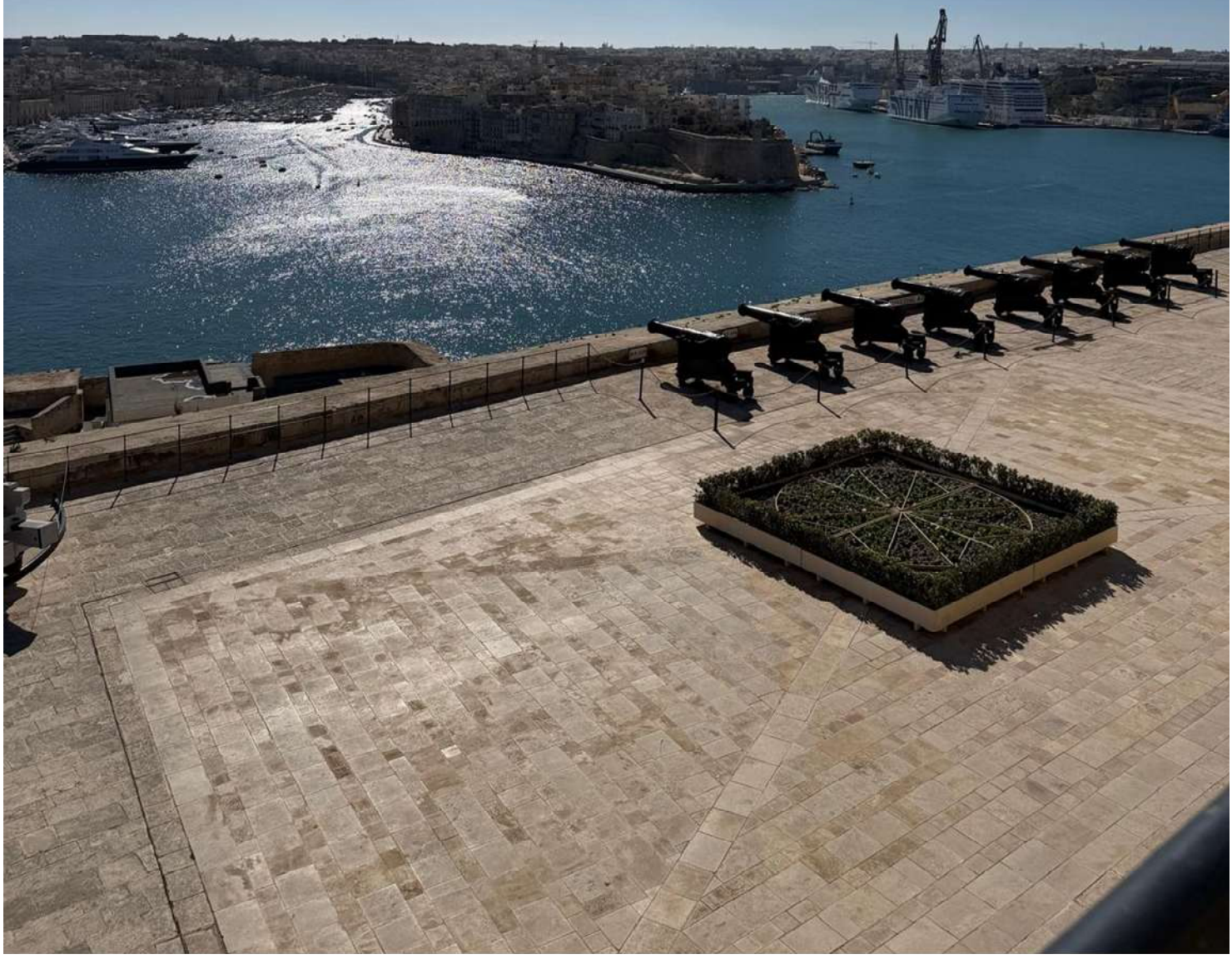
Accountancy Board

ANNUAL REPORT

2025



The Accountancy Board presents its Annual Report for the year ended 31 December 2025 pursuant to Article 7(19) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta.

23 March 2026

Enquiries relating to this report should be addressed to:

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The Accountancy Board
Ministry for Finance
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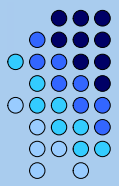
CONTENTS

01



Chairman's Statement

CHAIRMAN'S STATEMENT

It is my privilege to present this year's Chairman's Statement in the Annual Report of the Accountancy Board. I remain grateful to the Minister for the trust and confidence placed in me through my reappointment as Chairman, and I consider it an honour to continue serving the profession and the wider public interest.

Throughout the year, the Board continued to execute its statutory responsibilities with diligence, impartiality, and a clear sense of purpose. Our work programme remained substantial, reflecting an evolving regulatory landscape and the Board's commitment to maintaining robust standards within the Maltese Accountancy Profession.

A principal area of focus for the Board during the year was the ongoing revision of the Accountancy Profession Act (APA), alongside the updating of the Code of Ethics. The complexity and significance of these initiatives have meant that the work is still in progress, requiring careful consideration and sustained effort.

As these crucial instruments advance towards completion, the Board recognises the necessity of comprehensive consultation and constructive dialogue with all relevant stakeholders. This process includes engagement with the Malta Institute of Accountants (MIA), the Malta Financial Services Authority (MFSA), practitioners, and other interested parties. Such consultation ensures that diverse perspectives are considered and that the outcome reflects the needs and expectations of those affected.

The Board remains committed to delivering a framework that is technically robust, proportionate, and aligned with international standards. This approach aims to maintain confidence in the profession, uphold high ethical and technical standards, and ensure that regulatory requirements are fit for purpose within the local context.

During the year, the Board also reviewed the accounting framework applicable to certain local insurance undertakings, following representations made by the MIA and the MFSA. In keeping with the principle of proportionality, the Board endorsed measures permitting the continued application of IAS 4 for entities where a mandatory transition to IFRS 17 would create disproportionate challenges, thereby ensuring sectoral competitiveness and that regulatory requirements remain appropriate for Malta's market structure.

The Board maintained regular engagement with the MIA on a range of matters relevant to the profession. Topics discussed included Continuing Professional Education (CPE), Corporate Sustainability Reporting Directive (CSRD) developments, the Code of Ethics and the APA, General Accounting Principles for Small and Medium-Sized Entities (GAPSME), General Accounting Principles for Eligible Entities (GAPEE), and accounting framework considerations as required. These discussions also extended to the profession's future development and the evolving skills needed of accountants, particularly in light of changing economic realities, the

growing impact of artificial intelligence and automation, and demographic trends affecting Europe.

The Board also sustained its active engagement at the European and international level, including participation in the Committee of European Auditing Oversight Bodies (CEAOB), ensuring that Malta remains informed of developments across the EU audit oversight environment.

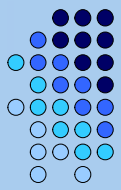
The Quality Assurance Unit (QAU) continued to play a vital role in safeguarding audit quality and supporting confidence in the profession. The Unit implemented a full programme of Quality Assurance visits, all of which were considered and discussed at Board level. Beyond inspection activity, the QAU provides ongoing guidance to practitioners and supports capacity-building across the profession. The renewal and appointment of both existing and new reviewers authorised to undertake hot and cold file reviews further strengthened quality processes and supported continued alignment with international best practice.

An important development during the year was the Board's monitoring of the evolving EU agenda on corporate reporting, in particular the EU Omnibus Package, which is expected to substantially recalibrate the application thresholds of the CSRD. Early indications suggest that, as an outcome of these revisions, CSRD requirements will most likely apply to only a small number of local companies, given the scale of most Maltese undertakings. This would be a welcome development for the business community, supporting competitiveness locally by avoiding disproportionate compliance burdens, while still ensuring that Malta remains aligned with EU reporting obligations. The Board will continue to follow developments closely and provide guidance as appropriate.

Across all areas of its work, the Board has remained steadfast in fulfilling its core mandate in protecting the public interest, strengthening confidence in the profession, and promoting a regulatory environment that is rigorous, transparent, and proportionate. I take this opportunity to express my sincere appreciation to all Board Members, the Board Secretary, the members of our committees and sub-committees, our Legal Adviser, and the QAU for their professionalism, technical competence, and continued dedication throughout the year. I am grateful to each of them for their professionalism, expertise and commitment, which continue to underpin the Board's work in the public interest.

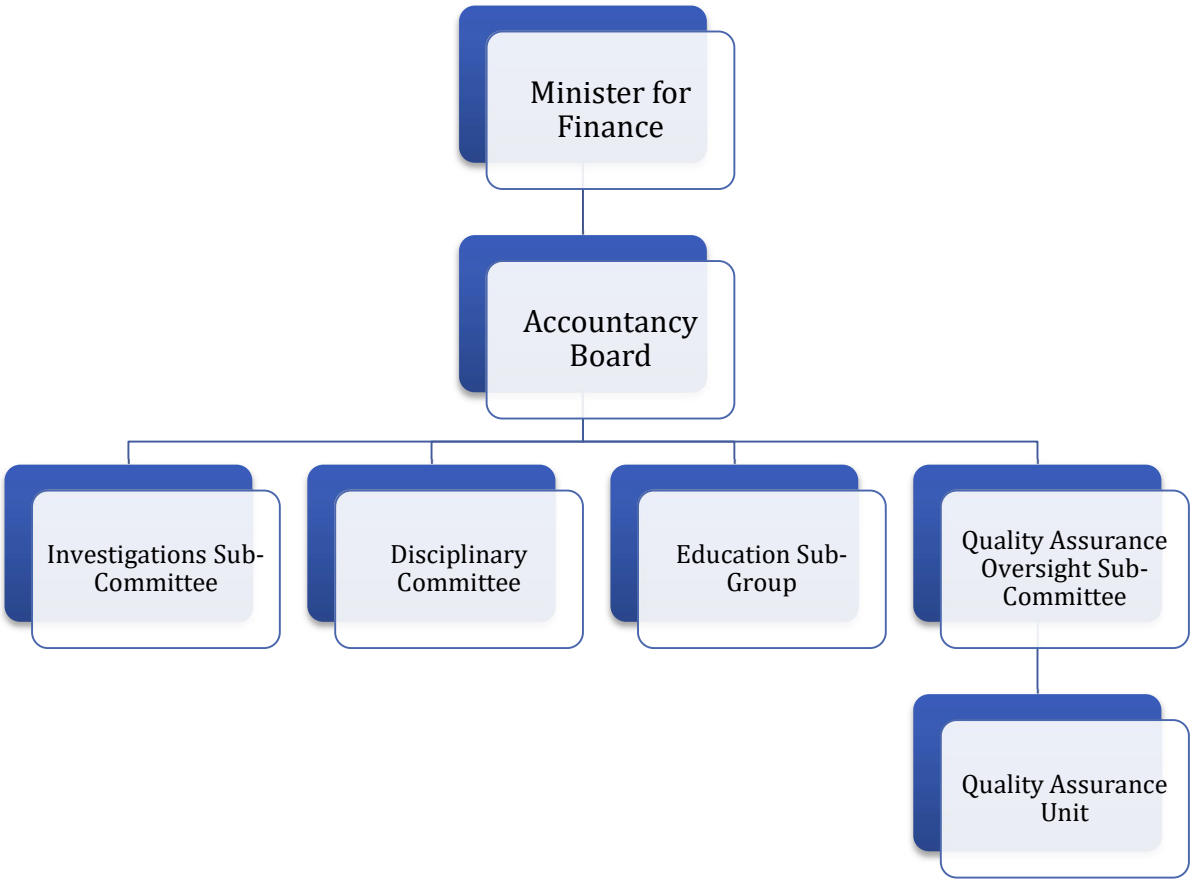
Mr Edgar Borg, FCCA, FIA, CPA
Chairman - Accountancy Board
23 March 2026

02



Organisational Structure

ORGANISATIONAL STRUCTURE



The Accountancy Board falls under the responsibility of the Minister for Finance, Mr Clyde Caruana.

03

The Accountancy Board

THE ACCOUNTANCY BOARD

Board Structure

Article 6(2) of the Accountancy Profession Act (APA) sets 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.)
Ms Marlene Mizzi, B.A.(Hons) Econ., M.Phil. (Maastricht)
Ms Lorraine Vella CPA

The Board members' term of office elapsed on the 24th July 2025. The board was re-constituted on the 28th October 2025 for a period of one year. Mr John Sammut ceased to be a member of the Accountancy Board during the year. Ms Lorraine Vella, CPA was appointed as a member of the Board with effect from 28th October 2025.

Functions of the Board

The accountancy profession in Malta is regulated by the Accountancy Board, which carries out the functions set out in Article 7 of the Accountancy Profession Act (APA), 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 2025, Accountancy Board meetings were held in January, February, March, April, May, June, July, November and December.

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

1. Amendments to the Accountancy Profession Act and the Code of Ethics

During 2025, the Board continued to prioritise the comprehensive revision of the Accountancy Profession Act (APA) (Cap. 281) and the updating of the Code of Ethics. These initiatives are complex and significant in nature and remained work in progress throughout the year, requiring sustained technical analysis and careful consideration.

The objective of these revisions is to ensure that the legislative and ethical framework governing the profession remains technically robust, proportionate, and aligned with international standards and evolving EU requirements. Particular emphasis has been placed on strengthening regulatory effectiveness, ensuring clarity of obligations, and maintaining high ethical and professional standards within the Maltese accountancy profession.

In advancing these initiatives, the Board engaged in ongoing consultation and constructive dialogue with key stakeholders, including the Malta Institute of Accountants (MIA), the Malta Financial Services Authority (MFSA), practitioners, and other interested parties. This consultative process ensures that diverse perspectives are considered and that the resulting framework reflects both public interest considerations and the practical realities faced by the profession.

The work on these crucial legislative frameworks will continue into 2026, with the Board remaining committed to delivering a modernised framework that supports confidence in the profession and remains fit for purpose within the local context.

2. Corporate Sustainability Reporting Directive and EU Developments

During 2025, the Board closely monitored developments at EU level concerning the Corporate Sustainability Reporting Directive (CSRD), particularly the evolving EU Omnibus Package, which is expected to recalibrate the application thresholds and scope of sustainability reporting obligations.

Early indications suggest that, following these revisions, CSRD requirements are likely to apply to a relatively small number of Maltese undertakings, given the scale and structure of the local market. This development is expected to support competitiveness by avoiding disproportionate compliance burdens while maintaining Malta's alignment with EU reporting obligations.

The Board maintained regular discussions with the Malta Institute of Accountants (MIA) and the Malta Financial Services Authority (MFSA) on CSRD-related developments.

3. Accounting Framework for Insurance Undertakings

During the year, the Board reviewed the accounting framework applicable to certain local insurance and reinsurance undertakings, following representations made by the Malta Institute of Accountants (MIA) and the Malta Financial Services Authority (MFSA). In keeping with the principle of proportionality, the Board endorsed measures permitting the continued application of IAS 4 in specific circumstances where a mandatory transition to IFRS 17 would create disproportionate challenges.

Subsequently, on 26 December 2025, Legal Notice 299 of 2025 introduced the Accountancy Profession (General Accounting Principles in Respect of Certain Eligible Entities Related to the Business of Insurance) (Amendment) Regulations, 2025. These amendments allow certain insurance and reinsurance entities, including special purpose vehicles, to apply the General Accounting Principles for Eligible Entities (GAPEE) instead of the more complex IFRS 17 standard.

The amendments provide a proportionate accounting framework tailored to the nature and scale of such entities' activities, reducing compliance complexity while ensuring appropriate and reliable financial reporting.

In line with previous regulatory amendments, the objectives included:
(i) clarification of aspects which had given rise to interpretative uncertainty;
(ii) rectification of inconsistencies and minor drafting issues;
(iii) alignment with other applicable accounting and audit standards; and
(iv) consequential changes arising from the above.

These amendments maintain the Board's overarching objective of ensuring simplification, proportionality, and continued alignment with Directive 2013/34/EU where applicable. The amendments were discussed and agreed upon by the Board in consultation with the MIA and other relevant stakeholders.

4. Engagement with the Malta Institute of Accountants

Throughout 2025, the Board maintained regular engagement with the Malta Institute of Accountants (MIA) on matters relevant to the profession. Discussions covered Continuing Professional Education (CPE), developments relating to the Corporate Sustainability Reporting Directive (CSRD), revisions to the Code of Ethics and the Accountancy Profession Act (APA), as well as considerations relating to the General Accounting Principles for Small and Medium-Sized Entities (GAPSME) and General Accounting Principles for Eligible Entities (GAPEE) frameworks.

Dialogue also extended to broader issues concerning the future development of the profession, including the evolving skillsets required of accountants in light of technological advancements, automation, artificial intelligence, and demographic trends across Europe. These discussions contribute to ensuring that the regulatory and professional framework remains forward-looking and responsive to emerging challenges.

5. Quality Assurance Unit and External Reviewers

During 2025, the Quality Assurance Unit (QAU) implemented a full programme of Quality Assurance visits. The findings of these visits were considered and discussed at Board level in accordance with the Board's statutory responsibilities.

Beyond inspection activity, the QAU continued to provide guidance to practitioners and to support capacity building across the profession. The renewal and appointment of both existing and new reviewers authorised to undertake external file reviews further strengthened the quality assurance framework.

The Board was heavily involved in the organisation of the External Audit Reviewer Course, reinforcing the importance of maintaining a strong pool of technically competent reviewers to safeguard audit quality and public confidence.

6. External Quality Assurance Reviewers Course

During 2025, the Accountancy Board in collaboration with the Malta University Consulting Ltd once again organised a training course for external audit reviewers. The programme was aimed at individuals seeking approval to act as external quality assurance reviewers on behalf of the Accountancy Board.

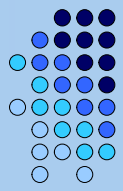
The training course was held in July 2025 and comprised of nine sessions. The programme covered International Standards on Auditing (ISAs), International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). In addition, the Head of the Quality Assurance Unit (QAU) delivered dedicated sessions on the Board's quality assurance methodology, common findings, and inspection-related matters, while a representative of the

Board provided an overview of the regulatory framework governing audit oversight in Malta. The previous training course for external reviewers had been held in 2023.

Following the successful completion of the training programme, the Accountancy Board concluded the related interview process and appointed ten new external reviewers and re-appointed nine existing reviewers in January/February 2026. The appointments are for a period of two years. Details of the appointed external reviewers are available on the Accountancy Board's official website.

Audit practices which, following a QAU monitoring visit, are required by the Accountancy Board to undertake an external hot file review, external cold file review, and/or an external whole practice review, must appoint one of the external quality assurance reviewers approved by the Board.

04



Other Committees and Sub-Committees

OTHER COMMITTEES AND SUB-COMMITTEES

The Accountancy Board has established 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 (APA).

The Investigations Sub-Committee

Chairperson:
Mr Luke Coppini FCCA, FIA, CPA

Members*:*
Mr Edgar Borg, FCCA, FIA, CPA
Mr David Demarco B.A.(Hons) Accountancy, MBA, ACIB, 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 role of the Investigations Sub-Committee is to investigate cases brought to the attention of the Accountancy Board, which consist mainly of complaints. The Sub-Committee assesses the cases presented and advises the Board on whether such cases should be referred to the Disciplinary Committee and/or whether any other course of action should be taken.

During 2025, the Investigations Sub-Committee investigated eight cases, three of which were carried forward from the previous year. All eight cases were concluded during the year.

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

The term of office of the Accountancy Board members elapsed on 24th July 2025. Consequently, Mr David Demarco's term as Chairperson of the Investigations Sub-Committee also came to an end. The Accountancy Board was reconstituted on 28th October 2025, following which Mr Luke Coppini was appointed Chairperson of the Investigations Sub-Committee. Mr Demarco and the other members were reappointed as members of the Sub-Committee.

The Disciplinary Committee

Up until 24 July 2025, the following were the members of the Disciplinary Committees:

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 Accountancy Board in cases of relating to professional misconduct and other disciplinary matters. Disciplinary proceedings may result in the suspension or withdrawal of any warrant or practising certificate issued under the Accountancy Profession Act (APA). The Disciplinary Committee is appointed on an ad hoc basis, as required.

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 Disciplinary Committee co-ordinated with the Quality Assurance Unit (QAU) in the communication with warrant holders who defaulted in the submission of Annual Returns due from them.

Ad hoc Disciplinary Committees

During the year 2025, the Accountancy Board appointed two ad hoc Disciplinary Committees to hold enquiry proceedings against two warrant holders to consider and adjudge the charges brought against the said warrant holders in alleged cases of breaches of the Code of Ethics.

Mr John Sammut chaired the above-mentioned ad hoc Disciplinary Committees. These committees were composed of the same members appointed to deal with cases of defaulting warrant holders referred to above.

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 in the evaluation of applications for warrants, practising certificates and firm registrations. The Sub-Group reviews such applications and submits its recommendations to the Accountancy Board for consideration and approval.

The Education Sub-Group meets prior to each Accountancy Board meeting.

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.)
Ms Lorraine Vella CPA

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

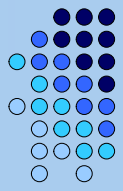
As a result of the changes made to the Audit Directive, which became effective during 2016, the quality assurance function fell directly under the remit of the Accountancy Board, which is composed of non-practitioners. In this regard, the Board established a Quality Assurance Oversight Sub-Committee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

The Quality Assurance Unit (QAU) 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 its recommendations to the Board, prior to the Board's final approval.

Mr John Sammut ceased to be a member of the QAOSC during the year. Ms Lorraine Vella was appointed as a member of the QAOSC with effect from 28 October 2025.

Meetings of the QAOSC were held in March, April, June and December 2025.

05



The Quality Assurance Unit

THE QUALITY ASSURANCE UNIT

Overview

The Quality Assurance Unit (QAU) operates on behalf of the Accountancy Board in implementing and overseeing the quality assurance framework established under Directive 4 of the Accountancy Profession Act (APA).

The purpose of the quality assurance process is to provide the Board with reasonable assurance regarding the standard of professional work carried out by statutory auditors and statutory audit firms, and their compliance with applicable professional, ethical and regulatory requirements.

In carrying out this function, the QAU conducts inspection visits and monitors the implementation of any required remedial actions.

The Team

The Quality Assurance Unit (QAU) is headed by Ms Karen Sultana.

During 2025, the Unit continued to strengthen its operational capacity through recruitment. Calls for applications were issued for the positions of Senior Accountant, Accountant I, Scientific Officer, and Assistant Manager. Following the completion of the selection processes, two Accountant I officers and one Assistant Manager were recruited, further enhancing the Unit's technical and managerial resources.

As at 31 December 2025, the QAU was composed of:

- The Head of Unit;
- Five Reviewers, primarily responsible for carrying out inspection visits, one of whom is employed on reduced hours;
- Two Accountant I officers, currently undergoing training;
- One staff member assigned with assessing firm applications;
- One staff member responsible for regulatory matters; and
- Two administrative staff supporting the Unit's operational functions.

A University student was also offered a work placement during the year.

Training and Professional Development

Professional staff are required to comply, as a minimum, with the Continuing Professional Education (CPE) requirements established under Directive 1 of the Accountancy Profession Act (APA) and to remain updated with developments affecting the profession.

The Board is committed to maintaining the competence of its staff and supports reviewers in attending relevant CPE events and training.

During the year, reviewers completed training hours in excess of the mandatory CPE requirements. Training focused primarily on audit related matters relevant to the conduct of quality assurance reviews. Additional sessions covered developments in financial reporting, legislation and taxation.

Source of Funding

In accordance with Directive 4 of the Accountancy Profession Act (APA), statutory auditors and statutory audit firms are required to pay an annual Quality Assurance Regulatory Fee. The Directive also provides for additional fees and administrative penalties in specified circumstances.

Fees collected are remitted to the Ministry for Finance. The operational expenditure of the Accountancy Board and the Quality Assurance Unit (QAU) is subsequently financed by the Ministry for Finance.

This funding structure supports the operational independence of the Unit and mitigates the risk of undue influence by statutory auditors and audit firms.

At present, approximately 55% of the Accountancy Board's expenditure, primarily relating to the QAU, is funded by the Ministry for Finance. The remaining 45% is financed through fees paid by warrant holders and firms.

Quality Assurance Regulatory Fees

Quality Assurance Regulatory Fees as stipulated in Schedule 2 of Directive 4 of the Accountancy Profession Act are as follows:

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

Where the Board determines that a follow-up visit is required, an additional fee of €34.94 per man-hour is charged, calculated on the total time spent conducting the visit.

Regulatory Penalties

Regulatory penalties may be imposed in accordance with Schedule 1 to Directive 4 and include:

Breach	Penalty
Re-scheduling of review visit without justifiable reasons	€232.94
Failure to respond within specified time limits	€23.29 per day
Delays in submission of fees and returns due	€23.29 per day

Failure to submit requested documentation on time	€23.29 per day
Failure to provide access to information (paragraph 16)	€23.29 per day
Failure to respond regarding required remedial action	€23.29 per day

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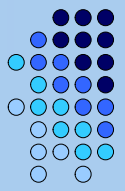


The Accountancy and Audit Profession

THE ACCOUNTANCY AND AUDIT PROFESSION

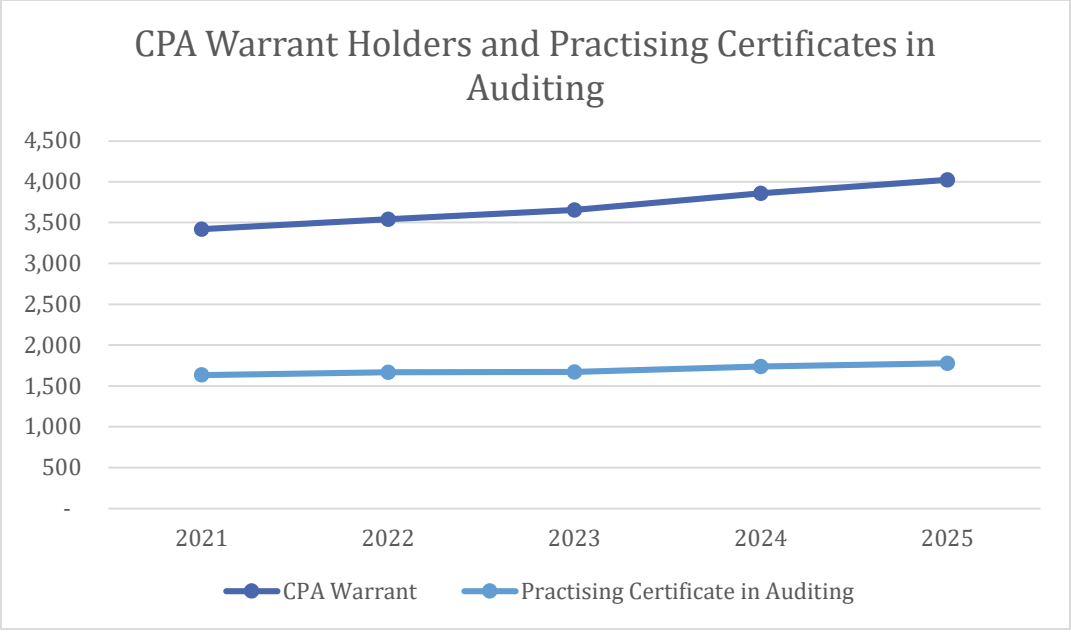
CPA Warrant Holders and Holders of a Practising Certificate in Auditing

	Registered by end of 2025:	New approvals in 2025:	Reductions (retirements/deaths) in 2025:
CPA warrant holders	4,023	170	6
Practising certificates in auditing	1,779	45	4

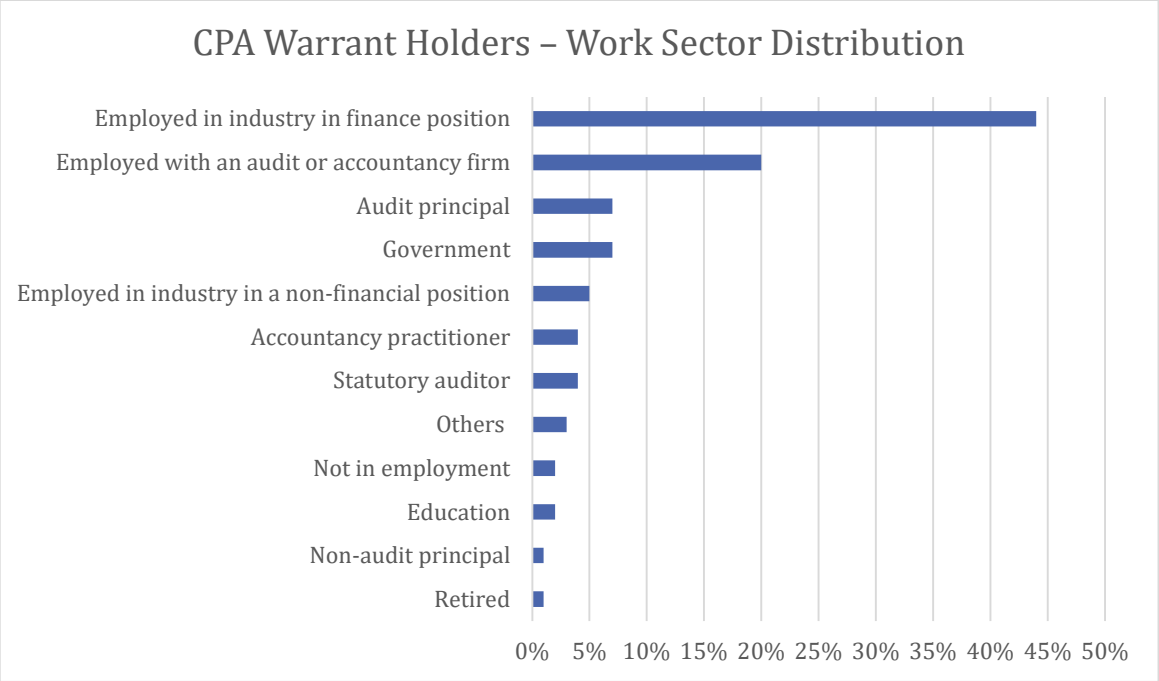
At 31 December 2025, the number of CPA warrant holders registered with the Accountancy Board increased to 4,023 (2024: 3,859), while the number of holders of a practising certificate in auditing reached 1,779 (2024: 1,738).

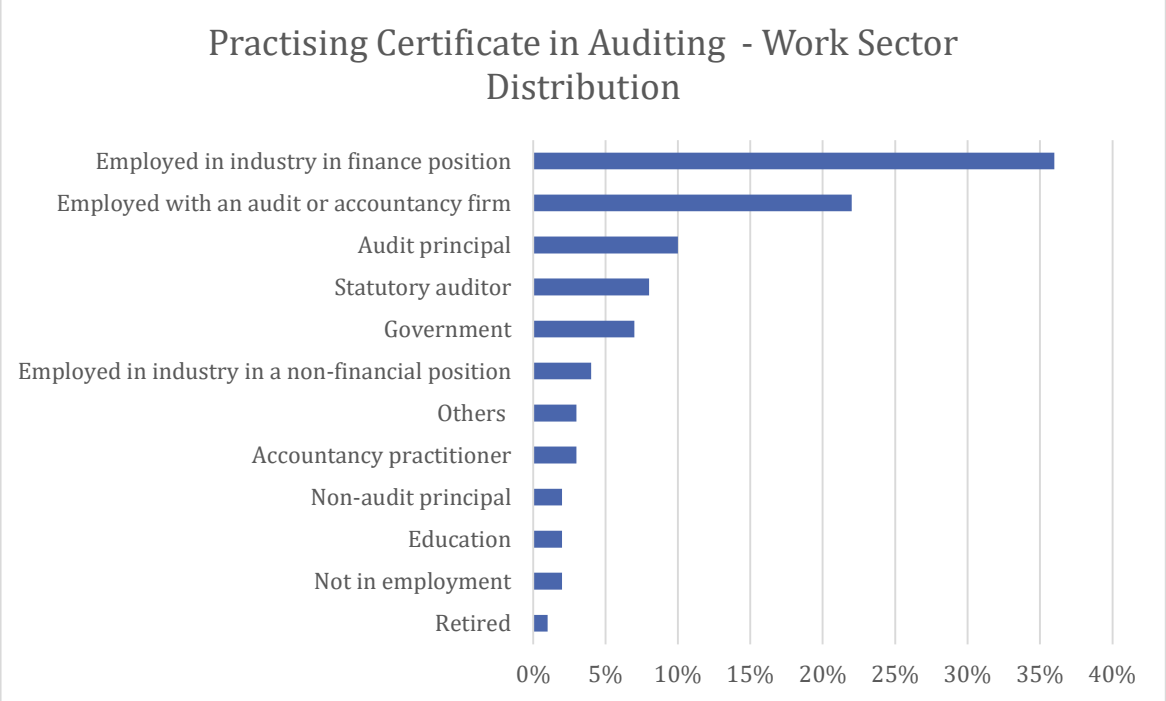
During the year, the Board approved 170 new CPA warrants and 45 practising certificates in auditing. These increases were partially offset by 6 CPA warrant holders and 4 practising certificate holders who retired or passed away during the year. Overall, a net increase was recorded when compared to the previous year.

The year-on-year growth in CPA warrant holders and holders of a practising certificate in auditing over the past five years is illustrated in the figure below:



CPA warrant holders and holders of a practising certificate in auditing continue to be engaged across a wide range of sectors and professional roles. The analysis below presents the distribution of registered warrant holders and practising certificate holders by work sector, based on information submitted through the annual return process:





Sole Practitioners

At year end, the number of sole practitioners increased by 8% to 332 (2024: 306). Of these, 155 (2024: 162) provided statutory audit services, while the remaining 177 practitioners did not conduct audits[1].

Statutory Audit Practitioners – share of market

Based on declarations made through annual returns, statutory audit practitioners carried out approximately 36% of total audit engagements during 2025 (2024: 34%).

Accountancy and Audit Firms

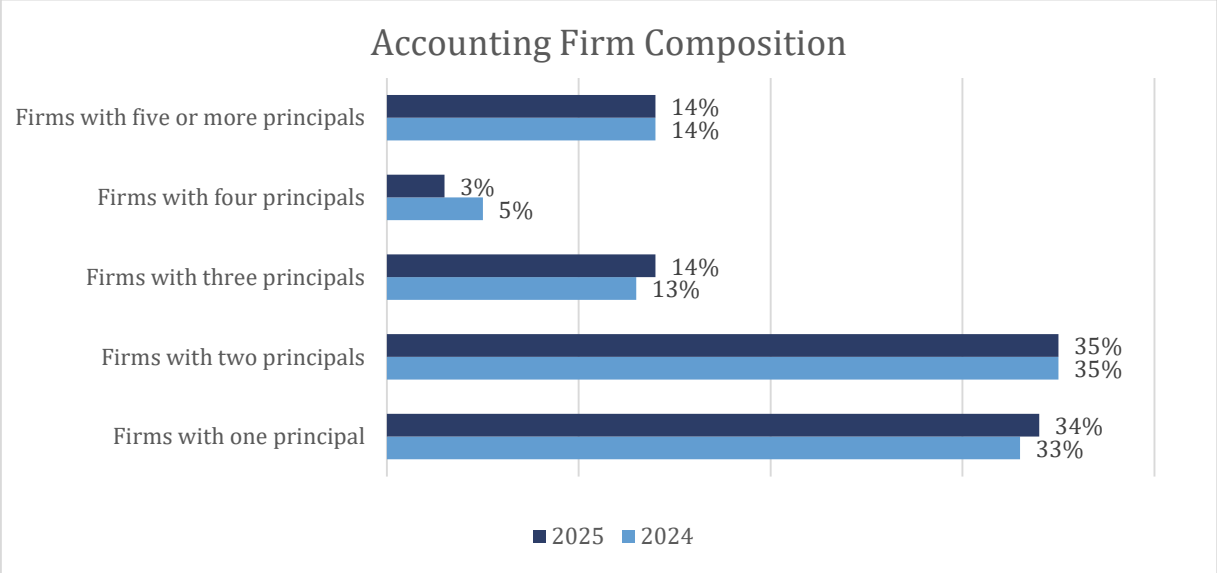
In addition to granting warrants and practising certificates in auditing to individuals, the Accountancy Board is also responsible for the registration of accounting and audit firms. Such firms may be structured either as partnerships or incorporated as limited liability companies. As at 31 December 2025, 93 accounting firms and 147 audit firms were registered with the Accountancy Board.

[1]This information is based on data extracted from 2025 Annual Returns submitted by 3 March 2026

Accounting Firms

During the year, there was an increase of circa 8% in the number of accounting firms registered with the Board. The reason for this increase was due to the increasing demand for accounting and related services.

Furthermore, it was noted that during the year, 34% of accounting firms were composed of one principal (2024: 33%), and 35% of accounting firms were composed of two principals (2024: 35%). The following bar graph shows the composition of accounting firms during 2025 and 2024:



During 2025, 98% (2024: 94%) of accounting firms were incorporated as limited liability companies, whilst the remaining 2% (2024: 6%) were registered as partnerships.

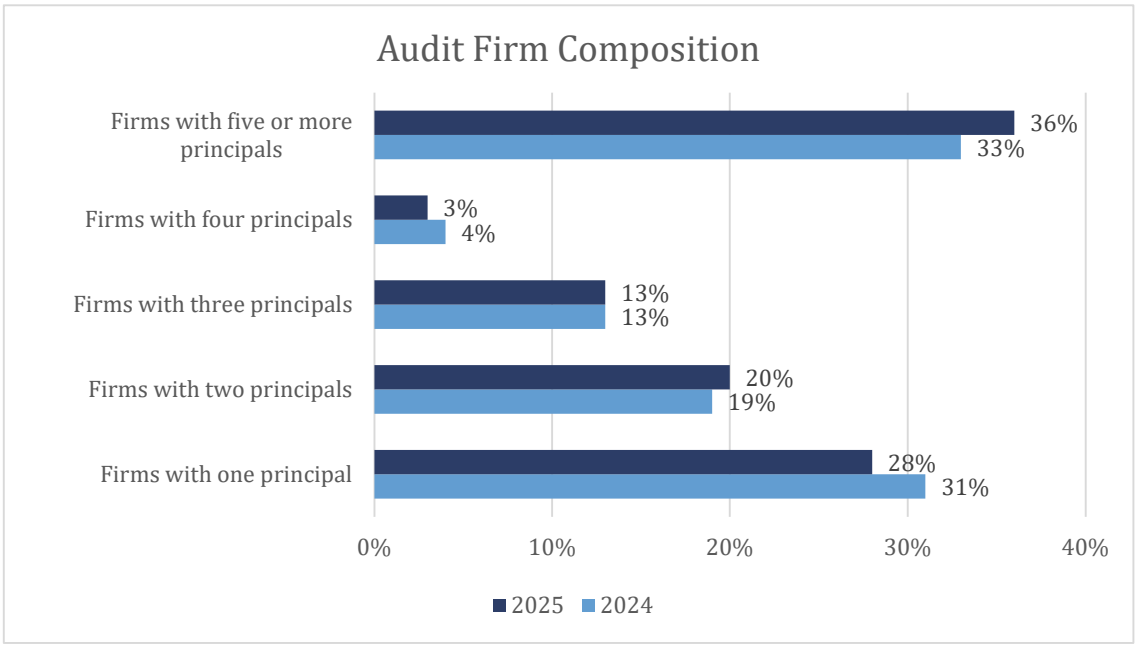
Audit Firms

At year end, the decrease of about 1% in 2024 in the number of audit firms registered with the Accountancy Board reversed to an increase of about 6% in 2025.

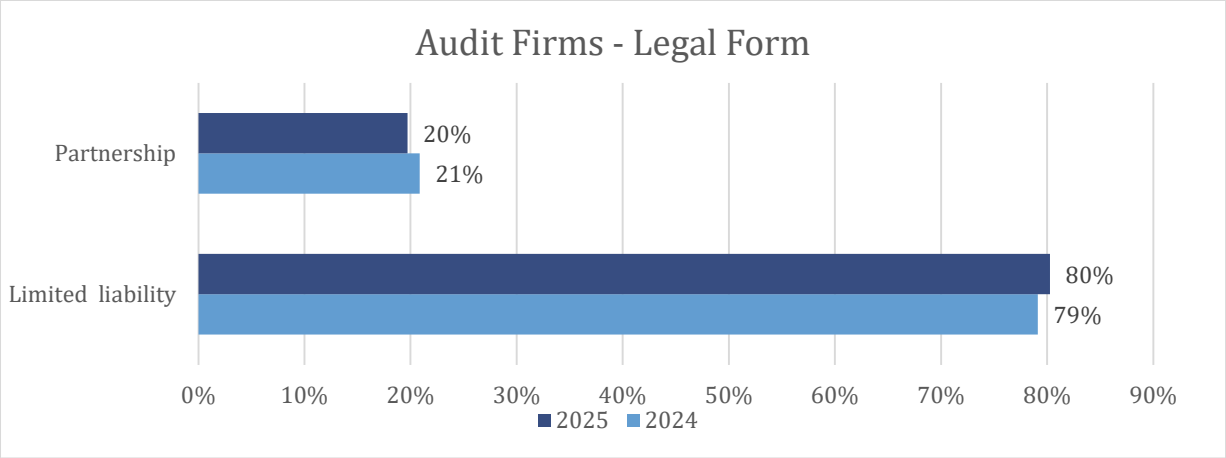
It was further noted that during the year, 28% of audit firms were composed of one principal (2024: 31%), and 36% of the audit firms were composed of five or more principals (2024: 33%).

In respect to audit firms, the composition of principals in such firms has mainly shifted with a decrease of 3% in the firms with one principal to a respective increase of 3% in the firms with 5 principals or more.

The trend of the composition of principals in audit firms is shown in the bar-chart below:



During 2025, audit firms with a limited liability legal structure increased by 1% to 80% from 79% in 2024. 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 64% (2024: 66%) 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.

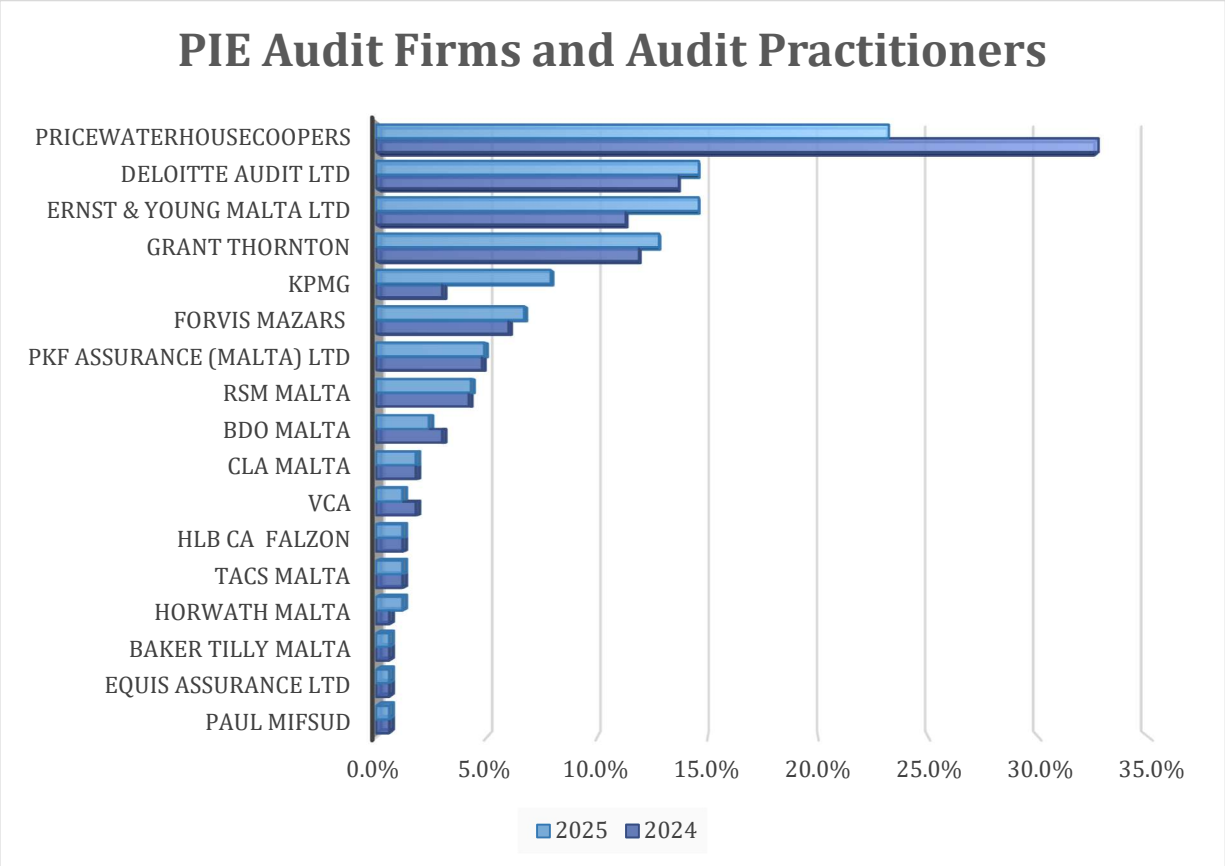
The Accountancy Board obtains information about statutory audit clients that are Public Interest Entities, through annual returns submitted by audit firms and sole practitioners. In 2025 annual returns, audit firms and statutory auditors declared a total of 164 audit clients that fall within the definition of a Public Interest Entity.

The following is a breakdown of the PIEs by type:

	Listed	Unlisted
Insurance Undertakings	2	64
Corporate Bonds	48	-
Other Equity	33	-
Credit Institutions	10	7

In 2025, a total of seventeen audit firms and audit practitioners provided statutory audit services to Public Interest Entities. It was observed that 60% of the PIE audits were conducted by the Big Four statutory audit firms, while the remaining 40% were carried out by mid-tier and small statutory audit firms, as well as one sole practitioner.

The chart below illustrates the percentage distribution of Public Interest Entity (PIE) clients audited by each PIE audit firm and audit practitioner in 2025, based on annual return submissions:



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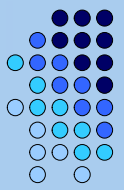


The QAU Inspection Methodology

THE QAU INSPECTION METHODOLOGY

The Quality Assurance Unit (QAU) adopts a risk-based methodology for the selection of statutory auditors and audit firms for monitoring visits.

This methodology is applied consistently throughout the visit, from the planning stage to the completion stage.

The monitoring visit process may be summarised under three main stages:

Stage 1 PLANNING

- REVIEW OF DOCUMENTATION SUBMITTED
- IDENTIFICATION OF RISK AREAS
- PLANNING PROCEDURES TO ADDRESS RISKS

Stage 2 FIELDWORK

- OPENING MEETING
- REVIEW OF QUALITY MANAGEMENT PROCEDURES
- REVIEW OF AUDIT FILES
- REVIEW OF REPLIES & SUMMARISATION OF FINDINGS
- CLOSING MEETING

Stage 3 COMPLETION

- REPORT DRAFTING
- REPORT APPROVAL BY THE QAOSC & BOARD
- ISSUANCE OF REPORT AND FOLLOW-UP

Stage 1 – Planning

Prior to the visit, the reviewer performs a risk-based assessment of the statutory auditor or audit firm. This assessment is based on documentation available to the Unit, including correspondence files, annual returns, information submitted upon notification of the visit, including audit client lists, previous inspection reports, transparency reports in the case of PIE auditors, and Malta Business Registry searches.

Based on this review, key risk areas are identified and the scope and procedures of the visit are determined accordingly.

Stage 2 – Fieldwork

The objective of the visit is to assess:

- Compliance with applicable auditing and independence requirements;
- The adequacy of resources allocated to audit engagements; and
- The design and implementation of the internal system of quality management.

Fieldwork consists of a firm-wide review and a review of selected audit files.

Opening Meeting

Fieldwork commences with an opening meeting between the reviewer(s) and the compliance principal, who is the individual appointed within a firm to address compliance related matters or with the sole practitioner in case of a sole practice.

The meeting serves to:

- Discuss risks identified during the planning stage;
- Identify any additional risk areas; and
- Audit files selected for review and other documentation are provided to the reviewer(s).

Review of Quality Management Procedures

The general practice or firm-wide review focuses on the practice's system of quality management and compliance with legislative requirements. Documentation typically reviewed includes:

- The ISQM 1 manual;
- The firm's risk assessment of its System of Quality Management;
- Professional indemnity insurance documentation;
- Independence declarations of principals and staff;
- CPE declarations pertaining to principals and staff;
- Letterheads of the practice and any connected undertakings;
- The review of the system of quality management; and
- Evidence of monitoring activities, including cold file reviews and engagement quality reviews.

On visits to PIE statutory auditors and audit firms, the QAU applies the Common Audit Inspection Methodology (CAIM) developed by the Committee of European Auditing Oversight Bodies (CEAOB). CAIM promotes consistency of inspection approaches across EU regulators and includes structured work programmes covering:

- The practice's risk assessment process;
- Governance and leadership;
- Ethical requirements;
- Acceptance and continuance;
- Engagement performance;
- Resources;
- Information and communication;
- Engagement quality reviews; and
- Monitoring and remediation.

The compliance principal will be informed before the commencement of the visit of the additional documentation required in respect to the general practice or firm-wide review.

Review of Audit Files

In addition to the general practice or firm-wide review, one or more audit files are selected for review. The number of files selected for review is at the discretion of the QAU. File selection is risk-based and the factors considered, amongst other include public interest relevance, client size and complexity, and any audit qualifications.

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 or firm addressed those risks through the documentation found in the audit file.

For PIE engagements, CAIM procedures addressing specific audit areas, such as revenue recognition, group audits and accounting estimates are also carried out in addition to the other tailored templates used for such entities by the QAU reviewers.

Review and Discussion of Findings

During fieldwork, queries are raised with the compliance principal or the sole pracitioner based on documentation reviewed.

Findings noted are summarised in a document which is then discussed at a closing meeting. The statutory auditor or audit firm is provided with the documented findings and given fourteen days to submit reply and proposed remedial actions.

Stage 3 – Completion

Reporting

Following the conclusion of fieldwork and receipt of responses of the statutory auditor's or audit firm's replies, a Quality Assurance Visit Report is prepared setting out:

- Findings identified during the visit; and
- The conclusions of the quality assurance process.

For internal purposes, reports are categorised according to the nature and significance of the findings, the degree of non-compliance identified and the statutory auditor's or firm's responsiveness to the issues raised.

Approval Process

Individual visit reports are presented to the Quality Assurance Oversight Sub-Committee (QAOSC) for review and approval and subsequently are referred to the Accountancy Board for final consideration.

Based on the extent of the findings identified during the visit and the replies received, the Board would then request confirmations about actions expected to be taken by the statutory auditor or firm. Where appropriate, the Board may require specific remedial actions and or impose sanctions. These are communicated formally in the closing letter.

Regulatory Actions and Follow-Up

Depending on the nature and severity of findings, the Accountancy Board may impose one or more regulatory measures, including:

- **External cold file reviews** – The statutory auditor or firm may be required to appoint an independent external reviewer approved by the Board to perform a review of a completed audit file.

- **Hot file reviews** – An approved external reviewer may be required to inspect an audit engagement prior to the signing of the audit report. The external reviewer submits a report to the QAU for consideration by the Board before the audit report may be issued.

- **External review of the system of quality management** – The firm may be required to appoint an approved external reviewer to assess its firm-wide policies and procedures in accordance with ISQM 1, ISQM 2 and other applicable legal requirements.

- **Follow-up visits** – Conducted by the QAU, generally within one year, to assess whether previously identified deficiencies have been adequately addressed. A follow-up visit fee is charged based on time spent on the review.

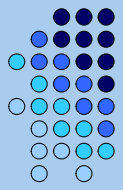
- **Disciplinary referral** – Where warranted, matters may be referred to the Disciplinary Committee or the Accountancy Board for further consideration.

- **Other remedial measures** – These may include the submission of a CPE plan, implementation of an ISA-compliant audit programme, issuance of warnings or reprimands, or publication of declarations.

A list of approved external reviewers is available on the Accountancy Board's website.

The final Quality Assurance Visit Report is issued together with the closing letter. The QAU monitors compliance with required confirmations and remedial actions and refers matters to the Accountancy Board where further intervention is necessary.

08



QAU Inspection Visits in 2025

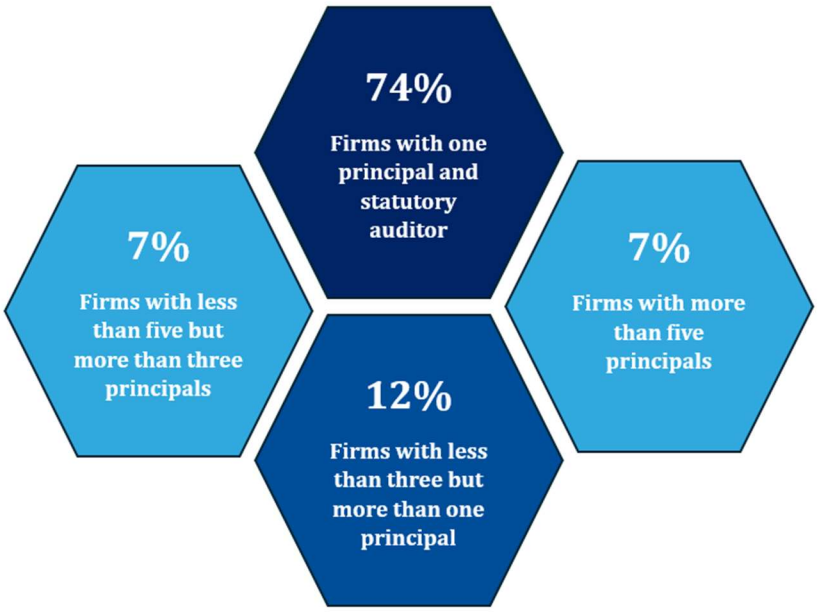
QAU INSPECTION VISITS IN 2025

Overview - Visits

By the end of 2025, the Quality Assurance Unit (QAU) carried out a total of 37 visits. Of these visits, 6 visits related to practices auditing public interest entities, comprising of 5 firms and 1 sole practitioner.

Since the commencement of the QAU's function in 2007 and up to the end of 2025, an aggregate total of 615 quality assurance visits have been carried out. As at year end, 602 of these visits had been approved by the Accountancy Board.

During 2025, and taking into account both visits concluded during the year and a number of visits that commenced in late 2024, the Quality Assurance Sub-Committee and the Accountancy Board reviewed a total of 42 quality assurance visit reports. The distribution of these visits, analysed by the size of the practice or firm inspected, is illustrated graphically below:



The quality assurance visit reports approved by the Accountancy Board during the year comprised a mix of PIE and non-PIE auditors. Five approved visits related to PIE audit firms and a sole practitioner, with the majority of visits concerning sole practitioners and audit firms not auditing PIE engagements, as illustrated below.

Overview - Files Reviewed

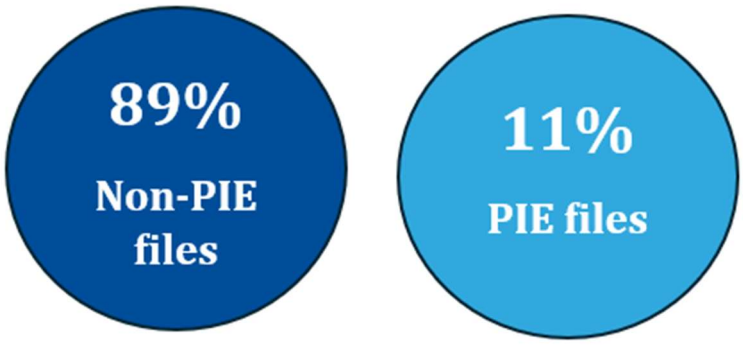
In line with the Quality Assurance Unit (QAU)'s risk-based methodology, reviewers assess the risks arising from each quality assurance visit and, on this basis, determine the number and selection of audit engagements to be reviewed in order to address the risks identified.

From the 42 quality assurance visit reports approved by the Quality Assurance Sub-Committee and the Accountancy Board during 2025, 3 audit firms did not carry out any audits at the time of the visit. Accordingly, a total of 45 audit files were reviewed by QAU reviewers during the inspection process, covering 39 practices.

The audit files reviewed were categorised by sector, as illustrated below.

20% Retail	20% Wholesale	11% Transport
11% Services	9% Manufacturing	7% Banking, Finance and Insurance
6% Investment Holding Company	6% IT	4% Construction and Real Estate
4% Gaming	2% Tourism	

As part of visits to PIE auditors, the review process consistently includes one or more PIE audit engagements. Accordingly, PIE engagements represented 11% of all audit engagement files reviewed during 2025, comprising audits of banks, insurance undertakings and other listed entities.



Summary of Decisions

Taking into account the nature, extent and severity of the findings identified during quality assurance visits, and following consideration of the responses submitted by the practices and firms reviewed, the Accountancy Board determines the appropriate regulatory course of action.

In certain instances, the Board's decision is limited to requesting confirmations that the matters identified will be appropriately addressed. In other cases, the Board may determine that, in addition to confirmations, further sanctions or conditions are warranted. Statutory auditors and audit firms are formally notified of the required confirmations and/or sanctions through the closing letter issued at the conclusion of the visit.

Confirmations are requested to ensure that adequate corrective procedures are implemented in response to the issues identified during the Quality Assurance Unit (QAU) visit. These confirmations require statutory auditors and audit firms to take remedial action within specified timeframes. During subsequent visits, previously identified findings are revisited in order to assess whether the required actions have been effectively implemented. Failure to take timely and appropriate action may result in the imposition of more severe sanctions or conditions.

A range of sanctions and conditions may be imposed following a quality assurance visit. These may include follow-up visits, hot file restrictions, external reviews of the system of quality management, and external cold file reviews. The Board may also issue warnings, reprimands, or publish declarations on its website. In cases involving more serious findings, statutory auditors or audit firms may be referred for further consideration by the Board's Disciplinary Committee.

Based on visits approved by the Accountancy Board during 2025, 29% of firms and statutory auditors reviewed (2024: 15%) were subject to sanctions or conditions in addition to confirmations, representing a notable increase compared to the previous year.

Conversely, in 71% of visits (2024: 85%), the Board's decision was limited to the request for confirmations only.

The table below presents an analysis of the courses of action determined by the Accountancy Board following quality assurance visits in the last ten years:

Accountancy Board Courses of Action (2016-2025)

Year	Confirmations (%)	Conditions/Impositions (%)
2025	71%	29%
2024	85%	15%
2023	83%	17%
2022	44%	56%
2021	71%	29%
2020	64%	36%
2019	60%	40%

2018	91%	9%
2017	87%	13%
2016	79%	21%

During 2025, the Accountancy Board imposed seventeen sanctions/conditions on twelve of the visits approved during the year.

The following sanctions and other measures were imposed during the year:

- *External review of the system of quality management* – one sole practitioner was required to undertake an external review of the system of quality management, to be carried out by an Accountancy Board-approved external reviewer;

- *External cold file reviews* – two sole practitioners and one non-PIE audit firm were required to undertake an external cold file review, to be carried out by an Accountancy Board-approved external reviewer;

- *Declarations* – four declarations were published or are in the process of being published on the Accountancy Board's website, relating to audit reports issued by two PIE audit firms and two sole practitioners. Declarations related to deficiencies in audit reports.

  In the case of PIE audit firms, the deficiencies identified were as follows:
  - the absence of disclosures required by Article 10 of EU Regulation (EU) No 537/2014, as transposed in Article 179B of the Companies Act, applicable to statutory audits of public interest entities;
  - the basis of materiality disclosed in the audit report was inconsistent with that documented in the audit working papers; and
  - failure to disclose the date of appointment of the audit firm, as required by Article 179B(1)(b) of the Companies Act.

  In the case of sole practitioners, the deficiencies identified were as follows:
  - the audit report did not comply with the requirements of Article 179A of the Companies Act; and
  - the audit report was not modified despite the existence of material matters.

- *Other restrictions* – warnings were issued to three PIE audit firms, two non-PIE audit firms, and four sole practitioners.
    - Warnings issued to PIE audit firms related to Code of Ethics violations, audit reports not meeting the requirements of Article 179A of the Companies Act, and failure to identify the client as public interest entity, resulting in PIE-specific procedures not being applied.
    - Warnings issued to non-PIE audit firms related to Code of Ethics violations and significant findings identified during the visits.
    - Warnings issued to sole practitioners related to Code of Ethics violations, audit reports not meeting the requirements of Article 179A of the Companies Act, and significant findings identified during the inspection process.

A total of 129 audit firms and sole practitioners had sanctions or conditions imposed following quality assurance visits conducted between 2007 and the end of 2025. These are illustrated below:

PIE Statutory Audit Firms	• 3 Follow-up Visits • 6 External Review of System of Quality Management and/or Cold File Reviews • 1 Hot File Restriction • 1 Reprimand • 3 Declarations • 6 Other Restrictions
Non-PIE Statutory Audit Firms	• 6 Follow-up Visits • 22 External Review of System of Quality Management and/or Cold File Reviews • 4 Declarations • 6 Other Restrictions
Full-Time Statutory Auditors	• 10 Follow-up Visits • 30 External Review of System of Quality Management and/or Cold File Reviews • 8 Hot File Restriction • 5 Declarations • 9 Other Restrictions
Part-Time Statutory Auditors	• 4 Follow-up Visits • 10 External Review of System of Quality Management and/or Cold File Reviews • 4 Hot File Restriction • 3 Other Restrictions

2025 Visit Findings – Key Observations

As in previous years, this section highlights the most significant and recurring issues identified during visits approved by the Accountancy Board throughout the year. Audit practitioners and firms are encouraged to critically assess their methodologies, templates, and internal practices to determine whether enhancements are required. A proactive approach to addressing potential deficiencies is strongly recommended, rather than responding only after issues arise.

As noted earlier in this report, the Accountancy Board approved a total of 42 visit reports during 2025, covering both PIE statutory auditors/audit firms and non-PIE statutory auditors/audit firms. For analytical purposes, the findings arising from these reports have been categorised according to the various stages of the audit process, together with an assessment of firm-wide policies and procedures in accordance with ISQM 1 and other applicable legislative requirements.

For the purposes of this report, findings have been categorised as follows:

- Audit File Findings at the Planning Stage;
- Audit File Findings at the Fieldwork Stage;
- Audit File Findings at the Completion Stage and Audit Report Review; and
- Whole Firm/Practice-Level Findings.

Audit File Findings at the Planning Stage

During 2025, the most common breaches of standards identified by QAU reviewers during visits related to the following:

- ISA 210 – Agreeing the Terms of Audit Engagements;
- ISA 220 – Quality Management for an Audit of Financial Statements; and
- Directive 2 – Code of Ethics – Non-Assurance Services.

ISA 210 - Agreeing the Terms of Audit Engagements

The letter of engagement was one of the areas with the most findings during inspection visits conducted in 2025. Consequently, audit practices are encouraged to revisit ISA 210 – Agreeing the Terms of Audit Engagements to address any deficiencies.

ISA 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate and specifies the key sections that should be included in the engagement letter. For recurring audits, the standard also requires the auditor to assess whether the terms of engagement need to be updated and whether the entity should be reminded of the existing terms.

The key findings QAU inspections visits in 2025 are summarised as follows:

- engagement letters were not fully aligned with ISA 210 requirements, in some cases they were significantly outdated or based on previous ISA 210 requirements and did not include the auditor's responsibility to conclude on the appropriateness of management's use of the going concern basis of accounting;
- engagement letters were issued prior to completing client continuance procedures;
- engagement letters did not cover all primary financial statements included in the client's financial statements or included statements that were not part of the client's financial statements; and
- engagement letters did not identify the applicable financial reporting framework for the preparation of the financial statements as required by Para 10 of ISA 210. Instances were also noted whereby reference was made to IFRS rather than GAPSME, when GAPSME was the financial reporting framework used.

ISA 220 – Quality Management for an Audit of Financial Statements

Audit practices are expected to establish robust client acceptance and continuance policies and procedures within their ISQM 1 framework. At the engagement level, ISA 220 – Quality Management for an Audit of Financial Statements requires engagement partners to ensure that appropriate acceptance and continuance procedures are properly performed and documented.

Client acceptance and continuance was also an area where a number of findings were identified. A summary of the key findings is presented below:

- client acceptance and continuance procedures were not adequately performed, including failure to consider prior year audit qualifications and recurring issues, assess the need for an Engagement Quality Review (EQR) and address broader independence considerations;
- client acceptance and continuance procedures were often completed, approved, or dated after the engagement letter was issued to the client or audit work had commenced. In some instances, client continuance procedures were dated the same date of the audit report;
- no documented assessment was found that the preconditions for an audit were present prior to acceptance or re-appointment;
- despite the engagement being a public interest entity with a "High" risk score, the customer risk assessment was not signed by the Chief Executive Officer as required by the firm policy; and
- other administrative and documentation weaknesses noted, including undated forms, unclear questions, outdated references to ISQC 1 instead of ISQM 1 and inconsistencies in risk assessments were noted.

Directive 2 – Code of Ethics – Non-Assurance Services

In addition to the statutory audit, clients are often provided with other services by the statutory auditor, the audit firm, or its affiliated entities. These non-assurance services typically include the preparation of accounting records and financial statements, as well as tax services, primarily relating to the preparation of tax computations.

In a number of cases, statutory auditors and audit firms had established policies and procedures to address such circumstances, aligned with the requirements of the Code of Ethics and, where applicable, the Accountancy Profession Act (APA) (in respect of PIE engagements).

Notwithstanding the existence of these policies and procedures, a number of findings were identified in this area. The following matters were noted:

- independence working papers often omitted reference to non-assurance services provided, including those provided by connected undertakings;
- self-review threats arising from these services were frequently not identified or documented;
- safeguards to mitigate independence threats were not adequately documented at planning stage;

- ethical considerations incorrectly made reference to other audit engagement files;
- instances of non-adherence to the statutory auditor's/audit firm's policies and procedures when providing non-assurance services to audit clients were noted; and
- a PIE audit firm provided assistance in the preparation of financial statements despite the prohibition under Article 18A(2)(c) of the Accountancy Profession Act.

Audit File Findings at the Fieldwork Stage

ISA 230 – Audit Documentation

In accordance with ISA 230, the auditor is required to prepare audit documentation that:

- provides a sufficient and appropriate record of the basis for the auditor's report; and
- demonstrates that the audit was planned and performed in compliance with International Standards on Auditing (ISAs) and applicable legal and regulatory requirements.

Audit documentation must be prepared on a timely manner. Documentation included on file should contain:

- identification of the specific items or matters tested;
- the name of the individual who performed the audit work and the date of completion; and
- the name of the reviewer, together with the date and extent of the review performed.

Furthermore, the documentation maintained on file is to be sufficient to enable an experienced auditor, with no prior involvement in the engagement, to understand:

- the nature, timing, and extent of audit procedures performed to comply with ISAs and applicable legal and regulatory requirements;
- the results of those procedures and the audit evidence obtained; and
- significant matters arising during the audit, the conclusions reached, and the significant professional judgments applied in forming those conclusions.

A number of weaknesses were observed in the audit documentation, notably in relation to clearly identifying the characteristics of the specific items tested.

ISA 500 – Audit Evidence

ISA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances to obtain sufficient and appropriate audit evidence.

The standard further requires the auditor to evaluate the relevance and reliability of information used as audit evidence, including information obtained from external sources.

During the QAU monitoring visits, a number of deficiencies relating to audit evidence were identified. In several instances, external confirmations constituted the sole source of audit evidence obtained by the engagement team, without the performance of additional

corroborative procedures. In other cases, the audit procedures performed were found to be limited in scope or insufficient to support the conclusions reached.

ISA 501 – Audit Evidence – Specific Considerations for Selected Items

ISA 501 provides guidance to auditors on obtaining sufficient and appropriate audit evidence regarding the existence and condition of inventory. The standard requires auditors to attend the physical inventory count, unless attendance is impracticable, in order 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.

In addition, auditors are required to perform audit procedures over the entity's final inventory records to assess whether these accurately reflect the results of the physical inventory count. Where attendance at the physical inventory count is impracticable, the auditor should perform alternative audit procedures to obtain sufficient and appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to obtain such evidence, the auditor is required to modify the audit opinion in accordance with ISA 705 (Revised).

Where inventory is held at a third-party location, the auditor should obtain direct confirmation from the third party or perform other appropriate audit procedures to verify the inventory's existence and condition.

On a number of audit files reviewed in 2025, audit testing in respect of inventory required improvement. In particular, instances were noted where audit evidence was limited and documentation of the audit procedures performed was insufficient.

The following matters were noted:

- attendance at stock takes and spot checks were either not performed or not properly documented, despite inventory being material;
- alternative audit procedures were not performed where the auditor did not observe the inventory count;
- risk assessment relating to inventory held at multiple locations and the basis for selecting locations for attendance were not documented;
- management's instructions, and procedures for recording and controlling the physical inventory counting were not documented;
- insufficient or no audit evidence was retained to support inventory valuation at the lower of cost and net realisable value, including impairment, slow-moving, damaged or expired stock considerations;
- no documented procedures were performed on stock cut-off including imported stock in transit and changes in inventory between count date and reporting date;
- testing of material inventory categories and work in progress balances was incomplete;

- assurance was not obtained that the inventory cost included an appropriate allocation of transportation and handling costs;
- the inventory valuation methodology was inconsistently documented, with discrepancies between audit planning documentation and financial statement disclosures;
- insufficient evidence was retained to support the existence, ownership and valuation of property held for resale classified as inventory;
- weaknesses were identified in sales/invoice sequencing affecting completeness testing; and
- inconsistencies and contradictions were noted in working papers (e.g. inventory confirmation letter incorrectly stating that a stock take was conducted and a working paper indicating that no inventory was held despite an inventory balance being reported in the financial statements at year end).

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 570 – Going Concern;
- ISA 580 – Written Representations;
- ISA 700 – Forming an Opinion and Reporting on Financial Statements; and
- ISA 705 – Modifications to the Opinion in the Independent Auditor's Report.

ISA 570 – Going Concern

As set out in ISA 570 – Going Concern, the auditor is required to obtain sufficient and appropriate audit evidence to assess the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. The auditor must also conclude, based on the evidence obtained, whether a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

In light of the findings identified by the QAU, going concern has been highlighted as an area requiring improvement. Firms and practices are encouraged to review and strengthen their existing policies and procedures to ensure full compliance with ISA 570, particularly where events or conditions, either individually or collectively, may give rise to significant doubt regarding the entity's ability to continue as a going concern.

In addition, engagement leaders are responsible for assessing relevant risk factors, together with any mitigating factors. These assessments must be clearly documented in the audit file and should appropriately support the audit opinion expressed in the auditor's report.

During the 2025 monitoring visits, 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;

- management's assessment covering at least 12 months from the date of the financial statements was not obtained;
- limited or no evidence of audit procedures performed to evaluate management's assessment;
- insufficient supporting documentation to substantiate the use of the going concern basis of accounting; and
- no evidence of work performed to assess shareholder financial support for ongoing operations and future major contracts.

ISA 580 – Written Representations

The letter of representation remains an area requiring improvement across a number of practices. Recurring findings indicate that pro-forma templates are not consistently updated to reflect current auditing standards and applicable financial reporting frameworks.

Key deficiencies identified during the year include:

- failure to attach a list of uncorrected misstatements where applicable, in accordance with ISA 450, or incorrectly stating that uncorrected misstatements were immaterial when none existed;
- omission of mandatory representations required by ISA 580 and other relevant ISAs;
- failure to update the written representation relating to accounting estimates to reflect the changes made to ISA 540 (Revised);
- incorrect or no reference to the applicable financial reporting framework, including references to GAAP instead of GAPSME;
- incorrect reference to the financial statements of another entity that is not an audit client of the practice and incorrectly cited the financial year end, reference to outdated engagement letters, inclusion of financial statements not required under GAPSME Regulations;
- incorrect statement regarding the company's ability to continue as a going concern; and
- use of outdated templates not fully aligned with current ISA requirements.

Statutory auditors and audit firms are urged to review and update their representation letter templates to ensure full compliance with ISA 580 and related standards, and to tailor them appropriately to each individual engagement.

ISA 580 includes an illustrative representation letter which may assist practices in ensuring compliance, and practitioners and firms are encouraged to refer to the standard.

ISA 700 – Forming an Opinion and Reporting on Financial Statements; ISA 705 – Modifications to the Opinion in the Independent Auditor's Report;

During the 2025 review cycle, a number of deficiencies were identified in relation to the issuance of audit reports in line with the requirements of ISA 700 and local legislative requirements.

Several shortcomings were noted in the preparation and finalisation of audit reports. In many cases, the departures identified could have been avoided through appropriate cross-referencing to the illustrative reports contained within the standards and by performing a more rigorous final review and proof-reading process prior to issuance.

The main weaknesses concerned the structure, wording and overall presentation of the audit report. In several instances, the report did not fully comply with the requirements of ISA 700 with certain elements being incomplete, inaccurately drafted, or insufficiently tailored to the specific circumstances of the engagement.

Deficiencies relating primarily to ISA 700:

- the audit opinion did not cover all components of the financial statements, or alternatively, referred to financial statements that did not form part of the entity's financial statements;
- the "Other Information" paragraph did not reflect the additional reporting requirements applicable to GAPSME Medium entities;
- the audit report was addressed to "the Shareholders" instead of "the shareholder", where only one shareholder existed;
- audit reports issued by sole practitioners referred to the practice in the plural ("we" / "our") instead of using the singular form ("I" / "my");
- in respect of Public Interest Entity (PIE) audit engagements, the audit report did not fully address the additional requirements arising from Article 10 of EU Regulation 537/2014, as transposed into Article 179B of the Companies Act; and
- in one PIE engagement, the basis for determining materiality was not correctly disclosed in the audit report, while in another PIE engagement, the audit report was incorrectly dated prior to the financial year end.

Deficiencies relating primarily to ISA 705:

- the auditor did not modify the audit opinion despite material issues being identified during the audit;
- in one engagement, the auditor failed to issue a qualified opinion where the directors did not prepare consolidated financial statements as required by the Companies Act;

It is recommended that firms and sole practitioners review and update their audit report templates to ensure full compliance with ISA 700, ISA 705 and applicable legislative requirements. Greater attention should also be given to appropriately tailoring audit reports to the specific engagement and performing appropriate review procedures prior to issuance.

Whole Firm/Practice Findings

During 2025, the most frequent findings raised at whole practice/firm level include findings identified in relation to:

- ISQM 1 related matters;
- Continued Professional Education; and
- Professional Indemnity Insurance.

ISQM 1 Related Matters

With effect from 15 December 2022, International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2), and the revised International Standard on Auditing 220 (ISA 220) became applicable to all audit firms and practices. In November 2022, implementation guidance was issued by the Accountancy Board.

Pursuant to the requirements of ISQM 1, firms and practices were required, to design and implement a system of quality management (SOQM) by 15 December 2022. This included updating internal policies and procedures to align with the standard, establishing quality objectives, identifying and assessing quality risks, and designing and implementing responses to address those risks. The risk assessment process is required to be ongoing, dynamic, and responsive to changes in the nature and circumstances of the firm and its engagements.

In addition, firms and practices are required to perform an annual evaluation of their system of quality management to provide reasonable assurance that the objectives of the system are being achieved. The first annual evaluation was required to be completed by 15 December 2023.

During the year under review, the following matters were identified:

ISQM 1 Manual

The following deficiencies were identified in relation to firms' and practices' ISQM 1 Manuals:

- in certain cases, firms and practices had not implemented an ISQM 1 compliant manual. Their policy manual was still based on the requirements of ISQC 1;
- the practice's policies and procedures were not appropriately tailored to the nature and circumstances of the practice;
- manuals did not refer to the Review of the System of Quality Management (SoQM). In several instances, reference was still made to the Audit Compliance Review (ACR), including the previous three-year review cycle applicable to sole practitioners with no audit staff, notwithstanding that under ISQM 1 an annual Review of the System of Quality Management is required;
- manuals were not fully aligned with ISQM 1 requirements. In particular:
  i) the retention period for the documentation relating to the SoQM was not specified, as required by paragraph 60 of the ISQM 1;
  ii) the requirement to provide documented confirmation of compliance with independence requirements was not extended to personnel not involved in audit engagements, as required by paragraph 34(b) of the ISQM 1;
  iii) monitoring policies did not address the objectivity of the individuals performing monitoring activities as required by paragraph 39(b) of the ISQM 1;
  iv) no documented policy was included outlining procedures for resolving differences of opinion, including clear criteria for when consultation is required;
  v) criteria for the selection of cold file reviews were not documented;
  vi) safeguards relating to long association with the clients and/or the provision of non-audit services to audit clients were not documented;
- where firms concluded that no additional quality objectives or sub-objectives were necessary, the supporting assessment was not documented;
- in certain cases, templates used differed from those included in the ISQM 1 Manual;

- manuals did not make reference to Directive 1 regarding Continuing Professional Education (CPE) requirements. In some instances, reference was made instead to International Standard 8; and
- reference was not made to Directive 2 Code of Ethics.

Risk Assessment

The following deficiencies were identified in relation to the ISQM 1 risk assessment process:

- in certain cases, no risk assessment had been carried out;
- risk assessments were not performed within the required timeframe and were only undertaken at the end of 2023, or in certain cases as late as 2024 or 2025, despite the requirement to design and implement the system of quality management by 15 December 2022; and
- risk assessments were not adequately performed including:
  i) failure to cover all mandatory ISQM 1 components; and
  ii) failure to document appropriate responses to identified quality risks; and
  iii) failure to explain how such responses address those risks, as required by para 58(c) of ISQM 1.

Review of the System of Quality Management

The following deficiencies were identified in relation to the annual evaluation of the system of quality management (SoQM), including Cold File Reviews:

- in certain cases, the required annual evaluation of the SoQM was either not performed or not conducted in accordance with the requirements of ISQM 1. Sometimes, practices continued to carry out an Audit Compliance Review (ACR) based on the superseded ISQC 1 framework;
- evaluations of SoQM were not performed on an annual basis as required by ISQM 1 and the Guidance Note issued by the Accountancy Board. Instances were also noted where Cold File Reviews were not performed in accordance with the frequency stipulated in the same Guidance Note;
- during 2023 and 2024, certain practices did not test the responses designed to address quality risks linked to mandatory quality objectives. As a result, the annual evaluation provided limited assurance regarding the effectiveness of the design, implementation, and operation of those responses, certain practices did not test the responses designed to address quality risks linked to mandatory quality objectives. Consequently, the annual evaluation provided limited assurance regarding the effectiveness of the design, implementation, and operation of those responses;
- a statement concluding on the effectiveness of the SoQM referred to reviews conducted by international networks, notwithstanding that the practices concerned were not members of such networks;
- documentation supporting the annual evaluation was, in some cases, incomplete, not adequately filled in, or unsigned, thereby undermining the reliability of the review process and the conclusions reached; and
- deficiencies noted with respect to Cold File Reviews included:
  i) reviews carried out by the engagement principal rather than by a reviewer not involved in the audit engagement;
  ii) cold file reviews did not cover all engagement principals on a three-year cycle;
  iii) unclear remedial action was taken to address matters identified from Cold File Reviews.

Continued Professional Education

Continued Professional Education compliance is assessed during monitoring visits by reference to the requirements of Directive 1 issued under the Accountancy Profession Act, as well as the practice's or firm's internal policies and procedures governing CPE monitoring and reporting.

During the year the following deficiencies were identified:

- discrepancies were noted between the practice's monitoring records and the information declared by the individuals (employees, partners and sole practitioners) in their annual returns submitted to the Accountancy Board were noted;
- discrepancies between CPE verified during the visit and the hours declared by sole practitioners in their annual return submitted to the Accountancy Board were noted;
- CPE monitoring did not cover all staff members;
- non-compliance noted with the minimum CPE requirement, for both structured and unstructured CPE, for both staff, partners and sole practitioners;
- monitoring carried out by the practice did not cover unstructured CPE;
- certificates were not provided at the time of the visit as supporting evidence; and
- CPE hours were claimed as structured hours despite not being verifiable.

Professional Indemnity Insurance

The Accountancy Profession Act and the Accountancy Profession Regulations establish the obligation for audit firms and statutory auditors to maintain a professional indemnity insurance that satisfies specific statutory requirements.

The following matters were raised in respect of audit firms and practices reviewed in 2025:

- the professional indemnity insurance cover was not in line with the requirements prescribed by Article 5(2) of the Accountancy Profession Regulations;
- the policy did not expressly provide cover for the following, as required by Section 11(1) of the Accountancy Profession Act:
  i) damage brought about or contributed by any dishonest, fraudulent, criminal or malicious act or omission of all staff; and
  ii) any negligent act, error or omission committed by the firm, its principals or employees in the performance of their professional duties;
- the policy did not provide the required five-year run-off cover for claims arising in respect of loss or damage made in the five years immediately following cessation of the policy due to retirement or surrender of a warrant or practising certificate, where the negligent act, error, or omission occurred during the insured period, as required by Section 11(2)(a) of the Accountancy Profession Act;
- the insurance policy did not extend to connected undertakings; and
- subcontracted staff not covered under the policy.

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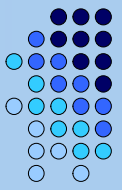


Participation in International Fora

PARTICIPATION IN INTERNATIONAL FORA

Throughout 2025, the Accountancy Board has been actively involved in a number of meetings and committees. Amongst others, the following meetings were attended:

Committee of European Auditing Oversight Bodies Plenary meetings

In 2025, representatives of the Board attended three plenary meetings of the Committee of European Auditing Oversight Bodies (CEAOB), all held in Brussels in March, July, and November. All meetings where chaired by Panos Prodromides, Director General, Cyprus Public Audit Oversight Board (CyPAOB).

The 27th plenary meeting, held on the 18th and 19th of March 2025, focused on key regulatory developments, including ongoing work on the Omnibus proposal and European Sustainability Reporting Standards (ESRS) revision. Members also engaged with the Public Interest Oversight Board (PIOB) on international standard-setting matters and briefly discussed sustainability assurance, Audit Quality Indicators, and general themes related to audit-firm culture and enforcement.

The 28th plenary meeting, held on the 1st and 2nd of July 2025, continued discussions on key regulatory matters and sustainability assurance. Members received input from European Accreditation and the European Contact Group on early Corporate Sustainability Directive (CSRD) and ESRS experiences and were updated on international oversight developments. The meeting also included exchanges on CEAOB structural considerations, qualifications for statutory auditors, regional cooperation, and observer-status matters.

The 29th plenary meeting, held on 18th and 19th of November 2025, focused on preparations for the year ahead, including the adoption of the 2026 work programme and related work plans. Members discussed the CEAOB's input to the Digital Operational Resilience Act (DORA) review and agreed on observer-status applications from several non-EU countries. The meeting also included updates on international developments through exchanges with the PIOB, along with broader discussions on audit-firm governance, Anti-Money Laundering (AML) matters, and cooperation with third-country jurisdictions, supported by contributions from academic and professional stakeholders.

Committee of European Auditing Oversight Bodies Inspections Sub-Group meetings and participation in the Deloitte College

In 2025, the Quality Assurance Unit (QAU) attended two physical meetings of the Committee of European Auditing Oversight Bodies (CEAOB) Inspections Sub-Group. The first meeting took place in Oslo, Norway, on the 18th and 19th of June 2025, chaired by the Dutch Authority for the Financial Markets (AFM) and hosted by Finanstilsynet – Norway, and included structured discussions with Deloitte and BDO on inspection findings, network controls, International Standard on Quality Management 1 (ISQM 1), Corporate Sustainability Reporting Directive (CSRD) developments, and the use of technology and AI in audit. Members also exchanged

insights on sustainability inspections, audit firm governance, fraud-related database analysis, and concluded with a session with the Public Company Accounting Oversight Board (PCAOB) on cooperation and inspection results, followed by member updates and planning for future activities.

The second meeting was held in Madrid, Spain, from 5th to the 7th November 2025, co-chaired by H2A (France) and CYPAOB (Cyprus) for the joint meeting and chaired by CYPAOB (Cyprus) for the inspection sessions, and featured technical exchanges with the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) on sustainability assurance, audit evidence, fraud, going concern and ethical standard-setting developments. Members also reviewed inspection findings, examined database analyses, discussed IT inspection themes and ISQM-related matters, and shared supervisory practices across jurisdictions. The sessions closed with an in-depth discussion with one of the Big 4 firms on audit quality, root cause analysis and audit quality review outcomes and network-control assessments, alongside planning for the 2026 work programmes of the Task Forces and the Big-4 Colleges.

One of the QAU reviewers also participates in the Deloitte College, which is one of the colleges, that falls under the remit of the CEAOB Inspections Sub-Group. During the year, the Deloitte College agreed on new focus areas namely:

1) ISQM 1 – Monitoring & remediation with a specific focus on root cause analysis and methodologies around rating of findings & deficiencies identified;
2) to look at developments in standardisation and optimization of audit procedures including AI tools being developed and Offshoring and shared delivery centres;
3) Estimates;
4) Analysis of inspection database and internal monitoring results; and
5) Fraud with a specific focus on rebuttal of Revenue Recognition and consultations undertaken. The QAU reviewer was involved in the focus group related to estimates. The reviewer participated in a number of conference calls held during the year to share views in these areas. The reviewer also contributed through exchanging information through questionnaires with other members of the college and analysing information shared by other college members.

The CEAOB maintains a common database to collect and exchange findings of its EU public oversight bodies from their local inspections of audit firms. During the year, the QAU kept the CEAOB database up to date with the inspection findings in relation to the ten largest European networks of audit firms.

Committee of European Auditing Oversight Bodies Market Monitoring Sub-Group

As a Member State, Malta is required to carry out a market monitoring exercise every three years, which is submitted to the European Commission.

The purpose of the market monitoring exercise is to provide the Commission with information on the structure of the audit market, the market share of key audit firms, the functioning of audit committees, and the outcomes of quality assurance reviews.

The Market Monitoring Sub-Group develops a harmonised approach to be adopted by competent authorities across Member States and provides guidance and support throughout the process.

The Market Monitoring Sub-Group is currently chaired by the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) of Spain.

The fourth market monitoring exercise was conducted in 2025 and submitted to the European Commission in August 2025. The data is currently being consolidated at EU level and will be published by the European Commission in due course.

The previous monitoring exercise was submitted to the European Commission in July 2022 and was published in March 2024. The next market monitoring exercise is scheduled for 2028.

During the year, the Market Monitoring Sub-Group held three virtual meetings in October, November and December. These were attended by the Head of Unit and one reviewer.

Committee of European Auditing Oversight Bodies Enforcement Sub-Group

Throughout 2025, the Committee of European Auditing Oversight Bodies Enforcement Sub-Group continued (CEAOB ENF SG) to strengthen cooperation among national authorities through a structured programme of virtual and physical meetings designed to advance enforcement convergence, promote the exchange of supervisory practices, and support the broader strategic objectives of the Committee of European Auditing Oversight Bodies (CEAOB).

The subgroup commenced its work for the year with a virtual meeting on 29th January 2025, during which members reviewed and approved the subgroup's contribution to the CEAOB Annual Report 2024, considered feedback received on the Enforcement Questionnaire, and addressed preparatory matters for the forthcoming physical meeting in Rome. A second virtual meeting held on 16th April 2025 focused on the approval of the agenda and preceding minutes, an update from the Chair, and organisational planning for the May meeting, including the refinement of discussion topics.

The subgroup convened in person in Rome on 26th and 27th of May 2025, in a meeting chaired by Ms Agnieszka Koprowska. Delegates exchanged enforcement experiences and held in-depth discussions on sanctions information-sharing practices, reviewed jurisdictional case studies, received strategic updates from the Chair, examined matters relating to cross-border investigative cooperation, and agreed on timelines for finalising the Enforcement (ENF) Report 2025.

A follow-up virtual meeting on 12th June 2025 enabled members to approve the minutes of the Rome meeting and progress the review, refinement, and approval of the draft Enforcement Sub-Group (ENF SG) Report. The subgroup reconvened on 8th October 2025 to discuss the ENF SG Performance Assessment 2025, review the draft Work Plan for 2026, advance work on good practices under Article 29 of Regulation 537/2014, and prepare for the Chair election scheduled for the November CEAOB Plenary.

A further virtual meeting on 18th December 2025 provided an opportunity to reflect on outcomes arising from the November Plenary, review the recently delivered ENF SG webinar,

agree on deadlines for the 2026 Enforcement Questionnaire, and address organisational matters for the subgroup's upcoming meeting in Malta.

In addition to its formal meeting programme, the subgroup hosted a webinar on 10th December 2025 entitled "External growth or audit quality – what priority?". The session featured contributions from subject-matter experts and facilitated a moderated discussion exploring the balance between audit-firm growth strategies and the imperative to maintain high standards of audit quality across the EU.

Committee of European Auditing Oversight Bodies Inspection Sub-Group Training Task Force

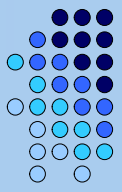
The Committee of European Auditing Oversight Bodies Inspection Sub-Group (CEAOB ISG) Training Task Force organised a three-day training event in Dublin in November 2025, focusing on advanced topics in banking, insurance, sustainability assurance, and emerging accounting standards. The programme included technical updates, practical case studies, and discussions on key challenges such as Expected Credit Loss (ECL) modelling, IFRS 17 implementation, Special Purpose Vehicle (SPV) structures, and the macroeconomic factors influencing financial reporting. Throughout the sessions, participants actively engaged in interactive Q&A, exploring evolving risks, audit complexities, and the growing interlinkages between financial and sustainability reporting.

Accounting Regulatory Committee (ARC)

During the year, the Quality Assurance Unit (QAU) attended a meeting of the Accounting Regulatory Committee (ARC), held in Brussels on 24th June 2025 and chaired by the European Commission. The meeting covered a series of technical updates, including the Commission's latest developments, an International Accounting Standards Board (IASB) briefing on ongoing standard-setting work, and European Financial Reporting Advisory Group (EFRAG) presentations on endorsement advice for IFRS 18 (Presentation and Disclosure in Financial Statements), IFRS 19 (Subsidiaries without Public Accountability: Disclosures), and IFRS 20 (Regulatory Assets and Regulatory Liabilities). Further updates were provided by the European Central Bank (ECB) and the Single Supervisory Mechanism (SSM) on Dynamic Risk Management and by the European Securities and Markets Authority (ESMA) on supervisory and enforcement matters. Attendance ensured that the QAU remained informed on current EU accounting initiatives and evolving financial reporting requirements.

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

10



Collaboration with Other Institutions

COLLABORATION WITH OTHER INSTITUTIONS

The Accountancy Board has continued to maintain strong cooperation with a number of national and EU-level institutions in fulfilment of its statutory responsibilities. Throughout the year, the Board worked closely with key stakeholders including the Financial Intelligence Analysis Unit (FIAU), the Malta Institute of Accountants (MIA), the Malta Financial Services Authority (MFSA) and the National Coordinating Committee (NCC) with collaboration efforts spanning both regulatory and supervisory domains.

In its engagement with the FIAU, the Accountancy Board maintained ongoing communication and attended the Joint Committee Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) meeting held on 25 November 2025. During this meeting, participants received important updates on the EU AML Package, supervisory cycle outcomes, and priority workstreams for 2025/2026, together with progress on the 2026 National Risk Assessment. The meeting further included interventions from subject-person representative bodies, and dedicated sessions on compliance with cash-use regulations as well as recent AML/CFT enforcement developments presented by FIAU officials.

Collaboration with the MIA remained particularly active. The Accountancy Board, in close coordination with the MIA, introduced the new General Accounting Principles for Eligible Entities (GAPEE) framework and associated regulatory measures. In addition, the MIA assisted the Board in formulating requirements for firms and individuals making use of tradenames, which will be introduced in 2026. In addition, during the course of the year discussions were held regarding requirements for sustainability auditors and audit firms. Furthermore, ongoing discussions were held regarding Continuing Professional Education (CPE) monitoring.

The Accountancy Board also contributed to the MFSA's ongoing work on the transposition of the Corporate Sustainability Reporting Directive (CSRD). Its input focused on reviewing legislative drafts and participating in discussions concerning assurance standards, ensuring that the national transposition aligns with Malta's oversight framework for sustainability reporting and assurance.

In preparation for the forthcoming MONEYVAL assessment, representatives of the Accountancy Board actively participated in a series of preparatory meetings throughout 2025. These meetings were coordinated by the NCC, which plays a central role in guiding Malta's national AML/CFT strategy. Through its engagement in these NCC-led preparatory sessions, the Board remained fully apprised of evolving assessment requirements and contributed substantively to national efforts aimed at strengthening compliance, enhancing inter-institutional coordination, and ensuring Malta's overall readiness for the evaluation.

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. During 2025, two CEAOB inspection meetings were attended physically, one in Norway and the other in Spain as well as a number of other meetings attended online.

The Board will continue collaboration with these institutions as well as other competent authorities and professional bodies in 2026.

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