FINANCIAL REPORTING COUNCIL

Bulletin on Review of Annual Reports for the six months ended 30 June 2024

TABLE OF CONTENTS

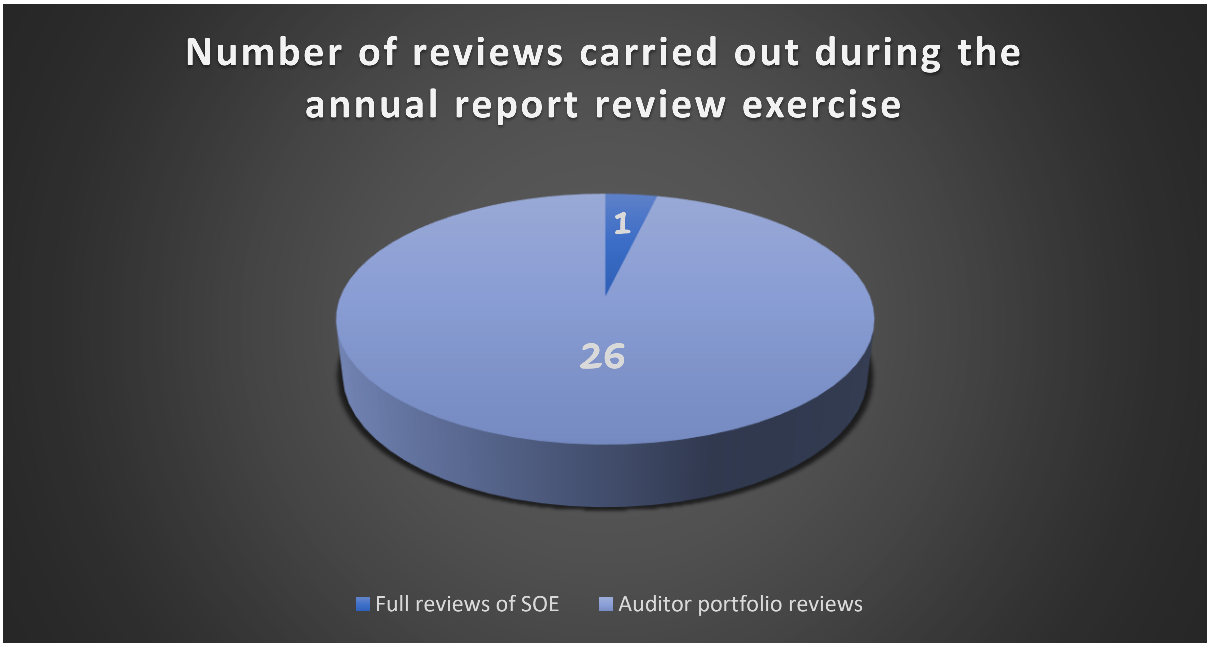
PART A – EXECUTIVE SUMMARY

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").

As shown in the diagram below, FRC has carried out the annual report review of 27 PIEs [26 auditors' portfolio reviews and 1 full review of SOE] during the six months ended 30 June 2024:



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.

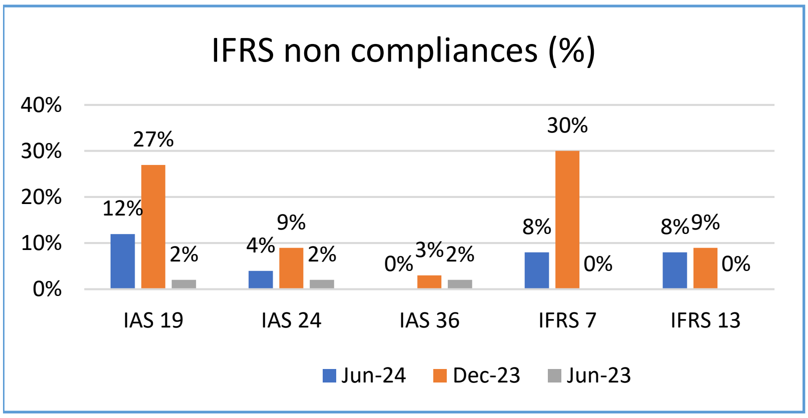
Key findings with regard to International Financial Reporting Standards

FRC observed a good level of compliance with IFRSs among PIEs reviewed. The areas most often queried during FRC's annual report reviews are employee benefits, financial risk management and fair value measurement.

From the annual report review exercise, it is encouraging to note that the number of non-compliances with respect to IFRSs have decreased for the six months period ended 30 June 2024.

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 30 June 2024, 31 December 2023, and 30 June 2023:



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. Out of 27 PIEs, 5 of the entities had not reported on the Code, out of which 2 have claimed that, they have adopted the Code, however, reporting is made by the holding company. given that they are wholly owned subsidiaries.

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; and
(b) 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 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 whether 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, the review approach has been modified whereby the annual report review plan, focussed 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, from 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 the purpose of annual report review, 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, number of reviews completed and outstanding as at 30 June 2024:

	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
No. of PIEs reviewed as at 30 June 2024	14	5	2	27	48
No. of PIEs not yet reviewed	4	3	8	27	42

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 30 June 2024, FRC conducted the annual report reviews of 27 PIEs [26 auditors' portfolio reviews and 1 full review of SOE].

Out of the 42 PIEs not yet reviewed:

- 1 entity does not meet the definition of PIE; and
- The annual reports of 7 entities have not yet been received and FRC is carrying out a close monitoring on same.

The remaining annual report reviews will be completed shortly and reported in the next periodic bulletin.

"For the six months ended 30 June 2024, FRC reviewed the annual reports of 27 PIEs."

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

Categories of PIEs	Sectors							Total
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Transport	Others	
Listed on SEM	-	1	3	5	-	1	-	10
Financial institutions regulated by BOM (excluding cash dealers)	5	-	-	-	-	-	-	5
Financial institutions regulated by FSC	1	-	-	-	-	-	-	1
Category 4 PIEs as per the FRA	1	1	1	4	2	1	-	10
SOEs as per the First Schedule of FRA	-	-	-	-	-	-	1	1
Total	7	2	4	9	2	2	1	27

For the six months ended 30 June 2024, the following types of reviews have been carried out:

Auditors' Portfolio Reviews - 26

Full review of SOEs - 1

(A) Auditors' 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 both from the auditor's side and the PIE's side;
- During the review exercise, the integration of the two functions would help to have 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 30 June 2024, 26 annual report reviews were conducted under this type of review. These annual reports have been selected from the portfolio of audit clients of 6 licensed auditors and 4 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 auditors' portfolio reviews:

Categories of PIEs	Sectors						Total number of PIEs
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Transport	
Listed on SEM	-	1	3	5	-	1	10
Financial institutions regulated by BOM (excluding cash dealers)	5	-	-	-	-	-	5
Financial institutions regulated by FSC	1	-	-	-	-	-	1
Other PIEs (Category 4 of FRA)	1	1	1	4	2	1	10
Total	7	2	4	9	2	2	26

(B) 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.

In this connection, FRC had carried out the annual report review of 1 SOE during the six months ended 30 June 2024.

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 15 PIEs, out of the 27 reviewed, were queried on matters relating to IFRSs, IPSASs, the Code and the MCA. This represents 56% of the entities reviewed during the six months ended 30 June 2024 (31 December 2023: 64% and 30 June 2023: 15%). A decrease in the level of findings has been noted from the annual reports of PIEs, as compared to the previous period ended 31 December 2023. The decline in the number of substantive letters was attributable to a fall in non-compliances noted with respect to the respective accounting standards, the Code as well as the MCA.

In response to FRC's observations, most PIEs provided explanations and undertook to comply with the non-compliances raised and to take remedial actions in light of FRC's comments.

The most common IFRSs findings raised during the current period and over the last two periods (31 December 2023 and 30 June 2023) are IAS 19 *Employee benefits*, IFRS 7 *Financial Instruments Disclosures* and IFRS 13 *Fair Value Measurement.*

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 30 June 2024	Six months ended 31 December 2023	Six months ended 30 June 2023
Number of PIEs adopting IFRSs	26	33	61
IAS 19, Employee Benefits	12%	27%	2%
IAS 24, Related Party Disclosures	4%	9%	2%
IAS 36, Impairment of Assets	0%	3%	2%
IFRS 7, Financial Instruments Disclosures	8%	30%	0%
IFRS 13, Fair Value Measurement	8%	0%	3%

As illustrated in the above table, the level of IFRS non-compliances has decreased as compared to the previous period.

On the Corporate Governance side, similar to the previous periodic bulletin, not all of the PIEs reviewed have adopted the Code. Out of the 27 PIEs reviewed, only 22 entities had reported on the Code, representing a reporting rate of 81% for the six months ended 30 June 2024 (31 December 2023: 69% and 30 June 2023: 100%). However, an increase of 12% in reporting rate has been noted as compared to the previous period. This proves that the PIEs are conscious of the need to adopt the Code.

Out of the remaining 5 entities:

- 3 were queried for not applying the principles of the Code: and
- 2 entities had provided explanations for not reporting on the Code.

Additionally, 5 out of the 27 PIEs (19%) had partly complied with the Code (30 June 2023: 3 PIEs (5%) and 31 December 2022: 2 PIEs (5%)). The level of non-compliances with the Code has increased as compared to the previous 2 periods.

PART D: MAIN FINDINGS FROM REVIEWS OF PIES

As specified above, this Bulletin includes the following types of annual report reviews:

(i) Auditors' portfolio; and
(ii) Statutory bodies.

(i) Auditors' portfolio reviews

As regard the auditors' portfolio reviews, as mentioned above, an integrated approach had been adopted for the annual report review exercise. As such, as illustrated in the table below, 26 annual reports in the portfolio of 6 licensed auditors in 4 audit firms had been reviewed during the six months ended 30 June 2024.

Out of the 6 licensed auditors, 4 had been reviewed as part of the audit practice review exercise.

	Firm 1		Firm 2	Firm 3	Firm 4	
	Auditor A	**Auditor B**	**Auditor C**	**Auditor D**	**Auditor E**	**Auditor F**
No. of annual report reviews	5	5	7	4	1	4
Auditor selected for audit practice review	Yes	No	Yes	Yes	No	Yes
No. of annual report review selected for audit practice review	1	0	1	1	0	1

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

	Firm 1		Firm 2	Firm 3	Firm 4		
	Auditor A	**Auditor B**	**Auditor C**	**Auditor D**	**Auditor E**	**Auditor F**	**Total No. of PIEs**
Listed on SEM	-	3	4	3	-	-	10
Financial institutions regulated by BOM	2	-	-	-	-	3	5
Financial institutions regulated by FSC	1	-	-	-	-	-	1
Other PIEs (Category 4 of FRA)	2	2	3	1	1	1	10
Total	**5**	**5**	**7**	**4**	**1**	**4**	**26**

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

Types of reviews	Sectors						Total no. of PIEs
	BIF	Commerce	Industry	Investment	Leisure & Hotels	Transport	
Auditor A	3	-	-	2	-	-	5
Auditor B	-	-	3	2	-	-	5
Auditor C	-	-	-	5	2	-	7
Auditor D	-	1	1	-	-	2	4
Auditor E	-	1	-	-	-	-	1
Auditor F	4	-	-	-	-	-	4
Total	**7**	**2**	**4**	**9**	**2**	**2**	**26**

Firm 1 Portfolio

During the six months period ended 30 June 2024, 10 audit clients of 2 auditors (Auditor 1 and 2) from Firm 1 were selected for annual report review. The annual reports selected from the portfolio of Firm 1 comprise of a combination of consolidated and separate financial statements. One of the annual reports from the portfolio of Auditor 1 was selected for audit practice review.

The following observations were made from the annual report review exercise:

- Going concern risk

As regard the 10 annual reports reviewed, the following were noted with respect to going concern:

- **7 of the entities** [2 listed entities operating in Industry and 1 listed PIE in Investment sector, 1 regulated by BOM, 1 FSC regulated PIE and 2 PIEs falling in Category 4 operating in Industry and Investment sector] had at least one indicator of going concern such as net current liabilities, negative cash and cash equivalents, high gearing, loss for the year or revenue deficit but only **1 listed PIE** operating in the Investment sector had material uncertainties relating to its ability to continue as a going concern based on its management plan; and
- **6 of the PIEs** had made disclosure of the status of the going concern of the companies in their respective annual reports.

One DEM listed PIE operating in the industry sector, out of the 7 entities having indicators of going concern risk, had been requested to provide the remedial actions that management is taking to address the going concern risk.

- Code of Corporate Governance

The following were noted from the review of the annual reports of the 10 PIEs regarding the Code of Corporate Governance:

- 2 PIEs had fully applied the 8 principles of the Code;
- 5 PIEs had provided explanations for not complying with certain sections of the Code, out of which 1 was queried for partial compliance;
- 2 PIEs had been queried for not applying the principles of the Code; and
- 1 PIE had provided explanation in its annual report for not reporting on the Code.

- Compliance with Financial Reporting Standards

4 PIEs, 1 from the portfolio of Auditor A and 3 from the portfolio of Auditor B, were queried on non-compliance relating to IFRSs (Details provided in Section 1.1 of this bulletin).

Firm 2 Portfolio

7 annual reports were selected for annual report review from the portfolio of Auditor C/Firm 2 and these comprise of a mix of consolidated and separate financial statements. One of the PIEs operating in the Leisure & Hotel 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 annual report review exercise:

Going concern risk

Out of 7 annual reports reviewed:

- **5 of the entities** [3 PIEs regulated by SEM and operating in Investment sector and 2 PIEs falling in Category 4 of the First Schedule of FRA and operating in the Investment and Leisure & Hotel sector] had at least one indicator of going concern such as net current liabilities, negative cash and cash equivalents, high gearing, or revenue deficit but only **2 of the entities** had material uncertainties relating to its ability to continue as a going concern based on their management plans; and
- **All the 5 PIEs** had made disclosure of the status of the going concern of the companies in their respective annual reports.

Code of Corporate Governance

The following were noted from the review of the annual reports of the 7 PIEs regarding the Code:

- 1 PIE had fully applied the 8 principles of the Code;
- 4 PIEs had provided explanations for not complying with certain sections of the Code;
- 1 PIE had been queried for partly complying with the principles of the Code; and
- 1 PIE had provided explanation in its annual report for not reporting on the Code.

Compliance with Financial Reporting Standards

Out of the 7 entities selected for review, 3 were queried on issues relating to IFRSs (Details provided in Section 1.1 of this bulletin).

Firm 3 Portfolio

For the six months ended 30 June 2024, 4 audit clients were selected for annual report review from the portfolio of Auditor D/Firm 3. One of the PIEs falling under Category 4 of the First Schedule of FRA and operating in the Transport sector had been selected for onsite audit practice review.

From the annual report review exercise, the following were noted:

- Going concern risk

  The following were observed with respect to going concern:

  - 2 of the entities [1 DEM listed and 1 PIE falling in Category 4 of the First Schedule of FRA, both operating in the Transport sector] had at least one indicator of going concern such as loss for the year, negative cash and cash equivalents or net current liability but none of the them had material uncertainty relating to its ability to continue as a going concern based on its management plan; and
  - Only 1 of the PIEs had made disclosure of the status of the going concern of the companies in their respective annual reports.

- Code of Corporate Governance

  From the review of the annual reports of the 4 PIEs, the following observations were made regarding the Code:

  - 2 PIEs had provided explanations for not complying with certain sections of the Code, out of which 1 was queried for partial compliance;
  - 1 entity had been queried for partly complying with the Code; and
  - 1 PIE had been queried for not applying the principles of the Code.

- Compliance with Financial Reporting Standards

  Out of the 4 entities selected for review, 1 DEM listed PIE was queried on issues relating to IFRSs (Details provided in Section 1.1 of this bulletin).

- Compliance with the Mauritius Companies Act 2001

  The following were noted as regard compliance with the requirements of the MCA:

  - The Board of directors of 2 DEM listed PIEs did not have any female director; and
  - 2 PIEs had not disclosed the remuneration and benefits paid to its directors, on an individual basis.

Firm 4 Portfolio

During the six months period ended 30 June 2024, 5 audit clients of 2 auditors (Auditor E and F) from Firm 4 were selected for annual report review. The 5 annual reports included 4 separate financial statements and 1 set of consolidated financial statements. One of the annual reports from the portfolio of Auditor F was selected for audit practice review.

The following observations were made from the annual report review exercise:

- Going concern risk

  With respect to the 5 annual reports reviewed, the following were noted regarding going concern:

  - **2 of the entities** [regulated by BOM] had at least one indicator of going concern such as loss for the year or revenue deficit but only **1 of the PIEs** had material uncertainty relating to its ability to continue as a going concern based on its management plan; and
  - **Both PIEs** had made disclosure of the status of the going concern of the companies in their respective annual reports.

- Code of Corporate Governance

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

  - 2 PIEs had fully applied the 8 principles of the Code; and
  - 3 PIEs had provided explanations for not complying with certain sections of the Code.

- Compliance with Financial Reporting Standards

  No non-compliances regarding IFRSs were identified following the annual report review of the 5 PIEs.

1.0 COMPLIANCES WITH FINANCIAL REPORTING STANDARDS

1.1 Compliances with International Financial Reporting Standards

Out of the 26 PIEs reviewed during the six months ended 30 June 2024 as part of the auditors' portfolio review, 8 PIEs were queried relating to the following areas of corporate reporting:

(a) IAS 1, Presentation of Financial Statements

From the annual report review of **1 PIE falling under Category 4 of the First Schedule of the FRA** [operating in the Leisure & Hotels sector], FRC observed the following:

- The name of another entity appeared on one page of the financial statements;
- As regard going concern assessment the entity stated that the current assets exceeded the current liabilities instead of current liabilities exceeded its currents assets; and
- Incorrect accounting policies had been disclosed for property, plant and equipment.

(b) IAS 19, Employee Benefits

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

- **1 FSC Regulated PIE** [operating in the insurance sector] had not disclosed the amount recognised as an expense for its defined contribution plan; and
- **1 entity listed on SEM** and **1 PIE falling under Category 4 of the First Schedule of the FRA** [both in investment sector] had not provided a description of the risks to which the defined benefit plan exposed the entity.

(c) IAS 24, Related Party Disclosures

As regard requirements of IAS 24, **1 DEM listed PIE** in the transport sector had not disclosed key management compensation in its different categories.

(d) IFRS 3, Business Combinations

FRC noted that **1 DEM listed PIE** operating in the transport 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.

(e) IFRS 7, Financial Instruments: Disclosures

From the review exercise, FRC observed that 2 PIEs, **1 listed on DEM and 1 classified under Category 4 of the First Schedule of the FRA**, both operating in industry sector had not disclosed the objectives, policies and processes for managing financial risks.

(f) IFRS 13, Fair Value Measurement

From the annual report reviews, FRC noted that:

- **1 DEM listed PIE** operating in the transport sector had not disclosed a description of the inputs used in the fair value measurement for investment property; and
- **1 DEM listed entity** [operating in transport sector] and **1 Category 4 PIE** [operating in the investment sector] had not disclosed the level of fair value hierarchy for its assets.

1.2 Compliances with International Public Sector Accounting Standards

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 IPSAS 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 IPSAS framework and the remaining 1 shall adopt the IFRS as issued by the International Accounting Standards Board ("IASB").

FRC monitors the annual reports and corporate governance reports of the SOEs to ensure that the entities are in compliance with the IPSAS and the National Code of Corporate Governance, as per Section 76 of the Financial Reporting Act.

It is good to note that no issues were observed relating to IPSAS following the annual report review of the SOE.

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 are 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 Auditors' Portfolio Reviews

From the annual report review exercise under auditors' portfolio review, FRC made the following observations with respect to the 26 reviews:

- 5 PIEs had fully applied the 8 principles of the Code;
- 14 PIEs had provided explanations for not complying with certain sections of the Code, out of which 3 were queried for part compliance (See Section A below);
- 2 PIEs had been queried for partly applying the Code (Details provided in Section B below).
- 3 PIEs had been queried for not applying the principles of the Code (Details provided in Section B below); and
- 2 PIEs had provided explanations in their annual report for not reporting on the Code (See Section C below).

2.2 Review of Statutory Body

It is good to note that the SOE reviewed during the six months ended 30 June 2024 had reported on the Code and had fully applied the principles of the Code.

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:

- The Board decided to only disclose other directorships in public and listed companies.
- The company did not provide a Board charter.

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

- Details of other directorships are available at the company's registry.
- The company does not provide a Board charter as the company's decisions are managed by the holding company and decisions are mainly taken through written resolutions in lieu of holding Board meetings.

- *Principle 2: The Structure of the Board and its Committees (11 PIEs)*

The main findings were as follows:

- A Corporate Governance Committee and Remuneration Committee had not been constituted.
- The Board of directors did not comprise of any female director.
- The Board of directors did not consist of adequate number of executive and independent directors.
- The Audit Committee was not composed of a majority of independent non-executive directors.
- There was no Board or Board sub-committee and as such, no company secretary had been appointed.
- The Chairperson of the Board by definition of the Code of Corporate Governance did not meet the criteria for being classified as an independent chairperson.

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

- All matters pertaining to corporate governance are regularly reviewed and discussed by Management. Hence, a committee on Corporate Governance had not been constituted.
- The financial institution had been dispensed by the Bank of Mauritius from constituting a separate Remuneration Committee.
- Taking into consideration the size of the company and the scope and nature of its operations and in view of the restructuring of the group since January 2019, the Board considers that the need for a CEO or any executive director has been eliminated.
- The company is in the process of appointing an executive director.
- The Board agrees that it is of sufficient size to meet the requirement of the business and thus the appointment of a second executive director at this stage is not warranted.
- The Board is of opinion that given the operations of the company are properly structured and non-complex, the appointment of a second executive director at this stage is not warranted.
- The Board functions effectively and efficiently and is considered to be of an appropriate size for the entity, taking into account, among other considerations, the need to have sufficient directors to structure Board Committees appropriately, the regulatory requirements as well as the need to adequately address the Board's succession plans.
- The Board does not have any independent director as the Board is of opinion that the existing directors have been able to develop over time, insights and knowledge in the company's business and are therefore able to provide a valuable contribution to the Board.
- The Board believes that the Audit Committee has the requisite skills and experience to provide a significant and valuable contribution to the Board as a whole and has amply demonstrated independence and objectivity in the discharge of its duties and responsibilities.
- The company has only 2 shareholders. In view of the size of its shareholding and Board of directors' structure, the directors have decided, for the moment, not to constitute Board Committees at the company's level. Currently, the corporate governance issues are dealt with at the level of holding company. The holding company has adopted a Corporate Governance structure and has constituted 2 committees; a Corporate Governance Committee (that also includes the Nomination and a Remuneration Committee) and an Audit and Risk Committee. Matters concerning subsidiaries are also discussed at these committees.
- There is no independent director considering the actual structure of the company and the outsourcing of its management to the holding company.
- There is no Board or Board sub-committee set up and as such, no company secretary has been appointed as the financial institution operates through local management.
- The Chairperson of the Board by definition of the Code of Corporate Governance does not meet the criteria of being an independent chairperson. However, the Board can have according to the Code its own definition of independence. Consequently, it is entirely satisfied that the Chairperson is independent in both character and judgement and he has a wide experience and contributes in strategic issues, etc.

▪ *Principle 3: Director Appointment Procedures (1 PIE)*

The main observations were as follows:

- There is no developed succession planning.
- No self-appraisal had been carried at company level.

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

- There is no developed succession planning as the company is managed by the holding company where there is a strong management team assisting the CEO in its duties.
- A self-appraisal has been carried at the level of holding company.

▪ *Principle 4: Director Duties, Remuneration and Performance (1 PIE)*

1 PIE had not disclosed the remuneration of the executive directors individually.

The PIE stated that the remuneration had not been disclosed individually due to its commercially sensitive nature.

▪ *Principles 6: Reporting with Integrity (2 PIEs)*

From the Corporate Governance Report of 2 PIEs, FRC noted that there was no disclosure of all material information on the company and its governance framework, recommended to be disclosed on the website as per the Code.

The explanation provided in that respect was as follows:

- The Board endeavours to ensure that all material information on the company and its governance framework, recommended to be disclosed on the website as per the Code, is available to shareholders and stakeholders through annual report and financial statements filed at the Registrar of Companies. The company is in the process of updating its website to contain such disclosures as recommended by the Code.

- *Principles 7: Audit (1 PIE)*

1 PIE did not have an internal audit function.

The company stated that it did not have an internal audit function during the year under review, as this was not considered essential given the nature of the company's business and the central control and organisation and approval structure in place across the company with clear defined levels of authority and division of responsibilities. The company has clear and robust internal control procedures for the approval of all transactions, no matter what the size. However, in order to be in line with the requirements of the NCCG, the company is strongly considering the setting up of an internal audit function.

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

As mentioned above, 5 PIEs more specifically, **4 entities listed on SEM** [1 commerce, 1 industry, 1 investment and 1 transport], and **1 PIE falling under Category 4 of the First Schedule of the FRA** operating in investment sector] had partly complied with the Code and the findings noted are as follows:

- Documents such as Board charter, code of ethics, constitution were not found on the company's website, as mentioned in the company's corporate governance report.
- 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 majority of the members of the Audit and Risk Committee were not independent.
- The Corporate Governance, Nomination and Remuneration Committee was chaired by the Chairperson of the Board.

Of note, 3 wholly owned subsidiaries, **classified as PIEs under Category 4 of the First Schedule of the FRA** [1 industry, 1 investment and 1 transport] had been queried for not applying the principles of the Code.

C. Details of explanations provided by the PIEs for not applying the Code

2 PIEs falling under Category 4 of the First Schedule of the FRA [1 investment and 1 leisure & hotels] had provided explanations for not reporting on the Code. In that respect, the PIEs have affirmed that, being wholly owned subsidiaries, the entities have adopted the Code, but reporting is made by the holding company.

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 Auditors' Portfolio Reviews

Out of the 26 PIEs reviewed under auditors' portfolio review, 3 PIEs falling under Category 4 of the First Schedule of the FRA [1 industry, 1 investment and 1 transport] did not include a statement of compliance in their annual report.

3.2 Review of Statutory Body

The SOE reviewed had complied with the Guidelines on Corporate Governance and had enclosed a statement of compliance in its 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 Auditors' Portfolio Reviews

Out of the 26 annual report reviews, FRC observed that the auditors of **2 PIEs classified under Category 4 of the First Schedule of the FRA** [operating in investment and transport sectors] had not reported on consistency of the requirements of the Code as per Section 39(3) of the FRA and the Financial Reporting (Reporting on Compliance with the Code of Corporate Governance) (Amendment) Guidelines 2022.

4.2 Review of Statutory Body

From the review exercise, FRC noted that the SOE reviewed had reported on the consistency of the requirements of the Code.

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 26 PIEs under the auditors' portfolio, the annual reports were reviewed to ensure compliance with the relevant requirements of the Mauritius Companies Act 2001.

From the review exercise, FRC observed the following:

- Some of the independent directors of **2 entities regulated by SEM** [in investment sector] and **1 PIE falling under Category 4 of the First Schedule of the FRA** [operating in investment sector] had cross directorships or significant link with other directors through involvement in other companies or other organisations;
- 4 independent directors of **2 DEM listed PIEs** operating in the commerce and industry sector had served on the Board of directors for more than nine years from the date of their first elections, which is not in line with the Companies Act;
- The Board of directors of **2 DEM listed PIEs** operating in the commerce and industry sector did not have any female director; and
- **2 PIEs regulated by SEM** [investment and transport sector] and **3 PIEs falling under Category 4 of the First Schedule of the FRA** [2 investments and 1 transport] had not disclosed the remuneration and benefits paid to its directors, on an individual basis.

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 30 June 2024, following the review exercise, 15 PIEs out of 26 reviewed under the auditors' portfolio review, had been queried for not fully complying with the requirements of IFRSs, the Code and the MCA. These entities had been audited by 4 auditors practising in 3 different audit firms.

FRC noted the following as regard the 15 above mentioned PIEs:

- 11 entities representing 73%, were audited by 2 large audit firms; and
- The remaining 4 PIEs (27%) were audited by a medium audit firm.

Following the annual report review exercise, 1 auditor practising in a large audit firm was requested to state the 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.

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

Categories of Audit Firm	Number of auditors practising in the firms	Number of PIEs not complying with IASs / IFRSs	Number of PIEs not complying with the Code	Number of PIEs not complying with the MCA
Large Audit Firm (2)	3	7	5	4
Medium Audit Firm (1)	1	1	3	3

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' future annual reports.

(i) Auditors' Portfolio Reviews

FRC will carry out close monitoring and follow up for **1 PIE falling under Category 4 of the First Schedule of the FRA** and operating in investment sector. The areas that would require follow-up are as follows:

- *International Financial Reporting Standards Disclosures:*
    - Nature of other income;
    - Amount recognised as an expense for defined contribution plan;
    - Description of the risks to which the entity is exposed to through the defined benefit pension plan, information about the maturity profile of the defined benefit obligation and expected contributions to the plan for the next annual reporting period;
    - Policies and procedures for managing interest rate risk; and
    - The level of hierarchy under which investment in joint venture had been categorized.

- *Compliance with the Guidelines on compliance with the Code of Corporate Governance:*
    - Submission of statement of compliance in the annual report of the above-mentioned PIE.

(ii) Review of Statutory Body

Following the annual report review of the SOE, it was observed that the auditor's reporting on the Code was not in accordance with the Financial Reporting Council (Reporting on Compliance with the Code of Corporate Governance) Guidelines 2019. A follow up review would be carried out in the entity's subsequent annual report, to ensure compliance on same.