

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

ACCOUNTING AND AUDITING

April 2, 2003

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Executive Summary

With enactment of the Companies Act 2001, Mauritius mandated the use of International Accounting Standards (IAS) and International Standards on Auditing (ISA) for all companies other than small private companies. The small and medium enterprises that may not need statutory audit in many industrialized countries are required to have an ISA audit. Mauritius does not have a professional accountancy body. About two-thirds of the accountants in public practice obtained professional qualification in Mauritius through the Association of Chartered Certified Accountants (ACCA) in the United Kingdom; and the remaining Chartered Accountants qualified in the United Kingdom and other countries.

Effective mechanism is lacking for enforcing compliance with accounting and auditing standards. The risk exists for undetected accounting manipulation, misrepresentation of financial statements, and departures from established accounting and auditing requirements. In the recent past, some highly publicized corporate financial irregularities, which were not reflected in the audited financial statements, have given rise to serious discussions about audit quality and the need for a regulatory framework of the auditing profession.

Immediate steps are needed for the establishment of a professional accounting body and enactment of new legislation dealing with accounting, auditing, and financial reporting. It is envisioned that a new act would mandate the use of IAS and ISA for the public-interest entities. This will bring many large-size enterprises that are not companies—partnership, société, and state-owned enterprise—under the purview of IAS and ISA requirements and relieve many small and medium enterprises from the obligation of IAS financial reporting and ISA audit.

The policy recommendations of this report specifically focus on strengthening the monitoring and enforcement arrangements through a proposed Financial Reporting Council. This body will develop and disseminate guidelines on international accounting and auditing standards, monitor compliance with financial reporting requirements, conduct practice review of the auditors and audit firms, and enforce actions against infractions. For expediting the implementation of IAS and ISA, there is a need for bolstering professional education and training arrangements.

This report was prepared by a team from the World Bank on the basis of the findings from a diagnostic review carried out in Mauritius in July and December 2002. The staff team comprised M. Zubaidur Rahman (OPCFM), Iraj Talai (AFTM) and Frédéric Gielen (ECSPS). The review was conducted through a participatory process involving various stakeholders and led by the country authorities.

I. INTRODUCTION

1. This report is part of the World Bank and International Monetary Fund joint initiative on Reports on the Observance of Standards and Codes (ROSC). The ROSC–Accounting & Auditing review process involved an assessment of local accounting and auditing standards and actual practices and analysis of effectiveness of the mechanisms for ensuring compliance with the formal standards. The review used a diagnostic template developed by the World Bank to facilitate a self-assessment by a National Steering Committee established by the Minister of Economic Development, Financial Services, and Corporate Affairs. The self-assessment results, complemented by the findings of a due diligence exercise conducted by World Bank staff, were used in preparing this report.

2. Mauritius has a population of approximately 1.2 million and covers 719 square miles (1,860 square kilometers). In early 2003, the gross domestic product per capita was about US\$3,900. There were 44 companies (including one authorized mutual fund and three listed debentures) listed on the Official Market of the Stock Exchange of Mauritius with a total market capitalization of about US\$1.50 billion. The financial institutions in the country consisted of 10 commercial banks and 13 offshore banks, 23 insurance companies, 10 investment companies and 6 unit trusts. The domination of a few families is predominant in the ownership structure of major companies in Mauritius. Many family-owned companies list their stock in response to tax and other incentives provided by the government. In the recent past, there has been limited trading on the Stock Exchange of Mauritius, the only exchange in the country.

3. Growth of the global business sector (offshore companies) is an important aspect of the Mauritius economy. The fiscal framework has contributed significantly in establishing Mauritius as a preferred intermediary for investments in emerging economies, such as India and China. The global business companies registered in Mauritius are divided into two regulatory categories: Category-1 license holders are permitted to carry out a wide range of business activities, including financial services within Mauritius; and Category-2 license holders are neither allowed to conduct business with residents of Mauritius nor conduct any dealings in Mauritius currency. The Category-1 companies are subject to a greater degree of regulation than the Category-2 companies, including the requirement to file audited financial statements.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

4. **Financial reporting requirements are currently in transition to full compliance with International Accounting Standards (IAS).**¹ The new Companies Act 2001, which came into effect on December 1, 2001, requires the issuance of IAS

¹ Within this report, International Accounting Standards refer to both International Financial Reporting Standards (IFRS) and related interpretations issued by the International Accounting Standards Board, and the standards interpretations issued by the Board of the International Accounting Standards Committee.

financial statements by all, except small private limited liability companies,² from the accounting year commencing before December 1, 2001. However, by virtue of an Order under S.224 (1) of the Companies Act 2001, the Registrar authorized companies whose accounting year commenced before the effective date of the Act, to prepare and present financial statements in accordance with Mauritius Accounting Standards (MAS). For prior periods, the Mauritius Accounting and Auditing Standards Act 1989 was in force and had to be complied with.

5. **The International Standards on Auditing (ISA) have been made mandatory in Mauritius.** The Companies Act 2001 has required compliance with ISA since December 1, 2001 (in practice, for the audit of 2001 financial statements). For prior periods, 11 international standards issued by the International Federation of Accountants (IFAC) were adopted as local auditing requirements.

6. **Under the Companies Act 2001, all public and private companies,³ except small private companies, should present company's own and consolidated financial statements in accordance with IAS.** The Act applies to domestic and global business companies (i.e., offshore companies). However, the Category-1 license holders are authorized to prepare their financial statements in accordance with either IAS or any other internationally accepted accounting standards. The Category-2 license holders are exempted from preparing and filing their financial statements. The Act also applies to investment companies that are incorporated to carry out investment activities. The Act does not apply to sociétés, unit trusts regulated by the Unit Trusts Act 1989, and businesses conducted under the Trust Act 2001; in practice, these entities are not required to follow any accounting and reporting standards, rules, and regulations.

7. **The Companies Act 2001 gives the Registrar of Companies the authority to exempt a company or a group of companies from certain reporting and filing requirements.** For example, the Registrar is authorized to exempt the board of a company or a group of companies from preparing IAS legal entity and/or consolidated financial statements, and filing its financial statements. The Registrar also has authority to approve a company's presentation of its financial statements in a foreign currency.

8. **Under the Companies Act 2001, all public and private companies, except small private companies and Category-2 global business license holders, should have their financial statements audited in accordance with ISA.** The legal requirements on accounting and auditing impose expensive financial reporting burdens on some small private enterprises/companies, and at the same time may allow many large-size enterprises to avoid high quality accounting and financial reporting. On the one hand, a private company with an annual turnover of approximately US\$333,900 is subject to IAS and ISA financial reporting requirements; and on the other hand, many large-size sociétés

² Small private limited liability companies are companies with less than Rs.10 million (Mauritius Rupees) annual turnover.

³ A private company, as defined within the Companies Act 2001 (section 270), has less than 25 shareholders (exclusive of company employees) and does not offer subscription to the public for its equity or debt securities. Other restrictions apply.

and many economically significant state-owned business enterprises are not subject to any internationally comparable accounting and auditing requirements. The size limit for mandatory application of IAS and ISA seems to be much lower than that in many other jurisdictions. As a result of this, a small Mauritian enterprise will continue to face significantly greater financial reporting burdens than small and medium enterprises (SMEs) in many industrialized countries.

9. **The Banking Act 1988 and the Insurance Act 1987 have yet to be amended to conform to the accounting requirements set by the Companies Act 2001.** The guidelines on preparing bank financial statements issued by the Bank of Mauritius does not differentiate between accounting standards for external financial reporting and regulatory reporting. In practice, all banks treat the Bank of Mauritius guidelines as mandatory accounting requirements for general-purpose financial statements. This results in compliance issues where regulatory requirements conflict with IAS; for example, a typical standard where such differences arise is IAS 39, *Financial Instruments: Recognition and Measurement*. The Bank of Mauritius guidelines mandated the use of a loan loss provisioning method, which may not end in the same results as when complying with IAS 39. While the International Accounting Standards Board (IASB) continues over the next few years to develop a standard focusing on the uniqueness of insurance business, Mauritius should create its own rules regarding the accounting treatment for insurance contracts.⁴ A Pensions Scheme Bill and an Insurance Bill are under preparation; these are expected to be presented soon to the National Assembly.

10. **The Listing Rules 2001 of the Stock Exchange of Mauritius is being updated in line with the requirements of Companies Act 2001.** The Listing Rules require that listed companies prepare and present their financial statements in accordance with the issuer's national law and, in all material respects, with the MAS or IAS. When finalized, the review of Listing Rules will amend certain sections of the financial reporting requirements to ensure consistency with the Companies Act 2001.

11. **At each annual meeting, the shareholders appoint an external auditor (individual or audit firm).** The Companies Act also provides for the automatic reappointment of auditors. Furthermore, the directors should ensure that the external auditor has complete access to accounting records and other documents. Failure to comply may give rise, upon conviction, to a fine not exceeding Rs50,000 (about US\$1,700) for every director. According to the Companies Act 2001, a company shall not remove an auditor without the outgoing auditor being given a reasonable opportunity to comment on the appointment of a new auditor. These comments can be made to the shareholders either in writing or at the annual meeting.

12. **The Banking Act 1988 requires that the Central Bank of Mauritius accredit the auditors of banks.** The Central Bank requires background information before giving approval for accreditation. Under the Banking Act 1988, auditors have to state whether the balance sheet and profit and loss account present a "true and correct statement of the

⁴ As a matter of convenience, Mauritius may follow the same rules as in the United Kingdom or in the United States—it is good to follow the rules of one country, rather than mixing rules of various countries.

affairs of the bank,” whereas the Companies Act requires the auditor to give an opinion as to whether the financial statements give a true and fair view of matters to which they relate (i.e., the financial position, financial performance, and, where stated, the cash flow of the company). Currently the “true and correct” and “true and fair” requirements conflict. The forthcoming Banking Bill will amend the provision in the Banking Act to be consistent with the Companies Act. The external auditors of banks are required to issue an opinion on whether the accounting records and internal control system that they examined were established and maintained in accordance with the requirements of specific guidelines issued by the Bank of Mauritius. Another guideline, which requires external auditors of banks to report to the Bank of Mauritius any transactions or conditions that affect well being of the auditee, needs further clarification. In cases of noncompliance, the Bank of Mauritius may refuse to approve reappointment of the auditor.

13. Bank of Mauritius’s new guidelines on public disclosure of information that is addressed to the banks and external auditors may raise compliance and other implementation issues. There are contradictions between the financial reporting requirements set by IAS and the guidelines issued by the Bank of Mauritius. At present, the Bank of Mauritius is working on revising the guidelines to eliminate some of these contradictions.

14. Within three months of their financial year-end, the listed companies must issue a preliminary statement of annual results. The results must be agreed to by their auditors and must be published in at least two widely circulating daily newspapers. The preliminary statement must be provided to the Stock Exchange at the same time as publication. This practice may have a negative impact on the audit process. Indeed, international experience with earnings release prior to the completion of the audit (and hence the publication) has shown that auditors undergo increased pressure from the companies not to adjust the financial statements after the earnings release.

B. The Profession

15. The accountancy profession in Mauritius is not adequately organized. There is no local professional accounting body. Moreover, there is no national institution to regulate the activities of accountants and auditors. Accountants and auditors who obtained membership in foreign professional bodies carry out professional activities in the country. In December 2000, the Society of Chartered Accountants (Mauritius) and the Association of Chartered Certified Accountants (Mauritius Branch) developed a draft memorandum for creation of a Council of Professional Accountants. The memorandum distinguishes between “professional accountants” and “professional auditors.” According to the Companies Act 2001, members of the following professional bodies, individually or in partnership, can be appointed as statutory auditor of a company, other than a small private company:⁵

- Institute of Chartered Accountants in England and Wales,

⁵ Companies with less than Rs10 million annual turnover.

- Institute of Chartered Accountants of Scotland,
- Institute of Chartered Accountants of Ireland,
- Association of Chartered Certified Accountants, and
- Institute of Chartered Accountants of India.

In addition, the Minister of Economic Development, Financial Services, and Corporate Affairs may award “approved auditor” status to persons who have equivalent qualifications.⁶ Considering the fact that a national professional body can play critical roles in local implementation of international standards, codes, guidelines, and recommendations issued by the IFAC, urgent steps are needed to set up this body with necessary legal support.

16. In Mauritius, there are approximately 1,200 fully qualified members of the foreign accountancy bodies. All fully qualified members do not work as auditors. About 450 practitioners, under auspices of their respective professional bodies, have completed prerequisites for obtaining authorization to act as auditors—300 are members of the Association of Chartered Certified Accountants (ACCA) in the United Kingdom, and 150 are Chartered Accountants who qualified in the United Kingdom and other countries. Most of these practitioners provide services as partner/staff of about 50 firms, which include local members of the major international networks of accounting firms. All listed companies and financial institutions are audited by member firms of the major international networks.

17. Practicing auditors are expected to follow the code of ethics promulgated by their relevant professional bodies abroad. There has been no reported disciplinary action against auditors residing in Mauritius by their respective professional bodies. Although the Companies Act 2001 mandated the use of ISAs, there is no clear legal requirement on mandatory applicability of IFAC Code of Ethics for Professional Accountants. The absence of such a requirement may hinder authorities from enforcing action against violation of specific independence rules provided in the IFAC Code.

18. Although the auditors have unlimited civil liability, their exposure to litigation risk is not significant. There is no legal requirement for auditors in Mauritius to have professional indemnity insurance. However, practicing auditors are required by their individual professional bodies abroad to have professional indemnity insurance. In the recent past, some local members of international accounting firm networks have started to include in the engagement letter specific clauses which limits their exposure to liability. Regarding liability to the client for statutory audit, some firms set an upper limit of three times their audit fee.

19. Either individual auditors or audit firms can be appointed as statutory auditors. The individuals who possess necessary qualification, as per the provisions of

⁶ Examples of other qualifications which have been deemed “equivalent” by the Minister include U.S. Certified Public Accountants, Canadian, Australian, and South African Chartered Accountants, as well as membership in the Association of International Accountants of the United Kingdom.

Companies Act 2001, can sign the audit report. That individual auditor does not need to belong to any audit firm. However, in reality the audit reports issued by most of the large audit firms include both the signing partner's name and the audit firm's name.

20. **A company's management tends to shift the responsibility for preparing the financial statements on the auditors.** This shift of responsibility partly results from the general perception about the role of auditors, which can be observed in many other jurisdictions. This is also due to the company directors' lack of knowledge, thus significantly impairing their fiduciary capability. Notably, to be in compliance with the independence rules, auditors should not audit the financial statements that they also prepare. Preparation of the financial statements is management's responsibility.

C. Professional Education and Training

21. **The practical training background of practicing auditors varies.** For example, the practitioners with ACCA qualification have different educational and training background than that of the chartered accountants. All chartered accountants received their training in public practice, while not all practitioners with ACCA qualification were trained in public practice

22. **Since there is no national requirement for auditors to have a "practice certificate," there is no monitoring and enforcement of this requirement.** It is generally a good faith belief that all practicing auditors have a practice certificate in good standing. In many countries the professional qualification is awarded after passing the professional examinations, and a practice certificate is issued after completion of the practical training requirements. Without local monitoring, an auditor may still provide services even if they never completed practical training requirements or had a practice certificate revoked due to noncompliance with continuing professional education requirements.

23. **The level of knowledge of IAS and ISA varies.** It is recognized that many public practice accountants and auditors, corporate accountants, and regulators need to update their knowledge of IAS and ISA and their technical skills. The variance exists in practicing auditors and audit firms alike.

D. Setting Accounting and Auditing Standards

24. **The Mauritius Accounting and Auditing Standards Committee (MAAS Committee) is responsible for setting accounting and auditing standards.** This standard-setting body was established under the Mauritius Accounting and Auditing Standards Committee Act 1989. The mechanism and operation of the standard-setting process is laid out in the Act. The MAAS Committee is accountable to the Minister of Economic Development, Financial Services, and Corporate Affairs. Prior to the enactment of the Companies Act 2001, the MAAS Committee was very active in issuing IAS-based accounting standards. In its active period, the MAAS Committee issued 11 ISA-based guidelines on auditing. The MAAS Committee followed the same due process

for developing and issuing accounting standards and auditing guidelines. Since the Companies Act 2001 requires use of IAS by all private and public companies, except small-size private companies,⁷ the MAAS Committee has stopped issuing accounting standards. Now it focuses on developing simplified financial reporting requirements for the small-size private companies.

E. Ensuring Compliance with Accounting and Auditing Standards

25. The Office of the Registrar of Companies verifies compliance with the Companies Act 2001. Since IAS are mandatory requirements, departure from these standards results in a violation of Companies Act 2001; and the Office of the Registrar of Companies is meant to take legal actions against the parties who are responsible for infractions. However, the Office of the Registrar lacks qualified staff to conduct proper review of the financial statements for assessing compliance with the applicable accounting and financial reporting requirements. The review that is conducted to verify filing date, format of reporting, and other generalities, is not rigorous enough to recognize infractions.

26. The Companies Act 2001 includes provisions focusing on pecuniary actions against parties responsible for producing misleading information in the financial statements; however, such actions are not yet evident. For example, the Companies Act 2001 states that a person commits an offense when knowingly makes or authorizes the making of a false statement. And it further states that upon conviction the person is liable for payment of a fine of maximum Rs1 million (approximately US\$33,400) and subject to imprisonment for five years maximum. Similar penalties exist in the event of a falsification of records with the intent to defraud. While fines and imprisonment should be a motivating deterrent, a very lengthy process of resolving enforcement matters through the courts is an impractical constraint.

27. The Bank of Mauritius is responsible for monitoring compliance by banks with the requirements for general-purpose financial statements. In addition to monitoring compliance with the prudential regulations, the Bank of Mauritius is responsible for making sure that the general-purpose financial statements are prepared in accordance with applicable rules, regulations, and standards. Banks are required to prepare their financial statements in a format prescribed by the Bank of Mauritius. The monitoring is conducted in due course of regular on-site inspection and off-site supervision for ensuring compliance. The punitive actions against banks may be in the form of fines, variation of the terms and conditions of licensing, and, in extreme cases, revocation of the license. Under the Banking Act 1988, the Bank of Mauritius has the power to reject the appointment of the auditor for noncompliance with its requirements. So far, no punitive action has been taken against any banking institution or auditor.

28. The Financial Services Commission (FSC) is in the process of strengthening its monitoring and enforcement mechanism. The FSC structure is being strengthened to better regulate the non-banking financial services sector in Mauritius. Annual reports,

⁷ Small-size private companies are defined having a turnover of less than Rs10 million.

preliminary accounting results, and interim reports of listed companies and other non-banking financial institutions are required submissions to the FSC. The FSC can consult with the auditors and accountants of listed companies for receiving clarification and explanation of any material omission, departure, and misgiving in the financial statements and other financial reports. As part of its supervisory role, the FSC reviews the financial statements and the audit reports. The FSC partially tends to rely on the work of the auditors and accountants to ensure compliance with the financial reporting requirements. With its authority under the FSC Act 2001 to take criminal and civil actions against the violators of rules and regulations regarding financial reporting, the FSC has taken actions recently against some companies for noncompliance.

29. The Stock Exchange of Mauritius is empowered to carry out activities for monitoring and enforcement of financial reporting and disclosure requirements by the listed companies under the Stock Exchange Act 1988 and the new Listing Rules 2001. The Stock Exchange of Mauritius, in conjunction with the Listing Committee set up under Section 28A of the Stock Exchange Act 1988, is responsible for monitoring and compliance of listed companies with the Listing Rules that include financial reporting and disclosure requirements. The Stock Exchange of Mauritius has power to take appropriate measures or sanctions against defaulting companies. If the Stock Exchange considers that an issuer has contravened the Listing Rules, it may do one or more of the following: (a) censure the issuer; (b) publish the fact that the issuer has been censured for failing to comply with the Listing Rules; (c) refer the matter to the FSC that may refer the matter to the Commissioner of Police; and (d) suspend or withdraw a company from the Official List of the Stock Exchange. Considering that the Listing Rules came into force in February 2001, the Stock Exchange is in the process of strengthening its capacity for conducting the monitoring and enforcement of financial reporting requirements.

30. There is no statutory agency or organization responsible for monitoring and enforcing auditor's code of conduct and independence rules. The practicing auditors are expected to observe standards of professional conduct and ethical rules as set by their respective professional bodies. There are no compliance monitoring procedures, disciplinary actions, and appeal system within the country. The professional bodies in foreign countries to which individual auditors belong never extend their enforcement actions to the audit practitioners in Mauritius.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

31. When the International Accounting Standards became mandatory in practice effectively from the accounting year ending in 2002, the gap between local and international standards was eliminated. Although there is no “standards gap” in the country, there is a lack of common interpretation among the preparers and auditors of financial statements about the substance of accounting and reporting requirements under some IAS. Also, as in other countries, IAS requirements on segment reporting, related party transactions, impairment of assets, and various other accounting and reporting issues have given rise to difficulties in interpretation. Moreover, the guidance provided by the Bank of Mauritius on preparation of financial statements by banks gives rise to inconsistencies with some IAS requirements.

32. **Full compliance with all MAS requirements was not a common practice.** The MAS financial statements of 38 publicly traded or large non-listed companies were reviewed by the World Bank ROSC team, of which some financial statements had very high degree of compliance. There were, however, several instances of accounting policies, presentations, and disclosures that were not MAS-compliant. In some cases the tendency was to demonstrate compliance in form rather than in substance. Examples of some deficiencies in the examined MAS financial statements include the following:

- Missing accounting policy disclosures, which include employee benefit costs, intangible assets, translation of financial statements of foreign subsidiaries, and impairment of assets.
- There were cases where the ultimate holding entity was a “société,”⁸ which controlled subsidiaries and for which consolidated financial statements were not prepared.
- Inadequate accounting and disclosure for associates, use of cost method where equity method is more appropriate, showing investment in associate as accounts receivable, and lack of necessary disclosures concerning goodwill on the acquisition of an associate.
- Application of inappropriate depreciation methods for property, plant, and equipment, particularly in the hotel industry. There were cases where the choice of depreciation policy for buildings resulted in insignificant depreciation rates for several years at the beginning of useful life; then after some years when the building was replaced with a new one, the carrying amount of the old building was adjusted against the revaluation reserve in balance sheet, instead of expensing in the income statement. Through this mechanism, the reported profit was overstated—existing and potential investors were misled about profitability of the enterprise.
- All the required disclosures about related parties and related party transactions were not available in the financial statements of a number of companies that had related parties.
- There were limited disclosures about valuation, in particular about whether impairment was considered. Moreover, revaluations are generally not carried out regularly and are not kept up to date.
- Companies disclosed information about impairment of assets only if they carried out the impairment tests. In other cases, there was no disclosure with regard to impairment or impairment tests.
- A few companies, which capitalized borrowing costs, did not provide the required disclosures.

⁸ This is a unique legal entity which is nothing more than a contract for creation of an association.

- The interpretational problems regarding the accounting treatment of voluntary retirement scheme in the sugar industry led to inadequate disclosures in this context.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

33. **Until ISA became mandatory (in practice for audits of the 2001 financial statements), some ISA were adopted as guidelines by the MAAS Committee.** While certain MAAS auditing guidelines were identical to ISA, not all ISA were encompassed by the guidelines issued by the MAAS Committee.⁹ Consequently, an audit carried out in accordance with these MAAS guidelines would not be equivalent to an ISA audit. The standards which were applied by auditors varied.

34. **All the audit reports on the 38 sets of financial statements reviewed by the World Bank ROSC team were unqualified with respect to compliance with MAS.** In certain cases, notwithstanding material noncompliance with MAS, the auditors, including the five largest firms in the country, have issued unqualified opinions.¹⁰

35. **Analyses of actual auditing practices revealed some inconsistencies with the applicable auditing standards.** In order to assess actual auditing practices, discussions were held by the ROSC team with practicing auditors, corporate accountants, and other knowledgeable interested parties in the country. Some of the deficiencies of actual practices are summarized below:

- Audit reports in many cases did not state whether the audit was conducted in accordance with ISAs, or in accordance with relevant national standards/requirements. In some cases, audit reports referred to “appropriate auditing standards” without clearly stating what was meant by “appropriate.”
- In the case of some auditors/audit firms, significant dependence on one client may cause undue influence on the auditor to compromise on issues and put into question their professional ethics.
- Some parties expressed concern about very close relationship between auditors and clients, and have mentioned the need for periodic rotation of auditor or audit partner. Without monitoring and enforcement of best practices on independence rules, risk of unqualified audit opinion, when not warranted, increases.

⁹ ISAs 260, 401, 402, 500, 501, 510, 520, 530, 540, 550, 560, 570, 580, 600, 610, 620, 710, 720 are not covered in Mauritius auditing guidelines.

¹⁰ An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the identified financial reporting framework and comply with the relevant statutory requirements. An unqualified opinion also indicates implicitly that any changes in accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

- Partners of audit firms—both large and small firms—stated that the audit fee level is very low in the country; as such, in order to meet budget, there is pressure on the quality of audit work and also a temptation to accept the risk involved in issuing an audit report without carrying out the work thoroughly.
- There are large businesses with complicated relationships among the various legal entities that operate under the control of respective families. It was stated by some parties that application of rigorous procedures with regard to the “related party transactions,” as required by ISA is sometimes difficult.
- Twenty-six percent of respondents said that they either have difficulties in conducting an audit in a computer information systems (CIS) environment, or that specific procedures for CIS audit was not applicable.

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

36. **It is generally viewed that enforcement mechanisms need to be strengthened for improving the quality of corporate financial reporting.** Investors, lenders, and other users do not rely solely on the information contained in the published corporate financial statements. Interviews and discussions with the representatives of various of institutional investors, foreign and local bankers, analysts, and various other users of corporate financial information showed concerns about the quality of financial reporting. Most interviewees shared a strong view that the quality of financial reporting would improve when there is a strong regulatory regime combined with effective enforcement mechanisms to ensure compliance with accounting and auditing standards and the auditor’s professional ethics. In the recent past, preparers and auditors are making increased efforts to enhance the quality of financial reporting. This is mainly due to the joint effort of various stakeholders and government authorities that are responsible for financial services and corporate affairs. Important steps are being taken to improve corporate governance practices and bolster financial transparency of the business enterprises. However, the scope for further improvements is broad.

VI. POLICY RECOMMENDATIONS

37. The policy recommendations, presented in this section, were discussed between the World Bank; the Ministry of Economic Development, Financial Services, and Corporate Affairs; and the National Steering Committee. It was agreed that a detailed Country Action Plan will be developed and implemented on the basis of these policy recommendations. The Action Plan, developed by the National Steering Committee, will be implemented under the coordination of the Ministry of Economic Development, Financial Services, and Corporate Affairs, and with assistance from international development partners. The policy recommendations are based on the new legislative framework and hence do not comment on the Companies Act 1984 and other superseded laws.

38. **Enact a new law dealing with accounting, auditing, corporate financial reporting and the accountancy profession in the country.** The Companies Act 2001 and other relevant laws should be fine-tuned and other appropriate actions taken to ensure that IAS and ISA requirements apply to all public-interest entities. This might necessitate the enactment of a new Financial Reporting and Accountancy Profession Act, hereafter referred to as the “Financial Reporting Law.” The provisions on accounting, auditing, and financial reporting in the other laws, including the Companies Act 2001, should be amended to include cross-reference to the relevant provisions of the Financial Reporting Law. An important feature of the new law should be as follows:

- IAS/IFRS and related interpretations issued by the IASB should be mandatory for all public-interest entities only. These public-interest enterprises should be carried out in accordance with the ISA and other related pronouncements issued by the IFAC.
- The public-interest entities may be defined as all companies listed in the Mauritius Stock Exchange; all local and foreign banks and insurance companies operating in Mauritius; all other non-banking financial institutions supervised by the FSC; and all other enterprises that meet two of three conditions at the end of the preceding accounting year. These conditions are (a) total number of employees, including management personnel, exceeded [a number to be decided in consultation with various stakeholders; however, 100 may be used as an indicative number]; (b) total assets on the balance sheet exceeded [Mauritius Rupees to be decided in consultation with various stakeholders, however, Rs.10 million may be used as an indicative amount]; and (c) total turnover (revenue) on the income statement exceeded [Mauritius Rupees to be decided in consultation with various stakeholders, however, Rs.50 million may be used as an indicative amount].

39. **Disclose fees for audit and non-audit services.** The Companies Act may need to be revised or provisions included in the proposed Financial Reporting Act to ensure that the financial statements include disclosure of audit and non-audit fees in accordance with the spirit and not the letter of the Act. In the absence of an outright ban on most non-audit services, all fees paid to the statutory auditors and their affiliates should be disclosed in detail in the financial statements. According to the Companies Act, there is already a clause to disclose fees from audit and non-audit services. To improve on disclosure, there is a need to include the audit firm and its affiliates at home and abroad. Some firms based in other countries with the same name are unrelated, hence the term “affiliate” should be emphasized.

40. **Simplify financial reporting requirements for the small and medium enterprises.** The Companies Act 2001 and the proposed Financial Reporting Law should relax the requirement for full IAS financial statements for SMEs, but only as part of a harmonized international approach to SME reporting. For example, the legal requirements could provide SMEs with a reporting framework more adapted to their size. The MAAS Committee should set simplified financial reporting standards for SMEs in line with the IAS; however, if the MAAS Committee deems it necessary to deviate from

the IAS, it should have the authority to do so provided it clearly explains and justifies the reasons for deviation. In addition, the legal requirements for SMEs could modify the threshold for mandatory requirement on auditing and filing of financial statements. Only the public-interest enterprises defined earlier should be subject to annual statutory audit and filing of financial statements. Raising the threshold for statutory audit may give rise to concerns among the small- and medium-size auditing firms. These audit firms should focus their attention on providing high quality accounting service and other professional services, including tax advice to clients. These firms should consider joining forces and regrouping in order to be able to compete with the relatively large audit firms.

41. Clarify financial reporting and auditing of banks, insurance companies, and investment funds (collectively referred to as financial institutions). The supervisory institutions and/or the related laws should strive to achieve the following:

- The proposed Banking Act and Insurance Act should be made consistent with the Companies Act 2001 and the proposed Financial Reporting Law.
- The transparency of financial statements required under the IAS and the recommendations issued by the Basel Committee on Banking Supervision should be taken into account in updating the Banking Act.
- When the Bank of Mauritius and the FSC need additional (unpublished) information for prudential supervision purposes, the approach should complement IAS, not impose requirements that may conflict with IAS. This approach would clarify the distinction between prudential and general-purpose financial reporting.

42. Improve systematic publication and filing of legal entity and consolidated financial statements. The Companies Act 2001 and other relevant laws should be amended and enforcement mechanisms reviewed as follows:

- Require for financial institutions, listed companies, and other public interest entities that publication should be more timely (within three months of year-end) and electronically available.
- Discontinue the current practice whereby the listed companies publish a set of unaudited preliminary financial statements.
- Increase substantially and strictly impose (by the regulator) the fines for noncompliance with the publication requirements.
- Avoid publication of abridged financial statements (in newspapers, on websites, etc.); however publication may be authorized only if the following apply:

- Abridged financial statements are appropriately titled to identify the audited financial statements from which they have been derived;¹¹
- Auditor's report accompanying the abridged financial statements is in accordance with ISA 800, *The Auditor's Report on Special Purpose Audit Engagements*, and includes a statement of clarification;¹² and
- Audited financial statements are readily available to all interested parties.

43. **Establish a professional accountancy body with legal backing of the proposed Financial Reporting Law.** There is a need for a professional body in Mauritius whose role would include the functions recommended by the IFAC:

- Develop requirements for membership;
- Consider and determine applications for registration received from foreign qualified professional accountants;
- Arrange testing of newly registered accountants and auditors with foreign professional qualification to ensure their knowledge of Mauritius company law, tax law, and other relevant laws;
- Evaluate the quality of practical training arrangements and issue practicing certificates;
- Define and enforce professional code of conduct;
- Set and enforce continuing professional education requirements; and
- In the mid- to long-term, develop arrangements for conducting qualification examinations.

44. **Establish a regulatory body with the responsibility of enforcing accounting and auditing standards and codes.** The proposed Financial Reporting Law should include provisions on the creation and functioning of this regulatory body, which may be called Financial Reporting Council (FRC). The FRC Management Board, as well as any committee of this body, should not be dominated by the accountants and auditors in public practice. The FRC Board members may include the Head, or a representative of the top management, of following organizations: (a) Registrar of Companies; (b) Financial Services Commission; (c) Bank of Mauritius; (d) Stock Exchange of Mauritius; (e) university accountancy field, (f) accountancy professional body; (g) institutional investors association (or equivalent organization); and (h) legal professional organization. The FRC will be accountable to the Minister of Economic Development, Financial

¹¹ For example, an abridged financial statement may be titled, "Summarized Financial Information Prepared from the Audited Financial Statements for the Year Ended December 31, 2002."

¹² That statement should say, "For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarized financial statements should be read in conjunction with the financial statements from which the summarized financial statements were derived and our audit report thereon;"

Services, and Corporate Affairs; the Minister will appoint a chairperson of the FRC from among the knowledgeable and respected persons within the country. The secretariat of this body may be located at the Office of Registrar of Companies.

45. **Establish committees within the new regulatory body to help enforce accounting and auditing standards and codes.** The following three committees are envisioned for inclusion in the organizational structure of the FRC:

- ***Accounting and Auditing Standards Committee.*** The function of the Accounting and Auditing Standards Committee will be the adoption of international accounting and auditing standards issued by the IASB and the IFAC for application with respect to the public interest enterprises. In addition, this Committee will develop implementation guidelines on practical application of IAS/IFRS and ISA in Mauritius. When an exposure draft on a new standard is issued by the IASB and the IFAC, this Committee will disseminate the exposure draft within the country, collect comments, and summarize the comments for transmitting to the IASB/IFAC at the end of the comment period. Then the Committee accepts and disseminates the final version of the standard, at which time it will be approved and issued by the international standard-setting body. The current MAAS Committee may be transformed into this new Committee. In addition, it should be entrusted with the responsibility of developing accounting and auditing requirements for SMEs.
- ***Financial Reporting Monitoring Committee.*** The purpose of the Financial Reporting Monitoring Committee is to analyze and identify noncompliance with the applicable accounting and financial reporting requirements—the findings will be forwarded to the FRC Management Board along with recommendations on the nature of sanctions to be imposed on the preparers and auditors of the financial statements. The Management Board will take final decision on sanctions and take necessary steps for implementation of the sanctions. This Committee should develop strong capacity to conduct in-depth review of corporate financial statements in order to determine the extent of compliance with the standards and regulations—not only in appearance, but also in substance. The analyst group that will be responsible for conducting the review may consist of a mixture of full-time and part-time experts engaged by the FRC. The policies and procedures of conducting monitoring activities will be developed by the Committee and approved by the FRC Management Board.
- ***Auditors' Practice Review Committee.*** The Auditors' Practice Review Committee will maintain a list of qualified auditors and audit firms that will have permission to audit the public interest. These auditors and audit firms will be subject to practice review by the Committee in order to analyze and identify noncompliance with the applicable auditing standards and code of professional ethics. The findings from this review will be forwarded to the

FRC Management Board along with recommendations on the nature of sanctions to be imposed on the auditors. The Management Board will take final decision on sanctions and take necessary steps for implementation of the sanctions. The practice review system should include the review of quality assurance arrangements in an audit firm and the examination of working papers with respect to selected audit engagements of the same audit firm. Moreover, the Committee should conduct investigations whenever credible complaints are received against any auditor or audit firm with regard to the observance of auditing standards and code of professional ethics. The Auditor's Practice Review Committee should develop strong capacity for carrying out these functions.

46. **Strengthen professional education and training.** In adopting IAS and ISA within a short timeframe, Mauritius has set challenging and demanding objectives. There is an urgent need for developing and delivering practical-oriented training programs on implementation of IAS/IFRS for the practicing accountants and auditors, officials of tax administration and regulatory bodies, and corporate accounting staff. Also, training programs need to be developed and delivered to the practicing auditors on practical application of ISA and professional code of ethics. At present, university-level accounting curricula contain international components; there is scope for further improvements in curricula and teaching methods enabling the students to gain exposure to the practical application of IAS/IFRS and ISA.

ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants
FRC	Financial Reporting Council
FSC	Financial Services Commission
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
MAAS	Mauritius Accounting and Auditing Standards
MAS	Mauritius Accounting Standards
ROSC	Reports on the Observance of Standards and Codes
SME	Small and Medium Enterprises