Bulletin on Review of Annual Reports for the six months ended 31 December 2020

FINANCIAL REPORTING COUNCIL

3rd Floor, Anglo Mauritius House, Intendance Street, Port Louis
Website: http://frc.govmu.org
Email: frc.mauritius@intnet.mu
# TABLE OF CONTENTS

PART A – EXECUTIVE SUMMARY ........................................................................................................ 3
PART B - INTRODUCTION .................................................................................................................. 5
PART C - ANNUAL REPORT REVIEWS: TREND IN QUALITY REPORTING ........................................ 9
PART D – MAIN FINDINGS FROM REVIEWS OF PIEs ...................................................................... 12
PART E – FOLLOW UP ISSUES ........................................................................................................... 23
PART A – EXECUTIVE SUMMARY

As per section 76(1) of the Financial Reporting Act (‘FRA’), the Financial Reporting Council (FRC) has the responsibility to review annual reports of Public Interest Entities (PIEs) as part of its monitoring exercise. In this respect, FRC monitors the annual reports of Public Interest Entities (PIEs) and State-Owned Enterprises (SOEs) classified as PIEs to ensure that these are in 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), to ensure quality reporting.

For the six months ended 31 December 2020, FRC had performed the reviews of 54 annual reports of 36 PIEs [33 Portfolio Reviews and 3 Full Reviews (2 PIEs for which the auditors are under close monitoring by the FRC and 1 SOE)].

For the period under review, the topics most often raised with companies with respect to IFRSs include issues in relation to risks arising from financial instruments, employee benefits, investment property, related parties and fair value measurements.

The overall quality of reporting by PIEs had remained consistent in recent years. In relation to the level of compliances with IFRSs, FRC observed improvements in the following areas of corporate reporting as compared to the period ended 31 December 2018:

- IAS 1, Presentation of Financial Statements;
- IAS 19, Employee Benefits;
- IAS 24, Related Party Disclosures;
- IFRS 7, Financial Instruments Disclosures; and
- IFRS 13, Fair Value Measurement.

In this regard, the percentage of non-compliances with the above-mentioned IFRSs in December 2020 were 3% (2018: 43%), 6% (2018: 28%), 6% (2018: 28%), 11% (2018: 25%) and 6% (2018: 15%) respectively. This represents an improvement in these areas as compared to the six months ended 31 December 2018.
On the corporate governance side, it was noted that out of 36 PIEs reviewed 34 had adopted the Revised Code of Corporate Governance which is effective for their reporting periods starting on or after 1 July 2017. The remaining 2 had not reported on the Revised Code (1 had not submitted a corporate governance report and 1 PIE wrongly reported under the Old Code).

Furthermore, it was observed that out of the 34 PIEs that had reported on corporate governance, 4 PIEs had partly complied with the Revised Code of Corporate Governance. The main areas of non-compliances were in respect of the following:
(a) Governance Structure;
(b) The Structure of the Board and its Committees; and
(c) Director Duties, Remuneration and Performance.

From the review of the annual reports, FRC observed that there is an improvement in the quality of reporting by the PIEs on corporate governance which show greater appreciation and awareness of the benefits of good governance practices.
PART B - INTRODUCTION

The annual report should contain key information that enables a range of stakeholders (including shareholders, potential investors, regulators and the public) to understand a company’s historical performance, strategy for future growth and key risks. This would ignite confidence among the stakeholders who use it for decision making for their respective purposes. The coronavirus (COVID-19) pandemic has an impact on the business activities of companies and has created unprecedented challenges for companies reporting their financial results for those annual reports with financial year starting on or after 1 January 2020.

Except for 1 annual report which had year-end 31 March 2020, FRC reviewed the annual reports of PIEs for the years 2017 to 2019 during the six months ended 31 December 2020. Thus, there was no material financial reporting implications of the impact of the COVID-19 pandemic in these 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 provides an overview of the key findings following FRC’s review of annual reports for the six months ended 31 December 2020. Also, it highlights FRC’s view of the current state of corporate reporting for PIEs, areas requiring improvement and sets out expectations for the next season of reporting. Key audiences for this report are preparers and auditors of corporate reports, and investors.

For the period July 2020 to December 2020, FRC had carried out Portfolio Reviews of 33 PIEs and Full Reviews of 3 PIEs [2 PIEs audited by auditors who required close monitoring and 1

---

\(^1\) 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.
SOE]. The SOE adopted IPSAS and the other 35 PIEs prepared their financial statements in accordance with IFRSs.

For the six months ended December 2020 FRC reviewed the annual reports of 36 PIEs.

The table below indicates the categories of PIEs and their corresponding sectors selected for reviews:

<table>
<thead>
<tr>
<th>Types of reviews</th>
<th>BIF</th>
<th>Commerce</th>
<th>Industry</th>
<th>Investment</th>
<th>Leisure &amp; Hotels</th>
<th>Sugar</th>
<th>Others</th>
<th>Total</th>
<th>No of annual reports reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed on SEM</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>23</td>
<td>34</td>
</tr>
<tr>
<td>Financial institutions regulated by BOM (excluding cash dealers)</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Financial institutions regulated by FSC</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>9</td>
</tr>
<tr>
<td>Category 4 PIEs as per the FRA</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>SOEs as per the First Schedule of FRA</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
<td>1</td>
<td>9</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>7</td>
<td>36</td>
<td>54</td>
</tr>
</tbody>
</table>

For the period under review, FRC conducted the following types of reviews:

A. Portfolio Reviews

With respect to the portfolio reviews, FRC initially conducts the annual report review of the PIEs on a portfolio basis for a period of 3 to 5 years. Subsequently, FRC continues to monitor the above portfolio 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
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 33 PIEs on a portfolio basis for the six months ended 31 December 2020. Out of these 33 PIEs, 4 had been reviewed on a portfolio basis for the first time for a period of 3 to 5 years and the remaining 29 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:

<table>
<thead>
<tr>
<th>Types of reviews</th>
<th>Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BIF</td>
</tr>
<tr>
<td>Listed on SEM</td>
<td>-</td>
</tr>
<tr>
<td>Financial institutions regulated by BOM</td>
<td></td>
</tr>
<tr>
<td>(excluding cash dealers)</td>
<td>5</td>
</tr>
<tr>
<td>Financial institutions regulated by FSC</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>10</td>
</tr>
</tbody>
</table>
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

For the six months ended 31 December 2020, FRC conducted the annual report reviews of 3 PIEs [2 PIEs classified under Category 4 of the First Schedule of the Financial Reporting Act (1 Commerce and 1 Others), audited by auditors requiring close monitoring and 1 SOE].
PART C: ANNUAL REPORT REVIEWS:
TRENDS IN QUALITY REPORTING

As part of its monitoring exercise, FRC had carried out the annual report reviews of 36 PIEs for the six months ended 31 December 2020, as stated at Part A above.

FRC informed 11 PIEs on issues relating to IFRSs / IPSASs and Corporate Governance during the period under review which is 31% (30 June 2020: 25%) of the annual reports reviewed. This represents a slight increase in the rate of the substantive letters issued to PIEs, as compared to the previous period.

Most PIEs duly noted the points stated in FRC’s letters of observations following the annual report reviews and agreed to take relevant corrective actions in the preparation of the future annual reports. FRC would make follow up on such undertakings to ensure that the non-compliances raised in previous reviews are being considered by the PIEs.

With respect to undertakings that were not followed in previous periods, FRC reiterated the findings and requested the PIEs to provide explanations regarding same.

In December 2020, FRC observed that out of the 36 PIEs reviewed, 1 SOE adopted IPSAS while the remaining 35 PIEs prepared their financial statements in accordance with IFRSs. With respect to those 35 PIEs, FRC observed that except for the following IFRSs there is an improvement in the level of compliances achieved by PIEs as compared to the six months ended 31 December 2018:

- IAS 1, Presentation of Financial Statements
- IAS 19, Employee Benefits
- IAS 24, Related Party Disclosures
- IFRS 7, Financial Instruments Disclosures
- IFRS 13, Fair Value Measurement

For the 35 PIEs that had prepared their financial statements in accordance with IFRSs during the six months ended 31 December 2020, it was observed that the percentages of findings
observed under IAS 1, *Presentation of Financial Statements*, IAS 19, *Employee Benefits*, IAS 24, *Related Party Disclosures*, IFRS 7, *Financial Instruments Disclosures* and IFRS 13, *Fair Value Measurement* were 3%, 6%, 6% 11% and 6% respectively.

By comparison, from the review of the annual reports of 40 PIEs conducted during the six months ended 31 December 2018, it was observed that the level of PIEs having findings relating to IAS 1, *Presentation of Financial Statements*, IAS 19, *Employee Benefits*, IAS 24, *Related Party Disclosures*, IFRS 7, *Financial Instruments Disclosures* and IFRS 13, *Fair Value Measurement* were 43%, 28%, 28%, 25% and 15%.

The above information is further depicted in the table below. This Table shows the topics where substantive queries were most frequently raised with companies following reviews and the percentage of non-compliances per selected IFRSs which is based on the number of PIEs reviewed for the periods ended 31 December 2018 and 2020.

Most commonly raised issues and the percentage of non-compliances per PIEs with selected IFRSs for the six months ended 31 December 2018 and 31 December 2020

<table>
<thead>
<tr>
<th>IFRS requirements</th>
<th>Percentage of non-compliance with IFRSs based on number of PIEs reviewed</th>
<th>Six months ended December 2018</th>
<th>Six months ended June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 1, Presentation of Financial Statements</td>
<td>43%</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>IAS 19 Employee Benefits</td>
<td>28%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>IAS 24 Related Party Disclosures</td>
<td>28%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>IFRS 7 Financial Instruments Disclosures</td>
<td>25%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>IFRS 13, Fair Value Measurement</td>
<td>15%</td>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

Therefore, as compared to the percentage of non-compliances for the six-month ended 31 December 2018, a significant progress could be noted, whereby PIEs are now more compliant with the relevant requirements of IFRSs.
With respect to Corporate Governance, FRC observed a notable increase in the level of compliance with the Revised Code. For the period under review, 34 PIEs out of 36 had reported on Corporate Governance, that is, a compliance rate of 94% (June 2020: 96%) for corporate governance. The remaining 2 PIEs had not complied with the Revised Code. With respect to these 2 PIEs, 1 had not submitted a corporate governance report and 1 PIE wrongly reported under the Old Code.

Also, FRC noted that 4 PIEs had partly complied with the Revised Code of Corporate Governance. This represents a decrease in the number of PIEs not complying with the Code as compared to the previous period (June 2020: 7). FRC observed that in general there is a good level of compliance with corporate governance amongst PIEs.
PART D: MAIN FINDINGS FROM REVIEWS OF PIES

With respect to the 36 PIEs reviewed, FRC raised findings relating to the following areas of corporate reporting during the six months ended 31 December 2020:

1.0 COMPLIANCES WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSS)

(a) IAS 19, Employee Benefits

FRC queried 2 listed PIEs [1 Investments and 1 Industry] in respect of the following requirements of IAS 19:

- Description of risks to which the entity was exposed through its defined benefit plan; and
- Details on the amount recognised as expense and under which line item of the statement of comprehensive income same had been included for the defined contribution plan.

(b) IAS 24, Related Parties

From the annual reports of 2 PIEs [1 regulated by FSC and 1 PIE in Industry] in Category 4 of the FRA], FRC identified issues, which related to the following requirements of IAS 24:

- Nature of the related party relationship as well as information about those transactions and outstanding balances; and
- 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 4 PIEs [2 listed in Industry and 2 PIEs classified under Category 4 of the FRA] had partly complied with IFRS 7.

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

- Objectives, policies and processes for managing risks;
- Sensitivity analysis for financial risks; and

3 PIEs [2 listed in Industry and 1 PIE in Category 4] had partly complied with IFRS 7.
• Disclosures related to the definition of default and the PIE’s write off policy with respect to credit risk.

(d) IAS 40, Investment Property

From the review exercise, FRC observed that 2 PIEs classified under Category 4 of the First Schedule of the FRA had partly complied with IAS 40.

The findings identified with respect to the requirements of IAS 40 were as follows:

• Information regarding the fair value of investment properties; and
• Amounts recognised in profit or loss for direct operating expenses arising from investment property that generated rental income during the period.

(e) IFRS 13, Fair Value Measurement

From the annual reports of 2 PIEs [1 listed in Industry and 1 regulated by FSC], FRC identified issues which related to the following requirements of IFRS 13:

• Description of the valuation technique(s) and the inputs used in fair value measurement; and
• Information on the change in the levels of fair value hierarchy with respect to land and building and investment properties.

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.

The following matters relating to IPSASs were queried for this SOE:

(a) IPSAS 4 – Foreign Exchange Rates

From the SOE’s accounting policy, it was noted that non-monetary assets and liabilities denominated in foreign currencies were retranslated using the closing rate.

FRC informed the entity that it should make use of exchange rate at the date of transaction for these
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, as and when they are available. 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 31 December 2020, FRC had reviewed the annual reports of 1 SOE.

(b) IPSAS 39 – Employee Benefits

From the SOE’s annual report, FRC observed findings with respect to the following requirements of IPSAS 39:

- Description of risks to which the entity was exposed through its defined benefit plans; and
- Information on the funding arrangements and funding policy that affect future contributions.

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.

In 2016, a Revised Code of Corporate Governance was launched which is applicable as from the reporting year ended on or after June 30, 2018.
The 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 36 PIEs reviewed:

<table>
<thead>
<tr>
<th>Revised Code of Corporate Governance</th>
</tr>
</thead>
</table>

All the 36 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. Out of the 36 PIEs reviewed, 34 had reported on the Revised Code. With respect to the remaining 2 PIEs that had not reported on the Revised Code, the following were observed:

- 1 PIE had not yet adopted the Revised Code and is still applying the Old Code even though its reporting year ended on June 30, 2018.
- 1 PIE had not submitted a corporate governance report as per Section 75 (2) (a) of the Financial Reporting Act.

For the 34 PIEs that had reported under the Revised Code, the following were noted:

- 21 PIEs had fully applied the 8 principles of the Revised Code of Corporate Governance;
- 9 PIEs had provided explanations for not complying with some sections of the Revised Code of Corporate Governance (Please see Part A below); and
- 4 had partly applied the Revised Code of Corporate Governance (see Part 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 9 PIEs that have provided explanations for not applying the Revised Code, the following were noted:
• **Principle 1: Governance Structure (1 PIE)**

The non-compliances identified were as follows:

- Absence of a dedicated website.
- No adoption of a Board Charter.
- No disclosure of other directorship in companies listed on SEM for board members.

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

- The entity was in the process of constructing its website to contain the disclosure requirements it deemed necessary.

- The company had followed the principles laid down in the model Board Charter contained in the Code and was guided by the provisions of its constitution and the prevailing laws and regulations. Adoption of the entity’s Board Charter was in progress.

- Details of other directorships had been made available at the Company’s registry.

• **Principle 2: The Structure of the Board and its Committees (5 PIEs)**

The main findings noted were with respect to:

- The entity had only 1 Executive Director.
- There was no gender diversity.
- The Chairman of the Audit Committee was not independent.
- The Audit Committee had only one independent director.

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

- There was only one executive director on the Board as 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 Audit Committee was composed of only one independent director. The Board was of the opinion that the audit committee’s composition was adequate in view of the skills, knowledge of the organisation and experience of

The 9 PIEs that have not provided explanations for not applying the Revised Code, had not complied with the following Principles of the Revised Code of Corporate Governance:

- Principle 1: Governance Structure
- Principle 2: The Structure of the Board and its Committees
- Principle 4: Director Duties, Remuneration and Performance
non-executive directors which allowed them to discharge their responsibilities towards the Company and its shareholders effectively.

- The Board was looking forward to improving gender balance on the Board and was working on the recruitment of female directors.

- The entity was of the view that although the chairman of the Audit Committee was not an independent director, he always demonstrated financial expertise and independent mindset to the discussion and decision taken at committee levels.

**Principle 4: Director Duties, Remuneration and Performance (8 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 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.

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

For the 4 PIEs which had partly complied with the Code, the following findings were noted:

- There was no independent director on the board of directors.

- The corporate governance section of the annual reports did not include:
  - Statement that the annual report is published in full on the organisation’s website;
  - Statement that the structure, organisation and qualifications of the key

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

4 PIEs had partly applied the Revised Code of Corporate Governance.
members of the internal audit function are listed on the organisation's website;

- Information on the length of tenure of the current audit firm and when a tender was last conducted;

- Statement that the Board has approved appropriate job descriptions of the key senior governance positions and statement of accountabilities;

- An organisational chart;

- Frequency of reassessment of the committee's charter;

- Detailed remuneration of directors including an explanation of the proportions of fixed and variable remuneration, details of any long-term incentive plans and a description of any link between executive remuneration and organisation performance;

- Assurance that the non-executive directors have not received remuneration in the form of share options or bonuses associated with organisational performance;

- Statement that internal audit reports regularly to the audit committee;

- Description of the areas, systems and processes covered by internal audit (including any non-financial matters);

- Description as to how the internal audit function maintains its independence and objectivity;

- Identification of any restrictions placed over the right of access by internal audit to the records, management and employees of the organization;

- Identification of the significant issues that the audit committee considered in relation to the financial statements;

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.
- Affirmation that the audit committee has discussed accounting principles, critical policies, judgements and estimates with the external auditor;

- Disclosure of whether the audit committee has met regularly with the external auditor without management presence; and

- Description of the assessment made regarding the effectiveness of the external audit process.

| The entities’ websites did not include important documents such as: |
|-----------------------|------------------|
| - The organisation’s constitution; |
| - Appropriate job descriptions of the key senior governance positions; |
| - A statement of major accountabilities within the organization; |
| - A description of the approval, monitoring and review processes (including frequency) of the charter, organisation’s code of ethics, job descriptions of the key senior governance positions, organisational chart and statement of major accountabilities within the organisation; |
| - Details of the nomination and appointment process; |
| - The conflicts of interest and related party transactions policies; |
| - The information, information technology and information security policies; |
| - Organisation’s Annual Report and Accounts; and |
| - Short biographies of the directors and company secretary. |

C. Non-submission of corporate governance report

FRC noted that 1 PIE had not reported on Corporate Governance in its annual report in compliance with the requirement of the Financial Reporting Act 2004.

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

D. Reporting under the Old Code

FRC noted that 1 PIE had submitted a report on corporate governance which was prepared under the Old Code of Corporate Governance. FRC informed that PIE that it should have adopted the Revised Code of Corporate Governance 2016 published in the Government Gazette (General Notice No. 1804 of 2016) on 3 December 2016, which is applicable for the reporting year starting on or after 1 July 2017.

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 31 December 2020, FRC observed that 2 PIEs [1 entity classified under Category 4 of the FRA and 1 SOE] had partly complied with the guidelines on corporate governance.

For the six months ended 31 December 2020, FRC observed that 2 PIEs [1 entity classified under Category 4 of the FRA and 1 SOE] had partly complied with the guidelines on corporate governance.

These 2 PIEs had not enclosed statements of compliances in their annual reports.
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.

It was good to note that the auditors of all the 36 PIEs reviewed had reported on the consistency of the requirements of the Code.
6.0 DETAILS OF NON-COMPLIANCES PER CATEGORIES OF AUDITORS

The requirements to have the annual reports of PIEs audited by a licensed auditor are set out under section 195 of the Companies Act 2001 and Section 33 of the Financial Reporting Act. The auditor’s responsibility is to form an opinion on the financial statements and issue an auditor’s report as a result of an audit of financial statements.

For the period ended 31 December 2020, FRC observed that out of the 11 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 firm.

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

- 5 entities representing 56% of the above 9 PIEs are audited by Big 4 Audit Firms (namely PWC, BDO and Ernst and Young); and
- The remaining 4 PIEs (44%) 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.

<table>
<thead>
<tr>
<th>Categories of Audit Firm</th>
<th>Number of PIEs not complying with IASs / IFRSs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big 4 Audit Firm</td>
<td>5*</td>
</tr>
<tr>
<td>More than two partners audit firm</td>
<td>2</td>
</tr>
<tr>
<td>Two partner firm</td>
<td>1</td>
</tr>
<tr>
<td>1 partner audit firm</td>
<td>1</td>
</tr>
</tbody>
</table>

*Out of the 5 Big 4 Audit Firms, 1 audit firm audited 3 PIEs. There were no common non-compliances identified from the annual reports of the 3 PIEs audited by this Big 4 Audit Firm.
PART E: FOLLOW UP ISSUES

During the reviews carried out for the six months ended 31 December 2020, 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 listed PIES [2 Industry and 2 Others] in the following areas:

- Going concern;
- Application of Revised Code of Corporate Governance; and
- Impact of rotation of auditors on financial reporting.

FRC will carry out close monitoring and follow up regarding 4 listed PIES [2 Industry and 2 Others].