

Accountancy Board

Quality Assurance

2010 ANNUAL REPORT

(issue date - March 2011)

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CHAIRMAN'S STATEMENT



This is the second Annual Report presented by myself as Chairman to the Accountancy Board and the fourth for the Accountancy Board. 2010 has been characterized by the aftermath of the financial crisis. Many articles have been written in professional journals, which seek to establish the degree of responsibility that the audit profession should carry in the global economic meltdown experienced over the last couple of years. This is particularly the case with the Lehman Brothers collapse where the professional scepticism applied on this audit was questionable. Auditors in the UK came under fire for failing to show enough scepticism in their audits of large listed companies and for failing to challenge management assumptions. This is a criticism which strikes at the very core of the profession and this will undoubtedly be the subject for further discussion in the future.

The arguments for and against as to who should shoulder such responsibilities, in a time of crisis, are endless and it is perhaps appropriate to be insular and reconsider one of the major objectives of the setting up of Quality Assurance i.e. that of safeguarding the Public Interest. Surely, fingers should not be pointed at the audit profession but, clearly, regulators need to exercise closer monitoring to avoid the undue hardships suffered by the many victims of the world's recession.

The Statutory Audit Directive has now been transposed into the local legislation of all member states with the scope to better regulate the audit profession following the Parmalat and Enron scandals. Many other third countries have set up Oversight Bodies to regulate the audit profession in their country and the drive, over the recent years, was to obtain mutual recognition and reliance between regulators across the globe. Some observers argue that audit regulators simply react to a given crisis and are not seen to be pro-active in their vigilance of the Public Interest. In many instances, this gives rise to rules and safeguards, which more often than not results in over regulation. Others reckon that the whole system needs to be radically overhauled with a view to narrowing the "expectations gap".

Quality Assurance in Malta was launched in February 2007 and the Quality Assurance Unit almost completed the first full cycle of its monitoring visits to all warrant holders in the audit practice during 2010. The unit visits auditors of Public Interest Entities on a three-year cycle – whilst **all** other auditors are to be visited not less than once every six years. Presently, these are being visited once every four years.

In Malta, our profession is undoubtedly one of the more regulated professions. The Accountancy Board and the Quality Assurance Oversight Committee play an important role in serving the public interest. As Regulators, we seek to strengthen accountability and reinforce trust and confidence in financial reporting and corporate governance.

The transposition of the Eighth Directive resulted in a change in the constitution of the Accountancy Board itself. The members have increased from seven to eleven, with a majority of members on the Board now being made up of non practitioners. All members are on the Board on a part-time basis. I am pleased to say that the newly constituted Board also sees a larger number of female members. Four of the eleven members are in fact women – three of which are warrant holders.

I am also Chairman of the Quality Assurance Oversight Committee (QAOC), which oversees the Quality Assurance Unit – which is headed by Mr. Marcel Coppini, is made up of three reviewers, and an administrative clerk. The main role of the Committee is that to give guidance to the Quality Assurance Unit (QAU) in its role when visiting firms and warrant holders. Directive 4 to the APA gives the QAOC wide ranging powers and responsibilities - the main scope of which is to ensure the

smooth operation of the Quality Assurance monitoring process. It is pertinent to point out that the QAU extensively supports the Accountancy Board in its back office operations, and it is indeed sad to note that a number of attempts to recruit another reviewer proved futile.

The Board's representation and active participation in the *European Group of Auditors' Oversight Board* (EGAOB) has helped us to keep abreast of what is happening within the European Union. The Accountancy Board is represented on a number of sub committees of the EGAOB namely the Audit Regulatory Committee, Accounts Regulatory Committee & Inspections Workshop sub group. These meetings at European level ensure smooth and efficient co-operation amongst public oversight systems within Member States and with third countries. The Commission, through the EGAOB, led a number of discussion meetings with FEE, ECG, CESR and other European Associations, which have at heart the safeguarding of capital markets across Europe and the rest of the world. One particular issue, which was hotly debated at AuRC and EGAOB meetings in Brussels in 2010, was that of recognizing equivalence of audit oversight systems of third countries. An adequacy decision was, in fact, made public by the EU Commission recognizing 10 third countries as being equivalent, as from the 19 January 2011 (Australia, Canada, China, Croatia, Japan, Singapore, South Africa, South Korea, Switzerland and the United States of America). It is therefore, now up to member states to enter into bilateral agreements with these third countries to regulate such matters as mutual reliance on oversight systems, the extent to which audit work papers can be transferred from one jurisdiction to another, under what conditions and with particular relevance to Data Protection and sovereignty issues.

The EU embarked on a major debate on the role and governance of auditors in the EU. Michel Barnier's (European Internal Market Commissioner) Green Paper examined a wide range of issues in the audit area including the role of the auditor, the concentration of the audit market, oversight of audit practice, SME & SMP issues, auditor's independence and corporate governance and adoption of international standards on auditing by the EU.

The Accountancy Board is also a member of the International Forum of Independent Audit Regulators. The Board was represented at the Inspections Workshop held in Paris in February 2010. The plenary meeting held in September 2010 was also attended.

IFIAR is an international organization of audit regulators worldwide. IFIAR Verein is the legal entity – set up by a charter agreement between different members countries across the globe the main object of which charter are:

- 1) Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity with a focus on inspections of auditors and audit firms;
- 2) Promoting collaboration and consistency in regulatory activity; and
- 3) Providing a platform for dialogue with other organisations that have an interest in audit quality.

There are audit regulators from 37 countries, which are affiliated to IFIAR. These are:- Abu Dhabi, Australia, Austria, Brazil, Canada, Denmark, Dubai, Egypt, Finland, France, Hungary, Germany, Italy, Ireland, Japan, Korea, Lithuania, Luxembourg, Malta, Mauritius, Malaysia, the Netherlands, Norway, Slovakia, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Turkey, Chinese Taipei, United Kingdom & United States of America. Bulgaria and Turkey were accepted as members at the Singapore meeting. Enquiries have also been made by Greece, Israel, Malaysia & Mexico.

31st March of 2008 brought with it the first mandatory disclosures. Auditors who carry out statutory audits of public interest entities are now required to publish on their website, within three months of the calendar year, a transparency report. Whilst this is a breath of fresh air for the audit profession in Malta, in so far as transparency is concerned, there is still room for improvement in this area. General comments raised by the Public Oversight Board (POB) on transparency reports in the UK, also apply

to the transparency reports uploaded on the various websites of firms in Malta. The POB remarked that the review does not generally include any assessment of whether statements made in the transparency report are factually accurate. It was also pointed out that firms should stick to descriptions of the firm and its policies and procedures rather than turning transparency reports into marketing documents. The consistency, between the reporting firms, of the data presented in the report is one other area, which requires closer attention.

2010 was particularly characterized by the changes to the accounting and audit regulatory framework brought about by the transposition of the EU Services Directive. As noted in the detailed report, a number of amendments were made to the existing legislation to embrace the new requirements brought about by the Services Directive.

The Board's close interaction with the MFSA allows it to check on the accuracy of declarations made by practicing auditors in their Annual Returns. It transpired that seven warrant holders signed audit reports in 2009 when these declared that they were not practicing auditors in their 2009 return. It is fair to point out that the only one or two audited financial statements were filed with the MFSA in each of the above cases. These were charged an administrative fine of €232.94. Five have also paid the regulatory fee as well as resubmitted an amended Annual Return.

Another initiative taken by the Board during 2010 was to bring in line those companies or individuals who are holding themselves out to be accountants or provide accountancy services with Article 3 (2) of the Accountancy Profession Regulations. A number of entities registered with the Accountancy Board whilst other eligible entities were still being chased. The Accountancy Board also communicated with editors of the main local daily newspapers bringing to their attention that many of their recruitment advertisements for accountants were in blatant breach of the Law and that they should exercise due care and diligence before publishing such calls for application. Regrettably, we had no responses to any of our letters.

2010 can also be seen as the year of consolidation of the barrage of legislation hitting the profession in 2009. The "Legislative Clarifications Committee" which was set up in 2009 continued to go through some sections of the transposed Law, which proved to be difficult to apply in practice. These have been identified and one hopes to have the relevant sections of the Law amended. The Commission too has required clarifications on as to how certain sections of the Statutory Audit Directive have been transposed. Minor proposed amendments have been suggested for amendment along with those noted by the Legislative Clarifications Committee. A new Directive 5 was in fact issued on the 1st February 2011 to reflect these changes.

Information about our warrant holders emanates from Annual Returns, which returns, are required to be sent by all warrant holders. Directive 3 to the Accountancy Profession Act gives the legal backing to this document, which must be submitted to the Accountancy Board on an annual basis. These returns provide us with a wealth of information and give us a much clearer profile of the profession. It has been recognized that Directive 3 needs to be revisited to give the Accountancy Board a more expeditious recourse on defaulting warrant holders.

In 2010, the QAU carried out 48 monitoring visits. 6 firms and 42 practitioners were visited in 2010. This brings the total number of visits carried out since February 2007 to 179. We expect to carry out 45 other visits during 2011. Of these, only a handful of visits still pertain to the first cycle. These visits spanned from part time sole practitioners to Big 4 firms. The files reviewed were those of listed companies as well as those of small family owned companies. Of these visits, 171 of the reports prepared by the QAU for consideration by the Quality Assurance Oversight Committee (QAOC) have now been concluded and the visits closed down.

A lot of time and effort was again spent in 2010 on the development of a web portal, which project will now evolve into yet another project to incorporate E Forms, a platform which Government is

actively promoting. Consultations are presently in progress to find new software providers to see the long awaited project through to completion.

The introduction of Quality Assurance in Malta required the interaction of all stakeholders, the Malta Financial Services Authority, the Profession, the Malta Institute of Accountants, and last but not least – the General Public. Four years down the line, I can say that the three essential ingredients for quality audits have been met. We have a robust quality assurance structure, good education and high ethical standards.

The accountancy and audit profession, in Malta, when compared to other professions is relatively young but one which has one of the biggest growth rate. It is a profession which has adapted well to changing circumstances over the years.

The past four years, in particular, have seen radical changes within the Accountancy and Audit Profession – changes to which, the profession, in general, has responded favourably. We are small and because of our smallness, we adapt to changes much more expeditiously than larger jurisdictions. Academically our standards are of the highest levels. There are various routes one can take to obtain an Accounting or Audit qualification. The Malta Institute of Accountants plays the role of educator, along with that of the University of Malta and other recognized foreign Accountancy bodies. The MIA also provides the role of providing practice support to all its members. The Accountancy Board delegated to the MIA the role of monitoring Continued Professional Education. It is indeed encouraging to note a number of educational institutions, other than the MIA, which have set up in Malta providing Continued Professional Education activities for the profession.

Corresponding with other network firms across the globe, and our ability to communicate in different languages, also contributes to the versatility of our profession. Equally important however, is that globalization has given rise to a more pronounced need to adhere to the common high quality and ever changing auditing and accounting standards.

We pride ourselves that we were approached by Croatia (an aspiring EU applicant) to share with them our experiences in the setting up of QA system in their country. A five-man delegation visited Malta on the 8th & 9th April 2010. The Malta Institute of Accountants also actively participated in this two-day visit.

As for future challenges – the list is endless. It suffices to say that the Green Paper which was issued by EU Commissioner Michel Barnier on the 13th October 2010 brings along a number of questions concerning the robustness of the audit function as it exists today. The consultative paper seeks comments on a number of issues from the broadest possible base of stakeholders such as investors, lenders, management, employees, government authorities, auditors, tax authorities, credit rating agencies, equity analysts, regulators and SMEs. Some of the issues brought under the spotlight by this document are:

- the perceived role of the auditors - narrowing, in so far as possible, the expectations gap – possibly revisiting the “true and fair” concept in audit reports;
- the governance and independence of audit firms and their supervision – the need for further transparency, the provision of non audit services to audit clients, firm rotation for PIEs , closer focusing on the role played by audit committees etc;
- concentration of the market structure – PIE audits are predominantly carried by the Big 4 firms – how should this bias be addressed? Should one introduce joint audits for PIEs?
- the issue regarding SMEs & SMPs and whether one should be discouraging the statutory audits of SMEs by the introduction of review audits and compilation reports – reducing in so far as possible unnecessary burdens on SMEs and SMPs.

Undoubtedly 2011 will bring a new wave of conceptual issues which the audit profession has to cope with as decisions, following this study start being implemented. In no uncertain terms, Commissioner Barnier declared that the status quo of the existing audit function is not an option and has intimated that many of the Green Paper issues will be tackled by November 2011.

Whilst professional development is of critical importance, we believe that the need to keep oneself abreast of global developments within the audit function is of equal importance. Only this will enable one to react positively to global changes.

Apart from global developments in the audit function – the more immediate changes that will impact heavily on local practitioners will undoubtedly be the application of the new clarified ISAs and the revised Code of Ethics.

Last but not least, I welcome the new secretary to the Accountancy Board, Mr. Martin Spiteri IEng MIIE MBA (Leicester), who joined the Board as from the 1st February 2011. I also take this opportunity to thank Mr Joe Croker who held this post in the past five years.

A handwritten signature in black ink, appearing to read 'Charles Rapa', with a small dot at the end.

Charles Rapa
Chairman – Accountancy Board

INTRODUCTION & OVERVIEW

As part of the Board's obligations and as set out within Article 7(19 & 20) of the Accountancy Profession Act, CAP 281, the Board is required to publish annually and by not later than 31st March a report including details of its:

- annual work programme;
- activity reports;
- a description of the work carried out by the disciplinary committee;
- a summary of the work carried out in respect of quality assurance; and
- such other things which the Board deems relevant.

On this basis, the Board is pleased to present the fourth such report.

This annual report is set out in the following manner:

- *Sections 3 to 8* – give a brief overview of the composition, frequency of meetings, review of activities carried out during 2010 and plans for 2011 pertaining to the Accountancy Board, Disciplinary Committee, Quality Assurance Oversight Committee, Legislative Clarifications Committee, Investigative Committee and CPE Committee respectively; and
- *Section 9 - Profile of the audit and accounting profession* provides an overview of the audit and accountancy profession in Malta and of the new warrant holders, practising certificate holders and firm registrations issued during 2010.

ACCOUNTANCY BOARD

3.1. COMPOSITION

During the year under review, the Accountancy Board was composed of the following members:

Chairman

Mr. Charles Rapa FCCA, FIA, CPA, MBA(Brunel/Henley), MIM, MCMI

Members

Mr. Peter J Baldacchino M.Phil (Lough), FCCA, FIA, CPA;
Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);
Mr. Simon Flynn FCCA, BA(Hons)Accty., FIA, CPA;
Mr. Mario P. Galea FCCA, FIA, CPA;
Ms. Elvia George BA(Hons) Accty., FIA, CPA;
Ms. Angele Grech BA(Hons) Accty., CPA;
Mr. Godfrey Leone Ganado FIA, CPA;
Ms. Helen Meli Attard FIA, CPA, CSA, MIM, MIT, B.A.(Hons Acc.), M.A. (Financial Services);
Mr. Benjamin Rizzo ACMA, FIA, CPA; and
Mr. Bernard Scicluna FCCA, FIA, FMIT, CPA

Technical Advisors

Mr. Anthony Zarb FCCA, FIA, CPA, MBA(Warwick); and
Mr. John Zarb FCCA, CPA, FIA

Secretary

Mr. Joseph Croker



Left to right: -

Mr. Godfrey Leone Ganado, Mr. Bernard Scicluna, Mr. Peter J. Baldacchino, Ms. Angele Grech, Mr. Benjamin Rizzo, Dr. Bernice Buttigieg, Mr. Charles Rapa, Mr. Mario P. Galea, Mr. Simon Flynn, Ms. Elvia George, and Mr. Joseph Croker.

Not in photo:

Ms. Helen Meli Attard, Mr. Anthony Zarb, and Mr. John Zarb.

3.2. FREQUENCY OF MEETINGS

During the year, the Board held eleven meetings.

3.3. COMMITTEES

In accordance with Article 7(2) of the Accountancy Profession Act, the Board is empowered to appoint Committees, of which the Chairman must be a member of the Board for the carrying out of such duties or other work as the Board may assign to them.

During the year, the Accountancy Board appointed five Committees to assist it in discharging its functions and responsibilities:

- Disciplinary Committee;
- Quality Assurance Oversight Committee;
- Legislative Clarifications Committee;
- Investigation Committee; and
- CPE Committee.

The structure and activities of such Committees can be found in Sections 4 to 8 of this report.

In addition, for the last few years monitoring of continued professional education (CPE) has been delegated to the Malta Institute of Accountants, as contemplated under Directive 1.

3.4. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2010

During 2010, the Board carried out a number of activities to fulfil its obligations under Article 7 of the Accountancy Profession Act. These are summarised as follows:

- *Issue of CPA warrants, practising certificates in auditing and registration of firms.*

During the course of year, the Board carried out a number of application evaluations for CPA warrants, practising certificates in auditing as well as accounting and audit firm registrations.

On the basis of such evaluations the Board recommended to the Minister of Finance, the Economy and Investment the approval of 126 CPA warrants. Furthermore, 77 practising certificates in auditing were granted. Certificates awarded to these warrant holders were conferred during June and December 2010.

In addition, as a result of a concerted effort made by the Board in respect to corporate entities providing accounting services, a number of accounting firms which were previously not registered with the Board have now been duly registered. By the end of 2010, a total of 9 new accounting firms had been registered.

Furthermore, throughout 2010 a total of 20 new audit firms had been registered with the Accountancy Board, of which 18 were structured as limited liability companies.

For more information pertaining to the issue of CPA warrants and practising certificates in auditing, please refer to Section 9 of this report.

- ***Review of application evaluation process for CPA warrants and practising certificates in auditing applications.***

As a result of amendments made to the Accountancy Profession Regulations, in line with requirements originating from EU Directives, the Board revised the process adopted vis-à-vis the evaluation of warrant and practising certificate applications received. This revised process will be effective for all applications received during 2011.

- ***Monitoring and action taken against corporate entities providing accounting services not duly registered with the Board.***

During 2010, the Board identified a number of companies providing accounting services which had not been registered with the Board, and thus were in breach of the Accountancy Profession Act. The Board sought legal advice in this regard and issued a document which can be found on the Accountancy Board website entitled ‘Corporate entities and individuals providing accounting services’ to clarify this matter and identify the relevant requirements as set out in Law.

On the basis of such identification, notification letters were sent out to the relevant entities for action to be taken. Although a number of accounting firms have been duly registered in 2010 and a number of others will be registered in 2011, the Board is aware that a number of other firms have not yet taken any remedial action in this regard. The Accountancy Board will take legal action against these companies which continue to be in breach of statutory requirements.

- ***Amendments made to legal regulatory framework.***

Throughout the year, a number of amendments were made to legislation pertaining to the accounting profession. These primarily resulted following the transposition of the EU Services Directive. In summary, the major changes were as follows:

- *Accountancy Profession Regulations, 2010* – transposes the provisions of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market (‘Services Directive’) (legal notice 111 of 2010);
- *Accountancy Profession (General Accounting Principals for Smaller Entities) Regulations, 2009* – to extend the application of the current transitional provision to financial reporting periods ending between the coming into force of the Accountancy Profession (General Accounting Principals for Smaller Entities) Regulation, 2009 (legal notice 51 of 2009) and 31st December 2010 (legal notice 58 of 2010);
- *Accountancy Profession (Provision of Accountancy Services on a Temporary and Occasional Basis) Regulations, 2010* – this is a new regulation which transposes the provisions of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market (‘Services Directive’) and Title II of Directive 2005/36/EC of the European Parliament and of the Council of 7 September 2005 on the Recognition of Professional Qualifications (‘Professional Qualifications Directive’) (legal notice 112 of 2010);

- *Directive 1 - Continued Professional Education, 2009* – now implements changes brought about by the provisions of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market ('Services Directive');
- *Directive 3 – Annual Return and Registration Fees, 2009* – now implements changes brought about by the provisions of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market ('Services Directive') and requires annual registration fees to be paid by 31st January of each year; and
- *Directive 4 – Quality Assurance, 2009* – now implements changes brought about by the provisions of Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on Services in the Internal Market ('Services Directive') and requires practitioners signing off audit reports and audit firms to settle the applicable quality assurance regulatory fee by the 31st of January of each year.

Furthermore, during 2010, a number of additional changes were being discussed and will be introduced into law during 2011.

- ***Setting up of CPE Committee.***

As a result of a number of CPE exemption requests being received by the Board, in the latter part of 2010 the Board set up a CPE Committee composed of Accountancy Board members and MIA members with the remit of carrying out an assessment of CPE related matters, including preliminary CPE exemption analysis and CPE monitoring. During the year and as further explained in Section 8 of this report, this Committee met twice and provided the Board with its feedback.

- ***Discussion of relevant work experience required for the attainment of a practising certificate in auditing.***

During the year, the Board was requested to discuss with a number of government departments, whether the work experience obtained in such departments would qualify for the attainment of a practising certificate in auditing. As a result of such discussions, the Board updated its practising certificate in auditing evaluation process. It also issued an updated FAQ dealing with this which can be found on the Accountancy Board website.

- ***Review of transparency reports published by auditors of public interest entities.***

During the year, the Board ensured that transparency reports were issued by auditors of public interest entities by the end of March deadline as set out in law.

The Board vetted such documents to ensure that the requirements set out in the Accountancy Profession Act were duly detailed in the published transparency report. The Board discussed the need for more disclosures to ensure consistency in the information disclosed in these reports.

- ***Issuing of information disseminations.***

The Board, in 2010, commenced sending out emails to its warrant holders and practising certificate holders on a periodic basis. Such emails provided information disseminations which in brief incorporated both updates and reminders to both warrant holders and practising certificate holders. During the year, four such notifications were issued and this initiative is expected to continue in future.

- ***Dealing with complaints against warrant holders.***

The Board was presented with two complaints during the year. Both cases were referred to the Investigative Committee which was set up by the Board of which one complaint is still being looked into. The Board ruled in favour of the warrant holder in the other.

No complaints were referred to the Board's Disciplinary Committee.

- ***Attendance and participation in several meetings dealing with the creation of a warrant holder portal.***

After a number of additional meetings, it is unfortunate that the warrant holder portal by year end was not in operation. A number of difficulties and delays were encountered since the beginning of the project.

- ***Attendance and participation at European Group of Auditors Oversight Board (EAOB), Accounting Regulatory Committee and Audit Regulatory Committee meetings held in Brussels.***

The QAU team attended 11 meetings of the EAOB and its various subgroups.

Amongst a number of topics of audit and accounting interest discussed at these meetings there was a particular focus on assessing and obtaining adequacy and equivalence with other Oversight Bodies operating in third countries. In fact, on the 19th January 2011, the Commission adopted the first decision recognizing equivalence of the oversight systems in ten non EU countries. This decision paves the way for reinforced co-operation between member states and third countries which have been declared equivalent, so that they can mutually rely on each others' inspections of audit firms. It is therefore now up to member states to enter into bilateral agreements with these third countries to regulate such matters such as what audit working papers can be transferred from one jurisdiction to another, under what conditions and with particular relevance to data protection and sovereignty issues.

The Commission is working on a proposal on the structure of EAOB plenary and other sub group meetings, and is suggesting combining all the current sub groups into one preparatory sub group which will prepare all the documents for the EAOB plenary meetings. The Inspection Sub Group is one subgroup which now meets outside the remit of the EAOB. Participants attend in their own capacity as national oversight bodies and the Commission's representative attends only as an observer. The group is now being referred to as the European Audit Inspection Group.

- ***Corresponding with the EU on matters effecting the accounting and audit profession.***

During the year, the Board corresponded with the EU on a number of matters pertaining to the accounting and audit profession. In particular, the Board provided responses to the Green Paper which posed a number of questions concerning the robustness of the audit function, as it exists today. Other communications with the EU included auditors' liability, Proposal 14 of the Single Market Act and cooperation between competent authorities of other EU member states and third countries.

In addition, the Board received queries from the EU in relation to how some areas of the Statutory Audit Directive were transposed locally. This has resulted in the drafting of Directive 5 which will be effective during the early part of 2011.

- ***Attendance and participation on a number of Malta Institute of Accountants sub-committees.***
- ***Attendance and participation at the conference held by the International Forum of Independent Audit Regulators (IFIAR).***
- ***Provision of an advisory role with Government on all issues relating to accounting and auditing.***

3.5. PLANS FOR 2011

During the current year, the Accountancy Board intends to undertake a number of initiatives and continue others that were underway in 2010 which include:

- ***Initiation of a new IT project for warrant holders.***

Due to the delays and unsuccessful implementation of a warrant holder portal, during the early part of 2011, the Board decided to start afresh with a new project utilising E-Forms. It is hoped that by the end of this year, such project will be finalised and will meet the requirements of the Board.

- ***Revision of legislation.***

During 2011, the Board will continue to revise legislation as required. It is envisaged that it will implement changes recommended by the Clarifications Committee and Disciplinary Committee. Such revisions will bring about a change in the disciplinary procedures which will be taken against defaulters as well as legally transpose matters which had been clarified to practitioners via bulletins which the Accountancy Board issued during 2010.

Furthermore, changes to Directive 2 – Code of Ethics is being implemented to bring about changes adopted by the International Ethics Standards Board for Accountants. Additionally, Directive 5, a new directive will be adopted to transpose some additional requirements arising from the Statutory Audit Directive.

- ***Revision of CPE exemptions.***

During 2010, the Board began to discuss CPE exemptions and the actions that should, in future, be taken when CPE exemptions are granted for an extended period of time. It

is envisaged that during 2011, the Board in collaboration with the MIA which has been delegated the monitoring of CPE, will revise the requirements for warrant holders returning from an extended period of CPE exemption.

- ***Implementation of revised application evaluation process for CPA warrants and practising certificates in auditing.***

During 2011, the revised application evaluation process will be implemented on all new applications received for CPA warrants and practising certificates in auditing. In the past warrants and practising certificates in auditing were granted on two different dates during the year, however with the implementation of the new process, warrants and practising certificates will be conferred throughout the year based on time frames set out in the Accountancy Profession Regulations.

- ***Legal action to be taken against corporate entities providing accounting services not duly registered with the Board.***

During 2011, the Board is to carry out a follow up of those corporate entities providing accounting services and which have not been duly registered with the Board subsequent to being notified. This will result in legal action being taken against those unregistered companies providing such accounting services.

- ***Continuation of the identification and registration process of companies providing accounting services which, to date, have not been registered with the Board.***

The Board will seek to ensure that providers of accounting services are duly registered with the Board.

The identification and registration of all providers of accounting services is expected to be a laborious task. This monitoring will be carried out on an ongoing basis.

DISCIPLINARY COMMITTEE

4.1. COMPOSITION

In accordance with the requirements set out in Article 7(2) of the Accountancy Profession Act, the Accountancy Board appointed individuals to be represented on the Disciplinary Committee. Article 7(16) of the Accountancy Profession Act requires that the Committee is composed of five members, two of which are appointed from a list of not less than ten persons submitted to the Board by the Malta Institute of Accountants (MIA) and of the three remaining members at least one person must be a warrant holder. Furthermore, the Board appointed one of the members who held a warrant, to act as Chairman.

During 2010, the composition of the Disciplinary Committee was made up of the following members:

Chairman

Mr. Godfrey Leone Ganado FIA, CPA

Members

Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);

Mr. Marcel Cassar MBA (Manchester/Wales), FIA, CPA;

Ms. Helen Meli Attard FIA, CPA, CSA, MIM, MIT, B.A.(Hons Acc.), M.A. (Financial Services); and

Mr. Martin Said FCCA, FIA, CPA.

Secretary

Ms. Karen Sultana B. Accty (Hons), MIA, CPA

4.2. FREQUENCY OF MEETINGS

The Committee held two meetings during the year, one in January and the other in May 2010.

4.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2010

4.3.1. Non compliance with Directive 3 and Directive 4

During the year, the Board sent out a number of reminder letters requesting defaulters to comply with their statutory obligations. These reminder letters imposed a disciplinary fine on these defaulters.

As illustrated in Table 4.1 warrant holders and practising certificate holders who have still failed to comply with their statutory obligations vis-à-vis submissions of annual returns, payment of annual registration fees as well as submission of quality assurance regulatory fees can be summarised as follows:

Table 4.1 - Defaulters

	Number of Defaulters
Annual Return 2006	12
Annual Return 2007	19
Annual Return 2008	18
Annual Return 2009	87
Annual Registration Fee 2007	12
Annual Registration Fee 2008	15
Annual Registration Fee 2009	15
Annual Registration Fee Firms 2009	4
Annual Registration Fee 2010	40
Annual Registration Fee Firms 2010	12
Quality Assurance Regulatory Fee 2009 - Part-time sole practitioners	1
Quality Assurance Regulatory Fee 2010 - Part-time sole practitioners	5
Quality Assurance Regulatory Fee 2010 - Firm	1

4.3.2. Disciplinary fines imposed

During the year, a number of disciplinary fines were imposed in cases where the annual returns, annual registration fees and quality assurance regulatory fees were not submitted to the Board in spite of repeated reminders being sent. Furthermore, fines were also imposed on warrant holders and practising certificate holders who had made incorrect declarations in their annual returns or who were in practice but had not submitted their annual return.

4.3.3. Complaints

No complaints were referred to the Disciplinary Committee.

4.4. PLANS FOR 2011

- *Amendments to disciplinary procedures*

In the coming year, it is the intention of the Board, in conjunction with the recommendations made by the Disciplinary Committee, to revise the law to facilitate disciplinary action which may be taken against annual return, annual registration fee and quality assurance regulatory fee defaulters. Such revision in the law will result in more timely action being taken against defaulting warrant holders and practising certificate holders as well as firms.

QUALITY ASSURANCE OVERSIGHT COMMITTEE

5.1. COMPOSITION

The Quality Assurance Oversight Committee (QAOC) as set out in Directive 4 of the Accountancy Profession Act is composed of five individual members appointed for a period determined by the Board which shall not exceed three years.

During 2010, the QAOC was made up of five Committee members who were as follows:

Chairman

Mr. Charles Rapa FCCA, FIA, CPA, MBA(Brunel/Henley), MIM, MCMI

Members

Mr. Peter J. Baldacchino M.Phil (Lough), FCCA, FIA, CPA;

Ms. Heather Briers FCA;

Mr. Alfred Lupi FCCA, BSc Econ, FIA, CPA; and

Dr. Michelle Mizzi Buontempo LL.D., M.A. (Fin. Serv.)

Secretary

Mr. Marcel P. Coppini FCCA, FIA, CPA



Left to right:

Dr. Michelle Mizzi Buontempo, Mr. Peter J. Baldacchino, Ms. Heather Briers, Mr. Alfred Lupi, Mr. Charles Rapa, and Mr. Marcel Coppini

5.2. FREQUENCY OF MEETINGS

The Committee held a total of five meetings during the year – in February, April, July, October and December 2010.

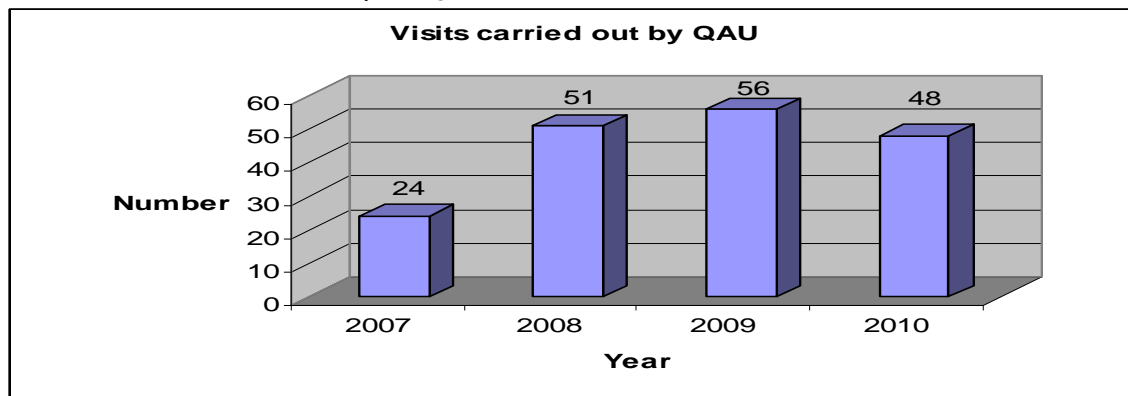
5.3. SUMMARY OF ACTIVITIES, VISITS AND FINDINGS DURING 2010

5.3.1. Quality assurance visits

Based on declarations made in the 2009 Annual Returns, locally there were 170 sole practitioners providing statutory audit services. In addition up until year end there were 54 registered audit firms, of which 20 were newly registered during 2010.

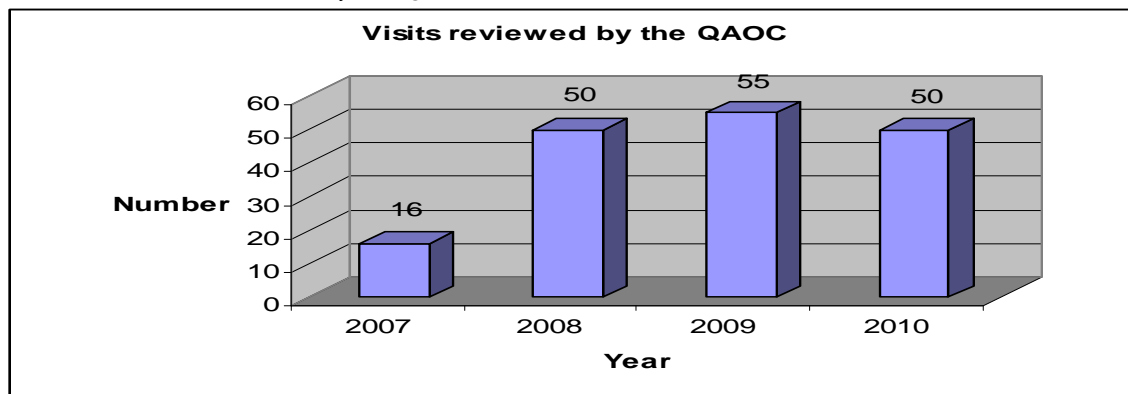
Since 2007, the Quality Assurance Unit (QAU) carried out a total of 179 quality assurance visits covering the majority of audit practitioners. This is illustrated in Chart 5.1.

Chart 5.1 – Visits carried out by the QAU



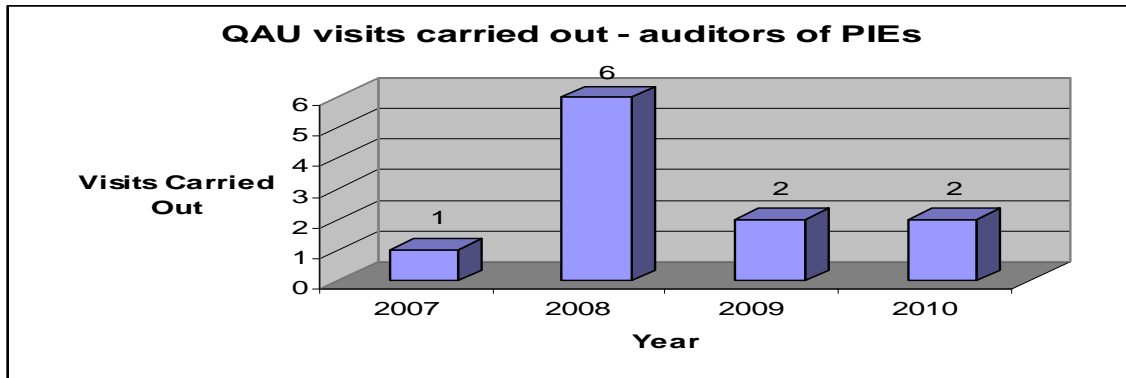
Subsequent to the QAU's finalisation of a visit, its recommendations are passed onto the QAOC for its review. During the year, the QAOC has reviewed and closed down 50 visits bringing the total visits reviewed by the QAOC to 171. This is illustrated in Chart 5.2 below.

Chart 5.2 – Visits reviewed by the QAOC



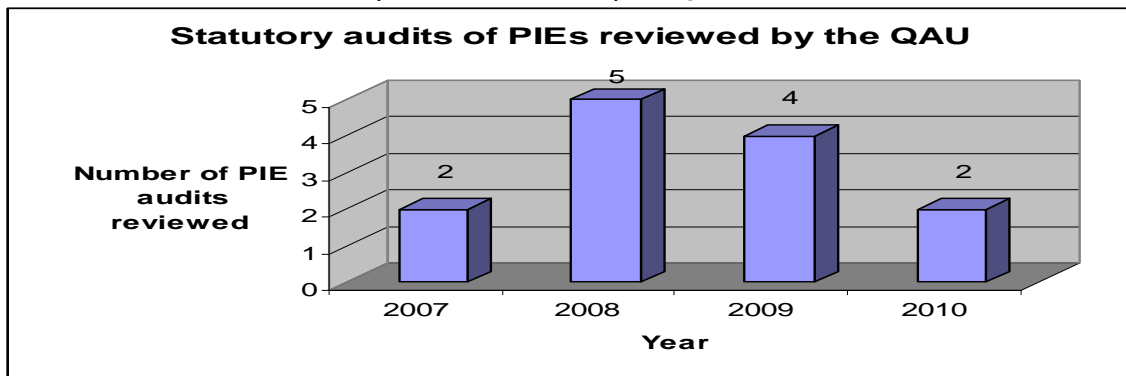
At year end, there were 11 auditors/audit firms auditing public-interest entities of which 2 audit firms underwent QAU visits during 2010. It is relevant to point out that all of these auditors/audit firms had undergone a visit by 2009 and thus in 2010 the second cycle of visits began. The number of auditors/audit firms visited by the QAU is shown in Chart 5.3.

Chart 5.3 – Visits to auditors of Public-Interest Entities



During 2010, the QAU reviewed two audit files of public interest entities. To date, the QAU has reviewed a total of 13 statutory audits of public interest entities as illustrated in Chart 5.4.

Chart 5.4 – Public-Interest Entity Audits Reviewed by the QAU



There are currently 40 listed entities, 17 credit institutions (which are not listed) and 26 insurance companies (which are not listed). 85% of the listed companies are audited by the Big 4 audit firms. One Big 4 audit firm audits 35% of all listed entities.

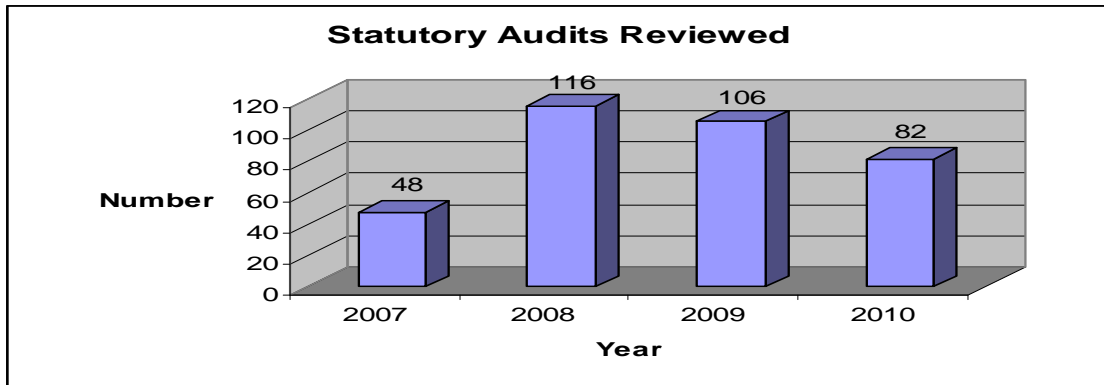
5.3.1.1 Conclusion of quality assurance reviews during 2010

During the course of 2010, the QAU carried out a total of 48 visits. This represents a decrease of 8 visits when compared with the prior year as depicted in Chart 5.1. The QAOC reviewed 50 visits as shown in Chart 5.2 (of which nine visits were carried out by the QAU during 2009) which are analyzed as follows:

- 17 full-time sole practitioners;
- 28 part-time sole practitioners;
- 1 firm with five or more principals;
- 1 firms with less than five but more than two principals; and
- 3 firms with less than three but more than one principal.

At year end the QAU had reviewed a number of statutory audits of financial statements as shown in Chart 5.5 which also compares financial statements reviewed by the unit in prior years.

Chart 5.5 – Audit files reviewed by the QAU



The drop in audit files reviewed during 2010 is explained by the high incidence of part time sole practitioners reviewed in 2010, who generally have a smaller client base than full time sole practitioners and firms.

5.3.1.2 Overview of reports

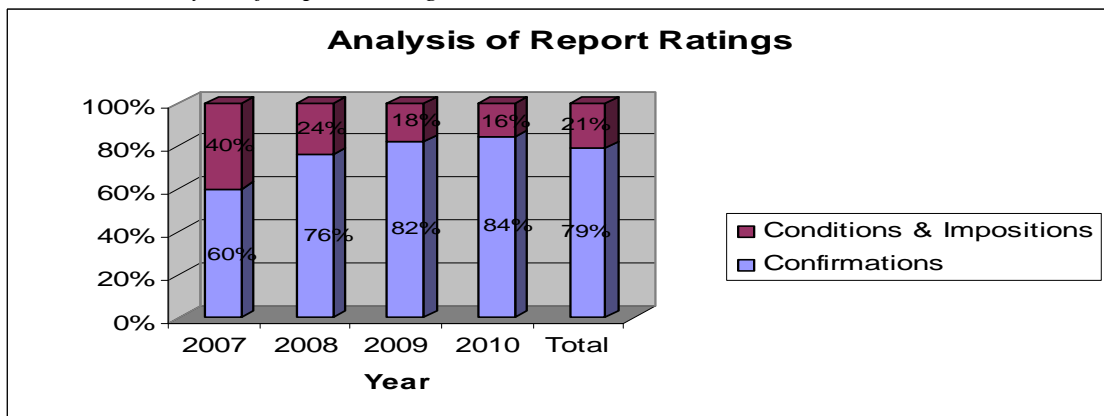
Reports are categorized for internal purposes into ratings which are determined by the instances and magnitude of non-compliance with the relevant regulations, the level of commitment and ability of the firm/sole practitioner to correct the problems identified and the regulatory action, if any, which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

During the year, the QAU noted that improvements have been made over the prior years. This reduced the number of findings noted in the QAOC reports and has therefore resulted in less confirmations being requested as well as less conditions and impositions being imposed by the QAOC.

As a consequence by the end of the year, the QAOC had asked practitioners/firms on 84% of visits for just confirmations as opposed to 82% in 2009, 76% in 2008 and 60% in 2007.

In addition, conditions including impositions such as follow up visits, hot file reviews and external audit compliance reviews and external cold file reviews were sanctioned on 16% of practitioners/firms visited in 2010 when compared to 18% in 2009, 24% in 2008 and 40% in 2007. This is illustrated in Chart 5.6.

Chart 5.6 – Analysis of Report Ratings

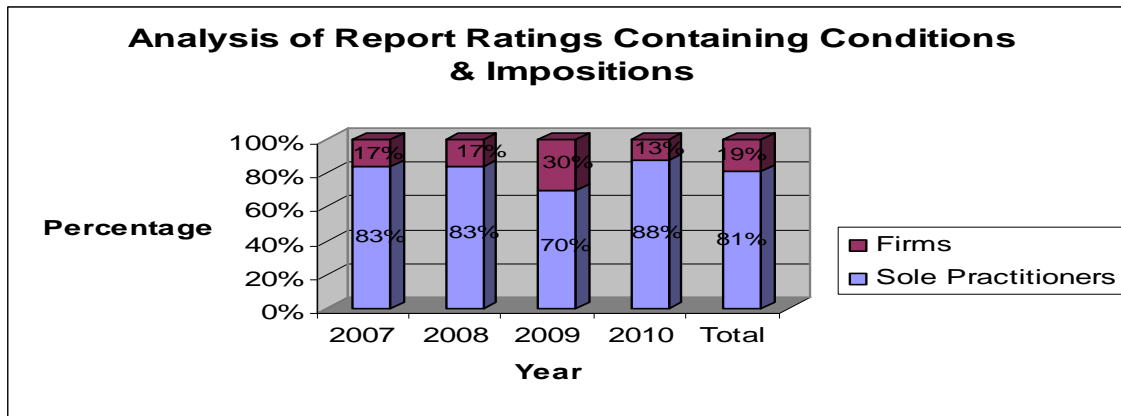


During 2010, conditions including impositions on practitioners/firms can be analysed as follows:

- 50% required external audit compliance reviews and cold file reviews to be conducted;
- 38% required follow up visits as well as required hot file reviews to be carried out; and
- 12% required hot file reviews to be carried out.

Furthermore, if one were to analyse the composition of reports issued featuring conditions & impositions one would note that the majority of conditions & impositions were sanctioned on sole practitioners. As can be seen in Chart 5.7, apart from 2009, this trend has remained fairly consistent during the last four years.

Chart 5.7 – Analysis of Report Ratings Containing Conditions & Impositions



As a result of such statistics, sole practitioners should take measures to ensure that they keep abreast with developments and requirements. In the coming year, practitioners will be required to adhere to the requirements of the clarified ISAs and the revised Code of Ethics. The QAOC urges practitioners and audit firms to ensure that their audit programs and independence requirements have been revised to incorporate changes brought about by such revisions.

Based on the findings noted during 2010, the main areas requiring attention that were noted in QAOC reports issued which contained conditions and impositions can be outlined as follows:

- *Code of Ethics – Provision of Non-Assurance Services to Non-Public Interest Entities*
Based on QAU reviews carried out during the year, the provision of non-assurance services to non-public interest entities in addition to the provision of audit services continues to indicate that further improvement is required in this area. Although in some cases, policies and procedures had been adopted to address independence risks arising from the provision of non-assurance services adequate documentation was not included on file to evidence such safeguards being implemented. In other cases, it was noted that policies and procedures were not documented, nor were safeguards adopted and documented.
- *ISA 220 – Quality Control for Audits of Historical Financial Information*
It was noted in some instances, that engagement partners/sole practitioners were not taking responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and other regulatory and legal requirements. Conversely, in other cases where although the engagement partners/sole practitioners indicated during the review that they were directly involved in the audit engagement, no documentation evidencing such involvement could be found on file.

It was also noted that, in a number of cases, client acceptance and continuance considerations had not been documented on file.

- *ISA 230 – Audit Documentation*
Striking the right balance vis-à-vis maintaining sufficient and appropriate audit documentation continues to pose a challenge. On those QAOC reports which contained conditions and impositions almost all contained weaknesses pertaining to documentation. Documenting work carried out on a timely basis is fundamental to a properly carried out audit as this helps enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained during the course of the audit and the conclusions reached before the auditor's report is finalized.
- *ISA 240 – The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*
Consideration of fraud in an audit of financial statements is still one area of concern for the QAOC. Such considerations are not being evidenced and documented at both the planning and completion stages of the audit. When the auditor confirms that he has considered the impact of fraud on the financial statements and is unable to conclude whether the financial statements could be materially misstated, then he should consider whether the audit report should be modified on this basis.
- *ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements*
The lack of documentation of ones consideration of laws and regulations is another ISA requirement which continues to be inadequately documented in the audit file. However it was noted that in the most part, practitioners/engagement partners would have gained a general understanding of the legal and regulatory framework within which the company operates and how the company adheres to such legal and regulatory requirements.
- *ISA 260 – Communication of Audit Matters with Those Charged with Governance*
In a number of instances, weaknesses were noted in respect to this ISA. In the most part, sole practitioners and engagement partners made oral communications of audit matters arising during the courses of the audit. Such discussions with those charged with governance were not documented on file.
- *ISA 315 - Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*
It was noted that on a number of audit files reviewed, inadequate documentation was included in the audit file regarding the key elements of the understanding obtained pertaining to the entity and its environment to assess the risks of material misstatement of the financial statements; the sources of information from which the understanding was obtained; and the risk assessment procedures identified.

For significant risks identified, the auditor is required to evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented. These considerations were not evident on most of the reports containing conditions and impositions.

- *ISA 320 – Audit Materiality*
As a result of a number of practitioners not utilising an ISA compliant audit program, it was noted that as a consequence, practitioners failed to establish materiality levels during the audit. Auditors are required to use their professional judgement to assess audit materiality in conjunction with audit risk. Calculating audit materiality is an

important factor in ensuring that the audit is carried out in an efficient and effective manner.

- *ISA 500 – Audit Evidence*
Subsequent to the review of a number of audit files during 2010, it was noted that audit evidence which was sufficient and appropriate was not always obtained. For this reason, QAU reviewers were unable to determine how the auditor drew conclusions on which the audit report was based.
- *ISA 520 - Analytical Procedures*
The carrying out of analytical procedures at both the planning and final stages of the audit is another area requiring improvement in many of the QAOC reports issued that contained conditions and impositions. Preliminary analytical procedures assist the auditor in obtaining an understanding of the entity and its environment as well as may indicate risk areas. Whereas, analytical procedures carried out towards the end of the audit, should collaborate audit work carried out during the course of the audit and if not, highlight areas that still require attention before the audit may be concluded.
- *ISA 530 – Audit Sampling and Other Means of Testing*
Audit sampling was another area where weaknesses were noted. Most practitioners select specific items to carry out detailed substantive testing, however in such cases, it was noted that on the remaining population sufficient appropriate audit evidence was not obtained.
- *ISA 560 – Subsequent Events*
In a number of instances it was noted that subsequent event considerations had not been documented on file. As subsequent events may significantly impact the financial statements and the auditor's report it is important that considerations are made and documented accordingly in the audit file in accordance with the requirements of this ISA.
- *ISA 570 - Going Concern*
The ISA dealing with going concern is an area which on a number of files reviewed has not been adequately addressed by practitioners and firms during the course of the audit. Going concern weaknesses have been identified both in the obtaining of appropriate and adequate audit evidence as well as the documentation of such considerations. As a result of such weaknesses, the QAU and QAOC have questioned whether appropriate audit opinions have been issued in a number of instances based on the information found within the audit file.
- *ISA 580 – Management Representations*
Although it was noted on most audit files reviewed by the QAU that management representations were obtained, it was noted that a specific representations addressing fraud, laws & regulations and related parties had not been included in the management representation letter.

In addition to the above mentioned requirements, other findings noted on visits conducted during the year highlighted weaknesses in the following areas:

- *Audit Programs*
Although the use of an audit program is not an ISA requirement, in itself the conduct of an appropriate audit requires that all relevant ISAs are properly addressed during the course of the audit. Free form notes may be effective, but this requires that the

practitioner/firm has an in depth knowledge of ISA requirements and is able to address and document such requirements.

On a number of visits for which conditions and impositions were imposed, it was noted that the audits carried out did not address a number of ISAs especially those addressing planning and completion requirements. The underlying cause of this weakness was due to the fact that an audit program was not used and that the practitioner did not have an in depth knowledge of ISA requirements to be able to refrain from using an ISA compliant audit program. In these instances, the Committee requested that ISA compliant audit programs are adopted by the practice.

- *Cold File Reviews & Audit Compliance Reviews*
Monitoring forms part of ISQC 1 requirements and is a means enabling the practice to identify areas for improvement. On the majority of practices reviewed that resulted in conditions and impositions being imposed, it was noted that audit compliance reviews as well as cold file reviews had not been carried out.

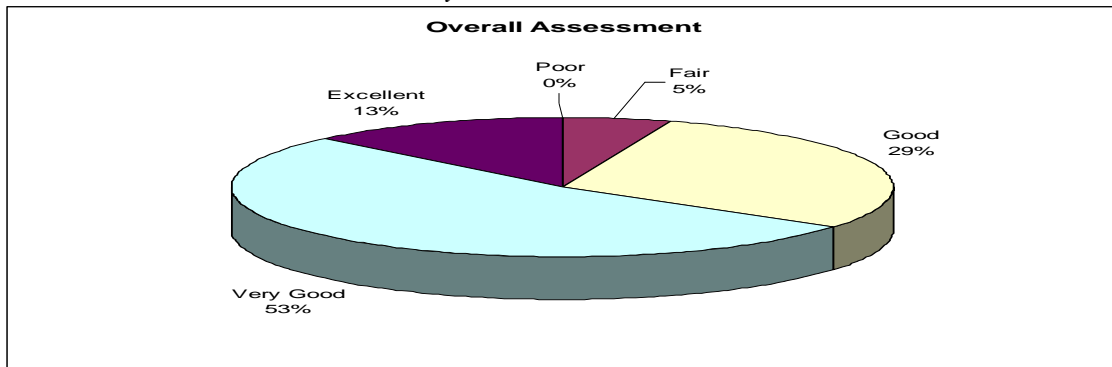
One should note that the QAOC has now issued new guidelines for the carrying out of audit compliance reviews and cold file reviews which can be downloaded from the QAOC webpage found using the following link www.accountancyboard.gov.mt

5.3.2. Evaluation forms – feedback from practitioners

During the year, a number of evaluation forms were received from practitioners subsequent to the conclusion of a quality assurance visit. Out of a total of 50 visits concluded by the QAOC a total of 38 (76%) evaluation forms were received. During the year, the percentage of evaluation forms received when compared with the prior year decreased by 9% in spite of numerous reminders being made.

Overall, feedback received was very positive which is encouraging. Chart 5.8 provides a graphical illustration of the summary of results:

Chart 5.8 – Evaluation Form Summary



5.3.3. Chartered Accountants Regulatory Board of Ireland (CARB)

Since the setting up of the QAOC and the QAU, the Chartered Accountants Regulatory Board of Ireland (CARB) has played an important role in local regulation of quality assurance over the years. It gave assistance to the QAU in a number of areas which include training, review of a number of QAOC reports, technical assistance as well assistance in the carrying out of Big 4 audit visits.

During the year under review, QAU reviewers attended one training activity which took place in Belfast, with our CARB counterparts during January. It is envisaged that this support will continue in the coming year.

5.3.4. Team meetings

In addition to attending the team meeting held in Belfast, Northern Ireland as part of the Unit's continuous training programme, locally three team meetings were organised. One was held in March while the others were carried out in August and December. These meetings provide an opportunity for reviewers to discuss methodologies as well as discuss problem areas they came across in the course of their visits. These meetings also promote a consistent approach in the methodologies used and the basis of reporting.

5.4. PLANS FOR 2011

During the upcoming year, the QAOC in collaboration with the QAU aims to achieve the following:

- the QAU will commence the second cycle of visits for firms and sole practitioners who do not audit public interest entities. It is envisaged that during the year the unit will conduct the following visits:
 - 1 Big 4 audit firm;
 - 6 3-4 partner firm;
 - 5 2 partner firms;
 - 10 full-time sole practitioners; and
 - 23 part-time sole practitioners.
- attend training in Belfast, Northern Ireland
- continue training
- training of new QAU recruit
- IFIAR inspection workshop

LEGISLATIVE CLARIFICATIONS COMMITTEE

6.1. COMPOSITION

This Committee throughout 2010 continued the work which begun in 2009 and during the year was made up of the following members:

Chairman

Mr. Bernard Scicluna FCCA, FIA, AMIT, CPA

Members

Mr. Marcel P. Coppini FCCA, FIA, CPA;
Ms. Angele Grech BA(Hons) Accty., CPA;
Ms. Karen Sultana B. Accty (Hons), MIA, CPA; and
Mr. Anthony Zarb FCCA, FIA, CPA, MBA(Warwick).

6.2. FREQUENCY OF MEETINGS

Throughout the year, the Legislative Clarifications Committee held three meetings.

6.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2010

During the year, the Legislative Clarifications Committee discussed and drafted proposed changes in the Law as a result of the clarifications made in 2009, following discussions with the Board's legal advisor. Unfortunately until the end of the year the amendments proposed had not yet been incorporated into Law.

As a result of the clarifications made in the document issued by the Board entitled 'Corporate entities and individuals providing accounting services' a number of companies providing accounting services, which had not registered with the Board in the past, have now registered or have regularised their position.

6.4. PLANS FOR 2011

It is envisaged that during 2011, the changes proposed by the Committee and approved by the Board will be reflected in the Law.

Should there be any other matters arising during 2011, the Committee will look into these matters and based on its analysis, make suggestions to the Board on an ongoing basis.

INVESTIGATIVE COMMITTEE

7.1. COMPOSITION

This Committee is made up of three members and is formed on an ad hoc basis. During the year, one Investigative Committee was appointed and was made up of the following individuals:

Mr. Simon Flynn FCCA, BA(Hons)Accty., FIA, CPA;
Ms. Elvia George BA(Hons) Accty., FIA, CPA; and
Mr. Benjamin Rizzo ACMA, FIA, CPA.

7.2. FREQUENCY OF MEETINGS

Throughout the year, the Investigative Committee met on two occasions.

7.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2010

During the year, the Committee met twice to discuss two separate complaints lodged with the Accountancy Board. As a consequence of recommendations made by the Investigative Committee in respect to one complaint lodged the Board decided not to refer the case to the Disciplinary Committee. The other was still being addressed by the Committee.

7.4. PLANS FOR 2011

In the coming year, should the need arise, the Accountancy Board will appoint on an ‘ad hoc’ basis Committees to investigate complaints received by the Board before determining whether these should be referred to the Disciplinary Committee.

CPE COMMITTEE

8.1. COMPOSITION

During November 2010, the Accountancy Board set up the CPE Committee to address CPE related matters before providing its recommendations to the Board. Such CPE matters included the approval of CPE exemptions received as well as monitoring of CPE compliance by warrant holders.

During the year, the Accountancy Board's CPE Committee was made up of the following members:

Mr. Peter J. Baldacchino M.Phil (Lough), FCCA, FIA, CPA;
Mr. Simon Flynn FCCA, BA(Hons)Accty., FIA, CPA;
Ms. Maria Micallef B.A. Hons Accountancy, FIA, CPA;

and assisted by:

Ms. Catherine Mallia Bonavia B.Com (Hons.) Mgt; and
Ms. Karen Sultana B.Accty(Hons), MIA, CPA.

8.2. FREQUENCY OF MEETINGS

Since its inception in November, the CPE Committee held two meetings, one in November and the other in December 2010.

8.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2010

During the meetings held, the Committee discussed a number of CPE exemption applications lodged with the Board and made an initial assessment of these exemption requests for final approval by the Accountancy Board. Furthermore, the Committee discussed the action to be taken in respect of warrant holders who disagreed with CPE exemption applications which were refused by the Board. A letter was sent to these warrant holders to inform them of the courses of action available to them in this regard.

8.4. PLANS FOR 2011

In the coming year, the Committee intends to meet on a periodic basis to assess CPE exemption requests received as well as discuss action that should be taken against CPE defaulters.

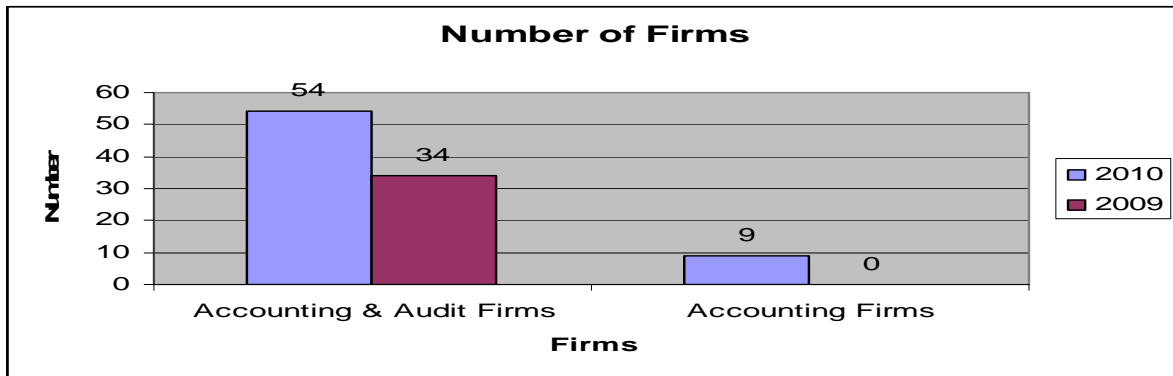
PROFILE OF THE AUDIT & ACCOUNTANCY PROFESSION

Throughout the year, the Board has considered a number of applications for CPA warrants as well as practising certificates in auditing. On the basis of evaluations of these applications the Board recommended to the Minister of Finance, the Economy and Investment the approval of a number of CPA warrants. Furthermore the Board approved a number of practising certificates in auditing and registered a number of firms.

9.1. FIRMS

During the year, the number of firms registered with the Board increased over that in the prior year, due to actions taken by the Board to ensure that corporate entities providing accounting services are registered as accounting firms. In addition, two of the big four audit firms registered with the Board, towards year end registered a total of 16 audit firms. As a result of this exercise, the number of firms rose from a total of 34 in 2009 to a total of 63. These figures are analysed as follows:

Chart 9.1 – Number of firms registered with the Accountancy Board



Although the number of firms has significantly increased over the prior year, the number of principals appointed in these registered firms varies from firm to firm. On a general basis, however the majority of firms registered with the Accountancy Board have relatively few principals. As can be seen in Chart 9.2, the majority of audit firms have 2 principals. On the other hand, the majority of accounting firms are made up of a sole principal – refer to Chart 9.3.

Chart 9.2 – Accounting and audit firms – analysis of principals

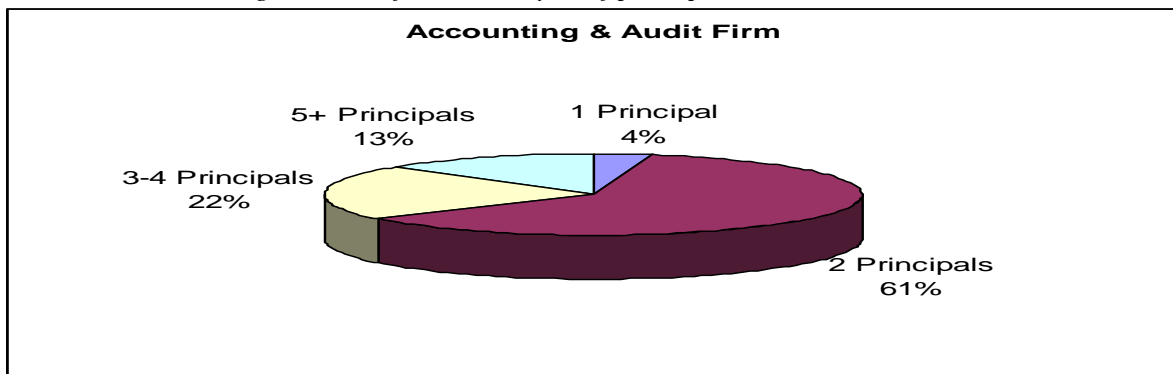
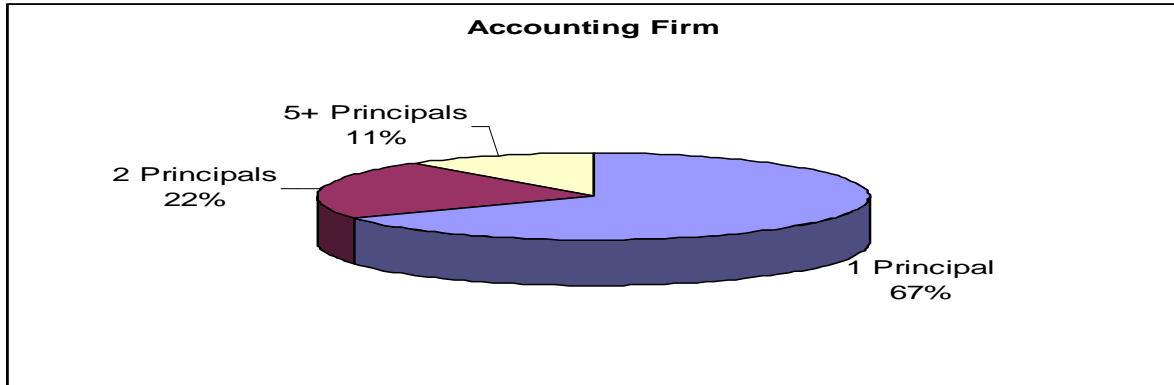
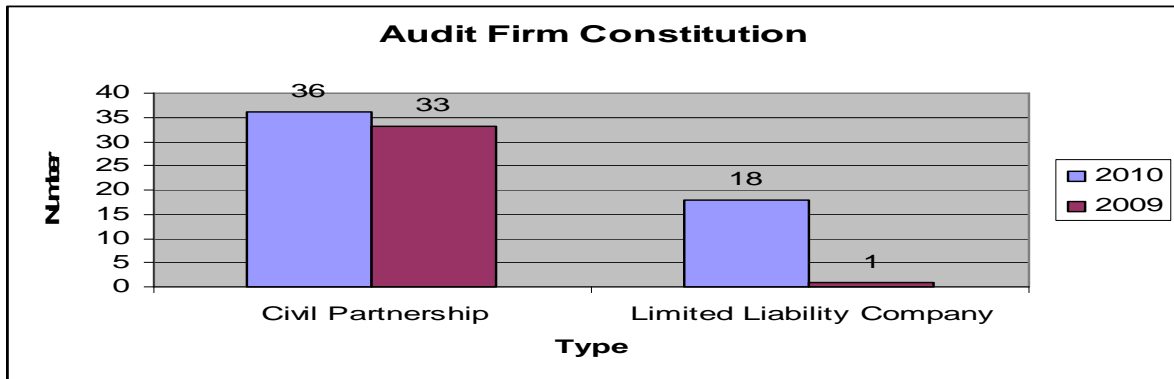


Chart 9.3 – Accounting firms – analysis of principals



Furthermore, as a result of the transposition of the EU Statutory Audit Directive, a number of audit firms have now been structured in a manner such that the liability of its owners is directly or indirectly limited. At year end, the Board’s registered audit firms (2010: 54; 2009: 34) were constituted as follows:

Chart 9.4 – Audit firm constitution



As can be seen in Chart 9.4, in 2009 97% of audit firms were civil partnerships however during 2010 this percentage fell to 67%. Again this significant movement was a result of a number of audit firm registrations made by one of the big 4 firms during the latter part of 2010.

9.2. WARRANT HOLDERS AND HOLDERS OF A PRACTISING CERTIFICATE IN AUDITING

Throughout the year, applications were received for both warrants and practising certificates in auditing.

By the end of 2010, the Board regulated 1,704 warrant holders including 978 holders of a practising certificate in auditing. During the year under review, the Accountancy Board approved 126 warrants and 77 practising certificates in auditing to 140 individuals during 2 ceremonies, one held in June and the other in December.

Based on the declarations made in the 2009 Annual Returns, Charts 9.5 and 9.6 illustrate warrant holders and holders of practising certificates employment status analysed by work sector.

Chart 9.5 – CPA work sector

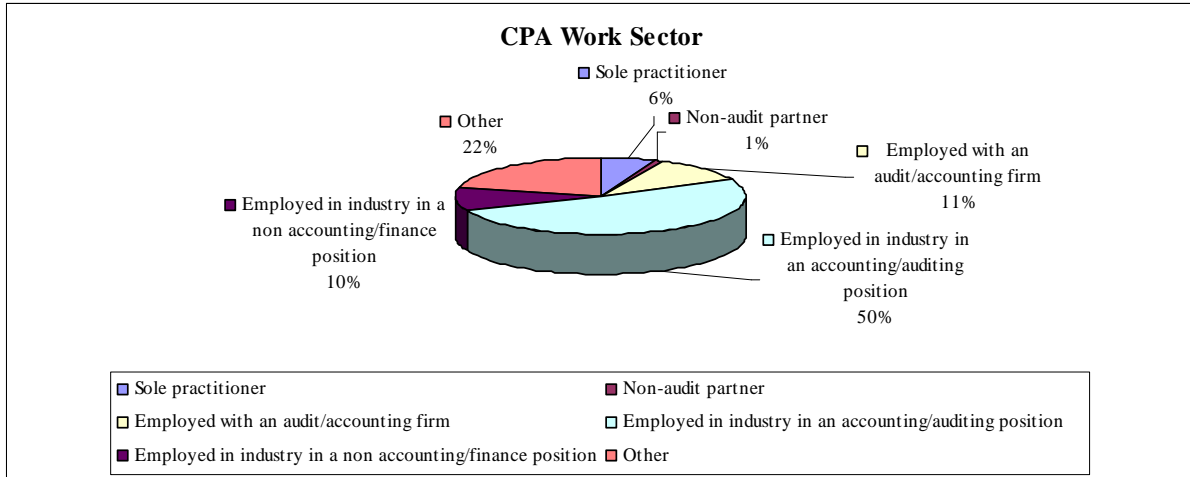
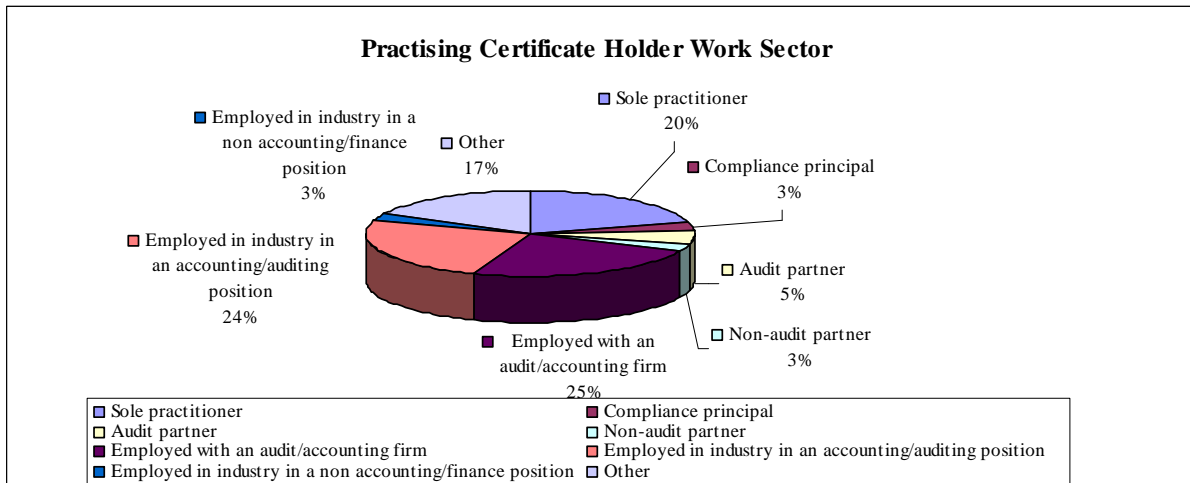
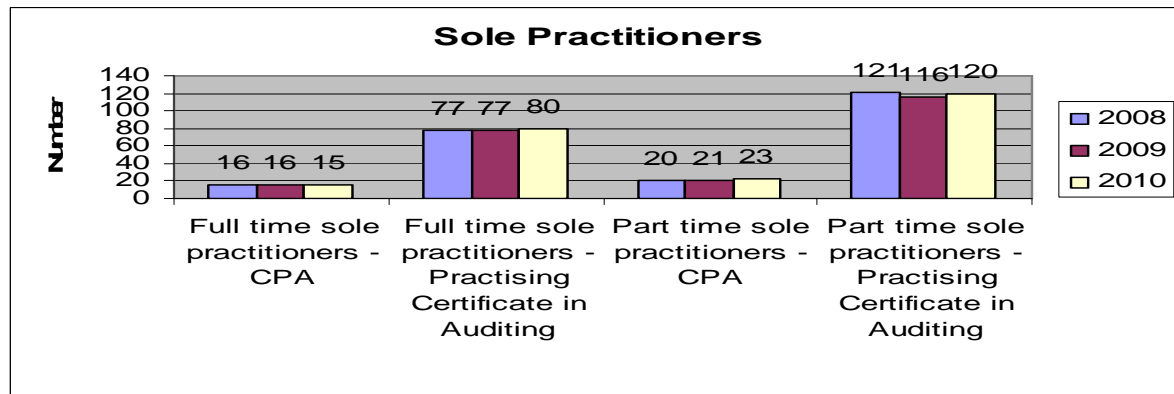


Chart 9.6 – Practising certificate holder work sector



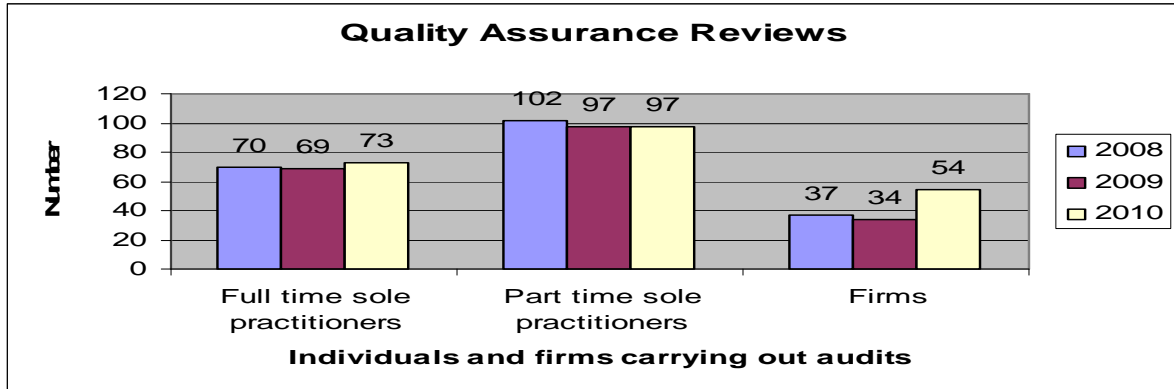
As depicted in Chart 9.7, in regard to CPA warrant holders, during 2010 there were 15 full-time sole practitioners and 23 part-time sole practitioners. Furthermore, in regard to practising certificate holders in total there were 80 full-time sole practitioners and 120 part-time sole practitioners which slightly increased over the prior year.

Chart 9.7 – Analysis of sole practitioners practicing in Malta



Furthermore, practising certificate holders falling subject to Quality Assurance Reviews can be analyzed as follows: 73 full-time sole practitioners; 97 part-time sole practitioners; and 54 firms as shown in Chart 9.8.

Chart 9.8 – Sole practitioners & audit firms subject to a quality assurance review



Note: It is of importance to note that the above information is based on data compiled from the 2009 Annual Returns submitted and that in some instances more than one work category was selected. The 'other' category includes individuals employed within Government, working in education and others who are not in employment.

