversity had been considered during selection and appointment of directors on the Board. The Board was working on the recruitment of female directors.

- *Principle 3: Director Appointment Procedures (7 PIEs)*

The main observations were with respect to:

- The entity did not develop a Succession Plan.

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

The explanations provided with respect to the above non-compliances were as follows:

- The Succession Plan was in the process of being set up.

In some cases, the entities have provided explanations for not having adequate number of executive and independent directors on their Boards.

- No succession planning had been established as none of the directors were expected to resign in the foreseeable future.

- Election of every director was not made on a yearly basis at the Annual Meeting of shareholders because this practice was not considered to be in the best interest of the Company and the Constitution did not provide for same.

- *Principle 4: Director Duties, Remuneration and Performance (21 PIEs)*

The main issues noted were:

- Board or director performance evaluation was not conducted.

- Details of remuneration paid to each individual director were not disclosed.

The explanations provided with respect to the above non-compliances were as follows:

- No Board evaluation was carried out as the Board was of the view that its composition was adequately balanced and that the current directors had the range of skills, expertise and experience to carry out their duties properly.

- No Board appraisal exercise had been performed as there were changes in directorship in the recent years. The recomposed Board would consider this evaluation exercise together with a development plan.

- The Board was working towards the implementation of a framework for the appraisal of the Board and its directors which would be adopted by the Board.

- The directors' evaluation exercise would be conducted during the next financial year.

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

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

For the 17 PIEs which had partly complied with the Code, the following findings were noted:

- The corporate governance section of the annual reports did not include:

  - An organisational chart;

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

- Statement that the Board structure is unitary (one tier);
- Explanation if a Board has less than two independent directors;
- The attendance record of directors at Board and committee meetings;
- For every director, the details of each chairperson and external and internal directorship that he or she holds in other organizations;
- The roles and responsibilities of each Board committee;
- The job description or position statement for each senior governance position within a Statutory Body;
- The frequency the Board assesses its charter and the charter of its Committees;
- Identification of the directors who ordinarily reside in Mauritius;
- Statement that the Board assumes the responsibilities for succession planning;
- Short biographies of each directors that include experience, skills, expertise and continuing professional development;
- Statement that the Company Secretary maintains an interest register and that the interest register is available to shareholders upon written request to the company secretary;
- Information on the effectiveness of the Board and its directors;
- Information, information technology and information security policies;
- Information on the proportions of fixed and variable remuneration;
- Assurance that the non-executive directors have not received remuneration in the form of share options or bonuses associated with organisation performance;

For those that had partly complied with corporate governance, FRC noted that their annual reports and websites did not include appropriate disclosures and important information, as required by the Revised Code.

- Report on whistle-blowing rules and procedures;
- Affirmation that the Board is responsible for the preparation of accounts that fairly present the state of affairs of the organisation;
- Disclosure as to whether the audit committee has met regularly with the external auditor without management presence;
- Description of the financial literacy or expertise of the members of the audit committee;
- Information on the length of tenure of the current audit firm and when a tender was last conducted;
- Description of non-audit services;
- Description as to how the auditor's objectivity and independence are safeguarded if the external auditor provides non-auditing services; and
- Information on internal audit function.

- The entities' websites did not include important documents such as:
  - The organisation's constitution;
  - The entity's Board charter;
  - The organisation's code of ethics;
  - An organizational chart;
  - Description of the approval, monitoring and review process (including frequency) of the charter, code of ethics, job descriptions of the key senior governance positions, organisational chart and statement of major accountabilities within the organization;
  - The conflicts of interest and related party transactions policies;
  - The information, information technology and information security policies; and
  - Short biographies of the company secretary.

Some PIEs did not include important documents on their websites.

4.0 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 Guidelines on corporate governance require 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 compliance with the requirements of the Code of Corporate Governance; and

(c) Give explanations in the Statement of Compliance whenever they had not complied with any requirement of the Code.

For the six months ended 30 June 2021, FRC observed that 1 SOE **had partly complied with the Guidelines on corporate governance.**

This PIE had not enclosed a statement of compliance in its annual report.

For the six months ended 30 June 2021, FRC observed that 1 SOE had partly complied with the Guidelines on corporate governance.

5.0 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 repealed and was replaced by the Financial Reporting Council (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2019 - Government Gazette No. 17 of 23 February 2019, General Notice No. 35 which updates the form and content of auditors' reporting on corporate governance, in line with the principles of the Revised Code of Corporate Governance.

From the 84 PIEs reviewed, FRC noted that the auditor of 1 PIE classified under Category 4 of the FRA had not reported on the consistency of the requirements of the Code.

The auditor of 1 PIE classified under Category 4 of the FRA had not reported on the consistency of the requirements of the Code.

6.0 DETAILS OF NON-COMPLIANCES PER CATEGORIES OF AUDITORS

A PIE is required to have its annual reports audited by a licensed auditor as per Section 195 of the Companies Act 2001 and Section 33 of the Financial Reporting Act. It is the auditor's responsibility to form an opinion on the PIE's financial statements and issue an auditor's report as a result of an audit of the financial statements.

For the period ended 30 June 2021, FRC observed that out of the 84 PIEs which had been issued letters following the review exercise, 19 had not fully complied with the requirements of International Financial Reporting Standards. These 19 PIEs had been audited by 10 audit firms.

FRC noted the following from the 19 PIEs with IFRS findings:

- **14 entities representing 74% of the above 19 PIEs are audited by Big 4 Audit Firms (namely PWC, BDO and Ernst and Young); and**
- **The remaining 5 PIEs (26%) are audited by smaller audit firms (that is More than two partners audit firm, Two-partners firm and One partner firm).**

The table below provides further details of PIEs with IFRS non-compliances per categories of audit firm.

14 entities representing 74% of the 20 PIEs with IFRS findings, were audited by Big Audit Firms (namely PWC, BDO and Ernst and Young).

PIEs with non-compliances with IFRSs per categories of audit firm

Categories of Audit Firm	Number of PIEs not complying with IASs / IFRSs
Big 4 Audit Firm	14*
More than two partners audit firm	1
Two partner audit firm	3
1 partner audit firm	1

*Out of the 14 Big 4 Audit Firms, 1 audit firm audited 5 PIEs. Out of these 5 PIEs, 2 PIEs had 1 common non-compliance. The finding identified from the annual reports of 2 PIEs audited by this Big 4 Audit Firm were in respect of the description of risks to which the plans expose the entities.

PART E: FOLLOW UP ISSUES

During the reviews carried out for the six months ended 30 June 2021, 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 10 PIEs [**8 listed** (1 BIF, 2 Investments, 2 Leisure & Hotel; 2 Property Development and 1 Others), **1 PIE** regulated by BOM and **1 PIE** regulated by FSC].

The areas that would require follow-up are as follows:

- Going concern;
- The impact of the COVID 19 pandemic on the financial position and performance of the entities; and
- Compliance with the relevant requirements of the Revised Code of Corporate Governance.

FRC will carry out close monitoring and follow up regarding 10 PIEs [8 listed (1 BIF, 2 Investments, 2 Leisure & Hotel; 2 Property Development and 1 Others), 1 PIE regulated by BOM and 1 PIE regulated by FSC].