

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Mauritius

ACCOUNTING AND AUDITING June 2011

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EXECUTIVE SUMMARY

The Government of Mauritius requested the World Bank in 2010 to conduct a second ROSC A&A review. The first review was performed in 2003. The main objective of the second review was to assess the status of implementation of policy recommendation made in 2003 and to identify any emerging issues on institutional framework underpinning accounting and auditing practices that require strengthening in order to improve financial reporting in Mauritius.

There have been significant improvements in financial reporting practices in Mauritius. The Government has successfully implemented 5 of the 8 key policy recommendations made in the 2003 ROSC report. Activities have been initiated to address the other 3 recommendations. The Financial Reporting Act, enacted in 2004, resulted in establishment of a Financial Reporting Council (FRC) and Mauritius Institute of Professional Accountants (MIPA). Legislations — Companies Act, Banking Act, and Insurance Act — were amended to ensure consistency in respective financial reporting requirements. The staff capacity at the Registrar of Companies has also been enhanced. The commendable achievement is an indication of Government's commitment to improving quality of financial reporting — a key contributor to enhancing investor confidence and ultimately economic growth. However, the ROSC team identified some institutional areas that require improvement: (a) The MIPA is not meeting its legal responsibilities and IFAC requirements mainly due to limited financial and human resources; (b) the definition of public interest entities in the Financial Reporting Act is restrictive to an extent that it excludes some listed entities from the scope of the FRC; (c) the Financial Reporting Act does not provide the FRC with sanctions for senior managements of entities that fail to comply with financial reporting requirements; and (d) there exists compliance gaps with adopted accounting and auditing standards.

The ROSC proposes several policy recommendations that take into account international experience, good practice, and local circumstances. Support MIPA (in partnership with a twinning partner) to strengthen its technical, institutional and financial capacity that are necessary to meet its legal responsibilities and IFAC SMO requirements. Support MIPA to develop and offer (in partnership with an IFAC professional body and University of Mauritius) an internationally recognized local accounting professional qualification (e.g. Chartered Accountant Mauritius) that should have more emphasis on monitored practical training and public sector subjects. The Financial Reporting Act should be amended to enhance definition of public interest entity that incorporates both quantitative and qualitative factors. The Companies Act should be amended to require medium-size companies within a defined threshold to apply IFRS for SMEs (small and medium-size enterprises) and also require appointment of a registered auditor where an entity with revenue of less than Rs50 million opts to conduct an audit. The FRC staff capacity should be strengthened by possibly engaging retired partners to mentor the staff. Accountants and auditors should receive increased support to enable them to effectively implement adopted international accounting, auditing, and ethics standards: a role that should be undertaken by a strengthened MIPA.

The principle based policy recommendations are proposed as a basis for developing a country action plan by the Government, with support from the National Steering Committee and the World Bank. The actions will contribute in further improving the quality of financial reporting and practices in Mauritius.

PREFACE

The Report on Observance of Standards and Codes, Accounting and Auditing Review (ROSC A&A) focuses on 2 of the 12 standards covered by the joint initiative of the World Bank and IMF developed soon after the Asian financial crisis in 1997. The main objective of the initiative is to assist countries in implementing internationally recognized standards for strengthening national and international financial architecture.¹

The ROSC A&A focuses on the institutional framework underpinning the accounting and auditing practices in the country. It evaluates the statutory framework supporting the accountancy profession; education and training of accountants; professional accountancy organizations and ethics; accounting and auditing standards; and monitoring, enforcement, and oversight of the profession. An overview of the ROSC A&A program, including detailed methodology, is available at http://www.worldbank.org/ifa/rosc_aa.html.

In 2010, the Government of the Mauritius requested the World Bank to perform the country's second ROSC A&A review. The first review was conducted in 2003. The 2010 ROSC presents the status of implementation of 2003 policy recommendations and sets out current systemic issues pertaining to accountancy profession institutional framework that require strengthening. In addition, the report presents policy recommendations that will contribute in further improving the corporate financial reporting regime in Mauritius.

The ROSC A&A review was carried out in Mauritius from November 2010 to April 2011 through a participatory process involving in-country stakeholders from the Government, regulatory bodies, accounting and auditing firms, banks, insurance companies, state-owned enterprises, and academia. The World Bank ROSC team comprised Patrick Kabuya (Task Team Leader, Senior Financial Management Specialist, Africa Region); M. Zubaidur Rahman (Program Manager, OPCFM, and ROSC Team Adviser); and Sonny Mabheju (Consultant). The report also benefitted immensely from comments of peer reviewers: Szymon Radziszewicz, (Senior Technical Manager, Member Body Development, IFAC); Thomas Zimmermann, (Senior Technical Manager, Member Body Development, IFAC); Richard L. Symonds (World Bank Consultant); Bernard Agulhas (CEO, IRBA, South Africa,); and Gert Van Der Linde (Lead Financial Management Specialist).

¹ The 12 ROSC standards are data transparency, fiscal transparency, monetary and financial policy transparency, banking supervision, securities, insurance, payments systems, anti-money laundering, corporate governance, accounting, auditing, and insolvency and creditor rights.

ABBREVIATIONS AND ACRONYMS

ACCA	Association of Certified Chartered Accountants
BoM	Bank of Mauritius
CIMA	Chartered Institute of Management Accountants
CPD	Continuing professional development
ECSAFA	Eastern, Central, and Southern Africa Federation of Accountants
FRC	Financial Reporting Council
FSC	Financial Services Commission
GDP	Gross Domestic Product
GNI	Gross National Index
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants in England and Wales
IES	International Education Standard
IESBA	International Ethics Standard Board of Accountants
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standard
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
ISQC	International Standard on Quality Control
MIPA	Mauritius Institute of Public Accountants
ROSC	Report on the Observance of Standards and Codes
SAICA	South African Institute of Chartered Accountants
SME	Small and medium-size entity
SMO	Statement of Membership Obligations
SMP	Small and medium-size practice

I. INTRODUCTION AND COUNTRY CONTEXT

A. Introduction

1. The second ROSC A&A review in Mauritius aims to determine what reforms should be undertaken to further strengthen the accountancy institutional framework that is critical in contributing to the country's economic growth. In 2010, the Government of Mauritius invited the World Bank to conduct this follow-up review. The first ROSC A&A was carried out in 2003. The new review establishes the extent of implementation of the 2003 policy recommendations and also identifies emerging strengths and weaknesses in institutional framework that underpin accounting and auditing practices that influence the quality of financial reporting. Further policy recommendations in this ROSC address the identified systematic weaknesses. Ultimately, if implemented, the recommendations would improve corporate financial reporting that will enhance Mauritius' business environment and advance its governance and financial accountability — both key contributors to improving investor confidence and attracting investments.

2. The ROSC A&A review team used a diagnostic template developed by the World Bank to facilitate collection of data. The data was complemented by the findings of a due diligence exercise obtained by the team during a series of meetings held with key stakeholders. During the meetings, the team also obtained information on the status of implementation of 2003 recommendations. A National Steering Committee comprising representatives of stakeholders in the accounting and auditing community in Mauritius supported the ROSC team. An overview of the ROSC A&A and the detailed presentation of methodologies are available on the World Bank website.²

B. Country context

3. After a period of steady growth, Mauritius suffered a slowdown in economic growth during and after the Euro-Zone and Global Economic crises. It experienced coordinated fiscal tightening by the main European partners, loss of trade preferences, reduction in tourism, and decreases in the price of sugar imported by European Union countries. These factors, coupled with high oil prices and large fiscal deficit, resulted in protracted deterioration of terms of trade and increased vulnerability to volatilities in external economic forces.

4. Because of the economic slowdown suffered by the economy, the Government of Mauritius has reviewed its strategic economic objectives and plans in all sectors. The developments during the economic downturn revealed the need for Mauritius to adopt policies that reduce dependence on Euro-Zone countries, take up value-adding opportunities, and reduce

² Access ROSC Accounting and Auditing at www.worldbank.org/ifa/rosc_aa.html.

the gap between large corporations and small and medium-size enterprises (SMEs). The country has since formulated and started implementing an Economic Restructuring and Competitive Program aimed at increasing the economy's ability to resist external economic volatility and deal with challenges in the long term. Consequently, in 2010, the country developed ambitious economic growth plans and targets that are aimed at improving the welfare of its citizens. Among these include increasing production and efficiency, achieving significant growth in GDP and GNI per capita by 2020, increasing investment in the SME sector, increasing sugar production, and modernizing and increasing manufacturing (rebalance manufacturing in favour of value-added production, moving to new technology, and creating fast-moving supply chain). In addition to these internal adjustments, there are deliberate plans to broaden trading links by increasing trade and tourism with Brazil, China, India, and Russia.³

5. To attract the investment needed to achieve the above strategic economic objectives and plans, Mauritius needs high-quality financial reporting in all sectors. Therefore, there is need to identify weaknesses in the accountancy profession institutional framework that require strengthening to enhance the quality of reporting. High-quality financial reporting, which needs to be supported by a strong internationally recognized accounting and auditing profession, has the capacity to:

- (a) Strengthen the country's competitiveness as an investment destination in all sectors; and
- (b) Increase SME access to finance by providing banks and other lending institutions with high-quality financial information on which to make lending decisions.

6. In addition, the following salient features of the economy provide a sound basis for further economic growth. With a population of about 1.3 million and a GNI per capita of US\$7,240, Mauritius is in the upper-middle-income category.⁴ It is rated 20 out of 183 countries in terms of ease of doing business.⁵ It has a relatively strong banking and financial services sector, which is well capitalized. The sector currently has 20 banks (total banking assets of Rs855 billion)⁶ and 11 non-bank deposit-taking institutions (total assets of Rs46 billion), 53 non-banking financial institutions,⁷ and 21 insurance companies. The securities market has 2 stock exchanges: the Stock Exchange of Mauritius, Ltd. (made up of Official Market and Development Enterprise Market) and the Global Board of Trade, Ltd. (with 2 derivatives segments, one for commodities and the other for currency). Statutory bodies form a significant sector of the

³ Information in this paragraph extracted from the 2011 Mauritius Budget speech.

⁴ Population, GNI, and ease of doing business statistics are from the World Bank Report on "Doing Business 2011" data for Mauritius.

⁵ 2011 Doing Business Report (World Bank).

⁶ Total assets information as at May 2011.

⁷ Institutions and their numbers comprise asset management (2), custodian services (5), distribution of financial products (11), factoring of debts (4), credit finance (7), leasing (15), registrar and transfer agents (6), and treasury management (3).

economy.⁸ Offshore companies form a significant sector of the economy and are set to continue to grow in line with government objectives and plans. In addition, the recent shift in government policy toward deliberate support of small and medium-size enterprises is set to see the SME sector grow.

II. STATUS OF IMPLEMENTATION OF 2003 POLICY RECOMMENDATIONS

7. The Government has successfully implemented 5 of the 8 key recommendations in the 2003 ROSC report. The Financial Reporting Act was enacted in 2004 resulting in establishment of the Financial Reporting Council (FRC) and Mauritius Institute of Professional Accountants (MIPA). The Companies Act 2001, Banking Act 2004, and Insurance Act were amended to ensure consistency in respective institutional financial reporting requirements. The Registrar of Companies has been capacitated with qualified and experienced human resources and technology that has contributed in improved achievement of responsibilities of the office. Government has initiated activities to implement the other 3 recommendations in the 2003 ROSC report. These achievements, which are commendable, indicate Governments' commitment to improving the quality of financial reporting in Mauritius. The summary of 2003 recommendations are set out in Table 1.

⁸ Statutory bodies fall under the Statutory Bodies (Accounts and Audit) Act. They are also generally known as state-owned enterprises, government business entities or parastatals.

Table 1: Summary of progress on key recommendations of ROSC A&A 2003

	<i>Key Recommendation</i>	<i>Status as of December 2010</i>
1.	Establish (i) a local professional accountancy body which meets IFAC Statements of Membership Obligations and (ii) a local regulatory body for the accountancy profession with oversight over financial reporting by public interest entities.	(i) MIPA was established but requires significant institutional strengthening. (ii) FRC, the accounting and audit regulator, was established and is now fully operational.
2.	Enact a new law dealing with accountancy, auditing and financial reporting; fine tune the Companies Act 2001 to make sure IFRS and ISA apply to all public interest entities.	The Financial Reporting Act 2004 was enacted. It provides legal stipulations relating to accounting and auditing envisaged in the 2003 ROSC policy recommendations.*
3.	Clarify the financial reporting and auditing of financial institutions by making the Banking Act 1988 and the Insurance Act more consistent with the Companies Act 2001.	Consistent with the Companies Act 2001, both the Banking Act and Insurance Act now require financial statements to be respectively prepared and audited in compliance with IFRS and audited using ISA
4.	Strengthen standard-setting, monitoring and enforcement arrangements through the creation of a Financial Reporting Council, which should ideally have the following committees performing their respective functions (i) Accounting and Auditing Standards Committee, (ii) Financial Reporting Monitoring Committee, and (iii) Audit Practice Review Committee.	The Financial Reporting Council was established with 4 Panels (i) Standards Review Panel, (ii) Financial Reporting Monitoring Panel, (iii) Audit Practice Review Panel, and (iv) Enforcement Panel. All the panels except Enforcement Panel are operational. However, to enhance effectiveness, they all require further capacity strengthening.
5.	Simplify financial reporting requirements for SMEs as part of a harmonized international approach to reporting by SMEs.	IFRS for SMEs is currently not applied. Amendments to Companies Act have been proposed to require application of IFRS for SMEs by qualifying entities.
6.	Improve publication and filing requirements of legal entity and consolidated financial statements.	The Office of the Registrar of Companies has been significantly strengthened. The Registrar has been capacitated with qualified and experienced staff and technology that has contributed in improved achievement of responsibilities of the office.
7.	Strengthen professional education and training and development of practical-oriented guidelines on implementation of standards for the whole market to meet the challenges and demanding objectives set by the adoption of IAS/IFRS and ISA within a short timeframe.	Required to be strengthened
8.	Properly define public interest entities.	The current definition of public interest entities is only based on quantitative factors, which omits some listed companies. The definition needs to be revised.

* Detailed stipulations included in the Financial Reporting Act relating to accounting profession are noted in the statutory framework discussed in the 2010 ROSC.

III. INSTITUTIONAL FRAMEWORK

8. This section sets out emerging strengths and weaknesses in institutional framework that underpin accounting and auditing practices with focus on development since 2003.

A. Statutory Framework

9. **Since the 2003 ROSC A&A, a number of statutory changes aimed at improving the financial reporting regime have been made.** The changes that align reporting requirements to international standards and good practice in accounting and auditing include:

- (a) Enactment of the Financial Reporting Act 2004, which established the Financial Reporting Council (the accounting and auditing standard-setter that monitors compliance of financial statements of public interest entities with accounting standards and is responsible for the quality assurance review system in the country), the Mauritius Institute of Professional Accountants (a professional accountancy organization), and the National Committee of Corporate Governance.
- (b) Revision of the Companies Act and the Statutory Bodies (Accounts and Audit) Act 1972, amended during financial year December 2009/2010.
- (c) Enactment of the Securities Act 2005, amended September 2007. The Act provided the Financial Services Commission⁹ with powers over the regulation of the securities markets. In 2007, the Commission was brought under the Financial Services Act 2007.
- (d) Enactment of the Financial Services Act 2007 and strengthening of the Financial Services Commission (the regulator of non-banking financial institutions, including insurance companies and the securities markets).

10. **The Companies Act 2001 and Financial Reporting Act 2004 provide the accounting reporting frameworks for companies.** The Companies Act requires all companies with a turnover exceeding Rs50 million to report in terms of full IFRS. The Companies Act exempts companies with turnover below Rs50 million (small private companies) from preparing full financial statements. These companies are required to prepare a financial summary made up of a balance sheet and income statement, with no notes. The summary should be as per the format set out in the Ninth Schedule of the Companies Act. The Companies Act requires all companies to have their financial statements signed on behalf of the Board by 2 directors of the company within 6 months of the year-end. It also requires all companies other than small private companies to file audited financial statements with the Registrar of Companies within 28 days after the financial statements are required to be signed. The Financial Reporting Act 2004

⁹ The Financial Services Commission was established in 2001 after the merger of the Stock Exchange Commission, the Comptroller of Insurance, and Mauritius Offshore Business Activities Authority (MOBAA).

requires all public interest entities — companies with revenue exceeding Rs200 million — to apply full IFRS.

11. The Financial Reporting Act 2004 and the Statutory Bodies (Accounts and Audit) Act 1972 provide the accounting reporting framework for statutory bodies. Statutory bodies listed in the First Schedule of the Financial Reporting Act (public interest entities) are required to report in terms of full IFRS. Statutory bodies listed in Part I of the Second Schedule (medium-size statutory entities) of the Statutory Bodies (Accounts and Audit) Act are required to report in terms of IPSAS. Statutory bodies listed in Part II of the Second Schedule of the Statutory Bodies (Accounts and Audit) Act (small statutory bodies) are required to report in terms of the Financial Reporting Framework and Financial Reporting Standards, the national accounting standards issued by the Financial Reporting Council. These are simple standards aimed at ensuring that financial statements of small statutory bodies are prepared using a nationally developed and recognized financial reporting framework.

12. The Companies Act 2001 and the Financial Reporting Act 2004 establish the audit requirements for companies. The Companies Act requires an audit by an auditor licensed by the Financial Reporting Council and registered with MIPA for all companies with turnover exceeding Rs50 million. The audits are to be conducted in terms of International Standards of Auditing (ISA). Companies with turnover of Rs50 million or less need not have an auditor. If a company opts to have an audit, the auditor need not be qualified. The Financial Reporting Act requires public interest entities to be audited by a licensed auditor. Both the Companies and Financial Reporting Acts do not require rotation of either the audit firm or audit partner.

13. The Statutory Bodies (Accounts and Audit) Act 1972 and the Financial Reporting Act 2004 establish the audit requirements of statutory bodies. The Statutory Bodies (Accounts and Audit) Act requires all statutory bodies to be audited in terms of ISA by the Director of Audit or by a qualified auditor (i.e., registered and licensed). The auditor should be appointed by the Board and approved by the respective Minister. Board-approved unaudited financial statements are to be presented to the auditors within 3 months of the year-end. The auditors are required to present the audited financial statements to the Board within 5 months after receiving the unaudited financial statements. The Board has to present the audited financial statements to the respective Minister within 1 month after receiving them. The Minister then presents them to the Assembly. The auditor is required to report on whether the statutory body has been applying resources economically, efficiently, and effectively. The Financial Reporting Act requires statutory bodies listed in the First Schedule of the Act (public interest entities) to be audited by a qualified auditor (an auditor licensed under the Financial Reporting Act or the Director of Audit).

14. The current definition of *public interest entities* is considered to be restrictive as it excludes some listed companies. The Financial Reporting Act defines public interest entities as

companies with annual revenue exceeding Rs200 million and those entities listed in the First Schedule of the Financial Reporting Act. It excludes the holder of a Category 1 Global Business License¹⁰ under the Financial Services Act 2007. Based on the definition, some listed companies, with turnover of less than Rs200 million, are not classified as public interest entities and hence not subjected to review by Financial Reporting Council.

15. The Banking Act 2004, Companies Act 2001, and guidelines issued by the Bank of Mauritius 2004 regulate the banking financial institutions' accounting frameworks.

Banking financial institutions are required to apply IFRS. The financial statements are however presented in a standard reporting framework designed by the Bank of Mauritius under the *Guideline on Public Disclosure of Information*. The guideline sets out the minimum disclosure standards that financial institutions are required to adopt in relation to information to be disclosed in their audited financial statements and annual reports, as exemplified by the following:

- (a) ***Interim quarterly reports.*** The *Guideline on Public Disclosure of Information* requires banking financial institutions to prepare interim quarterly reports. The reports should be prepared in accordance with IAS 34, *Interim Financial Reporting*, and published within 45 days of the end of the quarter. They need not be reviewed or audited by the auditor.
- (b) ***Annual financial statements.*** The Banking Act 2004 requires audited financial statements (group and company where applicable) to be filed with the Bank of Mauritius (BoM). They should be published in the Gazette and posted on the website of the respective institution within 3 months of the year-end.

16. The Financial Reporting Act 2004, Bank of Mauritius Act 2004, and Companies Act 2001 establish the audit requirements of financial institutions.

Financial institutions are required to appoint one or more auditors registered with MIPA, licensed by the FRC and approved by the BoM. The BoM takes into account issues like independence, experience in audit of financial institutions, resources, and quality control in the approval process. Audit partners have to be rotated after five years. Where an auditor's services are terminated before the end of term, permission of BoM is required and the reasons for termination are provided. In addition to auditing banks, statutory auditors have a duty to collaborate with BoM in monitoring banks. Annual trilateral meetings (with BoM, regulated bank, and statutory auditors) are held where the auditor may be required to comment on audit findings and specific accounting issues identified during the audit.

17. The Companies Act 2001, Financial Services Act 2007, and Financial Reporting Act 2004 establish the financial reporting requirements of non-banking financial institutions.

¹⁰ Category I and Category 2 Global business Licenses are issued to resident corporations intending to conduct business outside Mauritius

The institutions are required to prepare IFRS-compliant financial statements, which are audited by a registered and licensed auditor using ISA. The financial statements are required to be filed with the Financial Services Commission (FSC) within 6 months of year-end and with the Registrar of Companies 28 days after the financial statements are approved. There is no legal requirement for audit firm or audit partner rotation. The FSC regulates all non-banking financial institutions. In addition FRC monitors financial reporting compliance for all non-banking financial institutions that are public interest entities. The FSC relies on the work of auditors and may act on the report of the auditor. In addition, the FSC reviews the audited financial statements as submitted and may seek clarification on the financial statements.

18. The Companies Act 2001, Financial Services Act 2007, Securities Act 2005, Securities Regulations 2008, and the Financial Reporting Act 2004 establish the financial reporting requirements of Undertakings for Collective Investments (UCI). The UCIs are mainly collective investment schemes and closed end funds. They are required to file with the FSC, quarterly financial statements within 45 days of the end of the quarter and an annual report within 90 days of the year-end. They are required to use IFRS or any other internationally recognized accounting framework as may be agreed with the FSC. The financial statements shall be audited on the basis of ISA by an auditor registered with MIPA and licensed by the FRC. The FSC approves the auditors who are licensed by the FRC.

19. The Companies Act 2001, Insurance Act, Financial Services Act 2007, and the Financial Reporting Act 2004 establish the financial reporting requirements of insurance companies. The Financial Services Act and Insurance Act require insurance companies to file audited financial statements with the FSC within 3 months of the year-end. The financial statements should comply with IFRS and audited in accordance with ISA by a registered and licensed auditor. The FSC approves the auditor who has to be registered with FRC. It uses its guidelines to establish if the auditor is “fit and proper” before approval. A written notice to the FSC within 15 days of the resignation or termination of an audit appointment is required and, when it is otherwise than by expiry of term, the reason must be given. The FSC and FRC monitor compliance with financial reporting requirements.

20. The Companies Act 2001, Securities Act 2005, Financial Services Act 2007, Listing Rules, and the Financial Reporting Act 2004 establish the financial reporting requirements of listed companies. Financial statements of listed companies are required to comply with IFRS and audited in accordance with ISA by a registered and licensed auditor. Interim quarterly reports and year- end financial reports are filed as follows: (a) with the Stock Exchange of Mauritius – (i) interim quarterly report not later than 45 days after the end of quarter, (ii) abridged audited annual financial statements as soon as they are approved by the board but not later than 90 days of the year end, (iii) annual report within 90 days but not later than 6 months of the year end. (b) with the FSC- (i) interim quarterly report within 45 days of end of quarter and published in at least 2 local newspapers with wide circulation, (ii) Annual Report including

audited financial statements within 90 days of the year end. Where the interim quarterly report has not been audited, a statement to that effect must be included and where audited, the report of the auditor must be reproduced.

21. The Registrar of Companies keeps records of returns submitted by public and private companies. The records are checked for completeness and compliance. Compliance checks include reviewing whether presentation and disclosure are in accordance with applicable accounting standards or format as stipulated in Companies Act. Companies that fail to file returns after reminders have been sent are normally prosecuted. The Registrar provides all registration requirements for non-regulated companies. The Registrar of Companies also shares information with other government departments like Revenue Authority and National Social Security. Some strategic institutions like the Independent Commission Against Corruption and FRC have access to the database of the Registrar of Companies.

22. None of the current statutory financial reporting frameworks for both companies and statutory bodies require application of IFRS for SMEs. The current private and public companies reporting frameworks allow for either full IFRS or simply produce a financial summary. The financial summary is meant for very small entities with annual turnover of Rs50 million or less. This means small and medium-size enterprises, with turnover above Rs50 million, are currently reporting in terms of full IFRS. In addition, the statutory bodies that once had a choice between full IFRS and IFRS for SMEs are now required to report in terms of IPSAS. The IPSAS are meant for the Government ministries and government departments and not for entities engaged in commercial activities even though they are government owned. Thus, the current financial reporting framework puts significant compliance burden and cost on small and medium-size enterprises. This may contribute to non-compliance, resulting to preparation of financial statements that are not of high quality. There is a proposed amendment to the Companies Act that will allow qualifying private companies (medium companies) that are not public interest entities to use IFRS for SMEs.

23. Financial statements of companies are available to the public from the Registrar of Companies. The Companies Act 2001 allows the public to have access to statutory financial statements at the Registrar of Companies. Copies are available for a fee within 2 days of request and 3 days for certified copies. Electronic copies are also available.

Table 2: Overview of current accounting, auditing and publication/filing requirements for major entities in Mauritius

Company	Law and regulation	Accounting standards/reporting framework/Regulators	Audit requirements	Publication/Filing/Timing
Listed Companies And companies with turnover > 200m rupee	<ul style="list-style-type: none"> • Securities Act • Companies Act • Financial Reporting Act 	<ul style="list-style-type: none"> • Full IFRS • Regulators(FSC,) • For those that are public interest entities, FRC monitors financial 	<ul style="list-style-type: none"> • Qualified statutory auditor • ISA 	<ul style="list-style-type: none"> • Publish financial statements, (Consolidated) if group • File entity financial statements with registrar of

Company	Law and regulation	Accounting standards/reporting framework/Regulators	Audit requirements	Publication/Filing/Timing
		reporting		<ul style="list-style-type: none"> companies Send to every member Publish quarterly financial reports
Companies (turnover > 50 < 200 million rupee)	Companies Act	<ul style="list-style-type: none"> Full IFRS No regulator 	<ul style="list-style-type: none"> Qualified statutory auditor ISA 	<ul style="list-style-type: none"> File financial statements with registrar of companies
Companies (turnover < 50 million rupee)	Companies Act	<ul style="list-style-type: none"> Prepare Financial Summary (Balance Sheet and Income Statement- no notes 	<ul style="list-style-type: none"> No need for audit If the company opts for an audit, the auditor need not be qualified 	<ul style="list-style-type: none"> File financial summary with registrar of companies
Banking Institutions	<ul style="list-style-type: none"> Banking Act BoM Act Companies Act 	<ul style="list-style-type: none"> Full IFRS Regulators (BoM,) 	<ul style="list-style-type: none"> Qualified statutory auditor. Approved by BoM ISA 	<ul style="list-style-type: none"> Financial statements filed with BoM, and registrar of companies, published in Gazette & website of institution Quarterly financial reports, may be unaudited
Insurance Companies	<ul style="list-style-type: none"> Insurance Act Financial Services Act Companies Act 	<ul style="list-style-type: none"> Full IFRS Regulators (FSC,) 	<ul style="list-style-type: none"> Qualified statutory auditor ISA 	<ul style="list-style-type: none"> Financial statements filed with FSC and registrar of companies
State Owned Enterprises (SOE) (First schedule Financial Reporting Act)	<ul style="list-style-type: none"> Financial Reporting Act Statutory Bodies Act 	<ul style="list-style-type: none"> Full IFRS FRC monitors financial reporting 	<ul style="list-style-type: none"> Qualified statutory auditor Appointed by board Approved by Minister ISA 	<ul style="list-style-type: none"> Financial statements presented to Assembly by Minister
Some SOE (Part 1; 2nd Sch. Statutory Bodies Act)	<ul style="list-style-type: none"> Statutory Bodies Act 	<ul style="list-style-type: none"> IPSAS No regulator 	<ul style="list-style-type: none"> Qualified statutory auditor Appointed by board Approved by minister ISA 	<ul style="list-style-type: none"> Financial statements presented to Assembly by Minister
Remaining SOE (Part 11; 2nd Sch. Statutory Bodies Act)	<ul style="list-style-type: none"> Statutory Bodies Act 	<ul style="list-style-type: none"> FRS issued by FRC Financial Reporting Framework issued by FRC 	<ul style="list-style-type: none"> Qualified statutory auditor Appointed by Board Approved by Minister ISA 	<ul style="list-style-type: none"> Financial statements presented to Assembly by Minister

B. The Profession

24. The Mauritius Institute of Professional Accountants was set up as a professional accountancy body under the Financial Reporting Act 2004. Its broad functions include the registration of professional and public accountants and member firms. For member firms to be registered, at least half of the partners need to be registered with MIPA. Additionally, the firm needs to hold professional indemnity insurance or provide such other financial guarantee as determined by MIPA. The MIPA also lays down the rules for membership. It is responsible for administering a Code of Professional Conduct and Ethics for Professional Accountants that is consistent with the IFAC Code of Ethics for Professional Accountants. It has power to conduct or arrange for examinations deemed necessary for the purpose of registering professional accountants. It is empowered to institute disciplinary actions against its members.

25. Professional accountants must register with MIPA. Currently, the FRA allows members of the following professional accountancy bodies to register as members of MIPA:

- (a) Institute of Chartered Accountants in England and Wales
- (b) Institute of Chartered Accountants of Scotland
- (c) Institute of Chartered Accountants of Ireland
- (d) Association of Chartered Certified Accountants
- (e) Institute of Chartered Accountants of India
- (f) South African Institute of Chartered Accountants.
- (g) Chartered Institute of Management Accountants

In addition, members of other professional accountancy bodies who have appropriate qualifications in accountancy field and have a minimum of 3 years experience in accountancy may apply to MIPA and be registered as professional accountants. There is no requirement to write examinations (e.g., on Mauritius tax and company law) before one qualifies for registration as a professional accountant and is allowed to practice i.e., registered to offer professional services to the public. In addition, Mauritius does not offer a local professional accountancy qualification.

26. The MIPA faces challenges that impact its ability to fulfill its responsibilities and effectively support the accountancy profession. To begin with, it has a limited revenue base. The MIPA relies on membership subscription (currently Rs1,000 per year) and registration fees. There were 1,662 registered members (as of February 2011). The MIPA has only 2 staff members and offers minimal membership support and services. Continuous professional development (CPD) events have only been offered since January 2011, and the MIPA does not monitor how members comply with CPD requirements. No guidelines have been issued to members. The MIPA has no effective committee structures; of particular consequence is having no disciplinary committee. The involvement of members in support of MIPA is limited to non-existent; while on the flip side, the MIPA lacks any value proposition (offering) to its members.

27. The MIPA, an associate member of IFAC, minimally meets the requirements of the IFAC Statements of Membership Obligations (SMOs). The current status of MIPA's progress with respect to the requirements of the SMOs is as follows:

- (a) **SMO 1, *Quality Assurance*.** The MIPA needs to further support its members, particularly small and medium-size practices, in implementing a system of quality control in accordance with ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*, by establishing and publishing quality control guidelines, and providing pre-qualification and CPD courses on the quality control standards.
- (b) **SMO 2, *International Education Standards for Professional Accountants and other IAESB Guidance*.** Although MIPA does not conduct its own examinations, it should

collaborate with tertiary institutions (currently not being done) to ensure that accountancy education delivered by these institutions meet the minimum requirements of International Education Standard (IES) 2, *Entry requirements to a Program of Professional Accounting Education* as well as other relevant IES. It should also ensure that compliance with practical experience requirements is monitored and CPD requirements are strengthened. In this respect, MIPA should verify that the CPD requirements meet the minimum requirements of IES 7, *Continuing Professional Development: A program of Lifelong Learning and Continuing Development of Professional Competence*, specifically to ensure that compliance with CPD requirements is properly monitored and increase the number and quality of the CPD sessions.

- (c) **SMO 3, *International Standards, Related Practice Statements and Other Papers Issued by the IAASB***. Although this SMO is adopted, MIPA has no process that provides for timely, accurate, and complete dissemination of these standards and related pronouncements to members.
- (d) **SMO 4, *IESBA Code of Ethics for Professional Accountants***. The MIPA is required to adopt and enforce a code that is consistent with and meets all the minimum requirements of the IESBA Code of Ethics. While MIPA has a Code of Ethics for its members, it has not issued specific guidance to assist with the implementation of the code.
- (e) **SMO 5, *International Public Sector Accounting Standards and other PSC Guidance***. The MIPA has no capacity or mechanism to disseminate IPSAS and related guidance although some statutory bodies are required to report in terms of IPSAS.
- (f) **SMO 6, *Investigation and Discipline***. The MIPA does not have a disciplinary committee and would need to develop one in accordance with SMO 6, to investigate and discipline its members for misconduct and breach of the professional standards.
- (g) **SMO 7, *International Financial Reporting Standards***. Although the IASB standards are adopted, there are no processes that provide for disseminating guidelines to assist MIPA members with the implementation of the standards.

28. The Financial Reporting Council was set up by the Financial Reporting Act to regulate the accountancy profession, set accounting and auditing standards, and monitor financial reporting for public interest entities. It is responsible for approving firm names and licensing auditors. It operates through the following panels consisting of FRC employees and other suitably qualified independent persons appointed by the Council:

- (a) *Standards Review Panel*: responsible for developing, renewing, improving, and adopting financial reporting and auditing standards

- (b) *Financial Reporting and Monitoring Panel*: responsible for reviewing, analyzing, and identifying any failure by public interest entities to comply with financial reporting standards, codes or guidelines issued under the Financial Reporting Act.
- (c) *Audit Practice Review Panel*: responsible for conducting practice reviews of licensed auditors and audit firms
- (d) *Enforcement Panel*: considers and takes action on the findings and recommendations referred to it by the Financial Reporting Monitoring Panel, the Practice Review Panel, or the Financial Reporting Council.

29. The Government largely funds the FRC with minimal funds coming from the profession (fees for practice review and fines). Although this enhances its independence from the profession, this funding arrangement leaves the FRC with limited financial resources to enable it to carry out its functions effectively. This is partly reflected in the current difficulties encountered in attracting and retaining adequate numbers of staff with appropriate level of skills and experience. Because of staff constraints, FRC staff does cross-panel work rather than having staff designated to specific panels.

30. The FRC has contributed to improving financial reporting in Mauritius. Stakeholders indicated to the ROSC team that, since establishment of the FRC, there is a positive outlook on the quality of financial reporting. The FRC operates through a secretariat with a staff compliment of 14 and applies internationally based methodologies to perform financial statement reviews and audit quality reviews. The FRC informally collaborates with various sector regulators like BOM and FSC. It is noted that formalizing such collaboration would positively impact on effectiveness of the arrangement. The ROSC team noted that the Enforcement Panel has not yet been constituted, but the Council is effectively carrying out its functions. In addition, most of the members of the panels are mainly from the auditing firms: an issue that is likely to impact on objectivity of the panel. The FRC does not have sanctions for senior managements of entities that fail to comply with financial reporting requirements.

31. Requirements for licensing an auditor have minimal emphasis on monitored practical training. The current requirements for a person who seeks to be granted a license include; (a) a practicing certificate issued by MIPA, (b) documentary evidence of passing a professional accountancy examination with auditing as one of the subjects, (c) at least 48 weeks (240) days of audit work performed before or after becoming a member of a professional accountancy body, provided at least 12 weeks there from were spent on statutory audit or similar work, (d) 2 years work experience after becoming a member of a professional accountancy body, with at least 24 weeks spent on statutory audit work, (e) Satisfactory experience in (i) practice management, (ii) audit quality control and control of audit work, and (iii) documentation and maintaining quality assurance.; For assessment of experience gained by a prospective statutory auditor before being licensed, the FRC uses a questionnaire which is sent to all the referees of the

applicant to establish the referee's breadth of awareness of the past working experience of the applicant.

C. Professional Education and Training

32. Some tertiary institutions deliver academic courses leading to entrance to professional accountancy qualifications, such as ACCA, ICAEW, and CIMA. In this context, there is close direct collaboration between tertiary institutions and specific professional accountancy body as exemplified by the cooperation between the University of Mauritius and ACCA. On the other hand, there is no collaboration between MIPA and tertiary institutions. The academic courses at tertiary institutions that offer accountancy programs include IFRS and ISA in their curricula. Some universities have modules in public sector and ethics training.

33. The individual professional accounting bodies (ACCA, ICAEW, CIMA) administer the professional education and examinations for their respective qualification. The MIPA does not administer any professional education and examinations since there is no local (Mauritius) professional accountancy qualification.

34. The individual professional accounting bodies administer practical experience requirements with variation among them. The requirements are part of the respective qualification process among the professional bodies. The MIPA and FRC do not have oversight responsibilities on the practical training aspects to ensure that there is adequate monitoring by the professional bodies. The stakeholders in the Mauritius accounting community indicated that monitoring by the parent body is not always effective.

35. The professional accounting bodies administer CPD courses for their respective members. Professional bodies are expected to monitor compliance and to discipline their members for noncompliance; the extent to which the professional bodies do monitor and discipline their members varies. The MIPA currently has no mechanism of ensuring effectiveness of monitoring continuing professional development by the various professional accounting bodies.

D. Setting Accounting and Auditing Standards

36. Mauritius has adopted all current IFRS, IPSAS, and ISA without amendment. A proposal has been submitted to introduce IFRS for SMEs without amendment for qualifying companies. The MIPA is empowered to administer a Code of Professional Conduct and Ethics for Professional Accountants, which is consistent with and contains all the principles of the IFAC Code of Ethics for Professional Accountants. Therefore, all standards and codes affecting the financial reporting of the significant entities in Mauritius are adopted without amendment. The FRC is responsible for the ongoing standard-setting mechanisms (i.e., reviewing exposure

drafts, obtaining comments on exposure drafts, adopting new and revised standards, and disseminating them to the market).

37. Financial Reporting Standards issued by the FRC are the only national standards being set in Mauritius. These are applicable to very small statutory bodies listed in Part II of the Second Schedule of the Statutory Bodies (Accounts and Audit) Act. These are simplified versions of the relevant sections of IFRS for SMEs and are aimed at ensuring that small statutory bodies report in terms of a simplified but nationally recognized accounting framework. The Financial Reporting Council develops the Financial Reporting Standards along with a team comprising representatives of audit firms, Registrar of Companies, public interest entities, and universities. The Financial Reporting Standards are issued following a consultative due process that includes inviting public comment on the drafts.

E. Ensuring Compliance with Accounting and Auditing Standards

38. Most of the recommendations made in the 2003 ROSC A&A relating to application of accounting and auditing standards have been implemented and led to various legislative changes. New legislations were enacted and significant amendments made to existing legislation. Rules and regulations, binding methodologies, and guidelines were introduced in regulated sectors like listed companies, public interest entities, banks, non-banking financial institutions, and insurance companies. Changes were also made affecting reporting requirements of statutory bodies and unlisted companies.

39. The Registrar of Companies checks financial statements for compliance with the Companies Act requirements. Public companies and big private companies have the same financial reporting requirements under the Companies Act and are required to comply with IFRS and audited in terms of ISA. The Registrar of Companies checks financial statements of public companies and big private companies for compliance with IFRS in presentation and disclosure. At the time of the 2003 ROSC A&A, the Office of the Registrar of Companies lacked qualified staff to check financial statements for compliance with IFRS. Suitably qualified and experienced staff members have now been recruited and a data system put in place to record information in company's annual returns. The Registrar prosecutes companies that do not comply after issuing warnings. The ROSC team was informed that there is continued need for staff training in all aspects of IFRS and IFRS for SMEs.

40. The Financial Services Commission has been strengthened to better regulate non-banking financial institutions (including insurance companies), global businesses, and securities markets. The FSC reviews auditors' reports of non-banking financial institutions and may act on adverse reports. Auditors of non-banking financial institutions have an obligation to disclose to the FSC if they come across any irregularities. The FSC examines the audited financial statements of insurance companies and assesses the appointment of auditors and may

require an auditor of an insurance company to carry out an extended scope audit or any other examination and submit a respective report. The Commission does not differentiate accounting requirements and prudential regulatory requirements for insurance companies. The Securities Act requires the auditor to report in writing to the FSC on matters of non-compliance with financial reporting standards. For insurance companies and the stock market, the FSC does not approve an audit firm unless it is satisfied that the firm has adequate experience, expertise, and resources to carry out the audit. The Securities Act requires the Commission to keep a register of reporting issuers that indicates whether a reporting issuer is in default of disclosure requirements. The FSC has an Accounting Standards Committee that reviews financial reports prepared by issuers and monitors compliance with IFRS disclosure requirements. In terms of full compliance with IFRS, the Commission relies heavily on the work done by statutory auditors and the FRC. The FSC is a member of the International Organization of Securities Commissions (IOSCO), which enables it to access latest good practice in the regulation of securities markets. Sanctions of a fine or termination of appointment of auditor is imposed on reporting entity, management, directors, and auditors for non-compliance. The FRC, FSC, and the Department of Public Prosecutions can impose sanction as authorized by the relevant legislation.

41. The Stock Exchange is empowered to carry out activities to monitor and enforce financial reporting compliance by listed companies. The Stock Exchange checks for compliance with listing rules, which include compliance with IFRS. For compliance with IFRS, it relies on the work of statutory auditors and the FRC. The Council does not regulate listed companies that are not public interest entities (with turnover below Rs200 million). Sanctions for non-compliance include warnings, referring the company to FSC, suspension, or withdrawal of company from the listed companies.

42. The Bank of Mauritius is empowered to carry out activities with regard to monitoring and enforcement of financial reporting by banks and similar financial institutions. The BoM supervisors check financial statements of banks for IFRS compliance and do not place complete reliance on the work of statutory auditors and the FRC. The supervisors do their own detailed checks and actively collaborate with statutory auditors and the FRC as part of the review process. The collaboration between BoM supervisors and FRC is not formalized. The BoM supervisors hold bilateral meetings (together with statutory auditors), and once a year a tripartite meeting (BoM, statutory auditors, and management) to discuss bank performance, risk management, internal and external audit findings, and governance issues. The BoM audit partners are required to rotate every 5 years. Sanctions of a fine or jail term are imposed for failure to comply with the financial reporting requirements of the bank. BoM may also request restatement of financial statements in cases of non-compliance with reporting requirements.

43. The Financial Reporting Council regulates the accounting and auditing profession by ensuring compliance with accounting and auditing standards. The FRC has well-documented quality control procedures and processes, which are followed in practice. Because of

this, the results of its work were relied upon in assessing compliance with accounting and auditing standards. It started reviews in 2008 and carries out its monitoring activities through 2 of its 4 panels:

- (a) ***Audit Practice Review Panel*** sets minimum standards of auditor performance. It carries out external quality reviews of audit practices and licensed individual practitioners. Emphasis is placed on large audit firms, auditors of public interest entities, and the time lapse since last review. The selection methodology is therefore both risk based and cyclical. A review can also be initiated by a complaint against a licensed auditor. The reviews are a combination of desk reviews and on-site visits. The reviews focus on checking compliance with ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and ISA 200-810, *Audits of Historical Financial Information*. Selection of files to be reviewed and the reviews are done by FRC staff, most of whom are qualified accountants. The results of the reviews are posted on the FRC website and published in a quarterly bulletin with no names. The FRC is a member of the International Forum of Independent Audit Regulators (IFIAR), which gives it access to up-to-date good practice in international audit regulation.
- (b) ***Financial Reporting Monitoring Panel*** provides oversight on financial reporting by public interest entities through checking compliance with accounting standards. The monitoring focuses on “matters of substance”¹¹ for follow up and/or comment. The FRC technical staff handled the initial detailed reviews of financial statements of selected entities. The FRC chief executive officer is involved in quality reviews of reports prepared by FRC staff. If there are no non-compliance issues found, a summary of the review report is sent to the Financial Reporting Monitoring Panel, at which time the Council is informed. Where non-compliance issues are identified by the review and the entity agrees to take corrective action, the entity is given 30 days to restate the financial statements. After satisfactory restatement, a summary of the review report is sent to the Panel, and the Council is informed. Where a review identifies non-compliance issues and the entity refuses to take corrective action, views of the Panel are sought and the Council is informed for the final decision that is implemented.

IV. ACCOUNTING STANDARDS AS DESIGNED AND PRACTICED

44. An assessment of compliance with accounting standards is based on the results of financial statement review done by the FRC, the results of the reviews done by the Registrar of Companies, and the review of financial statements by the ROSC team. These review findings are discussed below.

¹¹ “Matters of substance” (as defined) include (a) comments in auditors’ report; (b) large unexplained changes in account balances between comparative periods; (c) changes in accounting policies, and accounting policies in complex areas like asset valuation, revenue recognition, valuation reserves; (d) Non-recurring items including discontinued operations; (e) disclosure related to subsidiaries, associates and other related parties; (f) recognition and disclosure of contingencies; and (g) information from other independent sources.

(a) Financial statement review by FRC; The methodology followed from selection of an entity to be reviewed up to reporting to Council was assessed and found to be satisfactory in the context of the focus on “matters of substance” as defined. The standards most commonly not complied with as identified by the Financial Reporting Monitoring Panel are (a) IAS 1, *Presentation of Financial Statements*; (b) IFRS 7, *Financial Instruments: Disclosure*; (c) IAS 18, *Revenue* (particularly measurement in cases where discounting is supposed to be used), and (d) IAS 38, *Intangible Assets*.

(b) Review by the Registrar of Companies. This review was conducted as part of checking annual returns filed by public companies and large private companies. Staff in the Office of the Registrar of Companies checked audited financial statements for compliance with accounting standards. The main areas of non-compliance identified were IFRS 7, *Financial Instruments: Disclosure*; IAS 1, *Presentation of Financial Statements* (mainly with regards to accounting policy disclosures relating to accounting estimated, judgments etc.); IAS 17, *Leases*; and IAS 19, *Employment Benefits* (inadequate disclosure).

(c) Review of financial statements by the ROSC team. The financial statements of 26 entities — 10 quoted companies, 5 banks, 2 insurance companies, 4 unquoted large private companies, and 5 large statutory business entities — were selected for review mainly concentrating on presentation, disclosure, and industry-specific issues. No significant problems were noted in the financial statements of quoted companies, banks, and insurance companies. Major issues identified include the following:

- Two sets of statutory bodies financial statements had property plant and equipment stated at valuation but the following were not disclosed: (i) whether an independent valuer was involved, (ii) methods and significant assumptions applied in estimating fair values, (iii) for each class of revalued assets, the carrying amount that would have been recognized had the assets been carried at cost, and (iv) how the fair values were determined.
- The financial statements of 1 company with finance leases did not disclose the total of future minimum lease payments at the end of the reporting period for each of the following periods: (i) not later than 1 year, (ii) later than 1 year and not later than 5 years, and (iii) later than 5 years.
- There was a case where factors used to identify reportable segments were not disclosed.
- There were a number of cases where accounting policies were documented for items that were not in the financial statements.
- Accounting policies for revenue recognition were not disclosed in 3 cases. Additionally there was a case where a material figure of “Other Income” with a very small comparative figure was not supported by a note of explanation.

(d) **Review of financial statements by the FSC;** The Commission checked financial statements selected on the basis of their own internal risk-rating mechanisms. They mainly checked for compliance with IFRS. The main findings were (a) for insurance companies, common cases of disclosures from templates and standard disclosures that are not relevant for the entity; (b) incorrect application of consolidation principles; and (c) some companies fail to meet deadlines.

(e) **Review of financial statements by Bank of Mauritius.** The main areas of noncompliance relate to (a) fair value accounting and correct application of some complex instruments like derivatives, and (b) computation of provisions.

(f) **Review by two commercial banks.** Review of financial statements of corporate clients by two selected commercial banks, the State Bank of Mauritius and Mauritius Commercial Bank, Ltd., revealed some errors related to (a) fair value because of lack of depth in the market, and (b) impact of ever-changing IFRS on compliance by clients.

V. AUDITING STANDARDS AS DESIGNED AND PRACTICED

45. Assessment of compliance with auditing standards is based on the review of work done by the FRC on practice reviews and comments made by some practicing auditors. The ROSC team performed an assessment on FRC practice review methodology (on the basis of selecting a firm for review through its issuance of the review report). This was done for both the firm reviews (quality control) and engagement reviews. Walk-through checks for selected files were carried out to ensure compliance with documented methodologies. The team concluded that the methodology was well designed and adequate and that findings of FRC could be relied on. The Council normally takes appropriate action on firms where results indicate quality control weaknesses. The main findings of the FRC reviews are as follows:

(a) **Quality control issues**

- **Small and medium-size practices (SMPs).** Some SMPs do not have documented quality control policies and procedures, and quality control was completely missing. For those SMPs that have developed and documented quality control policies and procedures, the monitoring aspect of the standard was not being complied with.
- **Large firms.** Generally the large firms have well-developed systems of quality control based on ISQC 1 and are being implemented to a satisfactory level.

(b) **Engagement file issues.** The main areas of noncompliance by both SMPs and large firms are ISA 230, *Audit Documentation*. Inadequate documentation is a major problem on most files.

46. SMPs face challenges in keeping up to date with all the changes to existing standards and new standards. Although the standards, pronouncements, and related implementation guidelines are readily available, most SMPs do not have in-house capacity to keep pace with the changes.

VI. PERCEPTIONS ON THE QUALITY OF FINANCIAL REPORTING

47. The general feedback from stakeholders is that the quality of financial reporting has improved significantly since the 2003 ROSC report. This is further supported by the fact that a number of regulators place reliance on audited financial statements without performing their own independent checks. However, other regulators do not perform independent checks on audited financial statements mainly because of lack of staff with IFRS skills and experience in their own structures. Quality of financial reporting at the time of the 2003 ROSC was generally rated as poor. There was a general observation that financial reporting would benefit from the setting up of a strong regulatory regime combined with an effective monitoring and enforcement mechanism.

48. There is a general market perception that the big network firms produce better audits than the SMPs. Consequently there is better (market) acceptance of financial statements audited by the big network firms than those audited by SMPs.

49. Some stakeholders felt that the constant changes in existing standards and increased issuance of new standards are compromising the quality of financial reporting. They indicated that the high rate of changes is creating a knowledge gap for preparers and auditors. Subsequently, this situation adds expense in terms of needed training that could help to close the gap. This in turn has increased instances of noncompliance, ultimately lowering the quality of reporting.

50. A number of firms reviewed commented that most of the findings from the review by FRC related to checklist-based observations focused on presentation and disclosure. They commented that very few cases relating to recognition and measurement are brought up. It was generally felt that there is evidence for a need to improve the experience base of the FRC technical staff in both practice reviews and financial reporting monitoring. They however appreciate that FRC has done a good job given the short time it has been in existence. They also expressed confidence that it will continue to improve and further contribute in ensuring complete compliance with applicable standards. However, they expressed the need to strengthen the Standard Review Panel to be proactive in participating in international standard-setting bodies, especially in coordinating and submitting Mauritius-specific comments on exposure drafts.

VII. POLICY RECOMMENDATIONS

51. The principle-based policy recommendations outlined in this section are based on the result of the review and discussion held with stakeholders. They are formulated based on international good practice and take into account the country context. Implementation of the recommendations will contribute to further strengthening of corporate financial reporting practices. This will support the country to meet its revised economic objectives and plans by further improving the investment climate. To implement the ROSC recommendations, the Government and country stakeholders should develop a country action plan that incorporates specific activities to be undertaken. Commitment from the Government, National Steering Committee, and other stakeholders is critical. The development partners should be engaged to support implementation of the action plan with financial and technical assistance.

52. The main policy recommendations can be summarized by the following points: (a) supporting MIPA (in partnership with a twinning partner) to strengthen its technical, institutional and financial capacity that are necessary to meet its legal responsibilities and IFAC SMO requirements; (b) supporting MIPA to develop and offer (in partnership with a IFAC professional body and University of Mauritius) an internationally recognized local accounting professional qualification that should have more emphasis on monitored practical training and public sector subjects; (c) amending the FRA to enhance definition of *public sector entity* to incorporate both quantitative and qualitative factors; (d) amending the Companies Act to require medium-size companies within a defined threshold to apply IFRS for SMEs and also require appointment of a registered auditor where an entity with revenue of less than Rs50 million opts to conduct an audit; (e) strengthening the staff capacity at FRC by engaging (potentially) retired partners to mentor the staff; and (f) increasing support to accountants and auditors to enable them to effectively implement adopted international accounting, auditing, and ethics standards.

A. Statutory Framework

53. The Companies Act 2001 and Statutory Bodies (Accounts and Audit) Act 1972 should be revised to reflect reporting requirements for medium-size private companies and statutory bodies, respectively. The current requirement for private companies with turnover Rs50 million to Rs200 million to report in terms of full IFRS are placing undue compliance burden and cost to these entities. The IFRS for SMEs is therefore considered more appropriate for these entities. The ROSC team proposes that a 3-tier reporting framework for both companies and statutory bodies should be adopted (Table 3). The Act should give the mandate to a designated body, for instance the Registrar of Companies, to determine the threshold for the types of companies that should adopt the different reporting frameworks.

Table 3: Proposed 3-tier reporting frameworks

<i>Companies</i>	<i>Reporting framework</i>	<i>Statutory bodies</i>	<i>Reporting framework</i>
1. Public interest entities (i.e., public/listed companies and large private companies, banks, non-banking financial institutions, and insurance companies)	<i>Current and proposed;</i> Full IFRS	1. Public interest entities statutory bodies (listed in First Schedule of Financial Reporting Act)	<i>Current and proposed;</i> Full IFRS
2. Private companies – medium sized (Defined threshold)	<i>Current:</i> Full IFRS <i>Proposed:</i> IFRS for SMEs	2. Medium-sized statutory bodies (listed in Part II of First Schedule of Statutory Bodies (Accounts & Audit) Act	<i>Current:</i> IPSAS <i>Proposed:</i> IFRS for SMEs
3. Small private companies (Defined threshold)	<i>Current and proposed:</i> Financial summary	3. Small-size statutory bodies	<i>Current and proposed:</i> Financial Reporting Standards issued by FRC

54. The current definition of “public interest entity” should be revised in the Financial Reporting Act. The current definition leaves out some listed companies. The revised definition should be broad enough to include all entities that have significant public interest. All companies with publicly traded securities must be included. The definition must include both qualitative and quantitative parameters.

55. The Companies Act should be amended to require small private companies to appoint qualified and registered auditors if they opt to have their financial statements audited. The Companies Act must always insist on a qualified auditor, registered with MIPA and licensed by the FRC whenever an audit is required or to be undertaken. Currently, the Companies Act provides that when a small private company opts for an audit, the auditor need not be qualified. The Act should also give either of the following options where audit is not done: (a) issuance of an accountant’s report that gives some comfort but not assurance, or (b) a review of financial statements done by a qualified, registered, and licensed auditor. The review should be done in terms of International Standards on Review Engagement (ISRE): it gives limited assurance.

56. The Financial Reporting Act should be amended by extending the sanctions available to the FRC for senior managers and those charged with governance in public interest entities that fail to comply with financial reporting requirements. Currently, the Act

imposes sanction on the public entity only for failure to comply with financial reporting requirements. Sanction must also be extended to the directors, chief executive officer, and finance director, or their equivalent.

57. The FRA should be amended to require all partners in a firm, which intends to provide professional services, to be registered with MIPA. Currently, a firm needs at least half of its partners to be registered with MIPA for it to be registered as an MIPA member firm and offer professional services. This should be amended to require all partners to be members of MIPA for a firm to be registered.

58. The FRA should be amended to require members qualifying under foreign professional accountancy bodies to write and pass local tax and company law before being registered as professional accountants in Mauritius. This could be done by engaging the foreign professional bodies and request them to incorporate Mauritius Company Law and tax variant papers in their qualification. In addition, MIPA could be required to set up and administer such examinations. This will ensure that professionals practicing in Mauritius have adequate knowledge of local tax and company law.

B. The Profession

59. The MIPA should be strengthened to ensure that it achieves its legislative-stipulated mandate and uplift the profile of the accountancy profession. The MIPA should collaborate with a twinning partner, a strong IFAC member body that would give support in achieving the following:

(a) Develop a national professional qualification. The MIPA, a strategic twinning partner (an IFAC member body), and the University of Mauritius should partner to develop an internationally recognized qualification (one with reciprocity agreement with other international professional bodies). The qualification (e.g., Chartered Accountant–Mauritius) should be designed to include monitored practical experience, and private and public sector topics. Introduction of the qualification will build up a student base for MIPA, which will contribute to increasing its revenue base and ownership. In addition, the initiative would contribute in developing country skills base, a key strategic objective of the Government, and also offer an opportunity to a wider number of students to enroll to be professional accountants in the country especially those from disadvantaged families who are currently not able to afford the internationally based professional qualification. Ultimately, local qualification would contribute in building country brand.

(b) Develop a strategic plan. The plan should stipulate the objectives and activities that should be undertaken on a short-, medium-, and long-term basis. The activities should focus on creating value for MIPA members and increasing membership and services to members and

public. The development of the strategic plan, undertaken by MIPA, should be coordinated with the IFAC Compliance Program Action Plan and with assistance from IFAC Member Body Development Department.

- (c) ***Design a governance structure for MIPA.*** An appropriate, well-represented governance structure and, in addition, committee structures (e.g., discipline committee, technical committees, etc.) are necessary to achieve different MIPA objectives. Along with the design, terms of reference should be developed. In developing the governance structure, it is recommended to consult the current version of “Good Practice Guide on Establishing and Developing a Professional Accountancy Body” issued by IFAC Professional Accountancy Organization Development Committee.
- (d) ***Strengthen the MIPA secretariat.*** Along with the design of a structurally sound secretariat, support should be factored into the design to ensure recruitment and training of suitably qualified staff.
- (e) ***Improve financial sustainability.*** The MIPA should be assisted with broadening its revenue sources in order to improve its financial viability.
- (f) ***Assist in achieving IFAC full membership.*** The MIPA should be supported to fully implement the 7 SMOs in order to attain full IFAC membership. The MIPA should collaborate with the Financial Reporting Council in activities relating to standard-setting, adoption, and implementation. It should spearhead the development of national professional accountancy education and training and establish effective mechanisms for investigating and disciplining its members.
- (g) ***Offer local exams for tax and company law.*** The exams for tax and company laws should be offered to members who have sat for foreign professional qualifications and who apply to be members of MIPA.

C. Professional Education and Training

60. The MIPA and the FRC should increase requirement relating to monitored practical training when registering and licensing auditors. The different professional bodies offering accountancy training have varied practical training requirements, which are creating a knowledge gap. To address the gap, the MIPA and FRC should stipulate stringent requirements relating to monitored practical training that professional bodies should comply with. Any professional member wishing to be registered as an accountant and auditor should provide proof of complying with such requirements.

61. The FRC should have rules that are met by auditors who want to be readmitted after having been out of public practice for more than say 3 years. The rules should stand in addition to the requirements for obtaining a licence to practice as an auditor (e.g., require a member to provide evidence of continuing professional development and also to be interviewed by a panel to assess his/her audit knowledge). This will ensure the FRC is satisfied that returning auditors after an absence from practice still have the required competences, knowledge, and skills to discharge their public interest responsibility.

62. Implementation guidelines should be developed for new standards and changes to existing standards. Once the MIPA secretariat has been strengthened, it must develop implementation guidelines for new standards and changes to existing standards. There should be awareness sessions for the profession, particularly SMPs with regards to the familiarization with the IFAC-issued *Guide to Using International Standards on Auditing in the Audits of Small and Medium-Sized Entities*. This will be relevant and benefit both SMEs and small and medium-size practices once the use of IFRS for SMEs has gone through the legal process. The MIPA must include this in its CPD program and generally increase the number of CPD programs it runs.

D. Ensuring Compliance with Accounting and Auditing Standards

63. The FRC should formalize its collaboration process with other regulators. There is a significant amount of informal collaboration taking place between the FRC and the various sector regulators. The collaboration should be formalized in all cases through legal or enforceable regulatory mechanisms for increased effectiveness and further improve compliance in financial reporting. In formulating the collaboration, FRC staff should be expected to provide IFRS technical expertise to the review teams.

64. The FRC should consider recruiting retired audit partners, preferably on a part-time basis. The experience of these human resources will be very useful in practice review and financial reporting monitoring panels and will contribute in mentoring Financial Reporting Council staff members.

65. The FRC must establish an Enforcement Panel as required by the Financial Reporting Act. The enforcement panel has not yet been established, and the Council has been carrying out its functions. To ensure effective administration of the Act in terms of audit practice reviews and financial reporting monitoring, the FRC must establish the enforcement panel constituted by suitably qualified officials. The Financial Reporting Act requires the establishment of an enforcement panel to take action on cases referred to it by the Audit Review Panel, Financial Reporting Monitoring Review Panel, or the Council.

66. The Financial Reporting Council should, in the long term, engage independent professional members on the panels. To enhance independence of the findings of the panels,

the FRC should initiate a process to identify and invite officials from other organizations, other than auditing firms, as appointees to serve on the panels in the future. The ROSC team acknowledges the process used to appoint the current members, most of whom are from the auditing firms where few people are employed with technical skills in accounting and auditing standards.

67. The Financial Reporting Council and MIPA should proactively engage and influence international standard-setting bodies. To ensure that Mauritius-specific issues are considered when developing international standards that are applied in the country, the FRC and MIPA should participate and contribute to international standard-setters. Such contribution should mainly be through submitting comment letters on exposure drafts or discussion documents issued by standard-setters, and/or nominating a representative to directly participate in work groups or committees of the standard-setters. The FRC and MIPA could collaborate with other countries in the region to issue comment letters.