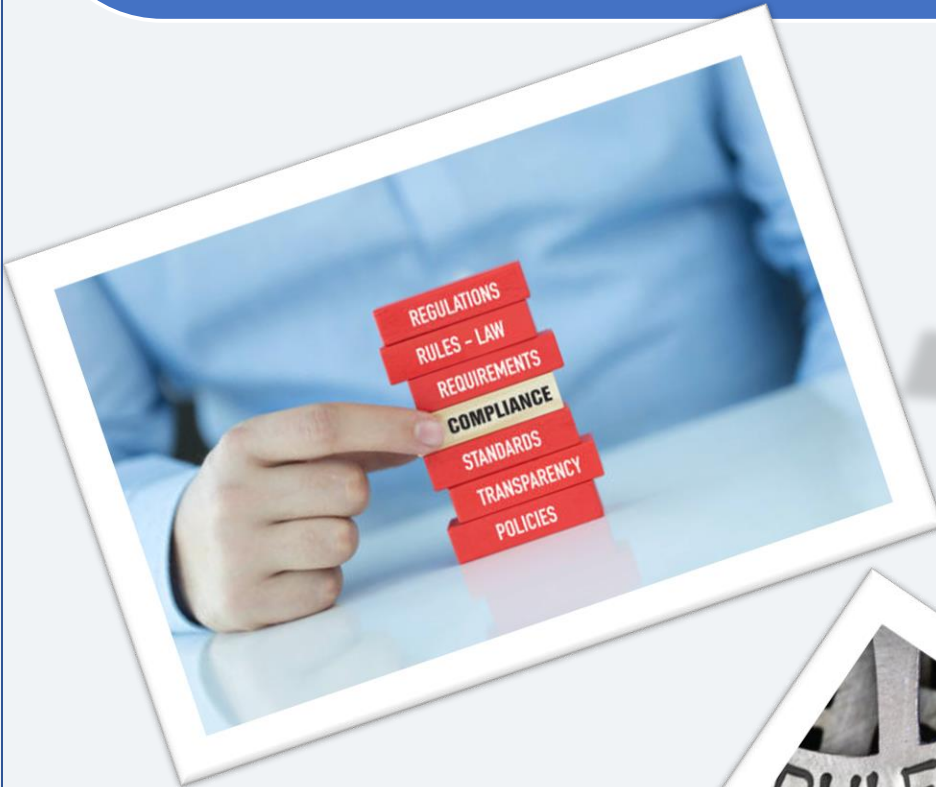




Financial Reporting Council

# Newsletter



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## Laws and Regulations

### Financial Reporting (Reporting on Compliance with the Code of Corporate Governance) (Amendment) Guidelines 2022

Section 39(3) of the Financial Reporting Act stipulates 'The licensed auditor shall report on the compliance with the Code of Corporate Governance disclosed in the annual report of the public interest entity in such manner as may be specified in rules made under section 80'.

In view of having consistent reporting by the licensed auditors, the FRC issued the Financial Reporting (Reporting on Compliance with the Code of Corporate Governance) Guidelines in 2019 whereby the reporting as per Section 39(3) of the Financial Reporting Act was made under the Paragraph 'Other Matter' of the Auditor's Report.

There were arguments that this reporting requirement is not a matter relating to 'Other Matter' but rather a regulatory matter which should be reported under the heading "Report on Other Legal and Regulatory Requirements" of the Auditor's Report.

In that respect and after consultation, the Financial Reporting (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2019 has been amended which has come into operation on 21 May 2022.



## Financial Reporting (Engagement Quality Review) Rules 2022

The International Standard on Quality Management (ISQM) requires an Engagement Quality Review for all listed entities.

FRC has extended the requirement of ISQM to have an Engagement Quality Review for all Banks and Insurance Companies whether listed or not listed, given that these entities have inherent risk and are risky by nature of their business activities which require safeguards. Hence, having an Engagement Quality Review for such

entities would help to mitigate the risk of an audit not done properly.

In that respect, the FRC has issued the Financial Reporting (Engagement Quality Review) Rules 2022 which requires, the audit firm of every listed entity, bank and insurance company to perform an engagement quality review in accordance with the requirements of ISQM.

The Rules shall come into operation on the date the ISQM is effective (15 December 2022).



## Financial Reporting Council (Rotation of Audit Firm Exemption) Regulations 2022

As per Section 41(A)(1) of the Financial Reporting Act 'No audit firm shall, within a period of 10 years from its appointment as auditor of a listed company, audit the accounts of that company for an aggregate period of more than 7 years'.

In complying with the above audit firm rotation policy, entities having dual listing with primary listing outside Mauritius, are facing practical difficulties in having audit firm rotation more specifically from a group audit perspective where the rotation

policy period in the 2 jurisdictions are not the same.

FRC in consultation with the Stock Exchange of Mauritius and the Financial Services Commission has made Regulations under Section 86(1) of the Financial Reporting Act whereby for the purpose of section 41(A)(3) of the Financial Reporting Act, a listed company which has its primary listing on securities exchange outside Mauritius

may be exempted from the application of section 41A of the Financial Reporting Act.

However, notwithstanding these Regulations, a listed company shall not be exempted from the application of section 41A of the Act where there is no rotation policy in the jurisdiction where the listed company has its primary listing.

These Regulations shall come into operation on 02 July 2022.



## IASB Updates

FRC on a monthly basis publishes on its website updates from the International Accounting Standards Board.

Topics discussed at the IASB meetings held during the quarter ended 30 June 2022 are amongst others:

- Post-implementation Review of IFRS 9—Classification and Measurement
- Equity Method
- IASB's work plan for 2022 to 2026
- Dynamic Risk Management
- Rate-regulated Activities
- Primary Financial Statements
- Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures

- Financial Instruments with Characteristics of Equity
- Second Comprehensive Review of the IFRS for SMEs Accounting Standard
- Maintenance and consistent application

For further details, refer to the website of the FRC.



## Guidance on Expected Credit Loss Model of IFRS 9 Financial Instruments 2022

The FRC has issued a guidance on Expected Credit Loss model of IFRS 9 Financial Instrument in May 2022.

The Guidance was prepared after taking into consideration the challenges faced in practice by various public interest entities (PIEs) other than financial institutions and insurance companies in applying the impairment requirements of IFRS 9.

The purpose of this Guidance is to assist those entities, in applying the impairment requirements of IFRS 9.

This Guidance has been prepared by following a due process which interalia includes:

- Internal consultations;
- Drafting of the Guidance by the Standards Review Panel;



- External consultations on the Draft;
- Analysis and consideration of feedback obtained from stakeholders;
- Approval of Council; and
- Dissemination to the stakeholders.

A copy of the Guidance on Expected Credit Loss Model of IFRS 9 Financial Instruments is available on the website of FRC.

## IFAC Updates

FRC on a monthly basis publishes on its website updates from the IFAC.

During the quarter ended 30 June 2022, the IFAC has amongst others:

- released new implementation tool for auditors

The International Federation of Accountants (IFAC) has on 05 April 2022 released a new resource, *Auditing Accounting Estimates: ISA 540 (Revised) Implementation Tool*. It will help auditors implement the International Auditing and Assurance



Standards Board's International Standard on Auditing 540 (Revised), Auditing Accounting Estimates and Related Disclosures by providing an overview of steps practitioners could take and related considerations.

For entities of all types and sizes, management has to make accounting estimates, which have estimation uncertainty and may also be complex. Making these estimates involves selecting and applying a method using assumptions and data, which requires judgment. The nature,

timing and extent of the audit procedures required will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement.

- o modernized its standard for group audits in support of audit quality

The International Auditing and Assurance Standards Board (IAASB) has on 07 April 2022 released *International Standard on Auditing (ISA) 600 (Revised)*. The revised standard addresses special considerations that apply to audits of group financial statements (group audits). Group audits are often more complex and challenging than single-entity audits because a group may have many entities or business units across multiple jurisdictions, and component auditors may be involved. The revised standard becomes effective for audits of group financial statements for periods beginning on or after December 15, 2023.

“ISA 600 (Revised) is a significant step forward to enhance the consistent performance of quality group audit engagements and thereby supports users’ interests and broader financial stability,” said Tom Seidenstein, IAASB Chair. “Group audits is an area identified by regulators requiring attention. The changes in the standard build off

other recent IAASB revisions, such as the revisions to the quality management standards, and should enhance audit quality by strengthening the accountability of group auditors and clarifying the interactive relationship between group and component auditors.”

ISA 600 (Revised) includes a robust risk-based approach to planning and performing a group audit. The approach focuses the group auditor’s attention and work effort on identifying and assessing the risks of material misstatement of the group financial statements and designing and performing further audit procedures to respond to those assessed risks. It also recognizes that component auditors can be, and often are, involved in all phases of the group audit. The standard furthermore promotes a clear, proactive and scalable approach for group audits that can be applied to today’s evolving group audit structures.

The IAASB also developed a Basis for Conclusions and factsheet to support the implementation, which are also available on the IAASB’s website.

# 3.0 LICENSING

30 JUNE 2022



## 4.0 ENFORCEMENT



### **Sanctions on Licensed Auditors**

During the quarter ended 30 June 2022, the FRC has issued a private warning to one licensed auditor. The audit performed by the licensee was not conducted in accordance with the relevant International Standards on Auditing (“ISAs”).

The auditor will be under scrutiny and a follow-up review will be carried out to ensure compliance with the relevant ISAs.

## 5.0 CAPACITY BUILDING



### 5.1 Inhouse Training to Officers

#### **IPSAS**

The Government of Mauritius will for the first time prepare consolidated accounts under the Accrual IPSAS Framework for the year ending 30 June 2023.

In easing the preparation of the Consolidated Accounts, the Government in consultation with the International Monetary Fund has come up with the policy to adopt the Accrual IPSAS Framework for the whole Government which includes the Ministries, Departments, Local

Governments and State-Owned Enterprises.

Following this Government policy decision, Section 75 of the Financial Reporting Act was amended in 2017 whereby the 16 SOEs classified as PIEs are required to prepare their Financial Statements as per the Accrual IPSAS Framework issued by the IFAC.

As part of its monitoring exercise as provided in Section 76 of the Financial Reporting Act, FRC reviews the annual reports of these

16 SOEs to ensure compliance with the Accrual IPSAS Framework and other requirements of the Financial Reporting Act.

Hence, as part of its capacity building exercise, FRC organised a 2-day inhouse training on the applications of the IPSAS for its officers involved in the review exercise.

- Date of Training: 27 and 29 June 2022
- Attendees: Officers in the Technical Cadre
  - 14 officers from FRC
  - 3 officers from OPSG
- Resource person: Mr Sanat from W. Consulting



## **+ IFRS Updates**

FRC reviews the annual reports of PIEs as defined by the Financial Reporting Act. The review exercise is to ensure that the annual reports of PIEs have been prepared in accordance with the requirements of the Financial Reporting Act, more specifically with regard with National Code of Corporate Governance and IFRS.

The officers involved in the review exercise should be knowledgeable in the amendments brought by the IASB with regard to the financial reporting standards. Hence, an inhouse training was organised to consider the updates in IFRS.

- Date of Training: 26 April, 6, 27 & 31 May
- Attendees: 16 Officers
- Resource person: Mr Sanat from W. Consulting

## 5.2 Virtual Participation at International Forums

- ✓ IFIAR Inspection Workshop 2022
- ✓ IFIAR Plenary Meeting 2022
- ✓ Cryptoverse Summit 2022
- ✓ Emerging Economies Group Meeting (International Sustainability Standards Board)



## 6.0 CURRENT AND ONGOING PROJECTS

### ○ **Guidance on Accounting for Revenue under the IPSAS Framework**

The Guidance on Accounting for Revenue under the IPSAS Framework is already drafted by the Standards Review Panel and it has been circulated to the stakeholders for comments as part of the due process.

### ○ **International Standards on Quality Management (ISQM)**

#### **New Quality Management Standards ISQM**

Audit firms registered with the Financial Reporting Council are required to establish a system of Quality Control in compliance with the International Standards on Quality Control (ISQC1). The IAASB has issued in 2020 the new International Standards on Quality Management (**ISQM 1**) which replaces ISQC1.

*The new ISQM 1 aims to enhance the robustness of the firm's system of quality management (SOQM). It requires the firm to customize the design, implementation and operation of its SOQM based on the nature and circumstances of the firm and the engagement it performs. It also requires the firm to transition from policies and procedures that address standalone elements, as required by extant ISQC1, to an integrated quality management approach that reflects upon the system as a whole. The key changes include:*

- *A more proactive and tailored approach to managing quality, focused on achieving quality objectives through identifying risks to those objectives, and responding to the risks.*
- *Enhanced requirements to address firm governance and leadership, including increased leadership responsibilities.*
- *Expanded requirements to modernize the standard and reflect factors affecting the firm's environment, including requirements to address technology, networks, and the use of external service providers.*
- *New requirements addressing information and communication, including communication with external parties.*
- *Enhanced requirements for monitoring and remediation to promote more proactive monitoring of the SOQM as a whole, and effective and timely remediation of deficiencies<sup>1</sup>.*

Audit firms are required to have their system of quality management designed and implemented by December 15, 2022.

In 2021, FRC disseminated the new standards to all audit firms and organised a webinar with the objective to provide an overview of the standards and create awareness to audit firms of how the standards will enhance quality in an efficient manner.

In February 2022, a survey was carried out among the audit firm to assess the

<sup>1</sup> IAASB: First-Time Implementation Guide

progress made in the design and implementation of the new quality standards. FRC also met the managing partners of registered audit firms in May and June 2022 to consider the challenges being faced by audit firms in the implementation of the new quality management standards.

Large global network firms are expected to be ready for implementation of the new standards by December 2022. There are however, a large number of firms which have not yet started the process of transitioning to the new quality standards requirements.

FRC will be initiating trainings for the audit firms on the new standards in collaboration with the Mauritius Institute of Professional Accountants (MIPA).

### *Financial Reporting (International Standard on Quality Management 2 (ISQM 2)-Engagement Quality Review (EQR)) Rules 2022.*


As per the standard an EQR is mandatory for all audits of listed entities. FRC enhanced the scope of engagement quality review, which has been extended to all banks and insurance companies' audits either listed or not listed. In that respect the *Financial Reporting (International Standard on Quality Management 2 (ISQM 2)-Engagement Quality Review (EQR)) Rules 2022* was issued in May 2022 which will be effective as from 15 December 2022.




## Resources

The FRC on a monthly basis publishes on its website updates from the International Accounting Standards Board (“IASB”) and International Federation of Accountants (“IFAC”). For more information on these updates, you may refer to the following websites:

 FRC – [frc.govmu.org](http://frc.govmu.org)

 IASB – [iasb.org](http://iasb.org)

 IFAC – [ifac.org](http://ifac.org)



For more details on the topics referred in this issue, the reader may visit the website of FRC (<http://frc.govmu.org>) or contact the FRC.

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