FINANCIAL REPORTING COUNCIL

Bulletin on Review of Annual Reports for the six months ended 31 December 2023

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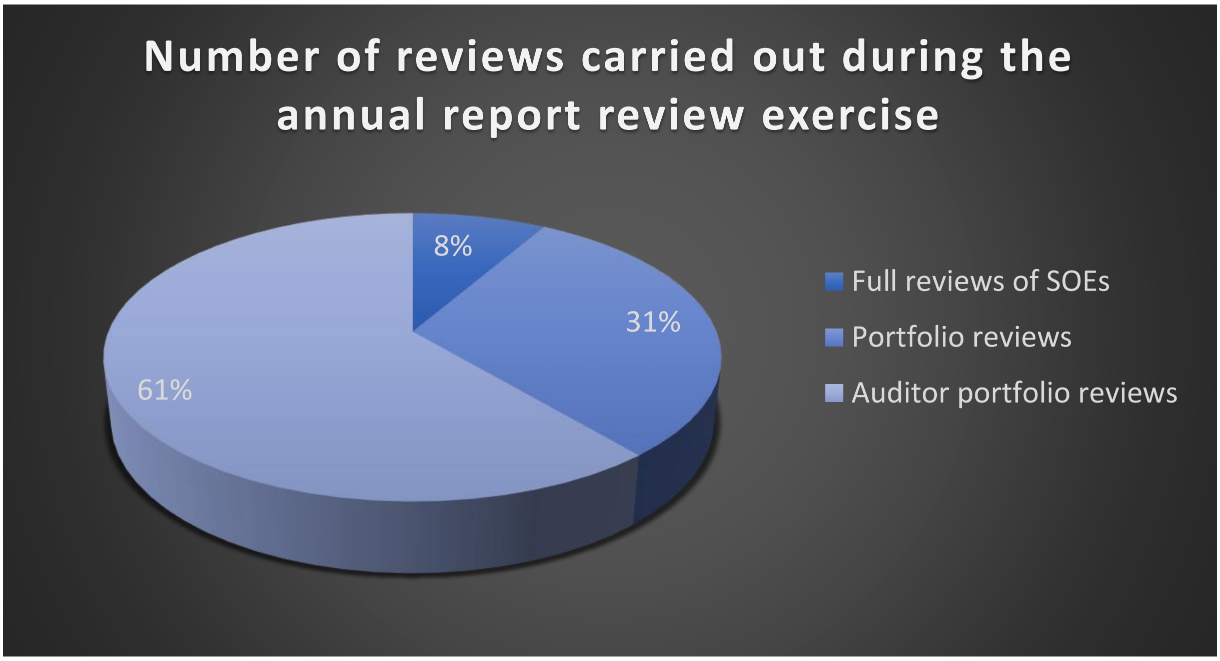
PART A – EXECUTIVE SUMMARY

The Financial Reporting Council ("FRC") has as main objective to promote the provision of high-quality reporting of financial and non-financial information by Public Interest Entities ("PIEs"). To achieve this objective, FRC conducts the review of the annual reports of entities 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 assist in promoting confidence in corporate reporting and good corporate governance. The review exercise focusses on compliance with applicable accounting standards (International Financial Reporting Standards ("IFRSs") for PIEs other than SOEs) and International Public Sector Accounting Standards ("IPSASs") for SOEs), the National Code of Corporate Governance for Mauritius ("Code") and the Mauritius Companies Act 2001 ("MCA").

FRC has carried out the review of 38 annual reports of 36 PIEs [11 portfolio reviews, 22 auditor's portfolio reviews and 3 full review of SOEs] for the six months ended 31 December 2023, as shown in the diagram below:



The purpose of this bulletin is to provide an overview of the findings identified by FRC from the annual report review exercise of PIEs. It highlights the non-compliances noted with respect to disclosure requirements of the applicable accounting standards[1], the Code and MCA. This bulletin may be of assistance to the PIEs in the preparation of high-quality corporate reports.

[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 IPSASs issued by IFAC.

Key findings with regard to International Financial Reporting Standards

FRC identified significant increase in the level of compliance in IFRSs among the PIEs reviewed when compared to the reviews carried out in previous years. FRC had been focussing on the following categories of PIEs during the previous years:

- Entities listed on the Stock Exchange of Mauritius (SEM);
- Financial Institutions regulated by the Bank of Mauritius (BOM); and
- Financial Institutions, other than cash dealers, regulated by the Financial Services Commission (FSC).

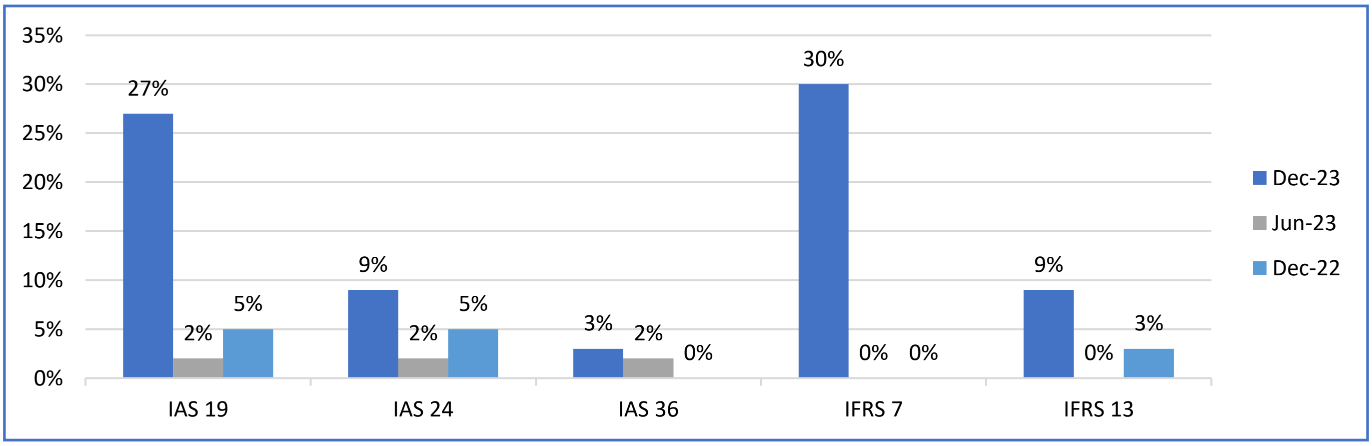
As from July 2023, FRC has changed its review process and adopted an integrated approach, hence, combining the two main functions of FRC, namely the annual report review and the audit practice review. Under this type of review exercise, FRC has reviewed mostly PIEs falling under Category 4 of the First Schedule of the FRA. Most of these entities were being reviewed for the first time or had not been recently reviewed by FRC.

The most common issues identified were in respect of the following standards:

(a) IAS 19;
(b) IAS 24;
(c) IAS 36;
(d) IFRS 7; and
(e) IFRS 13.

Part D of this bulletin provides further details on the observations identified with respect to IFRSs.

The diagram below illustrates the percentage of non-compliances with IFRSs relating to the periods ended 31 December 2023, 30 June 2023 and 31 December 2022:



Key findings with respect to the Code of Corporate Governance

As regard compliance with the Code, not all of the PIEs reviewed have adopted the Code. 11 of the entities had not reported on the Code and 7 of them had provided explanations for not adopting the Code. As mentioned above, this is principally because FRC has been targeting PIEs falling under Category 4 of the First Schedule of the FRA as part of its annual report review exercise.

Out of the 36 PIEs reviewed, 4 of the PIEs had not reported on the Code whereas 7 had partly applied the Code. As such, it is observed that number of non-compliances have increased as compared to the previous periodic bulletins.

The most common observations made on compliance with the Code were in respect of the following Principles of the Code:

(a) The Structure of the Board and its Committees;
(b) Reporting with Integrity; and
(c) Audit.

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

PART B – INTRODUCTION

An annual report, prepared in accordance with the relevant laws and standards instils confidence among the general public and stakeholders who use it for decision making for their respective purposes. It is an extensive financial document that provides quantitative and qualitative information to enable 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 such, annual reports should offer a transparent view of an organisation's activities over the course of a financial year and hence the disclosures provided should be clear and concise as well as relevant and useful to users of financial statements.

As part of its function, FRC reviews the annual reports to ensure compliance with the requirements of relevant accounting standards, the Code and the MCA.

As from July 2023, FRC has adopted a different approach in conducting its annual report reviews. Since 2019, FRC has been carrying out the review of annual reports of public interest entities ('PIEs') on a portfolio basis. As part of the review, particulars of the PIEs selected for review were updated, taking into consideration new business activities, material transactions and new IFRSs and legal requirements. To further enhance the quality of reviews, from July 2023, the review process has been modified integrating the two functions namely the annual report review and the audit practice review.

Why the integration of the annual report review with the audit practice review?

Normally, when FRC has to confirm that an observation made from the review of a particular annual report is a finding, the engagement file of the licensed auditor in question is reviewed. Prior to July 2023, this was carried out on a case-by-case basis which indeed brought results. To further benefit from the review exercises, changes have been brought to the annual report review plan, focussing on the entities audited by the licensed auditors selected for audit practice review. The integration of annual report review and audit practice review has brought various benefits such as:

- Improvement in Corporate Reporting (*both the auditor and the preparer of the accounts are more alert to enhance the Corporate Reporting*);
- Identification of risk on a timely basis (*a company was delisted in the past*);
- Better collaboration with stakeholders and other regulators (*FRC and SEM have worked together);*
- It has been easier to set Policies/Rules;
- Effective selection of audits as *FRC better knows where the problem lies;*
- Integration helps the reviewer to get a complete picture of the area being focussed *because the findings are specific, and the auditors and PIEs could not contest – that is there is less challenge; and*

- Imposition of appropriate sanctions. With the complete picture of the area being focussed, the Council is guided to impose the appropriate sanctions. This in turn has helped to improve the legal framework especially with respect to the provisions on sanctions.

Basis for selection of PIEs for annual report review

As mentioned above, starting July 2023, FRC has combined audit practice reviews with annual report reviews. In this regard, the audit clients of licensed auditors selected for onsite audit practice review were reviewed as part of annual report review exercise.

Selection of PIE for annual report review exercise

For this purpose, the 220 auditors licensed by FRC were requested to provide their list of audit clients in their respective portfolio with a view to identify auditors engaging with audit clients having different risk level.

FRC has selected audit clients of licensed auditors who have never been reviewed or not been reviewed recently. However, priority has been given to audit clients having a higher level of risk, that is those entities falling under the following categories of the First Schedule of the Financial Reporting Act:

- Entities listed on the Stock Exchange of Mauritius (SEM);
- Financial Institutions regulated by the Bank of Mauritius (BOM); and
- Financial Institutions, other than cash dealers, regulated by the Financial Services Commission (FSC).

Based on the above criteria, a list of 90 audit clients in the portfolio of 20 licensed auditors was retrieved and hence included in the annual report review plan 2023/2024.

The table below shows the number of PIEs selected for review in each category of PIE:

	Entities listed on SEM	Financial institutions regulated by BOM	Financial institutions regulated by FSC	Category 4 of the First Schedule of the FRA	Total
Total no. of PIEs selected for review	18	8	10	54	90

With the integrated approach of review, the annual reports of the 90 PIEs have to be reviewed prior to the onsite reviews of the respective auditors as the findings of the annual report review would guide the FRC reviewers to focus on which areas of the audit conducted by the licensed auditor selected for audit practice review.

This bulletin describes the main findings identified during the course of the reviews. It provides an overview of the current state of corporate reporting and provides information on shortcomings requiring improvement for PIEs.

For the six months period ended 31 December 2023, FRC conducted the reviews of 38 annual reports of 36 PIEs [11 portfolio reviews, 22 auditor's portfolio reviews and 3 full reviews of SOEs].

"For the six months ended 31 December 2023, FRC reviewed the annual reports of 36 PIEs."

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

Types of reviews	Sectors								Total no. of PIEs	No. of Annual Report Reviews
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Property Development	Sugar	Others		
Listed on SEM	-	2	2	3	-	1	-	3	11	13
Financial institutions regulated by BOM (excluding cash dealers)	-	-	-	-	-	-	-	-	-	-
Financial institutions regulated by FSC	4	-	-	1	-	-	-	-	5	5
Category 4 PIEs as per the FRA	-	4	2	2	-	4	1	4	17	17
SOEs as per the First Schedule of FRA	-	-	-	-	-	-	-	3	3	3
Total	4	6	4	6	-	5	1	12	36*	38*

* FRC reviewed the annual reports of 36 PIEs during the six months ended 31 December 2023. Out of the above 36 PIEs, 1 had been reviewed for a period of 3 years.

For the six months ended 31 December 2023, the following types of reviews have been carried out:

A **Portfolio Reviews - 11**

B **Auditor's Portfolio Reviews - 22**

C **Full review of SOEs - 3**

(A) Portfolio Reviews

In the year 2019, FRC had reviewed the annual reports of PIEs on a portfolio basis for a period of 3 to 5 years. In subsequent periods, 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 adopted by the entities and legal requirements.

Of note, the PIEs in the portfolio comprise 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 portfolio reviews allows 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 risks associated with the PIEs, in terms of going concern, valuation, revenue recognition and related parties.

As mentioned above, FRC has conducted 13 portfolio reviews of 11 PIEs for the six months ended 31 December 2023. As part of the portfolio review exercise, 1 PIE had been reviewed for a period of 3 years and the remaining PIEs had been reviewed 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	Investment	Leisure & Hotels	Property Development	Sugar	Others	
Listed on SEM	-	1	1	3	-	-	-	2	**7**
Financial institutions regulated by BOM (excluding cash dealers)	-	-	-	-	-	-	-	-	-
Financial institutions regulated by FSC	4	-	-	-	-	-	-	-	**4**
Total	**4**	**1**	**1**	**3**	**-**	**-**	**-**	**2**	**11**

(B) Auditor’s Portfolio Reviews

As from July 2023, an integrated approach was adopted for the annual report reviews. The review process has been modified whereby integration of the 2 functions namely the annual report review and the audit practice review were made at the different stages of the review exercise with the following objectives:

- At the planning of the work stage, the integration would help to consider the potential risks that exist (be it from the auditor’s side or the PIE’s side);
- During the review exercise, the integration of the two functions would help to have more comfort that the findings in either review exercise are appropriate; and
- After the review exercise, the output of the reviews would be used to further enhance the regulatory system in Mauritius, more specifically in making policy decision on specific matters.

During the 6 months ended 31 December 2023, 22 annual report reviews were conducted under this type of review. These annual reports have been selected from the portfolio of audit clients of 3 licensed auditors and 2 of these auditors were assessed as part of the audit practice review exercise.

The table below shows the categories of PIEs and their corresponding sectors for auditor’s portfolio reviews:

Types of reviews	Sectors								Total number of PIEs
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Property Development	Sugar	Others	
Listed on SEM	-	1	1	-	-	1	-	1	4
Financial institutions regulated by BOM (excluding cash dealers)	-	-	-	-	-	-	-	-	-
Financial institutions regulated by FSC	-	-	-	1	-	-	--	-	1
Other PIEs (Category 4 of FRA)	-	4	2	2	-	4	1	4	17
Total	-	5	3	3	-	5	1	5	22

(C) Full Review of SOEs

As required by Section 76 of the FRA, FRC monitors the annual reports and corporate governance reports of SOEs listed in the First Schedule of the FRA, to ensure that the annual reports of these entities are in compliance with IPSASs and the Code.

FRC had carried out the annual report review of 3 SOEs during the six months ended 31 December 2023.

PART C: ANNUAL REPORT REVIEWS: TREND IN QUALITY REPORTING

This part of the bulletin focusses on the level of compliances observed following the annual report review exercise.

It is to be noted that 23 PIEs, out of the 36 reviewed, were queried on matters relating to IFRSs, IPSASs and the Code. This represents 64% of the entities reviewed during the six months ended 31 December 2023 (30 June 2023: 15% and 31 December 2022: 20%) and hence an increase in the level of findings noted from the review of annual reports of PIEs with respect to accounting standards and the Code.

The most common IFRSs findings raised during the current period and over the last two periods (30 June 2023 and 31 December 2022) are IAS 19, *Employee benefits*, ISA 24 *Related parties* and IAS 36, *Impairment of assets.*

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

IFRS requirements	Level of non-compliances with IFRSs (%)		
	Six months ended 31 December 2023	Six months ended 30 June 2023	Six months ended 31 December 2022
Number of PIEs reviewed	36	62	40
Number of PIEs adopting IFRSs	33	61	37
IAS 19, Employee Benefits	27%	2%	5%
IAS 24, Related Party Disclosures	9%	2%	5%
IAS 36, Impairment of Assets	3%	2%	0%
IFRS 7, Financial Instruments Disclosures	30%	0%	0%
IFRS 13, Fair Value Measurement	9%	0%	3%

On the Corporate Governance side, not all of the PIEs reviewed have adopted the Code. Out of the 36 PIEs reviewed, only 25 entities had reported on the Code, representing a reporting rate of 69% for the six months ended 31 December 2023 (30 June 2023: 100% and 31 December 2022: 98%). As mentioned above, this is because most of the PIEs fall under Category 4 of the First Schedule of the FRA and most of these entities were reviewed for the first time by FRC.

Out of the remaining 11 entities, which represents 31% of the entities reviewed,

- 7 had partly applied complied with the Code; and
- 4 had not reported on the Code.

PART D: MAIN FINDINGS FROM REVIEWS OF PIES

This Bulletin includes the following types of annual report reviews:

(i) Portfolio reviews and reviews of statutory bodies; and
(ii) Auditors' portfolio reviews

(i) Portfolio reviews

The findings identified regarding IFRSs / IPSASs and the Code following the annual report review exercise are at Sections 1.0 and 2.0 of this bulletin.

(ii) Auditors' portfolio reviews

As regard the auditor's portfolio reviews, as mentioned above, an integrated approach had been adopted for the annual report review exercise. As such, as illustrated in table below, 22 annual reports in the portfolio of 3 licensed auditors of 2 audit firms had been reviewed during the six months ended 31 December 2023. An analysis of the annual reports reviewed has been provided below.

Out of the 3 licensed auditors, 2 had been reviewed as part of audit practice review exercise.

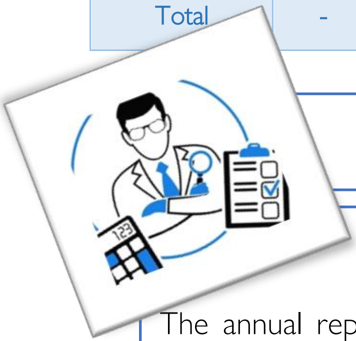
	Firm X		Firm Y
	Auditor A	**Auditor B**	**Auditor C**
No. of annual report reviews	14	5	3
Auditor selected for audit practice review	No	Yes	Yes
No. of annual report review selected for audit practice review	0	1	1

The table below illustrates the categories in which the audit clients fall into:

	Auditor A	Auditor B	Auditor C	Total No. of PIEs
Listed on SEM	3	0	1	4
Financial institutions regulated by BOM	0	0	0	0
Financial institutions regulated by FSC	1	0	0	1
Other PIEs (Category 4 of FRA)	10	5	2	17
Total	**14**	**5**	**3**	**22**

The sectors within which the selected PIEs fall into are illustrated in table below:

Types of reviews	Sectors								Total no. of PIEs
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Property Development	Sugar	Others	
Auditor A	-	2	-	3	-	4	1	4	14
Auditor B	-	2	1	-	-	1	-	1	5
Auditor C	-	1	2	-	-	-	-	-	3
Total	-	5	3	3	-	5	1	5	22



Auditor A Portfolio

The annual reports selected from the portfolio of Auditor A comprise of a combination of consolidated and separate financial statements. This auditor was not selected for audit practice review.

The following observations were made from the review of annual reports in the portfolio of Auditor A:

Going concern risk

Out of 14 annual reports reviewed, the following were noted with respect to going concern:

- 11 of the entities [3 DEM listed entities operating in commerce, property development and others respectively, 1 FSC regulated PIE and 7 PIEs falling in Category 4] had at least one indicator of going concern risk such as net current liabilities, negative cash and cash equivalents, high gearing, loss for the year or revenue deficit;
- All the 11 PIEs have made disclosure of the status of the going concern of the companies in their respective annual reports;
- Only 1 DEM listed PIE operating in the commerce sector has material uncertainties with respect to net current liabilities and negative cash and cash equivalents; and
- 4 PIEs [2 DEM listed entities in commerce and others sector and 2 PIEs falling in Category 4 and operating in sugar and others sector] have disclosed their management plans to mitigate the effect of adverse events or conditions affecting the entity or any material uncertainty that may exist.

Code of Corporate Governance

The following were noted from the review of the annual reports of the 14 PIEs regarding the Code of Corporate Governance:

- 1 PIE had fully applied the 8 principles of the Code;

- 6 PIEs had provided explanations for not complying with certain sections of the Code, out of which 4 were queried for partial compliance;
- 4 PIEs had provided explanations for not reporting on the Code; and;
- 3 PIEs had been queried for not reporting on the Code.

Auditor B Portfolio

The 5 annual reports selected from the portfolio of Auditor B included 4 separate financial statements and 1 consolidated financial statements. One of the PIEs operating in the property development sector and classified under Category 4 of the First Schedule of FRA had been selected for onsite audit practice review.

The following were observed from the review of the 5 annual reports:

Going concern risk

Out of 5 annual reports reviewed:

- 3 of the entities [falling in Category 4 of the First Schedule of FRA and operating in the Commerce, Industry and Property development] had at least one indicator of going concern risk such as net current liabilities, negative cash and cash equivalents, high gearing, or revenue deficit;
- All the 3 PIEs have made disclosure of the status of the going concern of the companies in their respective annual reports;
- None of the 3 PIEs have disclosed their management plans to mitigate the effect of adverse events or conditions affecting the entity;
- One entity operating in the industry sector, out of the 3 entities having indicators of going concern risk, had been requested to provide the remedial actions that management is taking to improve the financial position and performance of the entity; and
- None of the entities have material uncertainties relating to its ability to continue as a going concern.

Code of Corporate Governance

The following were noted from the review of the annual reports of the 5 PIEs regarding the Code of Corporate Governance:

- 3 PIEs had provided explanations for not complying with certain sections of the Code; and
- 2 entities had provided explanations for not reporting on the Code.

Out of the 5 entities, 2 PIEs had been queried for partly applying the Code.

Auditor C Portfolio

3 annual reports had been selected for annual report review from the portfolio of Auditor C. One listed PIE operating in the industry sector had been selected for onsite audit practice review.

The following were noted from the annual report review exercise:

Going concern risk

Out of 3 annual reports reviewed:

- 2 of the entities [falling in Category 4 of the First Schedule of FRA and operating in the Commerce and Industry sector] had at least one indicator of going concern risk such as loss for the year or negative cash and cash equivalents;
- Both of the PIEs have made disclosure of the status of the going concern of the companies in their respective annual reports;
- None of the entities have material uncertainties relating to its ability to continue as a going concern; and
- None of the 2 PIEs have disclosed their management plans to mitigate the effect of adverse events or conditions affecting the entity or any material uncertainty that may exist.

Code of Corporate Governance

The following were noted from the review of the annual reports of the 3 PIEs regarding the Code of Corporate Governance:

- 1 PIE had provided explanation for not complying with certain sections of the Code;
- 1 had provided explanation for not reporting on the Code; and
- 1 entity had been queried for not reporting on the Code.

1.0 COMPLIANCES WITH ACCOUNTING STANDARDS

1.1 Compliances With International Financial Reporting Standards

1.1.1 Portfolio Reviews

During the six months period ended 31 December 2023, 11 PIEs were reviewed to ensure compliance with IFRSs, and it is worth noting that none of the PIEs were queried regarding non-compliances with respect to IFRSs.

1.1.2 Auditor's Portfolio Reviews

Out of the 22 PIEs reviewed during the six months ended 30 June 2023 as part of the auditor's portfolio review, FRC raised findings relating to the following areas of corporate reporting:

(a) IAS 1, Presentation of Financial Statements

4 PIEs falling under Category 4 of the First Schedule of the FRA had not disclosed the following:

- Accounting policies for retirement benefit obligations [1 entity operating in Commerce sector];
- Nature of administrative expenses and other income [1 PIE in Investment and 1 in Property development]; and
- Key assumptions and sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities [1 PIE in Commerce].

(b) IAS 2, Inventories

1 PIE falling under Category 4 of the First Schedule of the FRA and in the Property development sector had not disclosed the accounting policies adopted in measuring inventories, including the cost formula used.

(c) IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

From the review exercise, FRC observed that:

- 3 PIEs under Category 4 of the First Schedule of the FRA [1 Commerce, I Industry and 1 Others] had not disclosed the known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application; and
- 1 DEM listed PIE operating in the others sector had not disclosed the reasons why applying the new accounting policy provides reliable and more relevant information.

(d) IAS 19, Employee Benefits

FRC noted the following non-compliances with respect to employee benefits:

- 1 Category 4 PIE [operating in the commerce sector] had not disclosed the amount recognised as an expense for defined contribution plans;
- 7 entities falling under Category 4 of the First Schedule of the FRA [2 Commerce, I Industry, 2 Others, 1 Property development and 1 Sugar] had not provided a description of the risks to which the defined benefit plan exposed the entity; and
- 1 Category 4 PIE [Property development sector] had not disclosed information about the maturity profile of the defined benefit obligation.

(e) IAS 24, Related Party Disclosures

3 of the PIEs reviewed were queried regarding the following:

- 1 FSC regulated entity and 1 Category 4 PIE operating in the Commerce sector had not disclosed the terms and conditions for the related party outstanding balance; and
- 1 Category 4 PIE in the Others sector had not disclosed categories for key management compensation.

(f) IAS 27, Consolidated and Separate Financial Statements

1 Category 4 PIE operating in the Property development sector had not disclosed:

- The fact that the financial statements are separate financial statements; and that the exemption from consolidation has been used; the name and principal place of business (and country of incorporation, if different) of the entity whose consolidated financial statements that comply with International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable; and
- A description of the method used to account for the investments in subsidiaries.

(g) IAS 36, Impairment of Assets

1 Category 4 PIE in Others sector had not disclosed the events and circumstances that led to the recognition of impairment loss on its intangible assets.

(h) IFRS 3, Business Combinations

FRC observed the following non-compliances relating to business combinations:

- **1 DEM listed PIE** operating in the Commerce sector had not disclosed the amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period and the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period; and

- **1 Category 4 PIE** operating in the Property development sector had not disclosed the primary reasons for the business combination and a description of how the acquirer obtained control of the acquiree.

(i) IFRS 7, Financial Instruments: Disclosures

From the review exercise, FRC observed that:

- **9 PIEs [1 DEM listed** in Others sector, **1 regulated by FSC and 7 PIEs** classified under Category 4 of the FRA operating in Commerce, Others and Property development] had not disclosed the objectives, policies and processes for managing financial risks; and

- **1 FSC regulated entity** had not disclosed sensitivity analysis for currency risk and the methods and assumptions used in preparing the analysis.

(j) IFRS 8, Operating Segments

1 listed entity in the Industry sector had not provided geographical segment information in its annual report.

(k) IFRS 12, Disclosure of Interests in Other Entities

1 Category 4 PIE in the Commerce sector had not disclosed the profit or loss allocated to non-controlling interests, the accumulated non-controlling interests at the end of the reporting period and summarised financial information about the subsidiary.

(l) IFRS 13, Fair Value Measurement

From the annual report reviews, FRC noted that:

- A DEM listed PIE, in the Others sector, had not disclosed a description of the valuation technique(s) and the inputs used in the fair value measurement for financial asset at fair value through other comprehensive income;

- 1 Category 4 PIE operating in the investment sector had not disclosed the level of fair value hierarchy for unquoted investments; and

- 1 Category 4 PIE in property development sector had not provided the reason for the transfer from level 2 to level 3 of the fair value hierarchy regarding its property.

1.2 Compliances With International Public Sector Accounting Standards (IPSASs)

1.2.1 Review of Statutory Bodies

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 requires statutory bodies to prepare their financial statements under International Public Sector Accounting Standards framework.

In July 2023, amendments have been made to the First Schedule of the Financial Reporting Act 2004 whereby 9 additional statutory bodies have been classified as PIEs, hence increasing the number of SOEs classified as PIEs from 16 to 25. As per the FRA, 24 of the PIEs are required to prepare their financial statements under International Public Sector Accounting Standards framework and the remaining 1 shall adopt the IFRS as issued by the IASB.

FRC monitors the annual reports and corporate governance reports of the SOEs to ensure that the entities 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.

FRC has reviewed the annual reports of 3 SOEs, during the six months period ended 31 December 2023, out of which 2 were queried on the following matters relating to IPSASs:

(a) IPSAS 1, Presentation of Financial Statements

One of the entities reviewed had not disclosed:

- The nature of reclassification, the amount of each item or class of items that is reclassified and the reason for the reclassification; and
- The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date.

(b) IPSAS 13, Leases

FRC observed that, as regard finance leases, 1 SOE had not provided the total of future minimum lease payments at the reporting date, and their present value for each of the following period:

(i) not later than one year;
(ii) later than one year and not later than five years; and
(iii) Later than five years.

(c) IPSAS 16, Investment Property

From the annual report of 1 SOE, FRC noted that there was no disclosure on the methods and significant assumptions applied in determining the fair value of investment property and the extent to which the fair value is based on a valuation by an independent valuer.

2.0 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 Code introduces a principles-based approach and requires application on an "apply and explain" basis. It aims at establishing principles for good corporate governance leading to transparency, accountability and a long-term perspective.

The following 8 corporate governance principles have been designed to be applicable to all organisations covered by the 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

2.1 Portfolio Reviews

FRC observed the following from the review of the 14 PIEs, including the 3 SOEs:

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

It is good to note that, all the 14 PIEs reviewed during the six months ended 31 December 2023, had reported on the Code. The following were noted in that respect:

- 9 PIEs (including 3 SOE) had fully applied the 8 principles of the Code;
- 4 PIEs had provided explanations for not complying with certain sections of the Code (See Paragraph 2.3 below); and
- 1 PIE had provided explanations for not complying with certain sections as well as partly applied with certain requirements of the Code. However, no letter was issued to the entity as it was newly incorporated company. (See Part E below).

2.2 Auditor's Portfolio Reviews

From the annual report review exercise under auditor's portfolio review, FRC made the following observations with respect to the 22 reviews:

- 1 PIE had fully applied the 8 principles of the Code;
- 10 PIEs had provided explanations for not complying with certain sections of the Code (See Paragraph 2.3 below);
- 7 PIEs had provided explanations for not reporting on the Code (See Paragraph 2.3 below); and
- 4 PIEs had been queried for not reporting on the Code.

Out of the 22 entities, 6 PIEs had been queried for partly applying the Code (Details provided in Paragraph 2.3 below).

2.3 Level of compliance with the Code

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

For those 14 PIEs that have provided explanations for not applying certain sections of the Code, the following were noted:

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

The following observations were noted:

- No adoption of board charter and Code of Ethics.
- The Board has decided to only disclose other directorships in public and listed companies.
- The requirements of the Code had not been published on the company's website.

The explanations provided by the entities in question with respect to the above were as follows:

- A Board charter has been drafted and will soon be adopted in line with Code.
- The contents of a board charter are already covered in the company's constitution and the prevailing legislations, rules and regulations.
- Details of other directorships are available at the company's registry.
- Given the family shareholding structure, the Board and Shareholders decided not to proceed with website disclosures at this point of time.

- *Principle 2: The Structure of the Board and its Committees (15 PIEs)*

The main findings were as follows:

- The Board of Directors did not comprise of female Director.
- The Board of Directors did not consist of adequate number of executive and independent Directors.
- Directors of Audit & Risk Management Committee did not possess any financial background.
- The Audit & Risk Committee was chaired by a Non-Executive Director.
- The majority of members of the Audit & Risk Committee are Non-Executive Directors.
- The company does not have its own Corporate Governance Committee.

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

- The Board of Directors believes that board composition is adequate due to the size and complexity of business although the Code recommends having at least two executive directors.
- The Board is of the view that the input of the Financial Controller, who is in attendance at Board meetings, provides an appropriate balance to Board deliberations.
- The Board is composed of one Executive Director and the latter is of sufficient calibre to manage the company.
- Board diversity is dealt with at holding company Level. The size and composition of the Board is deemed appropriate for the size and complexity of its business.
- The Board is of the view that the absence of executive and independent Directors does not adversely affect the company as the current Directors have demonstrated strong independence in character and judgement in the discharge of their responsibilities. The Board is satisfied that its actual composition is well balanced and commensurate with the company's ownership structure, size and area of business.
- The Board of Directors appointed an external Chartered Accountant as Chairperson of the Audit & Risk Management Committee since none of the directors of the Audit Committee possess any financial background as per Code.
- The Board is of view that the individual profile of each Director ensures that the current board composition is adequate and that, as a unit, the Board is able to carry out its functions in complete objectivity.
- The Executive Director is present at Board meetings as well as the administration and finance manager. The Board is of view that the above is in line with the Code's spirit for executive presence on the Board.
- The Board believes that the attendance of senior executives at the meetings and various sub-committees of the Board fulfils the spirit of the Code. Furthermore, the Members of the Board are satisfied that it is well balanced based on the skills, experience and knowledge of the organisation to allow the

Directors to discharge their responsibilities towards the company and its Shareholders effectively.

- The nomination of another independent director to fill the casual vacancy has been tabled for consideration at the Corporate Governance Committee and such nomination has been approved at the Board held today. This nomination will be tabled for ratification by the Shareholders at the Annual Meeting.
- In view of the business scope and non-complexity of the activities of the company, the Board is of the opinion that one executive, working in close collaboration with the Chairman is adequate.
- The Board is aware of the requirement of the Code of having a minimum of two Independent Directors and has begun the recruitment process for a new officer. Also, the shareholders are adequately represented on the Board by experienced Directors who show independence of mind when participating in Board decisions. Board composition and recruitment of new independent Directors is being addressed.
- The Board is satisfied that the Chairman's independence of judgement, experience, skills and knowledge are satisfactory in chairing the Audit & Risk Committee and are beneficial to the company, despite his status of Non-Executive Director.
- The composition the Audit & Risk Committee will be reviewed once new Independent Directors are appointed on the Board.
- The company does not have its own Corporate Governance Committee, as it does not have any independent director on its Board. It is the Corporate Governance Committee of the listed holding company which is responsible for the Corporate Governance issues at group level.
- The Board is of the view that the composition of the audit committee as well as profile of the Chairman and of the members is adequate to achieve the main duties of this committee.
- The Board is of the view that given its size, having one independent Director is in line with the Code's spirit.

▪ *Principle 3: Director Appointment Procedures (3 PIEs)*

The main observations were as follows:

- The company did not undertake any professional development and ongoing education of directors.
- The Board did not have in place a formal succession plan.
- There were no procedure in place for the appointment, election, induction and re-election of directors and planning the succession of all key officeholders.

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

- Professional development and ongoing education of directors will be implemented next year.
- Suitable plans are in place for the orderly succession of appointments to the Board and to senior management positions.
- As the company is a subsidiary, the process and procedures for the

induction, election and re-election of Board representatives is consistent with the Group procedures and existing shareholders agreements.

- The Board is responsible for the succession planning, including senior executives and the nomination process of directors; this has been partly delegated to the Corporate Governance Committee.

- *Principle 4: Director Duties, Remuneration and Performance (9 PIEs)*

The issues identified were as follows:

- There were policies on conflicts of interest and related party transactions.
- Board and Directors evaluation were not undertaken.
- The 'Data Protection /Information Security Policy' has not been published on the website of the company.

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

- Policies on conflicts of interest and related party transactions will be adopted next year.
- Board evaluation will be implemented next year.
- The Board Evaluation and the Individual Directors Evaluation for 2022 have been exceptionally rescheduled for completion in the first half of 2023 given that the Board focused on the major restructuring exercise for the company in 2022 and also the substantial movements at Board Level in 2022.
- No Board evaluation exercise was carried out for the company , considering its composition and the existing shareholders' agreement.
- For confidentiality and security reasons, the 'Data Protection /Information Security Policy' has not been published on the website of the company.

- *Principles 5: Risk Governance and Internal Control (2 PIEs)*

FRC noted that 2 of the PIEs did not adopt any whistle blowing procedure.

In that respect, the entities provided the following explanations:

- The Board will put in place a whistle blowing framework for staff to raise concerns about improprieties in confidence in matters of financial reporting or other matters in year 2023.
- The company encourages whistleblowing, and all employees are invited to raise malpractices to the Chairman of the Board. The Board will implement a formal whistleblowing policy during financial year ending 30 June 2023.

- *Principles 6: Reporting with Integrity (3 PIEs)*

The main observations relating to Principle 6 of the Code were as follows:

- The Board has presented a fair, balanced and understandable assessment of the Group's financial, environmental, social and governance position performance and outlook in its annual report but not on its website.
- A copy of the company's annual report was not uploaded on the website.

The explanations provided in that respect were as follows:

- The company is of the opinion that the website is mostly focused towards commercial and operational information proposed to visitors together with information about the Freeport environment.
- The Board has resolved that the annual report will not be uploaded on the website of the company due to the sensitive nature of the information in the annual report.

- *Principles 7: Audit (1 PIE)*

From the review exercise, FRC observed that 1 entity did not have an internal audit function.

In this regard, the entity explained that the company has not set up an internal audit function as it has no employee and the management duties has been outsourced. The Board is satisfied that the latter has adequate controls, processes, and systems in place.

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

As mentioned above, 6 PIEs more specifically, **1 DEM listed entity** [property development sector], **1 FSC regulated PIE** and **4 PIEs** falling under Category 4 of the First Schedule of the FRA [1 Commerce, 1 Others and 2 Property development] had partly complied with the Code and the findings noted are as follows:

- There is no female member on the Board.
- No information on non-audit services rendered by the auditor.
- The annual report did not provide information on the length of tenure of the current audit firm and when a tender was last conducted.
- The Corporate Governance committee was chaired by the Chairperson of the Board.
- It was not stated that the interests register is available to shareholders upon written request to the company secretary.
- The PIE did not report on whistle-blowing rules and procedures.

Of note, **4 PIEs** falling under Category 4 of the First Schedule of the FRA [1 Industry, 2 Investments and 1 Others] did not prepare a Corporate Governance Report.

C. <u>Details of explanations provided by the PIEs for not applying the Code</u>

7 PIEs falling under Category 4 of the First Schedule of the FRA [3 Commerce, 2 Others, 1 Sugar and 1 Property development] had provided explanations for not reporting on the Code. The explanations provided are as follows:

- The company is a wholly owned subsidiary and the holding company already complies with the Code of Corporate Governance by providing a full and comprehensive Corporate Governance Report in its Annual Report and making the disclosures required by the Code.
- Due to restructuring, the company is now required to submit a Corporate Governance Report, but the board decided not to do so, since a proper governance framework will have to be established within the requirements of the Code. This will be addressed in 2023.

3.0 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 FRA. 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 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 have not complied with any requirement of the Code.

3.1 Portfolio Reviews and Reviews of Statutory Bodies

It is good to note that all the **14 PIEs reviewed, including 1 SOE,** had complied with the Guidelines on Corporate Governance and hence enclosed a statement of compliance in their annual report.

3.2 Auditor's Portfolio Reviews

Out of the 22 PIEs reviewed under auditor's portfolio review, **3 PIEs** falling under Category 4 of the First Schedule of the Financial Reporting Act [1 operating in Industry sector and 2 in Others] had not included a statement of compliance in their annual report.

4.0 REPORTING BY AUDITORS IN COMPLIANCE WITH SECTION 39(3) OF THE FINANCIAL REPORTING ACT

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 their reporting 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, 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 and Regulatory Requirements" paragraph and should appear under the "Financial Reporting Act" subparagraph, in the Auditor's Report.

4.1 Portfolio Reviews and Reviews of Statutory Bodies

From the review exercise, FRC noted that all the auditors of the **14 PIEs** [11 under portfolio reviews and 3 SOEs) reviewed had reported on the consistency of the requirements of the Code in accordance with the Financial Reporting (Reporting on Compliance with the Code of Corporate Governance) (Amendment) Guidelines 2022.

4.2 Auditor's Portfolio Reviews

Out of the 22 annual report reviews, FRC observed that:

- **1 auditor of a PIE** classified under Category 4 of the First Schedule of the FRA [operating in the Others sector] had not reported on consistency of the requirements of the Code as per Section 39(3) of the FRA and the above guideline; and
- **1 auditor of a Category 4 PIE** [operating in the Investment sector] had reported on the Code under the 'Other information' Paragraph rather than under "Report on Other Legal and Regulatory Requirements" paragraph.

5.0 COMPLIANCE WITH THE MAURITIUS COMPANIES ACT 2001

As required by the Mauritius Companies Act 2001, the Board of every company shall, prepare an annual report on the affairs of the entity during the accounting period ending on that date.

As part of the annual report review of the 33 PIEs (11 portfolio reviews and 22 auditor's portfolio), the annual reports were reviewed to ensure compliance with the relevant requirements of the Mauritius Companies Act 2001.

5.1 Portfolio Reviews

It is worth noting that no non-compliances with respect to the Mauritius Companies Act 2001 were identified following the annual report review of the 11 PIEs.

5.2 Auditor's Portfolio Reviews

From the review exercise, FRC observed the following:

- The Board of Directors of 1 PIE falling under Category 4 of the First Schedule of the FRA [operating in the Others sector] did not comprise of independent directors as required by Section 133 of the Cos Act 2001; and

- 3 Category 4 PIEs [1 Commerce and 2 Others] had not disclosed the remuneration and benefits paid to its Directors, on an individual basis as per Section 221(1) (e) (iii) of the Companies Act 2001.

6.0 DETAILS OF NON-COMPLIANCES PER CATEGORIES OF AUDITORS

A PIE is required to have its annual report audited by a licensed auditor as per Section 195 of the Companies Act 2001 and Section 33 of the FRA. 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 six months period ended 31 December 2023, following the review exercise, 21 PIEs out of 22 reviewed under the auditor's portfolio review, had been queried for not fully complying with the requirements of IFRSs and the Code. These entities had been audited by 2 different audit firms.

FRC noted the following as regard the 21 above mentioned PIEs:

- **19 entities representing 90%,** were audited by 1 big audit firm; and
- **The remaining 2 PIEs (10%)** were audited by a medium audit firm.

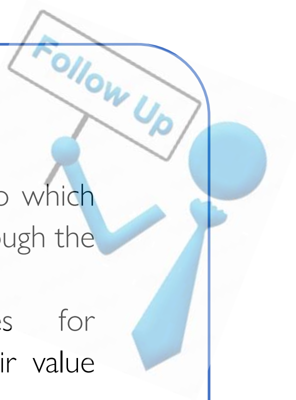
Following the annual report review exercise, 3 auditors were queried in respect of the following:

- Reporting on compliance with the Code of Corporate Governance;
- Nature of non-audit services and the measures put in place to ensure that the provision of the services did not impinge on the auditor's independence;
- Reasons why an emphasis of matter paragraph was not included in the auditor's report; and
- Reporting of the corporate governance requirements in "Other Information" paragraph, rather than in the "Report on Legal and Other Regulatory Requirements" paragraph.

The table below provides further details of PIEs with IFRSs and the Code non-compliances per categories of audit firm:

Categories of Audit Firm	Number of PIEs not complying with IASs / IFRSs	Number of PIEs not complying with the Code
Big 4 Audit Firm	17	8
Medium Audit Firm	1	1

PART E: FOLLOW UP



During the course of the review, FRC considered the issues noted from the PIEs' annual reports reviews that would require follow up in the respective entities' next annual reports.

In this regard, FRC will carry out close monitoring and follow up for **2 listed PIEs** [1 Industry and 1 Others]. The areas that would require follow-up are as follows:

- *International Financial Reporting Standards disclosures:*
    - The inputs used in the fair value measurement for investment property and financial assets through other comprehensive income;
    - The events and circumstances that led to the recognition of impairment loss;
    - A description of the risks to which the entity is exposed to through the gratuity on retirement; and
    - Policies and procedures for managing cash flow and fair value interest rate risks.

- *Requirements of the Code of Corporate Governance:*
    - A statement that the interests register is available to shareholders upon written request to the company secretary; and
    - A note on evaluation of the effectiveness of its committees and its individual directors.
    - Whistle-blowing rules and procedures.
    - A statement that the structure, organisation and qualifications of the key members of the internal audit function are listed on the organisation's website.