
# Bulletin on Review of Annual Reports for the six months ended 30 June 2022

## FINANCIAL REPORTING COUNCIL

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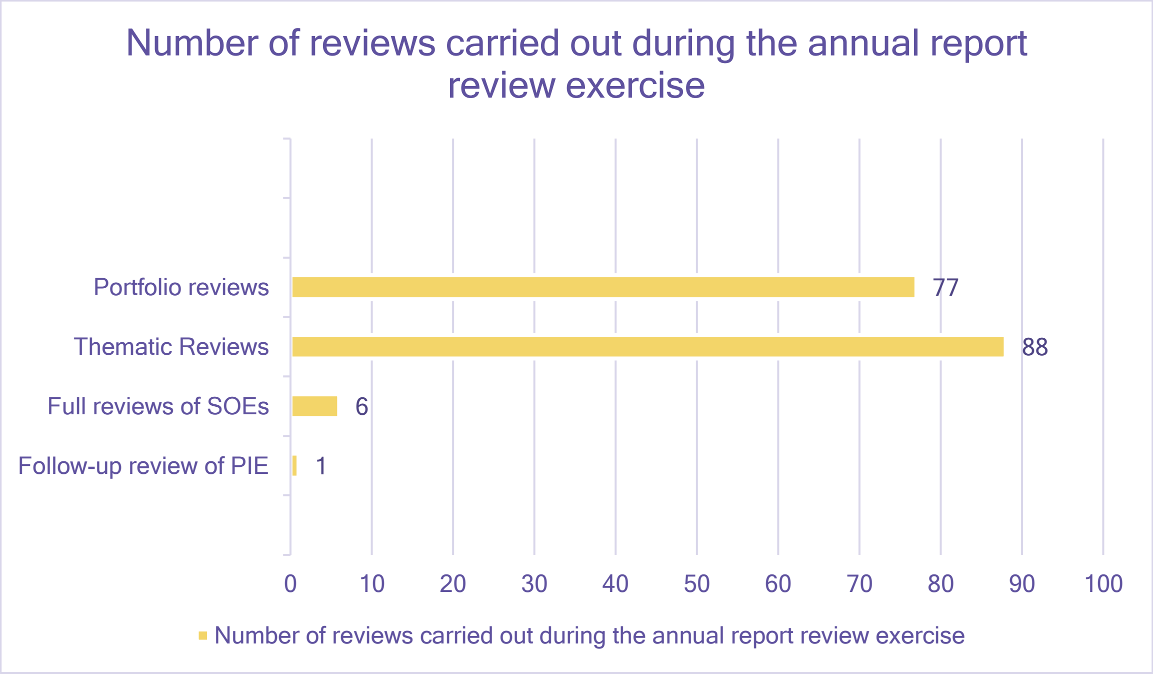
# PART A – EXECUTIVE SUMMARY

The Financial Reporting Council ("FRC") has the responsibility to ensure high quality reporting. For this purpose, the FRC undertakes the review of the annual reports of Public Interest Entities ("PIEs") and State-Owned Enterprises ("SOEs") classified as PIEs as part of its monitoring activities, in accordance with Section 76(1) of the Financial Reporting Act ("FRA''). The annual report reviews are focused on compliance with applicable accounting standards (IFRSs for PIEs other than SOEs) and IPSASs for SOEs classified as PIEs) and the National Code of Corporate Governance (Code) taking into consideration the impact of the Covid-19 pandemic.

The annual report reviews would assist in improving good governance of a PIE in ensuring that annual reports present a comprehensive and objective assessment of the activities of the company, which allow the stakeholders to understand how the entity is managed.

FRC has carried out 172 reviews of the annual reports of 94 PIEs [77 Portfolio Reviews, 88 Thematic Reviews, 6 Full Reviews of SOEs and 1 Follow-up Review of 1 PIE] for the six months ended 30 June 2022, as shown in the diagram below.



Consistent with earlier years, the purpose of this bulletin is to assist PIEs in the preparation of high-quality corporate reports by providing an overview of the findings that were noted during the course of FRC's annual report reviews. It mainly focuses on non-compliances noted with respect of IFRS and the Code during the course of FRC's reviews of annual reports of the PIEs.

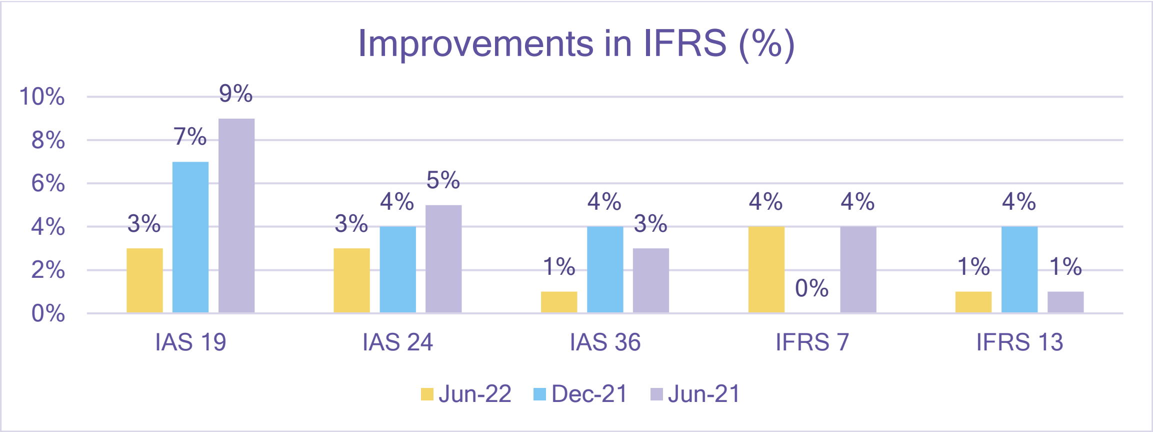
Key findings with regard to International Financial Reporting Standards

In general, FRC observed a good level of compliance with IFRSs among PIEs. The topics most often raised with PIEs during FRC's annual report reviews are employee benefits, related parties, methods and inputs used in the fair value measurement of land and buildings and impairment of assets.

Part D of this bulletin provides further details on the observations raised with respect to the above topics.

From the annual report review exercise, it was noted that the number of non-compliances with respect to IFRS has decreased comparatively from the period June 2021 to December 2021.

The diagram below illustrates the percentage of non-compliances with the above-mentioned IFRSs in June 2021, December 2021 and June 2022:




While it was observed that there was an improvement in the level of corporate reporting with respect to IAS 19, *Employee Benefits*., IAS 24*, Related Party Disclosures*, IAS 36, *Impairment of Assets* and IFRS 13 *Fair Value Measurement,* the findings relating to IFRS 7, *Financial*

*Instruments Disclosures* had slightly increased, as compared to the previous periods. Hence, it was good to note, PIEs generally followed FRC's recommendations to include the missing information in their next annual reports with respect to the observations previously raised on IFRSs.

Key findings with respect to the Revised Code of Corporate Governance

FRC had carried out the annual reports of 94 PIEs [72 PIEs reviewed on a portfolio basis and thematic basis, 15 PIEs on a thematic basis, full reviews of 6 SOEs and follow up review of 1 PIE] for the six months ended 30 June 2022. Out of the above 94 PIEs, 15 PIEs were reviewed on a thematic basis taking into consideration the impact of the COVID 19 pandemic on their financial reporting.

The remaining 79 PIEs were reviewed in light of the requirements of the IFRSs, IPSAS, and the Code of Corporate Governance. This section of the bulletin focused on the level of compliances observed with respect to the Code of Corporate Governance for these 79 PIEs.

Similar to the previous period, it was noted that all the PIEs reviewed, had adopted the Revised Code of Corporate Governance. Out of the 79 PIEs reviewed in 2022,11 PIEs had partly complied with the Revised Code of Corporate Governance. The number of non-compliances decreased comparatively from the periods June 2021 and December 2021.

The most common observations made on compliance with the Revised Code were in respect of the following:
(a) The Structure of the Board and its Committees;
(b) Director Duties, Remuneration and Performance; and
(c) Audit.

Part D of this bulletin analyses each of the above topics in further details.

For the period under review, FRC observed that there was a slight increase in the percentage of non-compliances with the Revised Code as compared to the six months ended 31 December 2021.

FRC noted that most PIEs (86%) 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 which is prepared in compliance with the relevant laws and standards ignites confidence among the stakeholders who use it for decision making for their respective purposes. It must thus provide quantitative and qualitative information that enables a range of stakeholders (including shareholders, potential investors, regulators and the public) to understand a company's financial performance, its business model, strategy for future growth and key risks.

As a general principle, disclosures in annual reports should be clear and concise which are relevant and useful to users of financial statements, taking into consideration the impact of the Covid-19 pandemic. Many sectors in which the PIEs operate have been affected by the Covid-19 pandemic. However, the extent of the impact of Covid-19 is more significant for companies in certain sectors such as hotels, leisure and travel.

Given the uncertainty surrounding Covid-19, companies need to continually monitor developments and ensure that they are providing up-to-date and meaningful disclosure when preparing annual reports and financial statements. The level and detail of disclosures surrounding the impact of Covid-19 are dependent upon the significance of the impact that Covid-19 had, and is expected to have, on the business' operations and activities.

FRC reviewed the annual reports of PIEs for the years 2020 and 2021 during the six months ended 30 June 2022. From the annual report review exercise, it was noted that the Covid-19 pandemic had an impact on the operations, financial position and performance of most PIEs. Those operating in the banking, insurance and financial sectors were more resilient while those PIEs engaged in the hotel, leisure and tourism sectors were the most affected. Also, some PIEs with financial years ended 31 December 2020 had disclosed the lockdown imposed by the government in March 2021 as a subsequent event.

As part of its function, the FRC reviewed annual reports to ensure compliance with the requirements of relevant accounting standards[1] and the National Code of Corporate

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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.

Governance (“Code”) and taking into account the impact of the COVID-19 pandemic to ensure quality reporting. It is encouraging to note there was a good that there is a continuing improvement in the corporate reporting of PIEs in general, despite the challenges of reporting in the wake of the Covid 19 pandemic.

This bulletin describes the main findings identified during the six months ended 30 June 2022. It provides an overview of the current state of corporate reporting and provides information on shortcomings requiring improvement for PIEs.

For the period ended 30 June 2022, FRC had carried out 172 reviews of 94 PIEs [77 Portfolio Reviews, 88 Thematic Reviews, 6 Full Reviews of SOEs and 1 Follow Up Review of 1 PIE]. 73 PIEs prepared their financial statements in accordance with IFRSs, as required by the Financial Reporting Act, 6 SOEs adopted IPSAS and the other 15 PIEs were not reviewed under IFRSs requirements as these PIEs were selected for thematic reviews.

***“For the six months ended 30 June 2022 FRC reviewed the annual reports of 94 PIEs.”***

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

| Types of reviews | Sectors | | | | | | | | Total number of PIEs | No. of Annual Report Reviews |
|---|---|---|---|---|---|---|---|---|---|---|
| | BIF | Commerce | Industry | Investments | Leisure & Hotels | Sugar | Others | Property Developm ent | | |
| Listed on SEM | 4 | 6 | 13 | 16 | 6 | 2 | 3 | 4 | **54** | **113** |
| Financial institutions regulated by BOM (excluding cash dealers) | 12 | - | - | - | - | - | - | - | **12** | **24** |

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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.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial institutions regulated by FSC | 10 | - | - | - | - | - | - | - | 10 | 16 |
| Category 4 PIEs as per the FRA | - | 2 | 3 | 1 | 5 | - | - | 1 | 12 | 13 |
| SOEs as per the First Schedule of FRA | - | 1 | - | - | - | - | 5 | - | 6 | 6 |
| **Total** | **22** | **7** | **15** | **16** | **7** | **2** | **9** | **5** | **94*** | **172*** |

* FRC reviewed the annual reports of 94 PIEs for the six months ended 30 June 2022. Out of the above 94 PIEs, 1 PIE had been reviewed for a period of 2 years, 2 PIEs had been reviewed for a period of 3 years and the remaining PIEs had been reviewed for a period of 1 year.

For the six months ended 30 June 2022, 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 carried out 77 portfolio reviews of 72 PIEs on a portfolio basis for the six months ended 30 June 2022. With respect to the 77 portfolio reviews, 1 PIE had been reviewed for a period of 2 years, 2 PIEs had been reviewed for a period of 3 years and the remaining 69 PIEs had been reviewed on a portfolio basis 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 | | | | | | | | Total number of PIEs |
|---|---|---|---|---|---|---|---|---|---|
| | BIF | Commerce | Industry | Investments | Leisure & Hotels | Sugar | Others | Property Development | |
| Listed on SEM | 4 | 6 | 13 | 16 | 6 | 2 | 3 | 4 | **54** |
| Financial institutions regulated by BOM (excluding cash dealers) | 12 | - | - | - | - | - | - | - | **12** |
| Financial institutions regulated by FSC | 6 | - | - | - | - | - | - | - | **6** |
| **Total** | **22** | **6** | **13** | **16** | **6** | **2** | **3** | **4** | **72** |

## B. Thematic reviews on the impact of COVID 19 pandemic

In the year 2021, businesses have once again been severely impacted by the outbreak of the COVID-19 pandemic. Hence, FRC has decided to conduct the thematic reviews on the impact of COVID 19 of the same PIEs reviewed on a portfolio basis (see part A above).

For the six months ended 30 June 2022, FRC had conducted 88 thematic reviews. The findings relating to the thematic reviews have not been included in this Bulletin, and would be set out in a separate report.

## C. Full review of PIEs

FRC also selected the annual reports of State-Owned Enterprises (SOEs) listed in the First Schedule of the Financial Reporting Act 2004 for review purpose.

For the six months ended 30 June 2022, FRC conducted the annual report review of 6 SOEs.

## D. Follow up reviews of Annual Reports

Apart from the portfolio, full and thematic reviews, FRC also undertook follow-up reviews to assess the extent to which findings raised on previous reviews had been satisfactorily addressed by the PIEs.

New issues such as the application of new standards, amendments to standards and regulations arising during the course of the follow-up reviews of the annual reports were also considered.

For the period under review, 1 follow up review was undertaken. It consisted of 1 PIE involved in the leisure & hotels sector whose auditor is under close monitoring.

# PART C: ANNUAL REPORT REVIEWS: TREND IN QUALITY REPORTING

As part of its mandate, FRC has monitored the annual reports of PIEs in order to promote the provision of high-quality reporting. For the six months ended 30 June 2022, FRC carried out the reviews of 94 PIEs (portfolio and thematic reviews of 72 PIEs, full reviews of 6 SOEs, thematic reviews of 15 PIEs and follow-up review of 1 PIE), as specified at Part A of this bulletin.

Out of the above 94 PIEs, 15 PIEs were reviewed on a thematic basis taking into consideration the impact of the COVID 19 pandemic on their financial reporting. The remainder 79 PIEs were monitored based on the requirements of IFRSs, IPSASs and the Code of Corporate Governance. This section of the bulletin focused on the level of compliances observed for these 79 PIEs.

22 PIEs were issued letters of observations (copied to the Chairman of PIEs) on issues relating to IFRSs, IPSASs and Corporate Governance during the period under review. This represents 28% of the annual reports reviewed during the six months ended 30 June 2022 (30 June 2021: 42% and 31 December 2021: 30%). Compared to the previous periods, this represents a decrease in the level of findings noted from the annual reports of PIEs. The decline in the number of substantive letters was attributable to a fall in non-compliances noted with respect to IFRSs.

In view of FRC's comments, most PIEs provided explanations and undertook to comply with the non-compliances raised by FRC and took remedial actions in light of FRC's comments. FRC would continue to monitor such undertakings to ensure that the non-compliances raised in previous reviews are being considered.

The most frequent IFRS findings raised over the last three periods (30 June 2021, 31 December 2021 and 30 June 2022) are management of financial risks, employee benefits and related parties. Of note, the observations made throughout the periods were not with the same PIEs.
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 2022 | Six months ended 31 December 2021 | Six months ended 30 June 2021 |
| Number of PIEs adopting IFRSs | 73 | 27 | 78 |
| IAS 19, *Employee Benefits* | 3% | 7% | 9% |
| IAS 24, *Related Party Disclosures* | 3% | 4% | 5% |
| IAS 36, *Impairment of Assets* | 1% | 4% | 3% |
| IFRS 7, *Financial Instruments Disclosures* | 4% | 0% | 4% |
| IFRS 13, *Fair Value Measurement* | 1% | 4% | 1% |

As shown in the table, FRC noted that the percentage of IFRS non-compliances had decreased as compared to the previous period except for IFRS 7.

In general, it was good to note that PIEs are more compliant with relevant requirements of IFRSs in 2022.

On the Corporate Governance side, it is noted that there is generally a good level of compliance amongst the PIEs. All the 79 had reported on Corporate Governance, that is a reporting rate of 100% for the six months ended 30 June 2022 (June 2021: 100%, December 2021: 100%). This shows that all PIEs are aware that they have to adopt the Revised Code of Corporate Governance.

Also, it is observed that 11 out of the 79 PIEs (14%) had partly complied with the Revised Code of Corporate Governance (June 2021: 17 PIEs (20%), December 2021: 3 PIEs (11%)). As compared to December 2021, 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 2022, FRC raised findings relating to the following areas of corporate reporting amongst the 73 PIEs reviewed with respect to IFRSs:

## 1.0 COMPLIANCES WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

(a) IAS 19, Employee Benefits

**FRC informed 2 PIEs [1 listed in Investments, and 1 regulated by BOM] of non-compliances in respect of the following requirements of IAS 19:**

a) Details on the amount recognised as expense for the defined contribution plan.

b) For defined benefit plans, disclosures regarding:

I. Description of risks to which this plan exposes the entity;

II. Expected contributions to the plan for the next annual reporting period; and

III. Information about the maturity profile of the defined benefit obligation.

(b) IAS 24, Related Parties

From the review, FRC noted that 2 PIEs [1 listed in Industry and 1 regulated by BOM] had not disclosed the following:

a) The nature of its related party relationship with its related parties, as required by IAS 24; and

b) The terms and conditions of related parties' outstanding balances including whether they are secured, and the nature of consideration to be provided in settlement.

(c) IFRS 7, Financial Instruments: Disclosures

**From the review exercise, FRC observed that 3 PIEs** [1 listed in Industry, 1 regulated by FSC and 1 PIE classified under Category 4 of the FRA] **had not disclosed the objectives, policies and processes for managing financial risks.**

2 PIEs [1 listed in Investments, and 1 regulated by BOM had partly complied with IAS 19.

(d) IFRS 13, Fair Value Measurement

From the annual report of 1 listed PIE involved in property development, FRC noted that this PIE had not disclosed the inputs used in the fair value measurement of investment properties.

(e) IAS 36, Impairment of Assets

With regard to IAS 36, FRC queried 1 listed PIE involved in Investments in respect of the recoverable amount of the cash-generating units.

## 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 2022, FRC had reviewed the annual reports of 6 SOEs.

The following matters relating to IPSASs were queried for 3 SOEs:

(a) IPSAS 3 Accounting Policies, Changes in Accounting Estimates and Errors

From the annual reports of 2 SOEs, FRC noted that these entities had not disclosed information on the possible impact that application of new Standards would have on their financial statements in the period of initial application.

(b) IPSAS 39 Employee Benefits

FRC informed 3 SOEs that they had not provided a description of the risks to which they were exposed through their defined benefit pension plans.

3 SOEs had partly complied with IPSAS 3 and IPSAS 39.

## 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.

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 8 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

FRC noted the following for the 79 PIEs who reported on the Code of Corporate Governance:

<u>Compliance with the Revised Code of Code of Corporate Governance</u>

All the 79 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 79 PIEs had reported on the Revised Code.

The Revised Code of Corporate Governance is applicable as from the reporting year ended on or after June 30, 2018.

For the 79 PIEs that had reported under the Revised Code, the following were noted:

- 38 PIEs had fully applied the 8 principles of the Revised Code of Corporate Governance;
- 30 PIEs had provided explanations for not complying with some sections of the Revised Code of Corporate Governance (Please see Paragraph A below); and
- 11 PIEs had partly applied the Revised Code of Corporate Governance (see Paragraph B below).

With respect to the level of compliance with the Revised Code, the following were observed:

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

For those 30 PIEs that have provided explanations for not applying the Revised Code, the following were noted:

- *Principle 1: Governance Structure (6 PIEs)*

The main observations were in respect of the following:

- No adoption of a Board Charter and ethics.
- No disclosure of other directorship in companies listed on SEM for Board members.
- No publication of material information on the company and its governance framework in the Company's website.

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

- The company is in the process of adopting a Board Charter and Code of Ethics.
- Details of other directorships are available at the Company's registry.
- The Company was in the process of constructing its website to contain such disclosure requirements, as recommended by the Code.

38 PIEs had fully applied the 8 principles of the Revised Code of Corporate Governance.

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

The main findings noted were with respect to:

- The Board of Directors did not have adequate number of executive directors.
- There was no gender diversity.
- The Board of Directors did not have adequate number of independent directors.
- Two members of the Audit committee are not independent non-executive directors.

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

- The Board's composition is currently being reviewed in light of the Code's recommendation.
- The Board was in the process of appointing a new executive director and independent director.
- There was only one executive director on the Board. The entity was of the view that the executive director was of sufficient calibre to manage the Company.
- The Board was of the opinion that one executive, working in close collaboration with the Chairman was sufficient in view of the business scope and activities of the Company.
- The Board was of the view that the independent non-executive directors had sufficient financial management knowledge and experience to be able to exercise independent judgement in discharging their responsibilities even though they had served on the board for more than nine years.
- The Board was working on the recruitment of female directors.

- *Principle 3: Director Appointment Procedures (6 PIEs)*

The main observations were:

- Directors were not elected or re-elected every year at the Annual Meeting of shareholders.
- There was no formal succession plan in place.

30 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

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

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

- The entity did not have a documented procedure with respect to the succession plan and same would be considered by the Group Corporate Governance Committee.

- 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 (20 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:

- The Board had decided to defer the Board evaluation and performed same in the financial so as to contain expenses following the severe impact of the COVID-19 pandemic.

- The entity did not evaluate the Board, subcommittees and directors since the Board Members were appointed by the Minister.

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

- A comprehensive Board evaluation exercise, led by the Chairman, would be carried out every two years. The Board considered that this evaluation process met the Company's present requirements.

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

In some cases, remuneration of directors had not been disclosed on an individual basis 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 11 PIEs which had partly complied with the Code, the following findings were noted:

- The corporate governance section of the annual reports did not include:
    - A description of how the internal audit function maintains its independence and objectivity.
    - A statement that the structure, organisation and qualifications of the key members of the internal audit function are listed on the organisation's website.
    - Information on the directors that reside in Mauritius.
    - Detailed description on the nature of non-audit services rendered by the external auditor.

- The Board does not have any independent director.

- Some independent directors did not appear to be independent as they had cross directorships in other companies.

- The website of 1 PIE did not include the organisation's constitution.

- A PIE did not keep a register of interests.

## 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 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 2022, 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**.

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 by 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 which updates the form and content of auditors' reporting on corporate governance, in line with the principles of the Revised Code of Corporate Governance.
- In 2022, the FRC made amendments to the Financial Reporting Council (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2019, whereby the auditor's report on compliance with the Code of Corporate Governance should be presented under the "Reporting on other legal requirements" paragraph and should appear under the "Financial Reporting Act" subparagraph, in the Auditor's Report.

**From the 79 Annual Reports reviewed, FRC observed that the auditor of 1 listed PIE involved in property development had not reported on the consistency of the requirements of the Code.**

The auditor of 1 listed PIE involved in property development 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 2022, FRC observed that out of the 22 PIEs which had been issued letters following the review exercise, 9 had not fully complied with the requirements of International Financial Reporting Standards. These 9 PIEs had been audited by 6 audit firms.

**FRC noted the following from the 9 PIEs with IFRS findings:**

- **7 entities representing 78% of the above 9 PIEs are audited by Big 4 Audit Firms (namely BDO, Deloitte and PWC and Ernst & Young); and**
- **The remaining 2 PIEs (32%) are audited by one partner audit firms.**

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

7 entities representing 78% of the above 9 PIEs are audited by Big 4 Audit Firms (namely BDO, Deloitte and PWC and Ernst & 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 | 7 |
| 1 partner audit firm | 2 |

*Out of the 4 Big 4 Audit Firms, 2 audit firms audited 5 PIEs. Out of these 5 PIEs, 2 PIEs had 1 common non-compliance. The finding identified from the annual reports of the 2 PIEs audited by 1 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 2022, 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 4 PIEs [3 listed (1 Property Development, 1 Leisure & Hotel and 1 Sugar) and 1 PIE regulated by BOM].

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 entity; and
- Publication of material information on the Company's website, as per the Code of Corporate Governance.

FRC will carry out close monitoring and follow up regarding 4 PIEs [4 listed (1 Property Development, 1 Leisure & Hotel and 1 Sugar) and 1 PIE regulated by BOM].