Accountancy Board
Quality Assurance

ANNUAL 2024 REPORT

The Accountancy Board presents its Annual Report for the year ended 31 December 2024 pursuant to Article 7(19) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta.

27 March 2025

Enquiries relating to this report should be addressed to:

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Ministry for Finance
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MESSAGE FROM THE CHAIRMAN

MESSAGE FROM THE CHAIRMAN

As Chairman of the Accountancy Board, I am pleased to present this year's statement, highlighting the Board's activities and achievements in 2024. Firstly, I would like to take this opportunity to express my gratitude to the Minister for the continued trust and confidence in my leadership and the present constitution of the Board. Our overriding objectives are to safeguard the public interest and uphold the standards of the Accountancy Profession in Malta.

Board Activities and Oversight

In 2024, the Board convened nine meetings, supported by sessions of the Quality Assurance Oversight Sub-committee (QAOSC), Education Sub-Group, Disciplinary Committee and Investigations Sub-committee. A record 71 Quality Assurance visits were completed and approved during the year, with 10 cases resulting in sanctions. These included follow-up visits, external reviews, file reviews, declarations, and other restrictions, underscoring the Board's dedication to promoting accountability and professional standards.

Key Collaborations and Challenges

Collaboration with stakeholders remained a central focus:

- **Malta Institute of Accountants:** Continued technical collaboration took place on various initiatives. Items covered were multifaceted including Technical, Ethical, Legal and Regulatory matters.
- **Malta Financial Services Authority, Malta Business Registry, Malta Gaming Authority on the Corporate Sustainability Reporting Directive (CSRD):** Significant challenges are emerging due to the anticipated delay in the adoption of European Sustainability Assurance Standards, while the local transposition is nearing completion. The Board is working to ensure a smooth transition in quite challenging circumstances.
- **National Coordinating Committee (NCC):** Several meetings were held with the National Coordinating Committee to prepare for the forthcoming Moneyval visit, emphasizing the need for improving coordination among regulatory authorities to enhance oversight.

Progress also continued in preparing suggested revisions to the Accountancy Profession Act, which is nearing finalisation. The overriding objective of this exercise is to strengthen the Board's Regulatory functions.

International Engagements

The Board actively participated in key international fora, including CEAOB meetings and other EU-related engagements on Corporate Sustainability and the European Single Access Point. Staff at the Quality Assurance Unit attended inspection meetings in Riga and Crete. Additionally, QAU representatives contributed to enforcement and market monitoring discussions, ensuring alignment with international standards and best practices.

Looking Ahead

The Board remains committed to upholding the public interest, maintaining the highest professional standards, and actively supporting the implementation of the CSRD while addressing emerging challenges and developments. Strengthening collaboration between regulatory bodies and finalising ongoing initiatives will be key priorities in the year ahead.

I sincerely thank all Board Members, the Board Secretary, the Quality Assurance Unit, our Legal Advisor, and other stakeholders for their dedicated efforts throughout the year. Their commitment ensures the resilience and continuing excellence of Malta’s Accountancy Profession.

Mr Edgar Borg, FCCA, FIA, CPA
Chairman - Accountancy Board
27 March 2025

ORGANISATIONAL STRUCTURE

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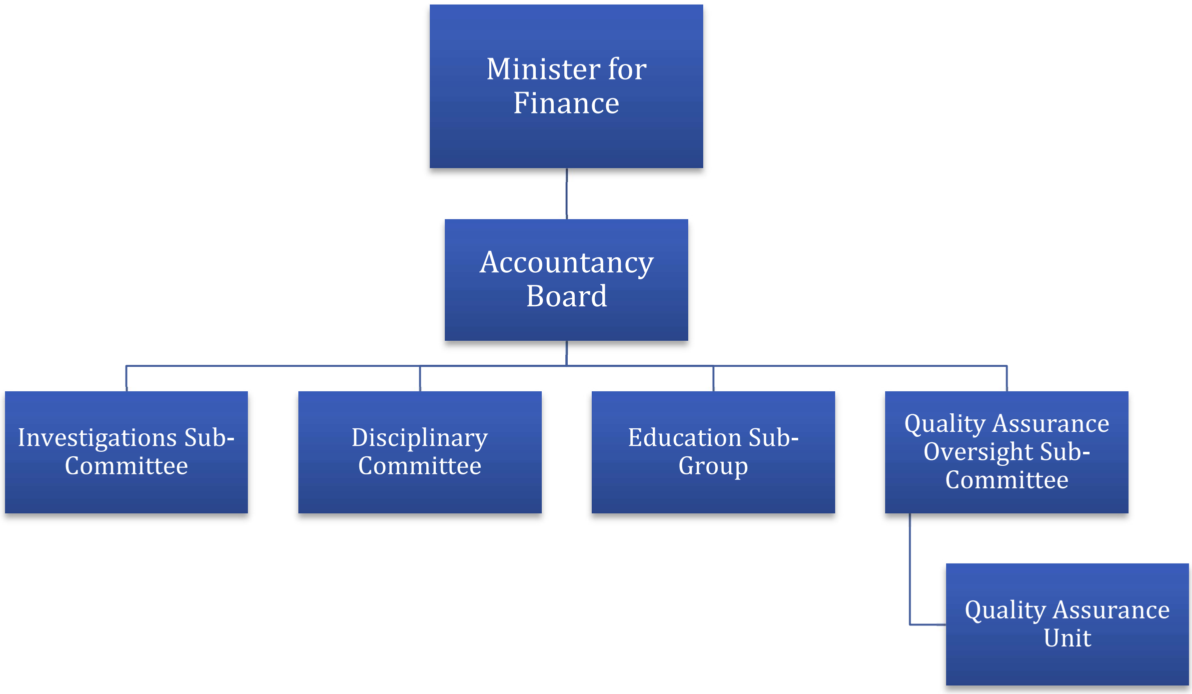


The Accountancy Board forms part of the portfolio held by the Minister for Finance, Mr Clyde Caruana.

THE ACCOUNTANCY BOARD

THE ACCOUNTANCY BOARD

Board Structure

Article 6(2) of the Accountancy Profession Act lays out the composition of the Accountancy Board, specifying that it should be made up of:

- a chairman of recognised standing and experience in the accountancy and auditing profession;
- a member from a list of two nominated by the University of Malta from among the teaching staff of the Faculty or Faculties in which teaching of and research in the field of accountancy and auditing is organised;
- a senior official of the Ministry responsible for finance;
- two members from a list of four nominated by a recognised accountancy body; and
- two other members.

Present Members of the Board

Chairman:
Mr Edgar Borg, FCCA, FIA, CPA

Secretary:
Mr Martin Spiteri IEng, MIIE, MBA (Leicester)

Members*:*
Professor Peter J. Baldacchino, Ph.D. (Lough.) M.Phil. (Lough.), FCCA, FIA, CPA
Mr Luke Coppini, FCCA, FIA, CPA
Mr David Demarco, B.A.(Hons) Accountancy, MBA, ACIB, FIA, CPA
Professor Lauren Ellul, B. Accty. (Hons), MBA (Exec.) (Edin. & ENPC), FIA, CPA, PhD (Birm.)
Mr John Sammut M.A (Fin. Serv), M.A. (Risk and Ins.), B.A. (Hons) Accty, ACIB, CPA
Ms Marlene Mizzi, B.A.(Hons) Econ., M.Phil. (Maastricht)

During 2024, the Accountancy Board members' term of office elapsed on the 24th July 2024 and was re-constituted on the 25th July 2024 for a period of one year.

Functions of the Board

The Accountancy Board regulates the accountancy profession in Malta and is entrusted with a number of functions, as outlined in Article 7 of the Accountancy Profession Act, including:

- the issue of accountants' warrants;
- the issue of practising certificates in auditing;
- the registration of firms of accountants and auditors;
- keeping a register of the above;

- the operation of an appropriate system of quality assurance;
- dealing with cases of professional misconduct and other disciplinary proceedings;
- taking measures to protect the public interest and the integrity of the profession;
- advising or making recommendations and expressing its views to the Minister; and
- such other functions arising from any law or as may be delegated to it by the Minister under the Accountancy Profession Act.

In 2024, Accountancy Board meetings were held in February, April, May, June, July, September, October and December.

Representatives and members of the board were also involved in a number of meetings with respect to the following areas:

- addressing the need for changes in legislation, particularly the EU Corporate Sustainability Reporting Directive, the Accountancy Profession Act (APA), the Accountancy Profession Regulations (APAR) and Directive 4 and the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) (Amendment) Regulations;
- discussing with the Malta Institute of Accountants a wide range of topics; and
- the holding of an External Audit Reviewer Course during 2025.

EU Corporate Sustainability Reporting Directive (CSRD)

The European Union's Corporate Sustainability Reporting Directive (CSRD) was adopted in December 2022. As at the end of the year, this legislative framework has not yet been transposed locally. However, at EU level during early 2025, the EU Commission has published the long-awaited first Omnibus Simplification Package. It proposed significant amendments to streamline and reduce the administrative burden of existing sustainability regulations. These proposed changes primarily target the CSRD, the Corporate Sustainability Due Diligence Directive (CSDDD), the EU Taxonomy, and the Carbon Border Adjustment Mechanism (CBAM).

During the year, representatives of the board participated in workshops aimed at transposing the EU directive into local legislation in collaboration with the MFSA, MGA, MIA, MBR as well as with the external consultant engaged to transpose requirements into national legislation. Various meetings were held during the year in this regard.

Amendments to the Accountancy Profession Act (APA), the Accountancy Profession Regulations (APAR) and Directive 4

During the year 2024, various requirements of the APA, APAR and Directive 4 started to be amended. These are envisaged to be finalised in the year 2025. Such changes have arisen due to the sustainability standards being adopted at EU level. In addition, other changes were discussed to strengthen the powers of the Board.

Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) (Amendment) Regulations.

On 1st March 2024, by virtue of Legal Notice 41 of 2024, the Accountancy Profession (General Accounting Principles for Small and Medium-Sized Entities) (Amendment) Regulations were issued. The objectives behind these amendments were the following: (i) clarification of certain aspects already incorporated in the current regulations, but which gave rise to uncertainty in their interpretation; (ii) rectification of a number of inconsistencies and typos identified in the current regulations; (iii) alignment of the current regulations with concepts and other rules emanating from other accounting and audit standards; and (iv) consequential changes as a result of the above amendments. All the proposed amendments seek to maintain and enhance the original objective of the current GAPSME framework, that of simplification and alignment with Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings. These amendments were discussed and agreed upon by the Accountancy Board and the Malta Institute of Accountants.

Topics raised and discussed with the Malta Institute of Accountants

During 2024, a wide range of topics were discussed with representatives of the Malta Institute of Accountants. Such topics included the introduction of logbooks for prospective CPA warrant and Practising Certificate applicants; the use of tradenames; the definition of accountant; changes to the Code of Ethics as well as revisions to be made to CPE requirements. Such discussions are envisaged to lead to guidelines being issued or in some cases legislation being amended in 2025.

External Quality Assurance Reviewers Course

During 2024, meetings were held between the QAU and the Malta University Consulting Ltd to discuss the holding of another External Audit Reviewer Course during the year 2025. This course is envisaged to take place during July 2025 and will cover IFRS, IASs, ISAs and a proper understanding of the regulatory framework governing quality assurance and audit public oversight. Sessions will also cover the quality assurance methodology. Persons attending this course will be eligible to become the Accountancy Board's approved external reviewers subsequent to undergoing an interview.

OTHER COMMITTEES AND SUB-COMMITTEES

OTHER COMMITTEES AND SUB-COMMITTEES

The Accountancy Board has set up a number of committees and sub-committees to assist it in carrying out its functions in line with Article 7 of the Accountancy Profession Act.

The Investigations Sub-Committee

Chairperson:
Mr David Demarco B.A.(Hons) Accountancy, MBA, ACIB, FIA, CPA

Members*:*
Mr Edgar Borg, FCCA, FIA, CPA
Mr Luke Coppini FCCA, FIA, CPA
Mr Mario P. Galea FCCA, FIA, CPA
Ms Marlene Mizzi, B.A. (Hons.) Econ., M.Phil. (Maastricht)

Legal Consultant:
Dr Ivan Sammut M.A. (Fin. Serv), LLD

Secretary:
Mr Charles Buhagiar, FCCA, MIA, CPA

The scope of the Investigations Sub-Committee is to investigate cases brought to the attention of the Board, consisting mainly of complaints. The sub-committee assesses the cases presented and provides the Board with advice on whether to refer such cases to the Disciplinary Committee and/or recommend any other course of action.

In 2024, the Investigations Sub-Committee investigated twelve cases, seven of which were brought forward from the previous year. During the year, the sub-committee concluded nine cases, and carried forward three cases to the year 2025.

The Investigations Sub-Committee met ten times during the year.

During 2024, the Accountancy Board members' term of office elapsed on 24 July 2024 and was re-constituted on 25 July 2024. The Accountancy Board appointed all Investigations Committee Members again.

The Disciplinary Committee

Chairperson:
Mr John Sammut M.A (Fin. Serv), M.A. (Risk and Ins.), B.A. (Hons) Accty, ACIB, CPA

Members*:*
Mr Joseph Agius, BSc (Hons) Fin. Serv, FCIB, Dip Fund Admin
Mr Antoine Dalli, MBA, B. Accty (Hons), FIA, MIM, CISA, CIA
Mr Stephen L. Muscat, FIA, CPA
Mr Anthony Scicluna, B.A. (Hons) Business Management, FIA, CPA

Legal Consultant:
Dr Ivan Sammut, M.A. (Fin. Serv), LLD

Secretary:
Mr Charles Buhagiar FCCA, MIA, CPA

The Disciplinary Committee acts on behalf of the Board in respect of cases of professional misconduct and other disciplinary proceedings. Disciplinary proceedings may lead to the suspension or withdrawal of any warrant or practising certificate issued under the Accountancy Profession Act. The Disciplinary Committee is set up on an ad hoc basis.

Cases of Non-Submission of Annual Returns

Mr John Sammut chaired the Disciplinary Committee dealing with cases relating to non-submission of annual returns and fees by warrant holders.

The Quality Assurance Unit of the Accountancy Board, in collaboration with the Disciplinary Committee, communicated with defaulting warrant holders with the objective of requesting them to regularise their position. The Disciplinary Committee held three disciplinary sittings during the year 2024 and, also continued to send letters of warning to defaulters.

Ad hoc Disciplinary Committees

During the year 2024 the Accountancy Board appointed two ad hoc Disciplinary Committees to hold enquiry proceedings against two warrant holders so as to consider and adjudge the charges imputed against the said warrant holders in alleged cases of breach of the Code of Ethics.

Mr John Sammut chaired the above-mentioned ad hoc Disciplinary Committees. The said committees were composed of the same persons proceeding with cases of defaulting warrant holders referred to above.

On being reconstituted on 25th July 2024, the Accountancy Board re-appointed all the Disciplinary Committee Members, except for Mr Renzo Farrugia who did not seek re-appointment. Instead, the Board appointed Mr Antoine Dalli.

Education Sub-Group

Chairman:
Professor Peter J. Baldacchino, Ph.D. (L'boro) M.Phil, FCCA, FIA, CPA

Members*:*
Professor Lauren Ellul, B. Accty. (Hons), MBA (Exec.) (Edin. & ENPC), FIA, CPA, PhD (Birm.)

Secretary:
Mr Martin Spiteri IEng, MIIE, MBA (Leicester)

The Education Sub-Group assists the Accountancy Board with respect to the evaluation of applications for warrants, practising certificates as well as firm registrations which are approved during Accountancy Board meetings.

The sub-committee meets before each monthly Accountancy Board meeting and submits its recommendations and comments for the consideration of the Board.

The Education Sub-Group was chaired by Prof Peter J. Baldacchino.

The Quality Assurance Oversight Sub-Committee

Chairman:
Professor Peter J. Baldacchino, Ph.D. (L'boro) M.Phil, FCCA, FIA, CPA

Members*:*
Mr Edgar Borg, FCCA, FIA, CPA
Professor Lauren Ellul, B. Accty. (Hons), MBA (Exec.) (Edin. & ENPC), FIA, CPA, PhD (Birm.)
Mr John Sammut M.A (Fin. Serv), M.A. (Risk and Ins.), B.A. (Hons) Accty, ACIB, CPA

Secretary:
Ms Karen Sultana, B.Accty (Hons), CPA, FIA

As a result of the changes made to the Audit Directive, which became effective during 2016, the quality assurance function now falls directly under the remit of the Accountancy Board, which is composed of non-practitioners. In this regard, the Board set up a Quality Assurance Oversight Sub-Committee to assist in this role. The Quality Assurance Oversight Sub-Committee (QAOSC) reports directly to the Board.

The Quality Assurance Unit submits all quality assurance visit reports to the QAOSC for its consideration. The QAOSC then carries out a detailed review of the visit reports and provides recommendations to the Board, prior to their final approval.

Quality Assurance Oversight Sub-Committee meetings were held in January, April, May, July, October and November 2024.

THE

QUALITY

ASSURANCE UNIT

THE QUALITY ASSURANCE UNIT

Overview

The Quality Assurance Unit (QAU) acts on behalf of the Accountancy Board in the implementation and supervision of the quality assurance process as contemplated in the provisions set out in Directive 4 to the Accountancy Profession Act. The quality assurance process is intended to be the means through which the Board provides assurance as to the quality of the professional work of statutory auditors and statutory audit firms and on the maintenance of appropriate levels of professional standards. The QAU conducts visits to statutory auditors and statutory audit firms.

The Team

The Quality Assurance Unit is headed by Ms Karen Sultana.

In 2024, the QAU team consisted of the Head of Unit and eight members of staff. The staff complement included five reviewers primarily conducting inspection visits, one of whom works on a reduced time-table, one member of staff assigned duties by the board, another staff member handling regulatory matters and an administrative staff member.

Furthermore, a prospective MCAST student was offered a work placement during the summer period.

Training

Professional staff are required, as a minimum, to adhere to CPE requirements set out in Directive 1 of the Accountancy Profession Act and to keep themselves updated with recent changes in the profession.

The Board is committed to ensuring competence of its staff members. Thus, reviewers are provided with the necessary support to attend Continued Professional Education (CPE) events.

During the year, reviewers attended a number of training sessions focusing primarily on audit related topics, which are relevant to carry out audit reviews. Training also focused on the new Environmental, Social and Governance (ESG) reporting standards that are being introduced by the Corporate Sustainability Reporting Directive (CSRD). Other areas such as financial reporting, legislation and taxation were also covered. Reviewers exceeded the mandatory CPE requirements set out in Directive 1 of the Accountancy Profession Act.

Source of Funding

Statutory auditors and audit firms are required by Directive 4 of the Accountancy Profession Act to settle an annual Quality Assurance Regulatory Fee. The Directive also stipulates other fees and penalties that may be imposed on statutory audit firms and statutory auditors.

The fees received are remitted to the Ministry for Finance and subsequently, any operational expenses incurred by the Board and the Quality Assurance Unit are financed by the Ministry for Finance. This system of funding ensures that the Unit is free from undue influence by statutory auditors and audit firms. Currently, the Ministry for Finance funds approximately 55% of the Accountancy Board's expenditure, which is primarily related to the Quality Assurance Unit. The remaining 45% is funded through fees paid by warrant holders and firms.

Quality Assurance Regulatory Fees as stipulated in Directive 4 of the Accountancy Profession Act are as follows:

- Part-time sole practitioners €116
- Full-time sole practitioners €233
- Firms with one principal €233
- Firms with less than three but more than one principal €582
- Firms with less than five but more than two principals €1,630
- Firms with five or more principals €5,950

When the Board deems that a follow-up visit is necessary, the statutory auditor or audit firm will be subject to an additional fee for such visit. A rate of €34.94 per man hour will be charged multiplied by the total number of hours spent on the visit.

Also, regulatory penalties may also be charged in respect to breaches as stipulated in Schedule 1 to Directive 4, which are as follows:

- Re-scheduling of review visit without justifiable reasons €232.94
- Failure to respond to any requests made by the QAU within the time limits set out in such requests €23.29 per day
- Delays in submission of fees and returns due €23.29 per day
- Failure to submit documentation requested by the Board or the QAU within the specified time €23.29 per day
- Failure to provide access to information in terms of paragraph 16 €23.29 per day
- Failure to respond to the Board on requested remedial action €23.29 per day

THE ACCOUNTANCY AND AUDIT PROFESSION

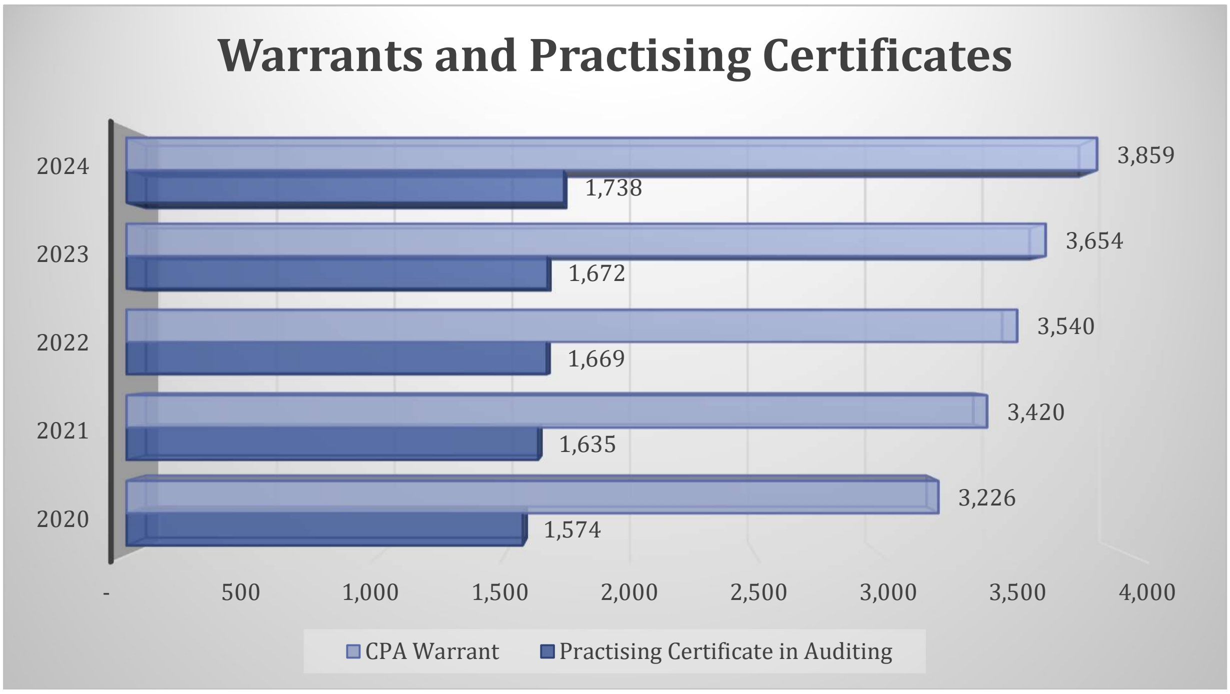
THE ACCOUNTANCY AND AUDIT PROFESSION

CPA Warrant Holders and Holders of a Practising Certificate in Auditing

At year end, the total number of CPA warrant holders registered with the Accountancy Board stood at 3,859 (2023: 3,654) whereas the total number of holders of a practising certificate in auditing as on 31 December 2024 amounted to 1,737 (2023: 1,672).

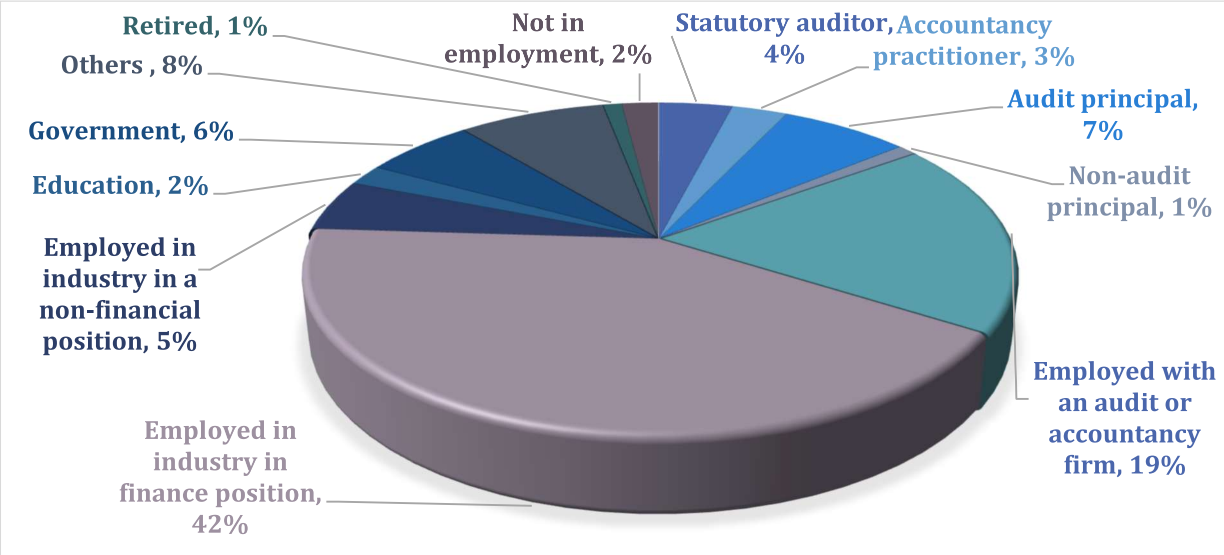
The number of CPA warrant holders and holders of a practising certificate in auditing registered with the Accountancy Board is steadily increasing from one year to the next.

In 2024, the Board approved 220 new CPA warrant holders and 72 practising certificate holders. However, there was a decrease of 15 CPA holders and 7 practising certificate holders who retired or passed away. The increase of CPA and practising certificate holders year on year can be seen below:

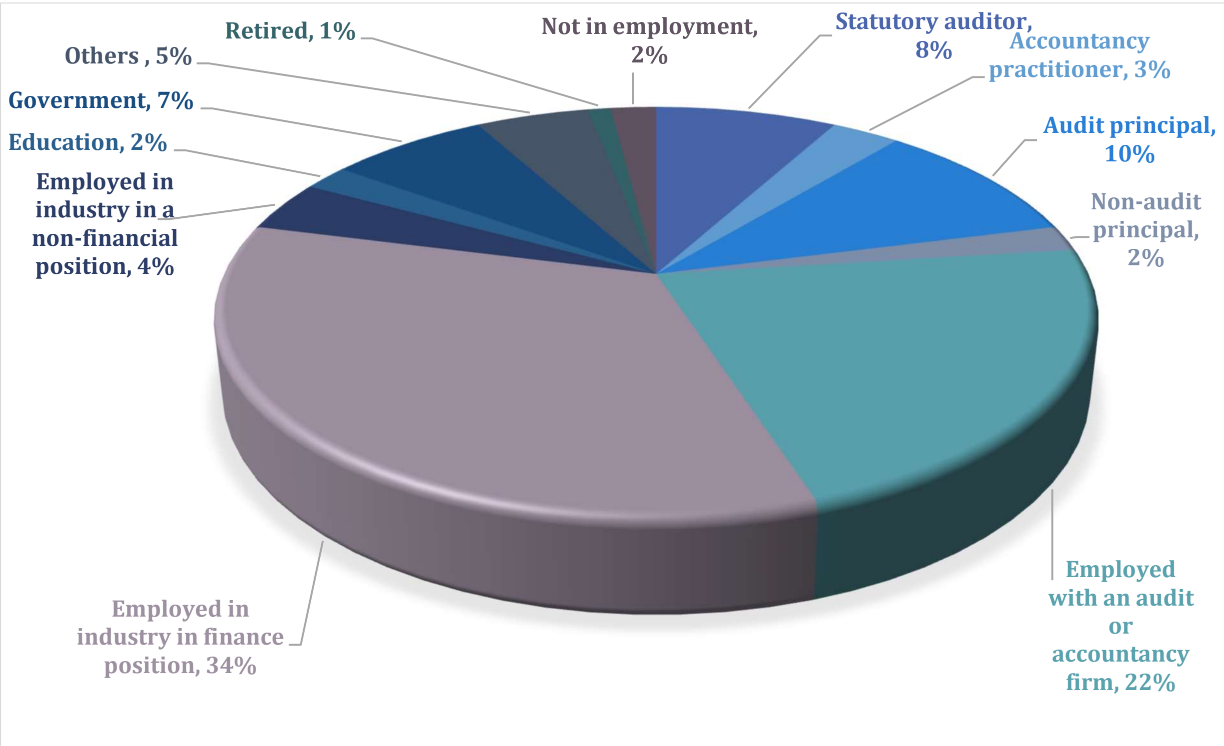


CPA warrant holders and practising certificate holders continue to be involved in a diverse range of sectors and roles and are availing of different positions and opportunities both within the profession and outside the profession. This is represented in the following analysis which is based on submissions made by registered warrant holders and practising certificate holders through the annual return:

CPA warrant holders - Work Sector



Practising Certificate in Auditing - Work Sector



Sole Practitioners

At year end, the number of sole practitioners increased by 5% and totalled 306 (2023: 291). Of these, 162 (2023: 155) provided statutory audit services (96 operating on a full-time basis and 66 operating on a part-time basis) and the remaining 144 (63 operating on a full-time basis and 81 operating on a part-time basis) did not conduct audits [1].

Statutory Audit Practitioners – share of market

Based on declarations made through annual return submissions, it is noted that statutory audit practitioners account for approximately 34% of total audits engagements.

Accountancy and Audit Firms

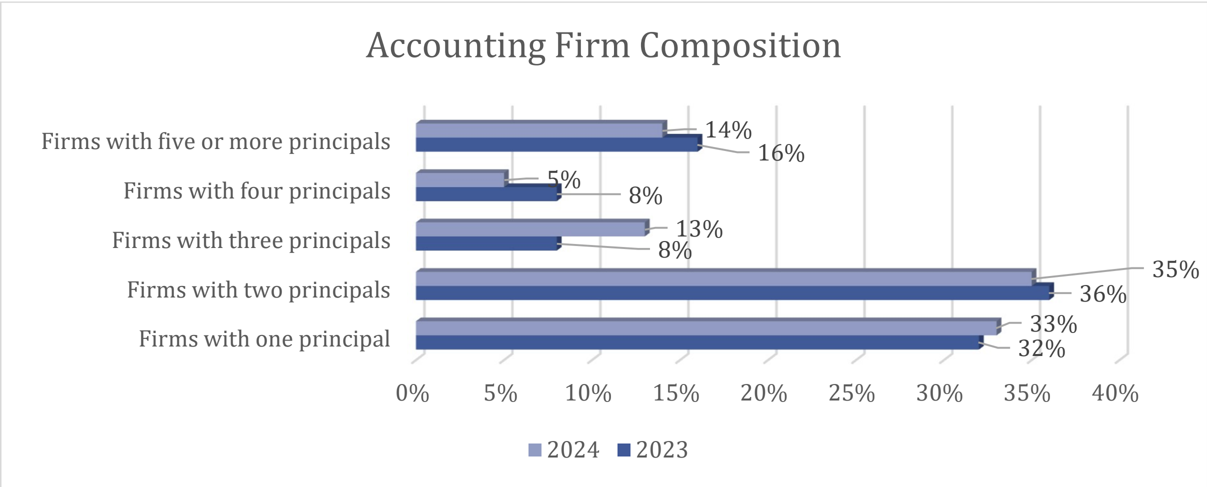
The Accountancy Board, apart from granting warrants and practising certificates in auditing to individuals, the Board also is responsible for registering accounting and audit firms. Accounting and audit firms may either be structured as a partnership, or else incorporated as a limited liability company. As on 31 December 2024, the number of accounting and audit firms registered with the Accountancy Board stood as follows:

- 86 Accounting Firms (2023: 87); and
- 139 Audit Firms (2023: 141).

Accounting Firms

During the year, there was an increase of circa 1% in the number of accounting firms registered with the Board. The reason for this decrease was due to the number of accounting firm de-registrations superseding the number of registrations made during the year.

Furthermore, it was noted that during the year, 33% of accounting firms were composed of one principal (in 2023 - 32%), and 35% of accounting firms were composed of two principals (in 2023 - 36%). The following bar graph shows the composition of accounting firms during 2024 and 2023:



[1] This information is based on data extracted from 2024 Annual Returns submitted by 5 March 2025.

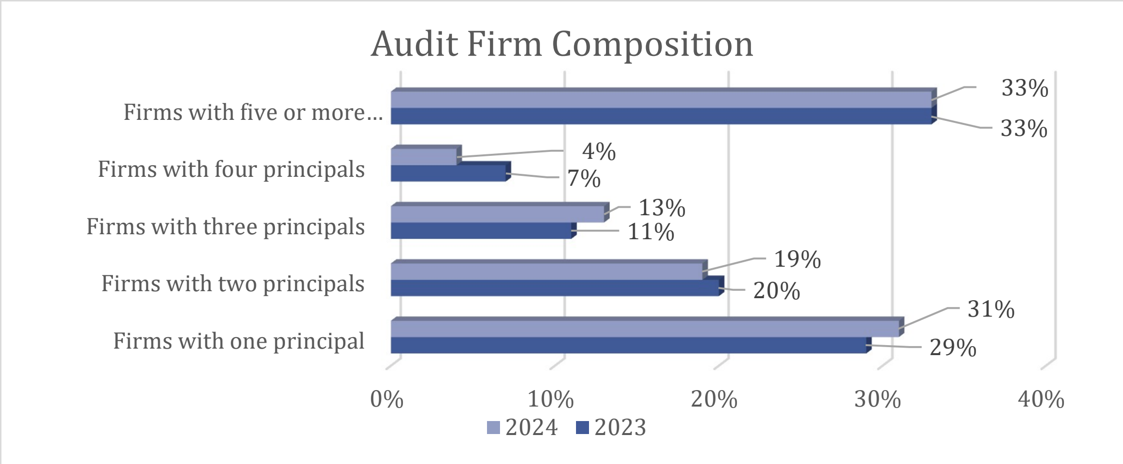
During 2024, 94% (in 2023 96%) of accounting firms were incorporated as limited liability companies, whilst the remaining 6% (in 2023 4%) were registered as partnerships.

Audit Firms

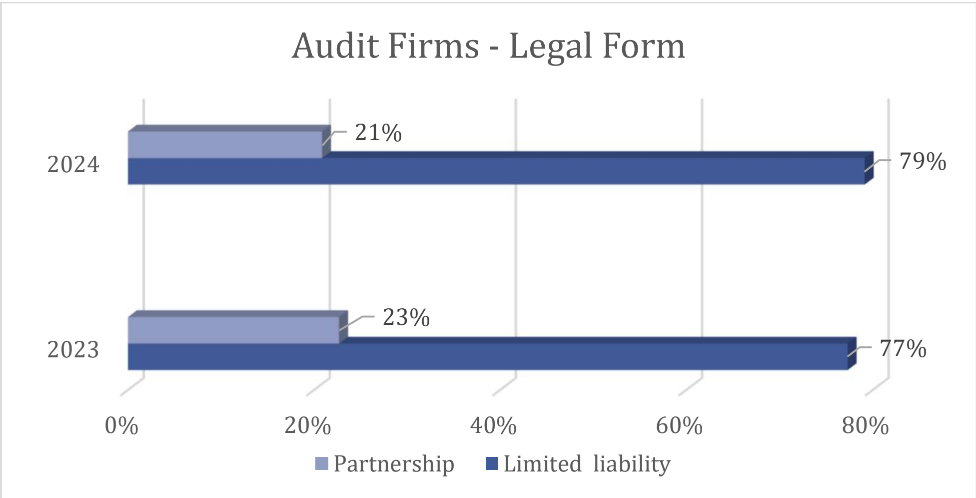
At year end, there was an overall decrease in the number of audit firms registered with the Accountancy Board of about 1%.

It was further noted that during the year, 31% of audit firms were composed of one principal (in 2023 29%), and 33% of audit firms were composed of five or more principals (in 2023 33%).

In respect to audit firms, the composition of principals in such firms has changed from the consistent trend in prior years as shown in the bar-chart below.



During 2024, audit firms with a limited liability legal structure increased by 2% to 79% from 77% in 2023. This is a continuing trend, subsequent to the adoption the Audit Directive, where new audit firms tend to seek registration as limited liability companies, whilst existing audit firms are also shifting to limited liability structures and de-registering existing partnerships.



Statutory Audit Firms – share of market

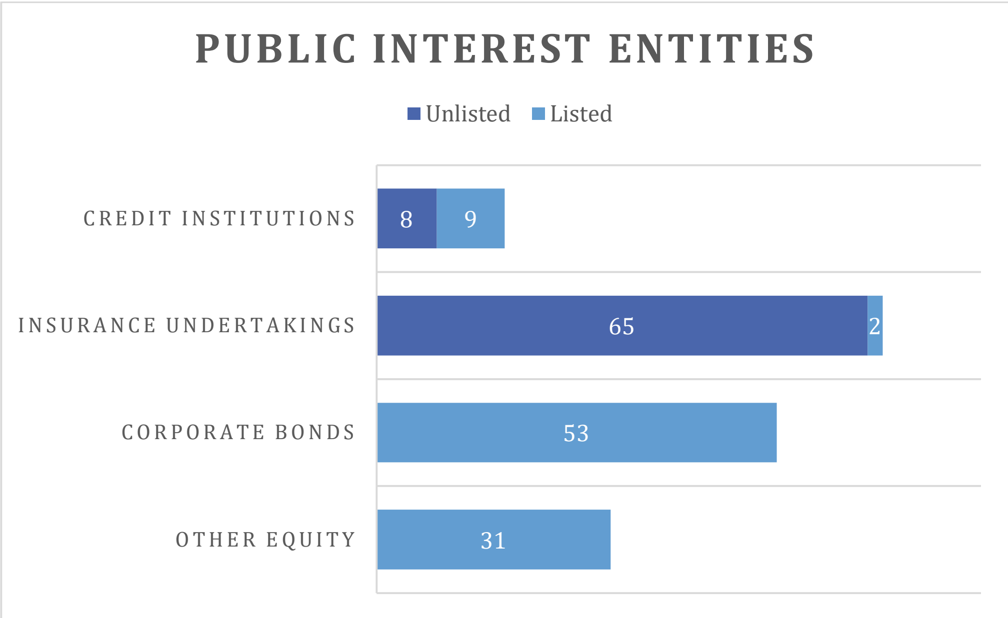
In respect to audit firms, as declared in annual return submissions, such firms carry out approximately 66% (in 2023 67%) of total audit engagements.

PIE Auditors

Public interest entities (PIEs) are entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, a credit institution as defined in point 1 of Article 3(1) of Directive 2013/ 36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, other than those referred to in Article 2 of that Directive, an insurance undertaking within the meaning of Article 2(1) of Directive 91/674/EEC and such other entities as may be prescribed by the Minister responsible for Finance.

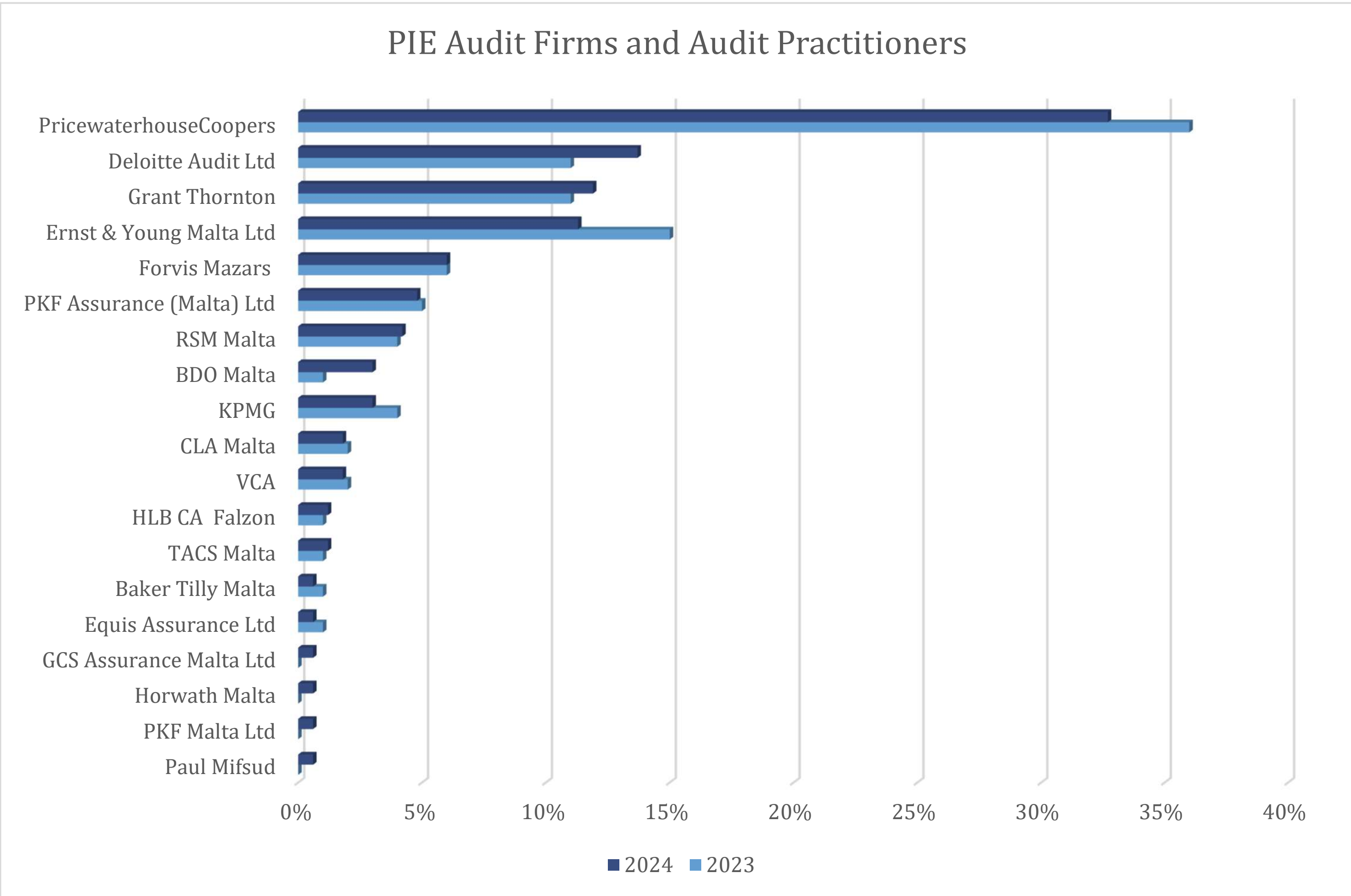
The Accountancy Board obtains information about statutory audit clients that are Public Interest Entities, through the information which audit firms and sole practitioners are required to submit through their annual returns. In 2024, the number of audit clients declared by audit firms and statutory auditors, which fall within the definition of a public interest entity, amounted to 168.

The following is a breakdown of the PIEs by type:



In 2024, the number of audit firms and audit practitioners offering statutory audit services to PIE audit clients amounted to nineteen. It was noted that 61% of the PIE audits were conducted by the big 4 statutory audit firms. The remaining 39% of PIEs audits were carried out by mid-tier and small statutory audit firms and one sole practitioner.

Depicted below is an analysis of the percentage of PIE clients audited by each PIE audit firm and audit practitioners in 2024 as per annual return submissions:



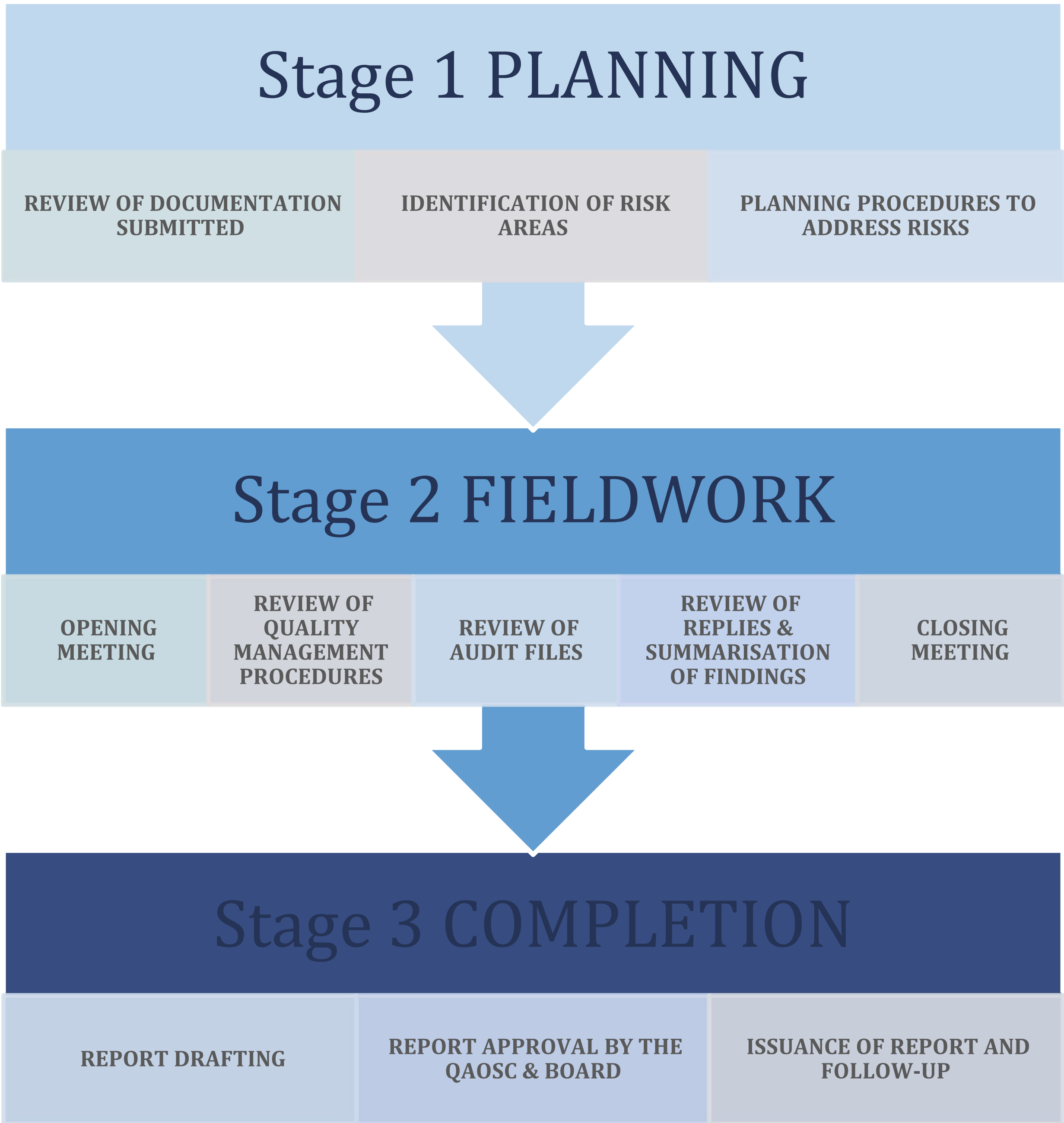
THE QAU INSPECTION METHODOLOGY

THE QAU INSPECTION METHODOLOGY

The QAU adopts a risk-based approach in order to select statutory auditors and audit firms for a monitoring visit.

The same approach is also applied throughout the visit itself, from the planning stage to the completion stage.

The following is a summary of the monitoring visit process, which can be divided into three stages:



Stage 1 - Planning

In preparation for the monitoring visit, a review is carried out of the information available pertaining to the statutory auditor or firm. This information is obtained through documentation such as correspondence files, annual returns, forms requested on notification of the visit including the audit clients list, previous visit reports, transparency reports in the case of PIE auditors and MBR searches.

Based on the information obtained through the review of such documentation, the reviewer identifies the risks pertaining to the visit and plans procedures accordingly to address those risks.

Stage 2 - Fieldwork

The objective of the visit is to carry out an assessment of compliance with applicable auditing standards and independence requirements, of the quantity and quality of resources spent and of the internal quality management system of the statutory auditor/firm, supported by adequate testing of audit files. On this basis, a general practice/firm review and audit file reviews are carried out.

Opening Meeting

On the first day of the visit, the reviewer(s) hold an 'opening meeting' with the compliance principal, who is the individual appointed within a firm to address compliance related matters or in the case of the sole practitioner, the sole practitioner himself/herself. The opening meeting with the compliance principal is utilised to discuss risks arising during the planning stage as well as to identify other potential risks areas to focus on during the course of the fieldwork stage of the visit. During this meeting, the selected audit files(s) as well as other documentation will be provided, by the compliance principal, to the reviewer(s).

Review of Quality Management Procedures

The general practice/firm review entails a review of the quality management of the statutory auditor/firm and a review of compliance with legislative requirements. In this regard, the following documentation is requested:

- ISQM 1 manual;
- Assessment of the practice's/firm's System of Quality Management;
- Professional indemnity insurance policy;
- Independence declarations of principals and staff;
- CPE declarations pertaining to principals and staff;
- Letterheads of the practice or firm and any connected undertakings; and
- Review of the system of quality management; and
- Cold file reviews including any EQCRs carried out.

In view of the new quality management standards ISQM 1 and 2 as well as the revised ISA 220, which became effective for periods on or after 15 December 2022, the QAU has reviewed its methodology on quality management procedures to address the new requirements.

In addition, on visits to PIE statutory auditors/firms, the Unit applies the Common Audit Inspection Methodology ('CAIM'). CAIM is an inspection programme introduced by the Committee of European Auditing Oversight Bodies (CEAOB) – Inspections Sub-Group to ensure an effective and consistent inspection approach across regulators within the EU.

The CAIM inspection programme was revised to address ISQM 1 & 2 requirements and consists of the following modules:

1. The firm's risk assessment process work programme
2. Governance and leadership work programme
3. Relevant ethical requirements work programme
4. Acceptance and continuance work programme
5. Engagement performance work programme
6. Resources work programme
7. Information and communication work programme
8. Engagement quality review work programme
9. The monitoring and remediation process work programme

On PIE auditor/audit firm visits, the compliance principal will be informed before the start of the visit of the additional documentation required in respect to whole firm/practice procedures.

Review of Audit Files

Apart from an assessment of the general practice/firm procedures, reviewers will also select one or more audit files for review. The number of files selected for review is at the discretion of the QAU. File selection is risk-based and depends on risk factors such as public interest, the size of audit clients and any audit qualifications, amongst others. Prior to the file review, the reviewer analyses risks relating to the audit client through a review of the audited financial statements. The reviewer would then assess how the statutory auditor/firm addressed those risks through the documentation found in the audit file.

Furthermore, when reviewing PIE audits, CAIM procedures addressing some audit specific related topics (i.e. revenue, group audits, estimates) will also be used in addition to other tailored templates adopted for such entities by the QAU reviewers.

Review of Findings and Summarisation of Findings

During the course of the visit fieldwork, the QAU reviewers will submit a number of queries to the compliance principal for his/her reply. These queries will be based on the documentation and audit files reviewed during the course of the visit. On the basis of the replies received and evidence found on file, the QAU reviewer(s) will draft a summary of the findings which have not been resolved.

Closing Meeting

The matters identified during the visit which have not been closed off, are discussed with the compliance principal during the closing meeting. The findings are documented and provided to the statutory auditor or audit firm during this meeting and the statutory auditor or audit firm is then given fourteen days to reply to the issues raised and to determine how these issues will be addressed.

Stage 3 - Completion

Drafting of Quality Assurance Visit Report

Following the completion of the fieldwork part of the visit and on receipt of the statutory auditor's or audit firm's responses to the closing meeting document, a report is drawn up on the findings identified during the visit and the conclusions of the quality assurance process in respect of the statutory auditor/firm, based on responses received from the compliance principal.

Reports are categorised for internal purposes into ratings which are determined by the instances and magnitude of non-compliance with the relevant regulations, the level of commitment and ability of the statutory firm/auditor to correct the problems identified and the regulatory action, if any, which should be applied.

Report Approval by the QAOSC and the Accountancy Board

The Head of the QAU will then present individual visit reports to the QAOSC for their review and approval. Subsequent to the QAOSC's review and approval, the QAOSC will refer these visit reports to the Accountancy Board for their final review and approval.

Based on the extent of the findings identified during the visit and the compliance principal's replies, the Board would then request confirmations from the statutory auditor/firm about actions expected to be taken by the statutory auditor/firm. Also, sanctions may be imposed, when necessary. Such confirmations and sanctions would be included in the closing down letter. Sanctions may include follow-up visits, external cold file reviews, hot file reviews, a review of the system of quality management, disciplinary action and other actions such as warnings, reprimands and declarations.

Follow-up visits

The QAU would carry out a follow-up visit to ensure that the practice/firm would have addressed the issues noted during the prior visit. Follow-up visits are normally carried out within one year subsequent to the first visit and are carried out by the QAU.

A follow-visit fee is imposed on the practice/firm, based on the number of hours spent on the review.

External cold file reviews

The practice would be required to appoint an independent external reviewer to carry out a review of a completed audit file.

The appointed individual would need to be an approved external reviewer by the Accountancy Board. A list of approved external reviewers can be accessed through the Accountancy Board's website.

Hot file reviews

The firm or sole practitioner would be required to appoint one of the external reviewers approved by the Board to inspect an audit file before the auditor signs the audit report.

Following the review, the external reviewer would issue a letter to the QAU for consideration by the Board. If the Board deems it to be acceptable, the practice is given the go ahead to sign the audit report.

External review of the system of quality management

The practice/firm would be required to appoint one of the external reviewers approved by the Board to carry out a review of the practice's/firm's whole firm policies and procedures in line with ISQM 1 and 2 and other legal requirements, including the Accountancy Profession Act.

Disciplinary actions

Depending on the significance of the findings emanating from the visit, a firm or a sole practitioner may be referred to the Disciplinary Committee or the Accountancy Board for further consideration.

Other actions

The practice/firm could be asked to provide an upcoming CPE plan and/or to implement an ISA compliant audit programme. Furthermore, warnings may be issued mandating that the finding identified is not repeated in future. Reprimands and/or declarations may also be issued and these are subsequently published on the Accountancy Board website.

Issuance of Report and Follow-up

The final report would also be sent with the closing down letter to the practitioner or audit firm.

The QAU ensures that any required confirmations provided by the compliance principal as well as any sanctions imposed will be satisfactorily addressed. If the QAU has any concerns regarding the confirmations received or the results of the sanctions imposed, the statutory auditor or statutory audit firm will be referred to the Accountancy Board for further action.

QUALITY ASSURANCE VISITS IN 2024

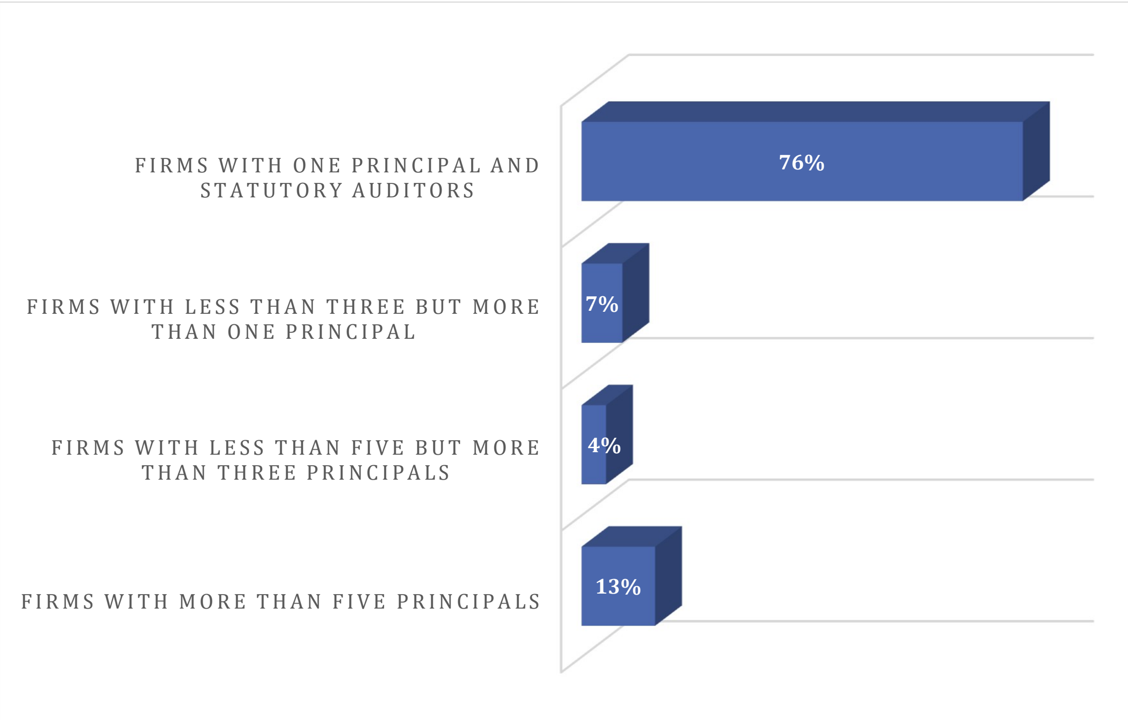
QUALITY INSPECTION VISITS IN 2024

Overview - Visits

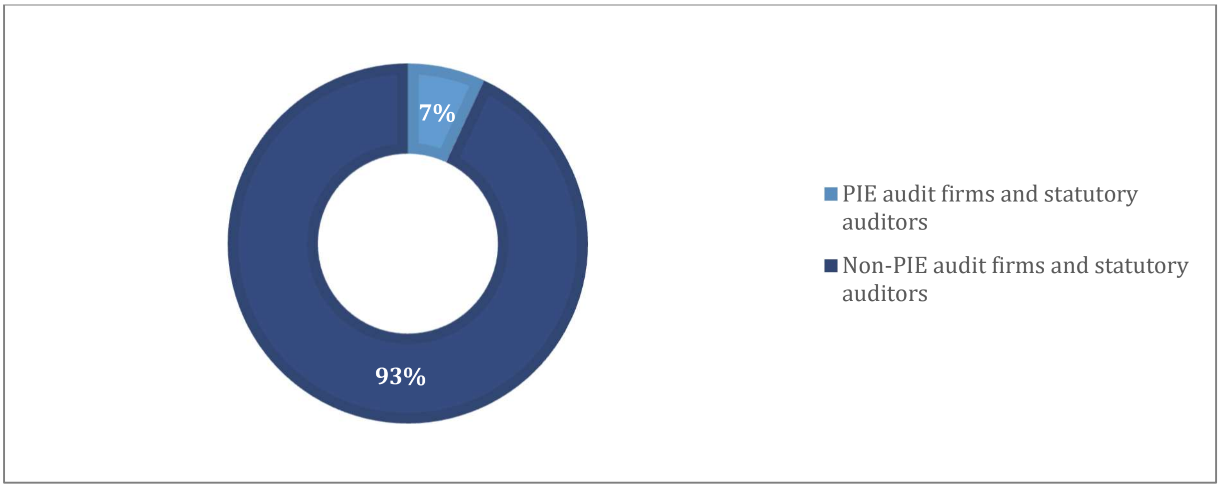
By the end of 2024, the Quality Assurance Unit had carried out a total of 52 visits during the year. Of these visits, 4 were to firms auditing public interest entities.

Thus, since the commencement of the QAU function, i.e. from 2007 to the end of 2024 an aggregate amount of 578 quality assurance visits have been carried out by the Unit. Of these 578 quality assurance visits, as at year end a total of 560 had been approved by the Board.

Of the above quality assurance visits carried out, as well as the conclusion of some visits which commenced in late 2023, during 2024 the Quality Assurance Sub-Committee and Accountancy Board reviewed a total of 71 quality assurance visit reports which can be shown graphically according to the size of the practice/firm inspected as follows:

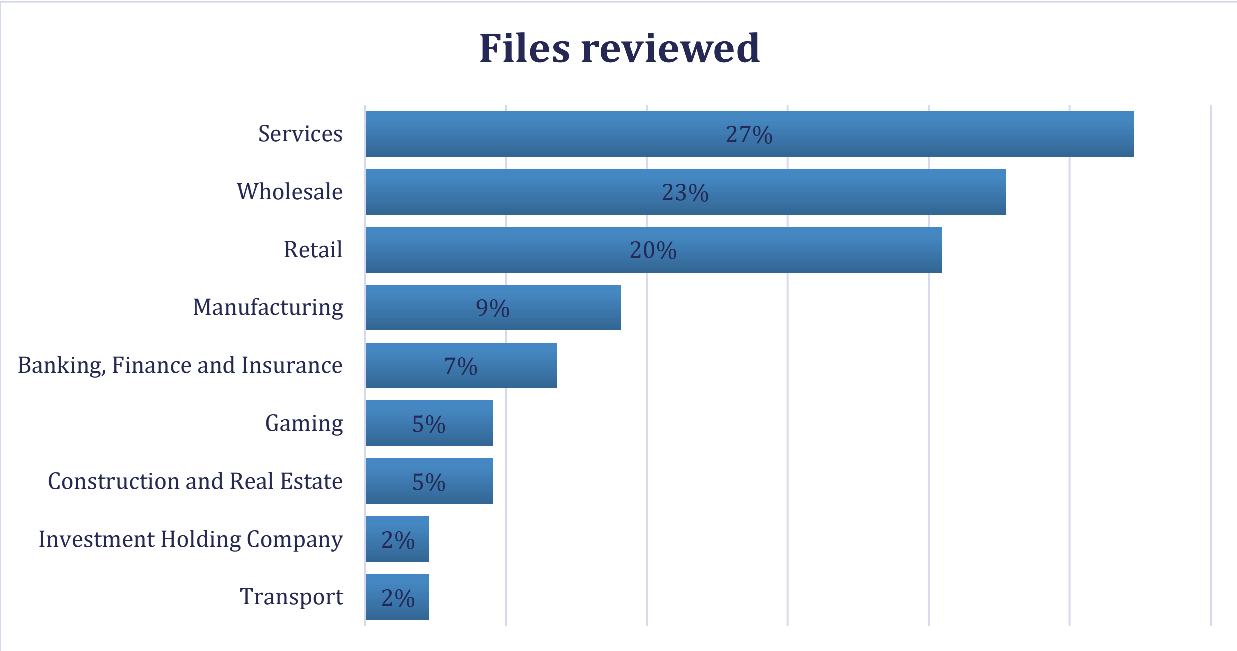


The Accountancy Board, during the year, approved a number of reports pertaining both to PIE auditors and non-PIE auditors. In fact, a total of 5 visits pertaining to PIE audit firms were approved, with the remainder being visits undertaken on sole practitioners and audit firms not auditing PIE engagements. This is shown as follows:

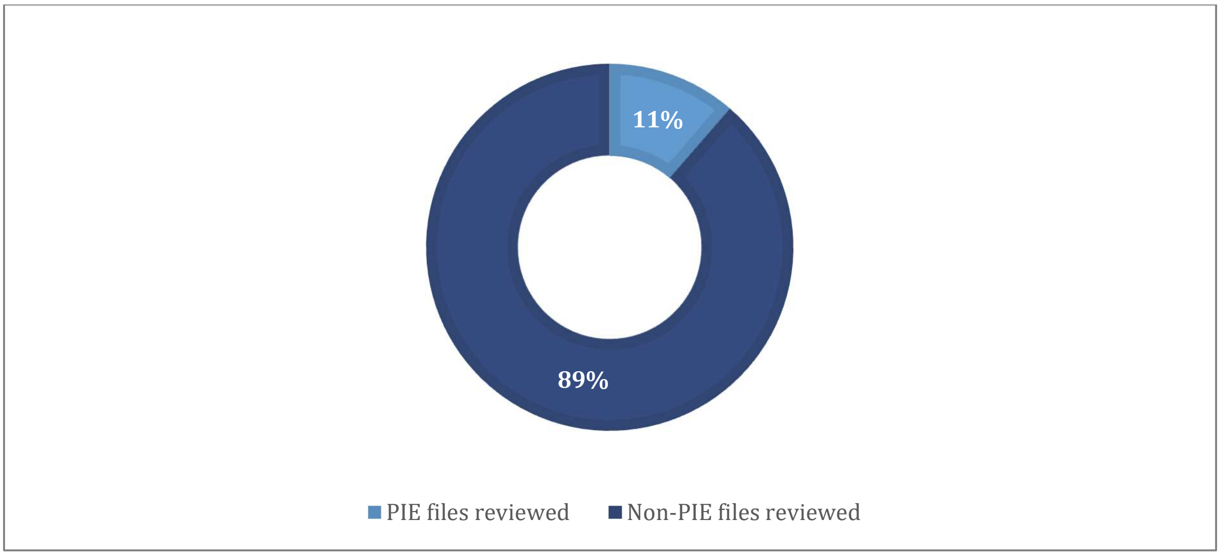


Overview - Files Reviewed

Reviewers, in line with QAU methodology analyse risks arising on each visit carried out and, on this basis, determine how many and which audit engagements are to be selected to address the risks identified. From the 71 visit reports approved by the Quality Assurance Sub-Committee and Accountancy Board during 2024, 37 audit firms did not carry out any audits during the year. These companies were all ownership companies of other registered audit firms, thus, a total of 44 audit files were reviewed by QAU reviewers during the inspection process on 34 practices. The files reviewed can be categorised as follows:



Furthermore, on PIE auditor visits, invariably one or more PIE audit engagements will be selected for review. On the basis, 11% of all audit engagement files selected for review were PIE engagements. These engagements covered banks, insurance as well as other listed entities.



Summary of Decisions

Based on the extent and gravity of findings identified during quality assurance visits and subsequent replies received from the practices/firms reviews, the Accountancy Board will determine the course of action to be taken. Such course of action may be limited to the request for confirmations that matters identified will be addressed. In other instances, the Accountancy Board may determine that apart from confirmations additional sanctions are needed. Statutory auditors and firms will be informed of such confirmations and sanctions in the closing down letter sent by the Accountancy Board at the conclusion of the visit.

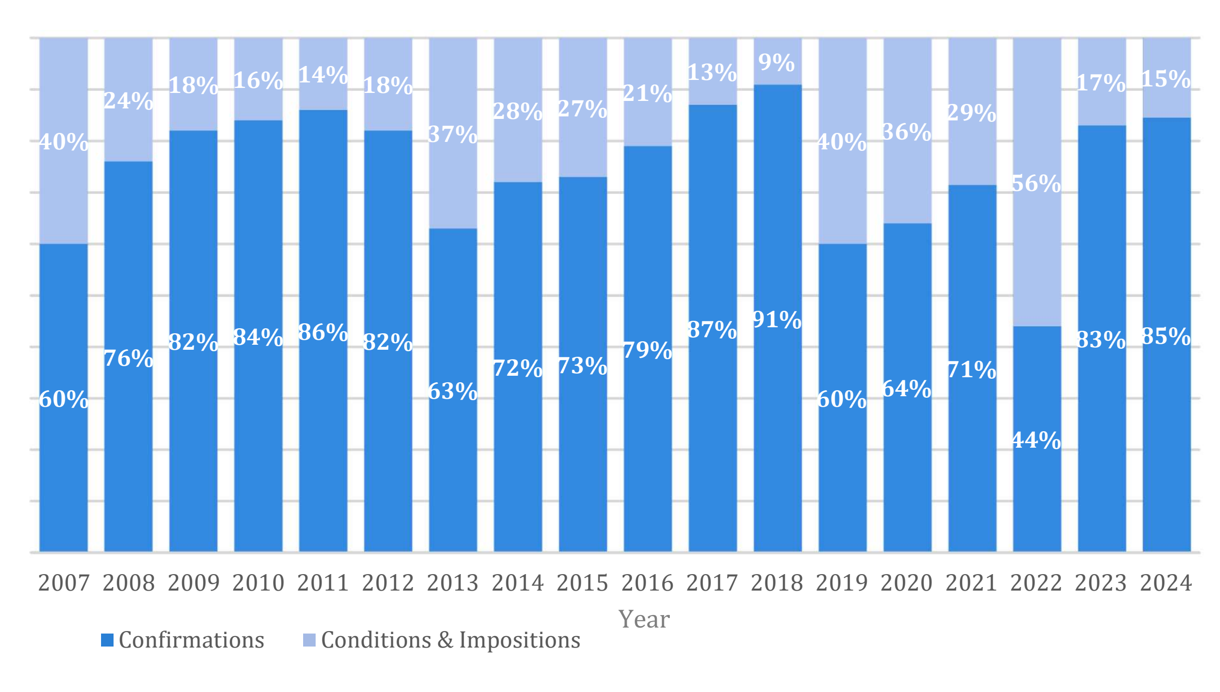
The Accountancy Board requests confirmations, in order to ensure the implementation of procedures to address matters raised during the QAU visit. Confirmations require statutory audit firms or statutory auditors to take action to address the findings identified. During subsequent visits, prior visit findings are reviewed to assess whether or not confirmations provided in the prior visit have been addressed. Should the statutory audit firm or statutory auditor fail to take timely action based on confirmations provided, more severe sanctions/conditions may be imposed.

In addition, there are various types of sanctions/conditions which may be imposed at the end of a visit. Conditions include the imposition of follow-up visits, hot file restrictions, external reviews of the system of quality management and external cold file reviews. Furthermore, warnings, reprimands and declarations on the Accountancy Board website may also be issued. In some cases, depending on the gravity of the findings, audit firms or statutory auditors may be referred to the Accountancy Board for possible referral to the Board's disciplinary committee.

One can note that based on visits approved by the Accountancy Board during 2024, a total of 15% (2023: 17%) of firms/statutory auditors reviewed had sanctions/conditions imposed in addition to confirmations. Thus, during the year there was a marginal decrease in visits on which one or more sanction or condition has been imposed.

On the other hand, on 85% of visits (2023: 83%) carried out on statutory auditors/firms and approved by the Accountancy Board, only confirmations were required.

An analysis of the courses of action taken by the Board since 2007 is illustrated in the diagram below:



During 2024, the Accountancy Board imposed sanctions or conditions on ten of the visits approved during the year. The table below illustrates the sanctions or conditions imposed by type during the year:

	Follow-up visits	External Review of SOQM and/or cold file reviews	Hot file restrictions	Reprimands	Declarations	Other restrictions
PIE Statutory Audit Firms						2
Non-PIE Statutory Audit Firms						1
Full-Time Statutory Auditors	1	6	1		2	4
Part-Time Statutory Auditors						
Total	**1**	**6**	**1**	**0**	**2**	**7**

- *Follow-up visits* – a follow-up visit was sanctioned to a sole practitioner by the Accountancy Board;
- *External review of the system of quality management* – four sole practitioners were requested to have an external review of the system of quality management carried out by an approved Accountancy Board external reviewer;
- *External cold file review* – two sole practitioners were requested to have an external cold file review carried out by an approved Accountancy Board external reviewer,
- *Hot file restrictions* - a sole practitioner was requested to have five hot file reviews carried out by an approved Accountancy Board external reviewer;

- *Declarations* – two declarations were published on the Accountancy Board website with respect to audit reports issued by sole practitioners. These two audit reports did not include the disclosure requirements required by ISA 710 when comparative figures were audited by another auditor; and
- *Other restrictions* – this included a warning being issued to two PIE audit firms, a non-PIE audit firm and three sole practitioners in relation to Code of Ethics violations. Another sole practitioner was referred to the Board's Disciplinary Committee.

The total number of audit firms and sole practitioners whose quality assurance visit resulted in sanctions/conditions being imposed from 2007 to the end of 2024 amounted to 117. These are split as per the below table:

	Follow-up visits	External Review of SOQM and/or cold file reviews	Hot file restrictions	Reprimands	Declarations	Other restrictions
PIE Statutory Audit Firms	3	6	1	1	1	3
Non-PIE Statutory Audit Firms	6	21	0	0	4	4
Full-Time Statutory Auditors	10	28	8	0	3	7
Part-Time Statutory Auditors	4	9	4	0	0	1
Total	**23**	**64**	**13**	**1**	**8**	**15**

2024 Visit Findings – Key Observations

As done in past years, this section looks back to the more prevalent issues that were encountered on visits approved by the Accountancy Board during the year. It is of importance that audit practitioners and firms review their own methodologies and practices to determine whether improvements can be made to existing templates and methodologies to address these matters and take a more proactive rather than reactive approach.

As already indicated earlier in this report, a total of 71 visit reports were approved during 2024 by the Accountancy Board, including both PIE statutory auditors/audit firms and non-PIE statutory auditors/audit firms. In order to analyse the findings, based on these reports, findings are grouped according to the different stages of the audit process and an analysis of whole firm policies and procedures in line with ISQM 1 requirements and other legislative requirements.

For the purposes of this report, findings were predominately found in the following areas:

- Audit file findings at planning stage;
- Audit file findings at fieldwork stage;
- Audit file findings at completion stage and audit report review; and
- Whole firm/practice findings.

File findings - planning stage

During 2024, the most recurring breaches of standards identified by QAU reviewers during visits were found in the following:

- ISA 210 – Agreeing the terms of audit engagements;
- ISA 220 – Quality Management for an audit of financial statements;
- ISA 320 – Materiality in planning and performing an audit; and
- Directive 2 – Code of Ethics – Non-assurance services.

ISA 210 - Agreeing the terms of audit engagements

The letter of engagement was among the areas with the highest number of findings identified during inspection visits carried out in 2024. As a result, audit practices should revisit ISA 210 – Agreeing the Terms of Audit Engagements to address any deficiencies.

The standard requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate. ISA 210 also identifies the relevant sections to be included in the letter of engagement. In addition, on recurring audits the standard requires that the auditor assesses whether circumstances require the terms of engagement to be revised, and whether the entity is to be reminded of the existing terms of engagement.

The findings identified during QAU inspections visits carried out in 2024 are summarised as follows:

- a letter of engagement was not issued despite the firm's policies and procedures requiring that a new engagement letter is issued every year;
- the engagement letter was not fully in line with the requirements of ISA 210 and in some instances did not include the responsibility of the auditor to conclude on the appropriateness of management's use of the going concern basis of accounting;
- the engagement letter was issued prior to the carrying out of due diligence and client acceptance processes, including receiving clearance from the prior auditor;
- the applicable financial reporting framework was not being referred to in the engagement letter and in some cases the engagement letter was not being updated to reflect a change in the accounting framework, i.e. from IFRS to GAPSME or vice-versa; and
- non-assurance services provided in addition to the audit were not covered by a letter of engagement.

ISA 220 – Quality management for an audit of financial statements

Audit practices should establish strong client acceptance and continuance policies and procedures as part of their ISQM 1 framework. At the audit engagement file level, ISA 220 – Quality Management for an Audit of Financial Statements requires engagement partners to ensure that appropriate procedures for accepting and continuing audit engagements have been properly carried out.

Another area with several findings was client acceptance and continuance. The following is a summary of the findings identified during inspection visits:

- the client continuance procedures did not consider whether the terms of engagement needed to be revised and whether the auditee should have been reminded of the existing terms of engagement;

- the engagement partner did not sign off the decision to continue with the acceptance of the engagement;
- client acceptance and continuance procedures were not adequately carried out;
- although client continuance procedures were documented, limited documentation was found which indicate that these were carried out in line with the firm's policies and procedures;
- no client acceptance and continuance procedures were documented on file; and
- client acceptance procedures were signed after the letter of engagement was issued to the client.

ISA 320 – Materiality in planning and performing an audit

This standard provides guidance to auditors on determining and applying materiality when planning and performing an audit of financial statements. The auditor is required to determine the overall materiality as well as the performance materiality to address the risk of material misstatement.

A number of findings were noted in regards to materiality. The following is a summary of the findings noted:

- the materiality and performance materiality figures related to the comparative period were incorrect or were not included on file;
- documentation was lacking in respect of the audit materiality computation and performance materiality computation;
- the judgement made in setting the materiality was either not documented or was not sufficiently documented on file;
- instances were noted where the judgement documented was incorrect or the percentages selected did not tally with the percentage indicated in the materiality range on the workpaper;
- the amounts used for the materiality calculation did not agree with the financial statements; and
- a performance materiality level was not set.

Directive 2 – Code of Ethics – Non-assurance services

Very often, in addition to the statutory audit, clients are provided with other services by the statutory auditor/audit firm or its connected undertakings. Non-assurance services provided include the preparation of accounting records and the financial statements as well as the provision of tax services (primarily in relation to the tax computation preparation).

In a number of cases, such statutory auditors/audit firms would have policies and procedures to be followed in these situations which would be aligned with the requirements of the Code of Ethics as well as the Accountancy Profession Act (for PIE engagements).

However, a number of findings were noted in this regard. The following matters were noted:

- ethical considerations made at planning stage did not identify the non-audit services provided and the related threat to independence;

- lack of adherence to the statutory auditor/audit firm's policies and procedures in situations when non-assurance services are provided to audit clients;
- lack of documentation of safeguards adopted to address independence threats arising;
- on a PIE engagement, ethics and independence considerations did not address the independence requirements regarding the statutory audits of PIEs. Also, the firm provided non-audit services that are prohibited by Article 18A(2)(c) of the Accountancy Profession Act; and
- on another PIE engagement, despite some non-assurance services being permitted in line with the derogation, the requirements found in Article 18A(3) of the Accountancy Profession Act were not fully addressed and documented.

File findings - fieldwork stage

ISA 230 – Audit documentation

As per ISA 230, the objective of the auditor is to prepare documentation that provides: (a) a sufficient and appropriate record of the basis for the auditor's report; and (b) evidence that the audit was planned and performed in accordance with ISAs and applicable legal and regulatory requirements.

The standard requires that documentation is made in a timely manner. Documentation included on file should contain:

(a) the identifying characteristics of the specific items or matters tested;
(b) who performed the audit work and the date such work was completed; and
(c) who reviewed the audit work performed and the date and extent of such review.

In addition, the standard requires that the audit documentation found on file is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

(a) the nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
(b) the results of the audit procedures performed, and the audit evidence obtained; and
(c) significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.

A number of documentation issues were noted particularly in relation to identifying the characteristics of the specific items tested during the audit.

ISA 500 – Audit evidence

The standard requires that the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

The auditor is also required to consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source.

During the course of QAU visits performed, there have been a number of evidence issues which were raised. It was noted that in a number of cases, external confirmations were the only source of evidence obtained by the engagement team without any other audit procedures being carried out. Other instances were noted whereby the audit testing carried out was limited or inadequate.

ISA 501 – Audit Evidence – Specific Considerations for Selected Items

This standard provides the auditor with guidance on obtaining sufficient and appropriate audit evidence regarding the existence and condition of inventory. ISA 501 required the auditors to attend the inventory count unless impractical to:

- Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting;
- Observe the performance of management's count procedures;
- Inspect the inventory; and
- Perform test counts.

Auditors should also perform audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results. If attendance at the physical inventory counting is impracticable, the auditor should perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

In case where inventory is stored at a third-party location, the auditor should obtain direct confirmation or perform other audit procedures to verify its existence and condition.

On a number of audit files reviewed in 2024, testing carried out in respect to inventory required improvement. Instances were noted where there was limited evidence and documentation of audit procedures carried out.

The following matters were noted:

- the auditor's assessment in deciding at which locations attendance was appropriate including inventory per location and the risks of material misstatements at the different locations were not documented in the audit file;
- management's instructions, and procedures for recording and controlling the physical inventory counting were not documented;
- documentation on file did not indicate which items were tested by the audit team during the stock count and any testing on expired or obsolete stock and inventory held by third parties;
- the sample actually tested was lower than the sample size indicated. The reason for the reduction in sample size was not documented;
- the stock valuation testing exercise and cut-off testing not found documented on file;
- documentation was not found in the audit file that inquiries were held with management to quantify slow-moving or damaged stock to determine which quantities of inventory should be written-off, if any;
- the client prepares a list of stock write offs, which is then discussed with the auditor. However, no documentation was found of the matters discussed and the auditor's conclusions;
- assurance was not obtained that the cost of inventory also includes a proper allocation of the transportation and handling costs. Supporting evidence such as inventory

policies, freight expenditure, and the computation of unit cost of inventory were not retained in the audit file;
- the stock list was not reconciled to the financial statements;
- alternative audit procedures were not carried out despite the auditor not observing the inventory count; and
- confirmation from suppliers as to the quantities and condition of inventory held on behalf of the company was not obtained.

File findings - completion stage including audit report review

In addition to the common findings identified with regards to the planning and fieldwork stage, a number of common findings were also noted with regards to the audit completion stage on the files reviewed. The main ISA breaches related to the following areas:

- ISA 260 – Communication with those charged with governance;
- ISA 570 – Going concern;
- ISA 580 – Written representations;
- ISA 700 – Forming an opinion and reporting on financial statements; and
- ISA 710 – Comparative information.

ISA 260 – Communication with those charged with governance

Under ISA 260, the auditor is required to communicate with those charged with governance in regard to:

- significant difficulties encountered during the audit;
- circumstances that effect the form and content of the auditor's report; and
- any other significant matters arising during the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process, amongst others.

On the visits reviewed during the year, the following were noted:

- although management letters were issued, a number of significant matters were not being included in the management letter;
- neither a management letter nor minutes of the meeting with those charged with governance were seen on file;
- management replies to matters raised in the management letters were also not seen on file;
- either the management letter did not make reference to the material uncertainty on going concern included in the audit report or else the event or condition that constituted the material uncertainty was not included; and
- management was not formally informed of the circumstance that led to the expected modification to the audit report and the wording of the modification to the auditor's opinion.

ISA 570 – Going concern

As outlined in ISA 570 – *Going concern*, the auditor is responsible for obtaining sufficient appropriate audit evidence regarding, and to conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Thus, based on the extent of findings identified by the QAU, going concern is an area where the practice or firm must revisit its current policies and procedures to align these with the requirements of ISA 570 – *Going concern*, especially when there are events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

Furthermore, the engagement leader must assess the risk factors arising and any mitigating factors. This should be adequately documented on file and support the audit opinion found in the audit report.

On the visits approved during 2024, the following matters were identified in relation to going concern:

- limited or no documentation of going concern considerations at both the planning and completion stages of the audit;
- sufficient appropriate audit evidence regarding the company's use of the going concern basis was not obtained;
- a management assessment covering at least 12 months after year end was not seen on file;
- although management's assessment of the entity's ability to continue as a going concern was obtained, limited documentation could be seen in the audit file that this financial information was sufficiently challenged to verify whether management presented reliable estimates of the group projected forecasts. Also, there was no documentation that the firm scrutinized the process followed by management to make its assessment and the assumptions on which the management assessment was based;
- a long-term budget was documented on file, however the projected revenue and profit before tax for the audited year varied considerably from the actual reported revenue and loss for the year and an updated management's assessment of the entity's ability to continue as a going concern covering at least 12 months from the date of the financial statements was not obtained; and
- an evaluation of the projected financial figures in the profit and loss, included in the management's assessment of the entity's ability to continue as a going concern, was not performed.

ISA 580 – Written representations

The letter of representation continues to be an area for improvement for a number of firms and practices. The most common finding identified in respect to ISA 580 – *Written representations* are that in some instances the list of uncorrected misstatements was not attached to the letter of representation and that a number of representations as identified in the standard itself were not included in the letter of representation. Also, instances were noted whereby the written representation related to accounting estimates was not updated to reflect the changes made to the standard (ISA 540 Revised).

Statutory auditors and audit firms are urged to assess whether their pro-forma letter of representation is fully in line with the requirements of ISA 580. The standard itself provides an illustrative letter of representation which may facilitate disclosure requirements, and practitioners and firms are advised to refer to the standard if they have not done so already.

ISA 700 – Forming an opinion and reporting on financial statements; ISA 710 – Comparative information – corresponding figures and comparative financial statements

There have been a number of short-comings in respect to issuance of audit reports in line with the requirements of ISA 700 and ISA 710. In most instances, the departures could have been avoided by cross-checking the audit report to templates found in the standards themselves and also by proof-reading the audit report itself before its issuance. Weaknesses noted related to the structure and the wording of audit reports, as well as the audit report not including an "Other Matter Paragraph" with additional disclosures required by ISA 710 in cases where comparative figures were audited by another auditor. Also, instances were noted where audit reports issued by sole practitioners made reference to the practice in the plural, using the terms "we" or "our" instead of "I".

It is recommended that firms and practitioners re-check their existing audit report templates to bring these in line with current requirements.

Whole firm/practice findings

During 2024, the most frequent findings raised at whole practice/firm level include findings identified in relation to:

- ISQM 1 related matters;
- Cold file reviews
- Continued professional education;
- Professional indemnity insurance; and
- Contents of letterheads and websites.

ISQM 1 related matters

With effect from 15 December 2022, ISQM 1 and 2 as well as the revised ISA 220 became effective for all audit firms and practices. In November 2022, guidance was issued by the Accountancy Board in this regard.

As per ISQM requirements, practices were required to update their policy manual in line with ISQM requirements and carry out a risk assessment by the 15 December 2022, in order to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks. The risk assessment process should be a continuous and iterative process. Practices were also required to carry out an annual review of the system of quality management in order to assess whether the objectives of the system were being achieved. The first review had to be carried out by the 15 December 2023.

During the year, the following matters were noted:

- some practices did not have an ISQM 1 policy manual in place. Their policy manual was still based on the requirements of ISQC 1;
- the practice's ISQM 1 Manual was not fully in line with ISQM 1 requirements, such as the steps the practice will take to resolve matters where a consensus is not reached between those consulted;
- a risk assessment was not carried out by the practice;
- the practice's quality risks were not identified and assessed to address the quality objectives and design and implement responses to address the quality risks;
- the firm's ISQM 1 Manual did not apply equally to all service lines as indicated in the firm's guidelines;
- although the firm did not find it necessary to establish additional quality objectives or sub-objectives, the assessment made by the firm was not documented;
- limited procedures were performed to gather evidence of the design, implementation, and operation of the responses, to support the evaluation of the system of quality management; and
- the review of the system of quality management was not carried out or an audit compliance review was carried out instead.

Cold file reviews

The guidance note on the Review of the System of Quality Management under ISQM 1 issued by the Accountancy Board in November 2022 requires firms to carry out cold file reviews annually covering each partner once every three years, as a minimum. Sole practitioners are required to carry out a cold file review once every three years, as a minimum.

Such reviews should be a means to practices to identify areas for improvement. Furthermore, principals should communicate areas of weaknesses arising from such reviews to their audit staff. In addition, measures such as staff training, should be taken by the practices to address the matters noted during the reviews.

During the year, instances were noted whereby firms and sole practitioners were not carrying out cold file reviews with the frequency required by the guidance note. Also, instances were noted where cold file reviews were carried out by the sole practitioners themselves, despite being the signing partners.

Continued professional education

Continued professional education is assessed during visits, by taking into consideration the requirements of Directive 1 of the Accountancy Profession Act as well as the practice's/firm's own policies and procedures.

During the year the following types of weaknesses were noted in this regard:

- mandatory CPE requirements, both structured and unstructured were not met;
- discrepancies between the information declared by the individuals in their annual returns submitted to the Accountancy Board and the practice's records;

- CPE was not being monitored by the practice or did not cover all staff members;
- monitoring carried out by the practice did not cover unstructured CPE; and
- certificates were not provided at the time of the visit or else not all structured hours were verifiable.

Professional indemnity insurance

The Accountancy Profession Act and the Accountancy Profession Regulations set out the obligations for audit firms or statutory auditors to have a professional indemnity insurance cover which satisfies a number of considerations.

As per the visit reports approved in 2024, the following were the matters raised in this respect on audit firms/practices reviewed:

- the professional indemnity insurance amount covered was not in line with the requirements of Article 5(2) of the Accountancy Profession Regulations. In some instances, it would be noted that the policy would include a lower sub-limit for cover for dishonesty of employees which would be below the minimum insurance cover permitted by law;
- the policy did not indicate that it covers damage brought about or contributed by any dishonest, fraudulent, criminal or malicious act or omission of all staff as required by Section 11(1) of the Accountancy Profession Act nor any negligent act, error or omission committed by any such person or firm, or any principal thereof, or by any of their employees and against any claim in respect of any loss or damage brought about or contributed by any dishonest, fraudulent, criminal or malicious act or omission of any of their employees ;
- the policy did not duly cover claims arising in respect to loss or damage made in the five years immediately following the cessation of the policy as a result of the retirement of or the surrender of the warrant or practising certificate by any principal and provided that the negligent act, error or omission giving rise to the claim had occurred during the period of insurance of the policy as required by Section 11 (2)(a) of the Accountancy Profession Act; and
- the insurance policy did not cover the sole practitioner’s connected undertaking.

Contents of letterheads and websites

Information contained on both letterheads and websites is an area which is also reviewed as part of the QAU visit carried out. From such review a number of matters were identified during the course of 2024:

- letterheads of firms and connected undertakings were missing information such as the name of the firm, contact details, company registration number and kind of commercial partnership;
- the letterhead of the practice including the website of the connected undertaking;
- the postnominal "CPA, (pc)" used instead of "CPA"; and
- a connected undertaking’s website indicated that it provides audit services, when it is not registered as an audit firm with the Board.

PARTICIPATION IN INTERNATIONAL FORA

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Throughout 2024, the Accountancy Board has been actively involved in a number of meetings and committees. Amongst others, the following meetings were attended:

- *CEAOB Plenary meetings*
  Representatives and members of the Board attended CEAOB Plenary meetings held in 2024. The first meeting was held virtually between the 12 and 13 March. Subsequently, physical meetings were held in Brussels – Belgium, between the 18 and 19 June and the 19 and 20 November. During the June meeting, members voted for the election of the new CEAOB Chairperson. Mr. Panos Prodromides, Director General, Cyprus Public Audit Oversight Board (CyPAOB) was elected as Chair of the CEAOB for the next four years.

- *CEAOB Inspections Sub-Group meetings and participation in the Deloitte College*

  The QAU attended three CEAOB Inspections Sub-Group meetings during the year 2024. Two of them were physical meetings, one was held between the 12th and 13th June in Riga, Latvia and was chaired by the French Haut Conseil du Commissariat aux Comptes (H3C) and was hosted by the Ministry of Finance of the Republic of Latvia and the other one took place between the 16th and 18th October in Chania Crete, Greece which meeting was chaired by the Commission de Surveillance du Secteur Financier (CSSF) of Luxembourg and hosted by the Hellenic Accounting and Auditing Standards Oversight Board (HAASOB) of Greece. During the October meeting, among other issues, the CEAOB Guidelines on limited assurance on sustainability reporting were presented, an area which is also being assessed at local level. The third meeting was held virtually on 5th November.

  The QAU is involved in one of the colleges, the Deloitte College. During the year, the Deloitte College agreed on new focus areas namely ISQM1 Network level controls, Environmental Social and Governance (ESG) /Corporate Sustainability Reporting Directive (CSRD) and analysis of Deloitte related findings in the CEAOB Findings Database. The QAU as part of this group is particularly involved in the focus group related to ISQM1 – ISQM1 Network level controls. In this regard, the QAU has participated in a number of conference calls held during the year to share its views in this area.

  The QAU also contributed through exchanging information with other members of the college and also analysed information shared by other college members. In addition, through participation in the Deloitte College, QAU reviewers also had the opportunity to meet individually with prominent officers within the Deloitte network.

- *CEAOB Market Monitoring Sub-Group*
  Member States are required to carry out a market monitoring exercise every three years, which is submitted to the EU Commission.

  The market monitoring exercise is aimed to provide the Commission with information on the market structure of the audit profession, market share held by the key players in the audit profession, information on audit committees as well as information in respect to quality assurance visits.

  The Market Monitoring Sub-Group develops a consistent approach to be taken by competent authorities in Member States. The sub-group also provides the necessary assistance to the Member States during the process.

  The third market monitoring exercise was submitted to the EU Commission in July 2022. Subsequently, a consolidated report was published by the EU Commission on 5th March 2024. The next market monitoring exercise will be carried out in 2025 and will cover the years 2022 to 2024.

  During the year, the QAU attended four meetings organised by the Market Monitoring Sub-Group. These were held in February, April, September and October. On 31st October, a training session was also held covering areas in relation to the marketing monitoring exercise to take place in 2025. In fact, the training focused on the changes to the Market Monitoring Template and on how to fill in the Audit Committee Survey using the EU Survey tool. All the meetings as well as the training event were held virtually and were attended by the Head of Unit and one reviewer.

- *CEAOB Enforcement Sub-Group*
  The purpose of the Enforcement Sub-Group is to facilitate the exchange of information, expertise and best practices in the area of investigations and sanctions and to collect for annual publication by the CEAOB aggregated information on all administrative measures and sanctions imposed by competent authorities (Article 30f (1) of the Audit Directive).

  Representatives of the Board attended nine meetings held by the CEAOB Enforcement Sub-Group. Eight meetings were held virtually one in January, two in February, one in April, one in June, two in October and the last one in December and a face-to-face meeting was held from the 23rd to 24th May, in Cyprus. During this meeting, Malta together with six other countries being Germany, Bulgaria, Hungary, Lithuania, the Czech Republic and Italy presented case studies as part of the exchange of experiences and good practices. Malta's case study focused on Enforcement within the Disciplinary Committee.

  In addition, a webinar was organised on 26th November. During this webinar, the Wirecard case was discussed.

- *CEAOB Training Task Force*
  During the year, two training sessions organised by the CEAOB Training Task Force were attended. These being: an ISQM 1 workshop which was held virtually on 22nd October for which all QAU staff attended and the annual training which in 2024 took place in Luxembourg between the 12th and 14th November which covered three main areas being Banking and general accounting, Insurance, and the Corporate Sustainability Reporting Directive (CSRD) assurance methodology.

  Furthermore, on the 15th November, a reviewer from the QAU attended a seminar hosted by the European Commission in Brussels on supporting companies in applying the European Sustainability Reporting Standard (ESRS). This seminar explored the key challenges and opportunities for companies as they begin to apply the standards and addressed challenges around the audit and assurance of ESRS reports and voluntary reporting by SMEs in the value chain of larger companies. A discussion was also held on practical ways to support the implementation of this new framework, including digital tools to facilitate reporting.

- *Accounting Regulatory Committee (ARC)*
  During the year, two meetings of the Accounting Regulatory Committee were attended. The meetings were held virtually in April and June.

  The April meeting, primarily focused on IFRS 18 Presentation and Disclosure in Financial Statements. A detailed review of the new standard was given which will be effective from annual reporting periods beginning on or after 1 January 2027 with earlier application permitted.

  During the June meeting, among other issues, IFRS 19 - Subsidiaries without Public Accountability was discussed. IFRS 19 was issued on 9 May 2024. It is a voluntary standard, in fact companies are to analyse the benefit of using it. Its effective date is 1 January 2027. Early adopted is permitted. A subsidiary is eligible to apply this standard if: (a) it does not have public accountability; and (b) it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

  During both meetings, the issue of Sustainability Reporting was also discussed.

  The Head of the QAU attended both meetings.

The Board will continue to be represented in various meetings held at an international level.

COLLABORATION WITH OTHER INSTITUTIONS

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The Accountancy Board has worked closely with a number of institutions over the years at a national level and also at EU level.

During the year, the Accountancy Board continued to collaborate with other institutions particularly the Malta Institute of Accountants (MIA), the Malta Financial Services Authority (MFSA), the National Coordinating Committee (NCC) and the Financial Intelligence Analysis Unit (FIAU).

Consultations with the MIA were carried out on a number of issues mainly, the revision of the Code of Ethics to bring it in line with the updated Code of Ethics as issued by IFAC, the introduction of logbooks for CPA and Practising Certificate application evaluation as well as the revision to CPE requirements including analysis and monitoring of CPE Exemption. Discussions were also held in relation to the definition of accountant, tradenames of firms and sole practitioners and issues concerning incoming and outgoing auditors. During the year, discussions also took place with respect to the Corporate Sustainability Due Diligence Directive (CSDDD) which came into effect on 25th July, 2024 and the Corporate Sustainability Reporting Directive (CSRD) which is the new EU directive that will take effect for large and listed companies, obligating them to share information on how they monitor a wide range of ESG issues and their impact on our planet.

The Accountancy Board also collaborated with the Committee of European Auditing Oversight Bodies (CEAOB), including its various sub-committees and working groups with respect to the enhancement of the institutional Regulatory European Framework and regulating the Environmental, Social and Governance reporting matters. As already stated, during 2024, two CEAOB inspection meetings were attended physically, one in Latvia and the other in Greece as well as another meeting being held online.

The Accountancy Board aims to continue its collaboration with these institutions as well as other competent authorities and professional bodies in the near future.

Accountancy Board

https://accountancyboard.gov.mt