







## **1<sup>st</sup> AMENDMENT TO THE REGULATION NO: 2021/R-152 (THE REGULATION ON THE AUDIT AND ACCOUNTABILITY OF STATE-OWNED ENTERPRISES)**

*This regulation is made pursuant to the authority granted to the Auditor General by the Audit Act (No.4/2007).*

## 1<sup>st</sup> Amendment to the Regulation no: 2021/R-152

1. Amendment of Schedule A as follows:

### *Schedule A*

## **FINANCIAL ANALYSIS AND INTERPRETATION (TO BE INCLUDED IN THE MANAGEMENT LETTER)**

### Interpretation of Financial Ratios

To understand the financial position of [SOE NAME] we have performed a financial analysis for the year [financial year]. Our Calculations and the interpretations of the ratios are discussed below.

#### (i) Profitability Ratios

The main profitability ratios are as follows.

- (a) Gross Profit Margin

$$\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

- (b) Net Profit Margin

$$\frac{\text{Net Profit before Interest and Tax}}{\text{Revenue}} \times 100$$

- (c) Return on Capital Employed

$$\frac{\text{Profit before Interest, Tax and Dividends}}{\text{Total Capital Employed including interest bearing debt}} \times 100$$

- (d) Return on Equity

$$\frac{\text{Profit after Interest, Tax and Preferential Dividends}}{\text{Equity Capital}} \times 100$$

#### Auditors Interpretation

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#### Recommendation for improvements

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#### Management Comments

#### (ii) Liquidity

Liquidity relates to the amount of cash available to the business. Cash position of the firm is looked upon to assess the liquidity. In addition, the future cash position by comparing short term assets (which should translate into cash relatively soon) with short term liabilities (which will require cash to settle them relatively soon).

The main liquidity ratios are as follows:

(a) Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

(b) Acid Test Ratio

$$\frac{(\text{Current Assets} - \text{Inventory})}{\text{Current Liabilities}}$$

**Auditors Interpretation**

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**Recommendation for improvements**

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**Management Comments**

**(iii) Gearing**

Gearing refers to the way the company is financed. It is concerned with two types of financing, namely Debt (borrowings) and Equity (shareholders' funds). Gearing can be understood as long term liquidity. There are three main ratios used to assess gearing:

(a) Debt / Equity Ratio

$$\frac{\text{Total Interest Bearing Debt}}{\text{Total Equity}}$$

(b) Debt / Total Capital

$$\frac{\text{Total Interest Bearing Debt}}{\text{Debt} + \text{Equity}}$$

(c) Interest Cover

$$\frac{\text{Profit before Interest and Tax}}{\text{Interest payable}}$$

**Auditors Interpretation**

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**Recommendation for improvements**

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**Management Comments**

**(iv) Activity / Efficiency**

Activity ratios try to assess how well the business utilizes the resources at its disposal. The main areas of concern are as follows:

(a) Asset turnover

$$\frac{\text{Sales Revenue}}{\text{Total Assets} - \text{Current liabilities}}$$

(b) Stock turnover

$$\frac{\text{Cost of Sales}}{\text{Average Inventory}}$$

(c) Trade receivables collection period (in days)

$$\frac{\text{Trade Receivables}}{\text{Credit Sales}} \times 365$$

(d) Trade payables payment period (in days)

$$\frac{\text{Trade Creditors}}{\text{Credit Purchases}} \times 365$$

(e) Expenses as % of sales

$$\frac{\text{Total expenses}}{\text{Sales}} \times 100$$

(f) Operating Cycle

$$\text{Inventory days} + \text{Receivables days} - \text{Payables days}$$

**Auditors Interpretation**

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**Recommendation for improvements**

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**Management Comments**

(v) **Investor Ratios**

These ratios are especially relevant to investors, especially in quoted companies which have a verifiable share value. The most important ones are as follows:

(a) Earnings per share

$$\frac{\text{Profit attributable to ordinary shareholders}}{\text{No. of Ordinary Shares}}$$

(b) Price earnings ratio

$$\frac{\text{Price per share}}{\text{Earnings per share}}$$

(c) Earnings yield

$$\frac{\text{Earnings per share}}{\text{Price per share}} \times 100$$

(d) Dividend per share

$$\frac{\text{Total ordinary dividend for the year}}{\text{No. of ordinary Shares}}$$

(e) Dividend yield

$$\frac{\text{Dividend per share}}{\text{Price per share}} \times 100$$

(f) Dividend cover

$$\frac{\text{Earnings per share}}{\text{Dividends per share}}$$

Auditors Interpretation

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Recommendation for improvements

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Management Comments

Over all Recommendations

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(vi) Any other matter(s) related to financial analysis that the auditor considers appropriate to report on

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[Note: Recommendation shall be based on the calculated figures and analysis of the each and every items of the financial statements. And also a critical analysis, knowledge on the particular industry and financial ratios and experience of the auditor.]

2. Amendment of Schedule B as follows:

## ***Schedule B***

# **Report to the Auditor General on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements**

### **Introduction**

This report is produced pursuant to section 8.4 of the *Regulation on the Audit and Accountability of State-owned Enterprises No: 2021/R-152*. This report has six sections. They are:

- a) Assessment of compliance with the PCB Corporate Governance Code;
- b) Assessment of Key Internal Controls;
- c) Assessment of Fraud Risks;
- d) Assessment of Compliance with Procurement Procedures and Guidelines for SOEs of the Maldives issued by the PCB;
- e) Assessment of Compliance with Other Directives issued by the PCB; and
- f) Other Matters

Our findings and recommendations for the above areas are discussed below.

### **Section A: Assessment on Compliance of Corporate Governance Code**

Report on Factual Findings based on Agreed Upon Procedures carried out in line with International Standard on Related Services (ISRS 4400) on the compliance of [SOE NAME] with the Corporate Governance Code issued by the PCB.

[note: bring the AUP Report here with the procedures carried out under the AUP engagement]

### **Section B: Assessment on Key Internal Controls**

We have carried out assessment of [SOE NAME]’s key internal controls as per International Standards on Auditing (ISAs). Our findings discussed with the management are detailed below.

#### **Finding 1**

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#### **Implication**

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#### **Recommendation for improvements**

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#### **Management Comments**

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### **Section C: Assessment on Fraud Risks**

We have carried out assessment of [SOE NAME]’s fraud risks as per International Standards on Auditing (ISAs). Our findings discussed with the management are detailed below.

#### **Finding 1**

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#### **Implication**

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**Recommendation for improvements**

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**Management Comments**

**Section D: Assessment of the Compliance with Procurement Procedures and Guidelines for SOEs of the Maldives**

We have carried out assessment of [SOE NAME]’s compliance with PCB Procurement Procedures and Guidelines for SOEs of the Maldives. our findings discussed with management are detailed below.

**Finding 1**

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**Implication**

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**Recommendation for improvements**

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**Management Comments**

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**Section E: Assessment on the Compliance with Other Directives issued by PCB**

We have carried out assessment of the [SOE NAME]’s compliance with other directives issued by the PCB. Our findings discussed with management are detailed below.

**Finding 1**

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**Implication**

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**Recommendation for improvements**

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**Management Comments**

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**Section F: Other Matters**

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*[Note: bring here Any other matters that the auditor may want to address; along with recommendations for improvement.]*

**Section A** of *Report to the Auditor General on Internal Controls over Financial Reporting, on Compliance and Other Matters based on an Audit of Financial Statements.*

**Assessment of Compliance with Corporate Governance Code of the Privatisation and Corporatisation**

**REPORT OF FACTUAL FINDINGS**

To the Auditor General and Board of Directors

We have performed the procedures agreed with you (Board of Directors) and enumerated in an annexure to this report, with respect to the Corporate Governance Code issued by the Privatisation and Corporatisation Board (PCB). Our engagement was undertaken in accordance with the principles set out in International Standard on Related Services (ISRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirement of the Corporate Governance Code issued by the PCB, and to discharge our pertinent responsibility stipulated in the *Regulation on the Audit and Accountability of the State-owned Enterprises 2021/R-152*.

We report our findings below:

(List the results of the procedures performed)

Because the above procedures do not constitute an audit or review made in accordance with International Standards on Auditing (ISAs), we do not express any assurance on the compliance with the directions of Corporate Governance Code issued by the PCB.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with ISAs, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purposes set forth in the first paragraph of this report and for your information. This report relates only to the items specified above and does not extend to any financial statements of SOE, taken as a whole.

Practitioner

Date



- (c) Check that the Chairperson of the Board has ensured that issues discussed at the Board committees are reported to the Board and any committee recommendations are considered for approval by the Board.
- (d) Check that the Chairperson of the Board has not unilaterally issued policies without consulting with the Board as a whole with full frank and discussions being completed.

#### **4. Role of the CEO/Managing Director**

- (a) Check that the CEO/Managing Director:
  - I. developed and recommended to the Board a long-term vision and strategy for the company that will generate satisfactory levels of shareholder value and positive, reciprocal relations with relevant stakeholders;
  - II. developed and recommended to the Board annual business plans and budgets that support the company’s long-term strategy. In the development of these plans, it is essential that the CEO/MD ensures a proper assessment of the risks under a variety of possible or likely scenarios is undertaken and presented to the Board (whether through a separately constituted Board Risk Committee or through an Executive Risk Management Committee);
  - III. strived consistently to achieve the company’s financial and operating goals and objectives, and ensure that the day-to-day business affairs of the company are appropriately managed and monitored; and
  - IV. served as the chief spokesperson for the company on all operational and day-to-day matters. The Chairperson and CEO/ MD should discuss and agree with the Board the division of responsibilities for communication to shareholders and other stakeholders. It is important that the CEO/MD and other key officers attend AGM and be prepared to present material operational developments to the meeting.

#### **5. Board Meetings**

- (a) Check that the Board have its annual plan which provides for a number of meetings to be held, tentative agenda items and the form these will be held.
- (b) Check that Board meetings are held pursuant to the Articles of Association of the Company.
- (c) Check that the time gap between any two meetings is not more than three months.

#### **6. Audit Committee**

- (a) Check if the Board has established an Audit Committee empowered to oversee due diligence and control over the financial aspects of the Company’s operations and performance.
- (b) Check the composition of the Board’s Audit Committee. It should be based on the size of the Board:

If the board consists of seven (7) Directors, Audit Committee should have 3 members and if the Board consists of five (5) Directors, Audit Committee should have 2 members.

- (c) Check that the Chairperson of the Audit Committee is an independent non-executive Director.
- (d) Check that the Chairperson of the Audit Committee have substantial accounting or financial experience.

## 7. Risk Management

- (a) Ensure that the Board carries out the total process of risk management, including the systematic and continuous identification and evaluation of risks as they pertain to the organisation, followed by action to terminate, transfer, accept or mitigate each risk.
- (b) Check that the Board has communicated its risk management policies to Management and all other employees as appropriate to their roles within the organisation and ensured that communication has been effective and understood.

## 8. Internal Audit

- (a) Check that the SOE has set up an internal audit function to provide an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.
- (b) Ensure the Internal audit function was nominated by the Audit Committee and appointed by the Board.
- (c) Check that the internal audit department is resourced properly, and whether the audit committee has ensured deployment of sufficient and appropriate human resources in the function.
- (d) Check that the head of internal audit have an appropriate professional qualification and experience in internal auditing.
- (e) Check that the Internal audit function reports to a level within the SOE that allows the function to fully accomplish its responsibilities. And that the head of internal audit have ready and regular access to the chairperson of the Company and the chairperson of the audit committee.
- (f) Check that the internal audit report to the audit committee at the Board all its reports, whilst administratively, it reports its findings to the CEO/MD for the purpose of implementing recommendations for improvements.
- (g) Check if the appointment or dismissal of the head of the internal audit is only done by the agreement of majority of members in the audit committee.

- (h) Check if period meetings were held between internal auditors and external auditors for matters of mutual interest, the management letters and reports, and sharing common understanding of audit techniques, methods and terminology.
- (i) Check whether all the internal auditors of the SOE, have signed Code of Ethics for internal auditors published by Institute of Internal Auditors, Global.

## 9. Code of Ethics

- (a) Check that the Board has developed a code of ethics, with clear policies and procedures for Directors, Management and employees.
- (b) Check that the SOE adopted a code of ethics which sets out clear corporate values and standards of behaviour in its dealings.
- (c) Check that the Code of Ethics of the Company have been signed by the members of Board, management and staff members.

## 10. Code of Conduct

- (a) Check that the Board has laid down a code of conduct for all Board members and senior management of the SOE.
- (b) Check whether the code of conduct is circulated and also posted on the website of the Company.
- (c) Check whether the SOE has strictly complied with Guidelines and policies promulgated by the PCB/Ministry of Finance with respect to the structure, composition, selection, appointment and service conditions of Board of Directors and senior management personnel.

## 11. Company Secretary

- (a) Check if the Board of Directors have appointed a Company Secretary who is competent to discharge the functions of secretary of the SOE.
- (b) Check if the Company Secretary is a full-time staff member appointed by and accountable to the Board.
- (c) Check if the Company Secretary send the Board Meeting attendance to PCB quarterly.
- (d) Check whether Company Secretary has ensured timely, accessible and accurate filing of corporate statutory records as required by the law (Board meeting minutes), PCB and by the company's articles and by-laws
- (e) Check if Company Secretary has signed minutes of Board meetings and ensured that minutes are signed by the Board of Directors present at the meeting.

## 12. Reporting and Disclosure

- (a) Check that the Board has ensured that any report delivered as an annual report includes, or has appended to it, a statement which acknowledges the directors' responsibilities for internal control and describes the methods by which this responsibility is discharged.
- (b) Check that this "Statement of Directors' Responsibilities" is signed by two or more Directors as representatives of the Board.
- (c) Check that the disclosure of the methods used by the Board to discharge its responsibility for internal control must, as a minimum, include a description of the following:
  - I. the systems and processes in place for implementing, maintaining and monitoring of the internal controls;
  - II. the process by which the Board derives assurance that the internal control systems are effective;
  - III. the existence or otherwise of an internal audit function, and for companies where no internal audit function exists, the frequency of reviews for the need to establish one and the date of the last such review;
  - IV. any significant enterprise areas not covered by the internal controls including joint ventures, subsidiaries or associates; and
  - V. the process applied to any material problems disclosed in the annual report or financial statements.

## 13. Other Matters

- (a) Any other significant matter(s) related to the governance of the SOE.

3. This regulation will come into operation upon publication in the government gazette.

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