







# **REGULATION ON THE AUDIT AND ACCOUNTABILITY OF STATE-OWNED ENTERPRISES**

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

# REGULATION ON THE AUDIT AND ACCOUNTABILITY OF STATE-OWNED ENTERPRISES

## 1. Introduction and citation

- (a) This regulation is made pursuant to the authority granted to the Auditor General by section 7(d) of the Audit Act (Law No. 4/2007).
- (b) This regulation may be cited as “Regulation on the Audit and Accountability of State-Owned Enterprises”.

## 2. Objectives

- (a) To provide a framework for auditor reporting on State-Owned Enterprises (SOEs) governed by this regulation;
- (b) To increase transparency and accountability of those SOEs through audits;
- (c) Enhance communications between the auditor, shareholders, those charged with governance and other stakeholders;
- (d) To obtain assurance on compliance with applicable legislations and frameworks;  
and
- (e) To obtain assurance on the effectiveness of fraud prevention mechanism and governance structures.

## 3. Application

- (a) This regulation shall apply to SOEs established by a Presidential Decree and companies registered under the Companies Act of the Maldives (Law No.10/96), which are required to be audited by the Auditor General under the provisions of the Audit Act (Law No. 4/2007) with the exception of listed companies and financial institutions regulated by Capital Market Development Authority and Maldives Monetary Authority respectively.
- (b) This regulation shall also apply to subsidiaries of SOEs stated in subsection (a).

#### **4. Appointing external auditors**

- (a) The external auditor engaged to audit the financial statements of SOEs subject to this regulation shall be appointed by the Board of Directors. The external auditor shall be appointed at the Annual General Meeting as per the Companies Act of the Maldives (Law No. 10/96) and Privatisation and Corporatisation Board's directives. If circumstances prohibit timely appointment of external auditor, auditor shall be appointed at an Extraordinary General Meeting.
- (b) The external auditor shall be a licensed audit firm registered as a Public Interest Entity Auditor (PIE auditor) with the Institute of Chartered Accountants of the Maldives.
- (c) The Board of Directors may consider other factors to evaluate the capacity and capability of the external auditor, including but not limited to audit fees, duration, industry knowledge and expertise, reputation and proposed audit strategy.
- (d) The engagement letter signed by the SOE and the external auditor shall prescribe provisions to comply with this regulation. In the event of a conflict between this regulation and any provision in the Engagement Letter, the regulation shall take precedence over any such provision in the Engagement Letter.
- (e) The SOE shall submit a copy of the Engagement Letter of the appointed external auditor to the Auditor General's Office within five working days of signing the Engagement Letter.

#### **5. Submission of financial statements for external audit**

- (a) The SOE shall submit financial statements to the external auditor by 31 March of the succeeding year.
- (b) A copy of the financial statements in subsection (a) shall also be submitted to the Auditor General's Office by 31<sup>st</sup> March of the succeeding year by the SOE.
- (c) If the SOE fails to submit the financial statements to the external auditor and the Auditor General's Office within the deadline stated in subsection (a) and (b), the Board of Directors of the SOE shall inform the Auditor General's Office within 10 days of non-submission with reasons for delay and revised deadline for submission.

## 6. Rotation of external auditors and cooling-off period

- (a) An audit firm shall not be appointed to act as the external auditor of an SOE for more than four consecutive years. The SOE shall adopt an external auditor rotation policy to this effect.
- (b) The rotated external auditor stated in subsection (a) above shall serve a cooling-off period of at least two consecutive years before they are being allowed to bid again for the service of an external auditor of the SOE.
- (c) If business, legal or economic circumstances necessitate the engagement of the same external auditor for periods of more than four years, the SOE shall obtain a prior approval from the Auditor General’s Office for signing such engagements.
- (d) For the purpose of this regulation, the external auditor shall maintain the audit files for at least seven years.

## 7. Obtaining “other services” from the external audit firm

- (a) SOE shall not obtain from the external auditor or any third party that is related to the external auditor, advisory and other services including internal audits, valuation services, consultancy services and other non-audit services which may result in a conflict of interest.
- (b) Notwithstanding the prohibition of “other services” in subsection (a), the SOE may, however, engage the external auditor to provide assurance related services relating to the financial statements such as “interim financial statements” where there is an economic justification to engage the external auditor and there are safeguards to protect the independence of the external auditor. The SOE shall obtain prior approval from the Auditor General’s Office to engage the external auditor for such other services.

## 8. Auditor Reporting

### 8.1 Audit Report

- (a) The audit of the financial statements of the SOEs subject to this regulation shall be completed by 31<sup>st</sup> May of the succeeding year.
- (b) The External auditor shall adopt International Standard on Auditing (ISA) 701 and report on Key Audit Matters in their audit report.

## 8.2 Management Letter

- (a) The auditor shall submit a management letter (ML) to the SOE by 31<sup>st</sup> May of the succeeding year, specifying important issues that in the auditor's judgement need attention of the management and Board.
- (b) The management shall provide comments to the issues highlighted in the ML within 15 days of receipt of the ML from the external auditor.

## 8.3 Submission of the audit report and management letter

The SOE shall submit the audited financial statements in subsection 8.1 (a) and management-commented ML in subsection 8.2 (b) above to the Auditor General's Office within five working days of receiving them.

## 8.4 Report to the Auditor General on Internal Controls over Financial Reporting, on Compliance and Other Matters based on an Audit of Financial Statements

- (a) The external auditor shall issue a separate report titled "*Report to the Auditor General on Internal Control over Financial Reporting, Compliance and Other Matters Based on an Audit of Financial Statements*".
- (b) The external auditor shall design and carry out the audit to evaluate internal control over financial reporting, compliance with applicable legislation and frameworks and other matters. These are detailed as follows:

### (i) Key Internal Controls

Significant issues in design and implementation of internal controls over financial reporting and recommendations for improvement.

### (ii) Fraud risk

Fraud risks that the audited entity is exposed to and how the audit was designed to consider such risk and significant audit findings related to fraud and corruption along with recommendations for improvement.

### (iii) Compliance with Procurement Guidelines and Practices

The auditor shall report on instances of significant departures from Procurement Procedures and Guidelines for SOEs of Maldives issued by the Privatisation and Corporatisation Board along with recommendations for improvement.

**(iv) Compliance with Corporate Governance Code**

The auditor shall report on instances of departures from provisions of the Corporate Governance Code for State Owned Enterprises issued by the Privatisation and Corporatisation Board along with recommendations for improvement.

**(v) Compliance with Other Directives issued by Privatisation and Corporatisation**

The auditor shall report on instances of significant departures from other directives issued by the PCB along with recommendations for improvement.

- (c) The external auditor shall include an analysis of financial statements in the ML. Such analysis shall include financial ratios on the profitability, liquidity, solvency, gearing, efficiency including the year-on-year changes and the auditor's recommendation resulting from their analysis.
- (d) The external auditor shall submit the report stated in subsection (a) to the Auditor General's Office within 30 days of receiving the management-commented ML.
- (e) The Auditor General's Office may publish on its website a template for the report stated in subsection (a).
- (f) Schedules A and B of this regulation provides guidance on the reporting of matters stated in subsection 8.4 (b) and (c).

**9. Responsibilities of those charged with governance pertaining to this regulation**

- (a) Appointing suitably qualified external auditor to audit the financial statements of the SOE.
- (b) Ensuring that the SOE has adequate systems in place to provide external auditors with financial statements in a form and content that is appropriate for the external auditor to conduct the financial statements audits on time.
- (c) Ensuring that the financial statements are submitted to external auditor for audit by 31<sup>st</sup> March of the succeeding year.
- (d) Ensuring that the financial statements submitted for audit are also sent to the Auditor General's Office by 31<sup>st</sup> March of the succeeding year.
- (e) Ensuring that management-commented ML is sent back to the external auditor within 15 days of receiving it for comments.



- (f) Addressing the recommendations provided in the ML referred to in Section 8.2 of this regulation.
- (g) Ensuring that the audited financial statements and ML are submitted to the Auditor General's Office in a timely manner.

**10. Responsibilities of the external auditor pertaining to this regulation**

- (a) Submit to the Auditor General's Office the report stated in Section 8.4 (a) of this regulation within 30 days of receiving the management-commented ML.
- (b) External auditor shall provide necessary explanations and access to supporting documents and audit teams for the reviews carried out by the Auditor General's Office under this regulation. The External auditor shall provide copies of working papers upon request by the Auditor General's Office.

**11. Review of the *Report to the Auditor General on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements***

- (a) The Auditor General's Office shall carry out a review of the report stated in Section 8.4 (a) of this regulation.
- (b) Following the review in subsection (a), the Auditor General's Office shall compile a report based on financial audit and other matters referred to in Section 8.4 of this regulation and communicate its findings to the President of Maldives, Parliament, relevant ministries and public institutions and shall publish the report on Auditor General's Office's website.
- (c) A guideline to carry out the review of the report stated in Section 8.4 (a) of this regulation shall be published by the Auditor General's Office.

**12. Post Completion Review of the audit**

- (a) The Auditor General's Office shall undertake a post completion review of the audit for quality. The external auditor shall provide access to the audit file and to the audit team that carried out the audit. The External auditor shall provide copies of working papers upon request by the Auditor General's Office.

- (b) A guideline to carry out the post completion review of the audit shall be published by the Auditor General’s Office.

**13. Rating the Reviews**

- (a) The Auditor General’s Office shall give a rating for the reviews stated in Section 11 and Section 12 of this regulation. The rating for the reviews shall be as follows:
- (a) Good;
  - (b) Satisfactory; or
  - (c) Unsatisfactory
- (b) If the rating for either or both of the reviews stated in Section 11 and Section 12 is “unsatisfactory”, the Auditor General’s Office has the discretion to “Black List” the appointed auditor from bidding for external audit service of SOEs, in addition to writing to the Institute of Chartered Accountants of the Maldives (CA Maldives) for further disciplinary action against such a blacklisted PIE Auditor.
- (c) If an auditor is classified as Black Listed, such an auditor is barred from bidding for the external audit service of the SOEs for a period of three years from the date of blacklisting. Further, an SOE shall not accept audit bid from such an auditor for external audit service for a period of three years from the date of blacklisting the auditor.

**14. Offences and Penalties**

- (a) According to section 20 (a) 1 of the Audit Act (Law No. 4/2007), non-compliance with this regulation is an offence, and the Auditor General has the authority, pursuant to section 20 (c) of the Audit Act (Law No. 4/2007), to levy fines and penalties and take other legal actions against the SOE or external auditor that commits such an offence. Fines and penalties for offences are given below.

Offence	SOE Category	Penalty
<b>Penalties for the SOE</b>		
Failure to submit the financial statements to the AGO by the deadlines stated in	Category A (business with annual turnover above MVR 100 million)	Fine between MVR 30,000/- and MVR 40,000/-

Section 9 (d) of this regulation.	Category B (business with annual turnover between MVR 20 million and MVR 100 million)	Fine between MVR 20,000/- and MVR 30,000/-
	Category C (business with annual turnover below MVR 20 million)	Fine between MVR 10,000/- and MVR 20,000/-
Failure to submit the audited financial statements and management-commented ML to the Auditor General’s Office within the deadline stated in Section 8.3 of this regulation.	Category A (business with annual turnover above MVR 100 million)	Fine between MVR 30,000/- and MVR 40,000/-
	Category B (business with annual turnover between MVR 20 million and MVR 100 million)	Fine between MVR 20,000/- and MVR 30,000/-
	Category C (business with annual turnover below MVR 20 million)	Fine between MVR 10,000/- and MVR 20,000/-
<b>Penalties for external auditors appointed by the SOE</b>		
Failure to submit to the Auditor General’s Office the report stated in section 8.4 (a) of this regulation within 30 days of receiving back management-commented ML	Category A (business with annual turnover above MVR 100 million)	Fine between MVR 30,000/- and MVR 40,000/-
	Category B (business with annual turnover between MVR 20 million and MVR 100 million)	Fine between MVR 20,000/- and MVR 30,000/-

	Category C (business with annual turnover below MVR 20 million)	Fine between MVR 10,000/- and MVR 20,000/-
Failure to provide necessary explanations and access to supporting documents and audit teams for the reviews carried out by the Auditor General’s Office under this regulation.	Category A (business with annual turnover above MVR 100 million)	Fine between MVR 30,000/- and MVR 40,000/-
	Category B (business with annual turnover between MVR 20 million and MVR 100 million)	Fine between MVR 20,000/- and MVR 30,000/-
	Category C (business with annual turnover below MVR 20 million)	Fine between MVR 10,000/- and MVR 20,000/-

**(b) Penalties for other offences**

Non-compliance with any other provision of this regulation is punishable in according with Section 20 (c) of the Audit Act (Law No. 4/2007).

**15. Effective Date**

This regulation comes into effect upon publication in the government Gazette.

## Schedule A

# FINANCIAL ANALYSIS AND INTERPRETATION REPORT

### Interpretation of Financial Ratios

To understand the financial position of [COMPANY NAME] we have performed a Financial analysis for the years ..... Our Calculations and the interpretations on the ratio are stated 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

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

(b) Acid Test Ratio

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

**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

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

(b) Price earnings ratio

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

(c) Earnings yield

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

(d) Dividend per share

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

(e) Dividend yield

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

(f) Dividend cover

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



**Auditors Interpretation**

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**Recommendation for improvements**

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**Management Comments**

**Overall Conclusion on the Financial position of the Company:**

*Financial ratio analysis is more meaningful when it is compared against calculation financial ratios of two-time period of the firm. Based on the calculated figures, a brief conclusion (positive/negative/adverse/good) shall be included in the report.*

**Over all Recommendations**

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

## ***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 9 of the Regulation on the Audit and Accountability of State-owned Enterprises. This report has six sections. They are:

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

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

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

Based on our review, we conclude that [COMPANY NAME] **significantly complies/does not comply** with PCB Corporate Governance Code for State Owned Enterprise. However, there are areas to be improved which are discussed 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 B: Assessment on Key Internal Controls**

Based on our review, we conclude that (COMPANY NAME) **significantly complies/does not comply** with COSO Internal Control – Integrated Framework. However, there are areas to be improved which are discussed 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**

Based on our review, we conclude that COMPANY NAME **significantly complies/does not comply** with COSO Fraud Risk Management Guide. However, there are areas to be improved which are discussed below.

**Finding 1**

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**Implication**

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**Recommendation for improvements**

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**Management Comments**

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

Based on our review, we conclude that [COMPANY NAME] significantly complies with PCB Procurement Procedures and Guidelines for SOEs of Maldives and procurement guidelines issued by the Ministry of Finance. However, there are areas to be improved which are discussed 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: Assessment on the Compliance with Other Directives issued by PCB**

Based on our review, we conclude that COMPANY NAME significantly complies with the directives issued by PCB. However, there are areas to be improved which are discussed 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 G: Other Matters**

*Any other matters that the auditor may want to address; along with recommendations for improvement.*