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# Annual Report

## 2020

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Accountancy Board



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The Accountancy Board presents its Annual Report for the year ended 31 December 2020 pursuant to Article 7(19) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta.

24 March 2021

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## Table of Contents

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<b>Message from the Chairman</b>	<b>1</b>
<b>Organizational Structure</b>	<b>2</b>
<b>The Accountancy Board</b>	<b>3</b>
<b>Other Committees and Sub-Committees</b>	<b>5</b>
<b>The Quality Assurance Unit</b>	<b>7</b>
<b>The Accountancy and Audit Profession</b>	<b>10</b>
<b>The QAU Inspection Methodology</b>	<b>17</b>
<b>Quality Assurance Visits in 2020</b>	<b>21</b>
<b>Participation in International Fora</b>	<b>38</b>
<b>Developments/Strengthening of Relationships</b>	<b>40</b>
<b>Initiatives for 2021</b>	<b>41</b>

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## Message from the Chairman

As in other countries, most of this year was unfortunately marked by the prevalence of the Covid-19 Pandemic. This resulted in many meetings relating at all levels of the Accountancy Board – those of the Board itself, its sub-committees, the European oversight (CEAOB) and also those with stakeholders - having to be carried out on digital platforms. Nevertheless, this did not in itself adversely affect the Board in its regular oversight of Maltese professional practices as set out by its regulatory framework.



Salient developments included the strengthening of relationships with other relevant institutions such as the Malta Financial Services Authority, the Malta Business Registry and the Financial Intelligence Analysis Unit by means of new Memoranda of Understanding. The Malta Institute of Accountants (MIA) was also officially recognized this year as an approved accountancy body in line with Section 9(1) of the Accountancy Profession Act. Furthermore, the process towards proposing or acceding to further regulatory changes was continued by consultations with interested parties including the public authorities, the MIA, the University of Malta and other examining bodies as well as other oversight bodies in the European Union. This included participation in the important ongoing statutory process of re-specifying in Maltese law the reserved, shared and other functions of accountants and auditors. As for links with other European Union oversight bodies, the Board was particularly involved in CEAOB working group sessions aimed at bringing more cooperation and mutual support among these bodies.

As may be seen in this Report, the Quality Assurance Unit also continued (*albeit online*), with its regular inspection work so as to ensure that professional responsibilities are being held by practitioners and practising firms.

The experience of this challenging year has again shown that all team members involved at the Accountancy Board are fully rising to the occasion, at times even going beyond their call of duty. I therefore express my appreciation to all of them and look forward to even more progress in the near future.



**Professor Peter J. Baldacchino Ph.D. (L'boro) M.Phil, FCCA, FIA, CPA**  
Chairman - Accountancy Board

24 March 2021

## The Organisational Structure



The Accountancy Board forms part of the portfolio falling under the remit of the Minister for Finance and Employment.

During November 2020, Mr Clyde Caruana was appointed Minister for Finance and Employment. Prior to that date, Prof. Edward Scicluna was the Minister responsible for the Accountancy Board.

## The Accountancy Board

### The Members of the Board

During the period 1 January 2020 to 31 December 2020, the Board Members were:

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

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

**Members:** Ms Christine Bartolo Perici, B.Com (Hons) Econ., MA Econ.  
Mr Lino Casapinta, FIA  
Mr Mario Magro, MBA, ACMA, CGMA, AMIT, CPA  
Mr John Sammut B.A. (Hons) Accty, M.A. (Fin. Serv.), ACIB, CPA, FIA  
Ms Denise Vella B.A. M.A. (Econ.)  
Mr Nicholas Xuereb, CPA, FIA

The Board was re-constituted on the 19<sup>th</sup> April 2019 for a period of three years.

Accountancy Board meetings were held in January, February, March, May, June, July, August, September, October and December 2020.

### Board Structure

The structure of the Accountancy Board is set out in Article 6(2) of the Accountancy Profession Act, which states that the Board should consist 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.

### Functions of the Board

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

- the issue of accountants' warrants;

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

## Other Committees and Sub-Committees

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

### *The Investigative Sub-Committee*

The Investigative Sub-Committee was set up to investigate cases brought to the attention of the Board, mainly complaints. The committee carries out an assessment of the cases presented and provides the Board with advice on whether such cases should be referred to the Disciplinary Committee.

In 2020, ten cases were investigated by this Committee, one of which was brought forward from the previous year. During the year, two cases were concluded and another two cases are in the final stages. Most of the cases were resolved by providing adequate recommendations to the parties involved. In other cases, the committee engaged in deeper analysis of the situation, carried out interviews with the parties involved and requested corrective action. None of the cases investigated, were referred to the Disciplinary Committee.

However, as a result of investigations carried out in relation to one particular case, during 2020, the Board sent a Notice to Desist, as a non-warrant holder was offering accounting services through a firm not registered with the Accountancy Board.

The Investigative Sub-Committee met ten times during the year. The sub-committee was chaired by Mr John Sammut.

### *The Disciplinary Committee*

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

In September 2020, a Disciplinary Committee was appointed in order to consider and adjudge the charges imputed against two warrant holders and their connected undertakings, following the conclusion of a magistrate inquiry. The Disciplinary Committee is chaired by Mr Mario Magro. The Board temporarily suspended the CPA Warrants and Practising Certificates in Auditing of the two individuals and also the audit firm registration as well as two accounting firm registrations.

In October, following developments in relation to this case, the Board decided that the temporary suspensions issued on the 25 September 2020 should not be applicable to current

assignments which were already in progress as at 25 September 2020, provided that such assignments be subject to ongoing monitoring by the Board.

The Disciplinary Committee dealing with cases relating to non-submission of annual returns and fees by warrant holders held two sittings during the year. The Disciplinary Committee was chaired by Mr Nicholas Xuereb. As a result of these sittings, the Accountancy Board approved:

- the suspension of 5 CPA warrant holders (including two individuals who also had a practising certificate in auditing);
- the imposition of a fine amounting to €232.94 on 1 CPA warrant holder; and
- 7 CPA warrant holders (including three individuals who also had a practising certificate in auditing) were reprimanded.

### ***Evaluation Committee***

The Evaluation Committee assists the Accountancy Board with respect to the evaluation of applications for warrants, practising certificates as well as firm registrations which are approved during Accountancy Board meetings. This Evaluation Committee is chaired by Prof Peter Baldacchino.

### ***The Quality Assurance Oversight Sub-Committee***

As a result of the changes made to the Audit Directive, which became effective during 2016, the quality assurance function now falls directly under the remit of the Accountancy Board, which is composed of non-practitioners. In this regard, the Board set up a Quality Assurance Oversight Sub-Committee to assist in this role. The Quality Assurance Oversight Sub-Committee reports directly to the Board. The sub-committee carries out a detailed review of quality assurance visit reports and provides recommendations to the Board prior to their final approval.

The Quality Assurance Oversight Sub-Committee met twice during 2020. The sub-committee was chaired by Prof Peter Baldacchino.

## The Quality Assurance Unit

### Overview

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

### The Team

The Quality Assurance Unit is headed by Ms Karen Sultana.

During the year, a reviewer joined the QAU team. Furthermore, a university student majoring in accountancy was offered a work placement whilst studying.

At year end, the QAU team was composed as follows:

- The Head of Unit;
- Six reviewers, one of which is shared with another government entity; and
- Two administrative staff, one of which works on part-time basis.

One of the reviewers is partially involved in the administration of the unit on a day to day basis and is also assigned other duties by the Board.

Towards the end of the year, a call for the posts of Senior Accountant and Accountant I, was published. The evaluation of applications received is currently being carried out.

### Training

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

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

The training hours attended by reviewers during the year were over and above the mandatory CPE requirements as set out in Directive 1 of the Accountancy Profession Act. The training

focused primarily on audit related topics which are relevant to carry out audit reviews. However, other areas such as financial reporting, legislation and taxation were also covered.

In addition to the CPE attended by QAU staff individually, the team attended events on the prevention of money laundering and financial crime and also on the legal regulatory framework applicable to the insurance sector.

In July 2020, the team also attended a webinar on Forensic Accounting organised by the National Coordinating Committee on Combating Money Laundering & Funding of Terrorism (NCC) in collaboration with the Accountancy Board. The webinar included presentations by Mr John Wyllie, Head of International Development and Innovation for Scotland Police, Dr Clara Borg Bonaci, Manager within the Legal Affairs Section of the FIAU and Mr Kenneth Murray, Head of Forensic Accountancy for Scotland Police.

In November 2020, the Head of Unit attended a two-day webinar organised by the NCC. The webinar focused on FATF standards methodology and the implications on the activities of competent authorities during the follow-up process of Malta. The webinar aimed to enhance the understanding of the FATF methodology in order to have a better understanding of the risk-based approach in the fight against money laundering (ML) and the funding of terrorism (FT). The webinar was delivered by Mr. Yehuda Shaffer who has a background of 30 years of service in the Israeli Government as a prosecutor, founder and head of IMPA the Israeli FIU and as Deputy State Attorney.

## Source of Funding

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

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

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

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

- Firms with five or more principals €5,950

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

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

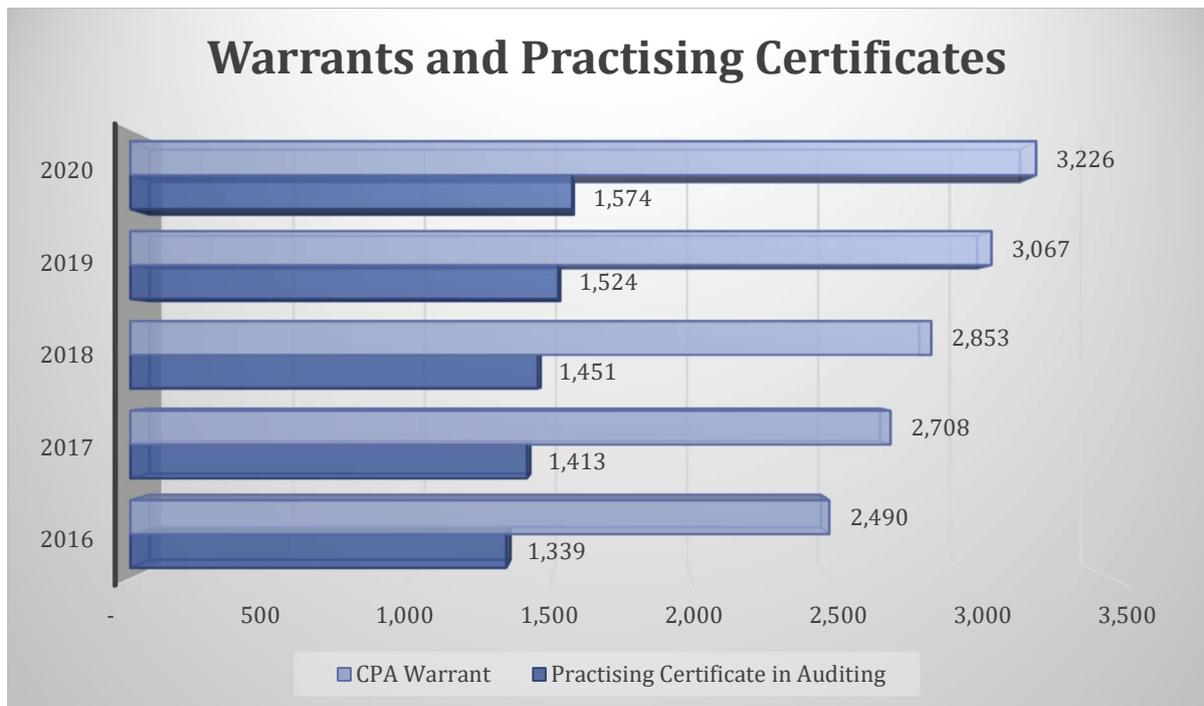
- Re-scheduling of review visit without justifiable reasons €232.94
- Failure to respond to any requests made by the QAU within the time limits set out in such requests €23.29 per day
- Delays in submission of fees and returns due €23.29 per day
- Failure to submit documentation requested by the Board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

## The Accountancy and Audit Profession

### CPA Warrant Holders and Holders of a Practising Certificate in Auditing

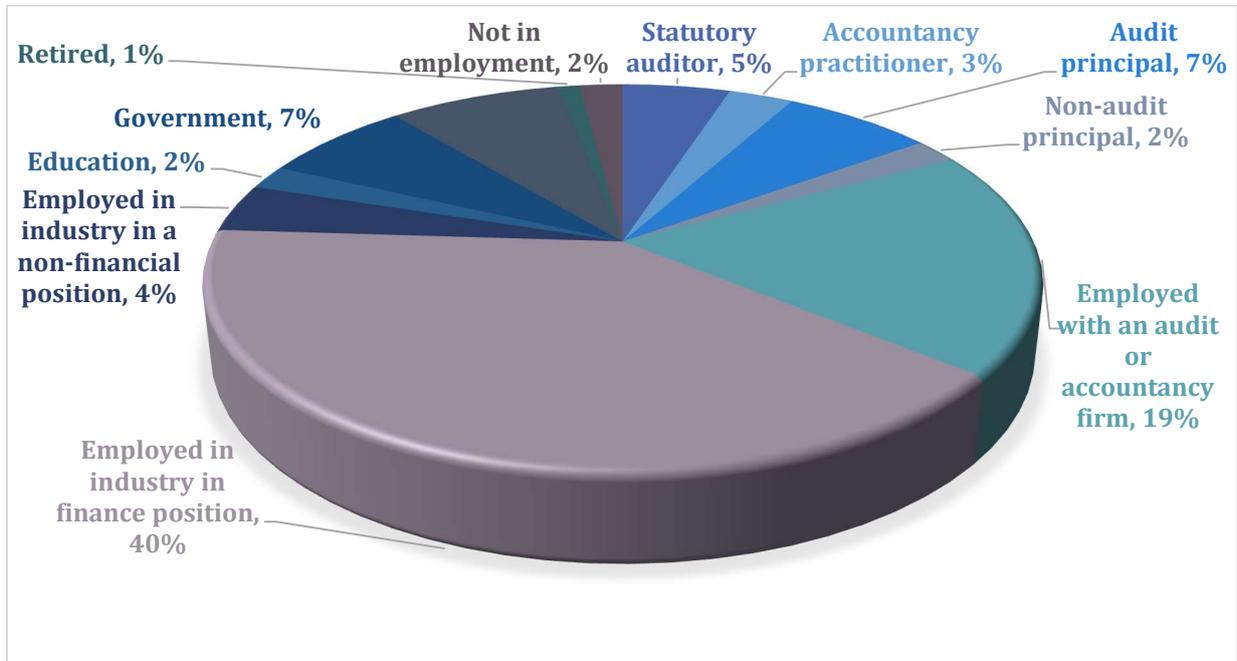
At year end, the total number of CPA warrant holders stood at 3,226 (2019: 3,067) whereas the total number of holders of a practising certificate in auditing as at 31 December 2020 amounted to 1,574 (2019: 1,524).

Year on year, the number of CPA warrant holders and holders of a practising certificate in auditing registered with the Accountancy Board is steadily increasing as can be seen below:

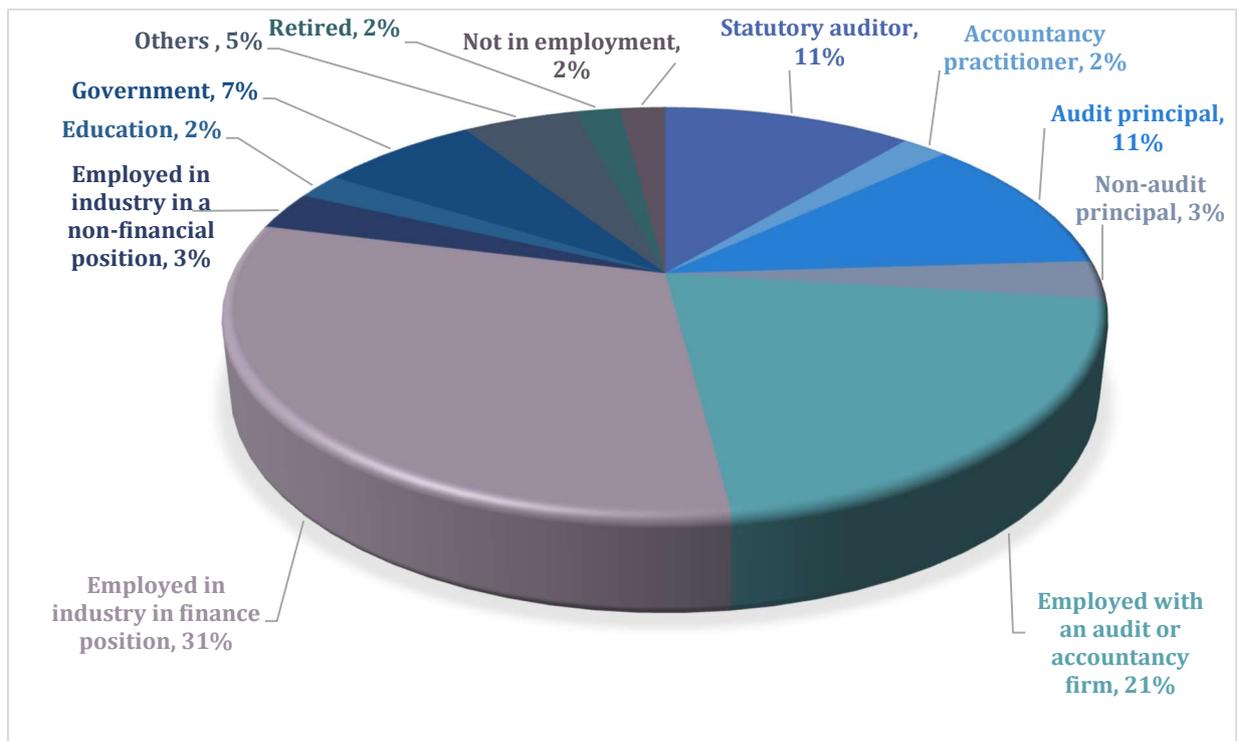


CPA warrant holders and practising certificate holders are availing of a number of different positions and opportunities both within the profession and outside the profession. This is represented in the following analysis which is based on submissions made by registered warrant holders and practising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

*CPA warrant holders - Work Sector*



*Practising Certificate in Auditing - Work Sector*



## Sole Practitioners

At year end, the number of sole practitioners increased by 8% and totalled 278 (2019: 257). Of these, 184 (2019: 169) provided statutory audit services (93 operating on a full-time basis and 91 operating on a part-time basis) and the remaining 94 (45 operating on a full-time basis and 49 operating on a part-time basis) did not conduct audits<sup>1</sup>.

### *Statutory Audit Practitioners – share of market*

Based on declarations made through annual return submissions, it is noted that statutory audit practitioners account for approximately 38% of total audits engagements. In addition, one statutory audit practitioner also carries out the audit of a public interest entity which is listed on the Malta Stock Exchange.

## Accountancy and Audit Firms

The Accountancy Board, apart from granting warrants and practising certificates in auditing to individuals, the Board also is responsible for registering accounting and audit firms. Accounting and audit firms may either be structured as a partnership, or else incorporated as a limited liability company. At 31<sup>st</sup> December 2020, the number of accounting and audit firms registered with the Accountancy Board stood as follows:

- 69 Accounting Firms (2019: 66); and
- 101 Audit Firms (2019: 94).

### *Accounting Firms*

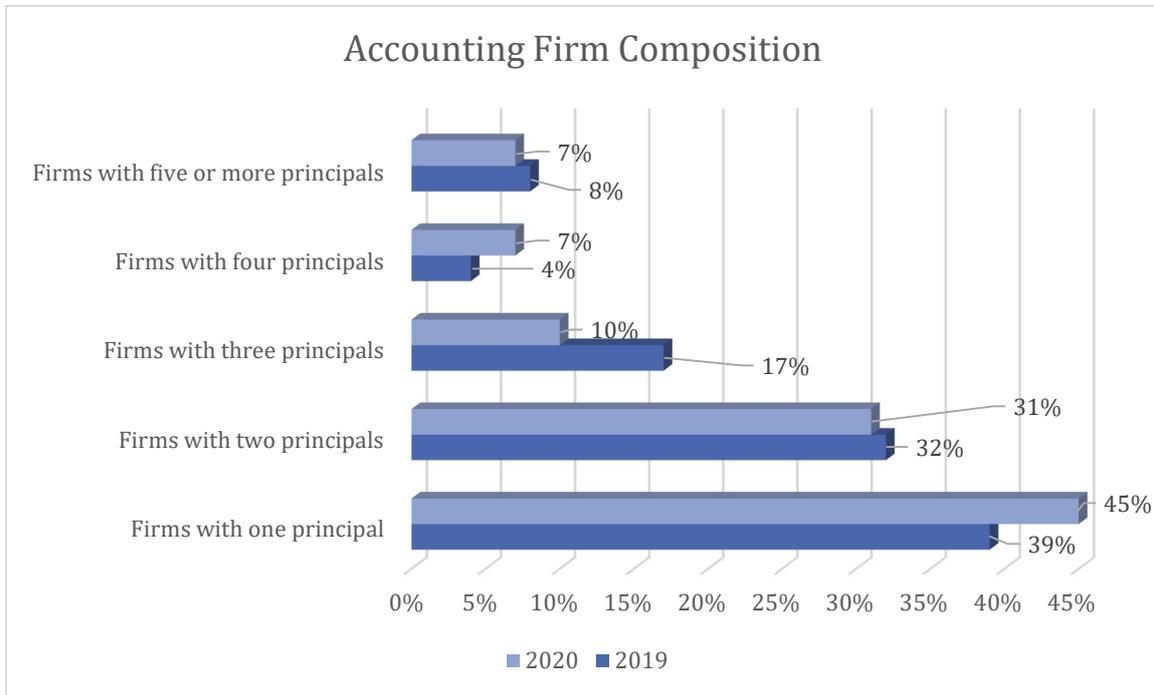
During the year, there was an increase of circa 5% in the number of accounting firms registered with the Board.

During 2020, 97% (98% in 2019) of accounting firms were incorporated as limited liability companies, whilst the remaining 3% (2% in 2019) were registered as partnerships.

Furthermore, during the year, it was noted that during the year, 45% of accounting firms were composed of one principal (in 2019 - 39%), and 31% of accounting firms were composed of two principals (in 2019 - 32%). The following bar graph shows the composition of accounting firms during 2020 and 2019:

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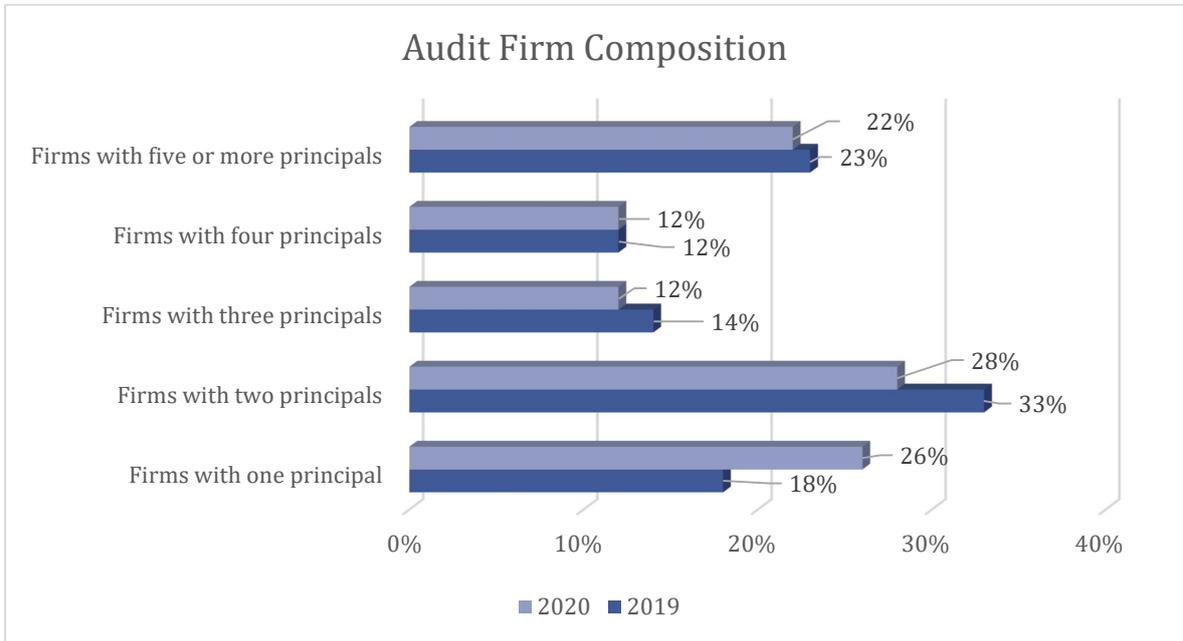
<sup>1</sup> This information is based on data extracted from 2020 Annual Returns submitted by 25 February 2021.



During 2020, 97% (98% in 2019) of accounting firms were incorporated as limited liability companies, whilst the remaining 3% (2% in 2019) were registered as partnerships.

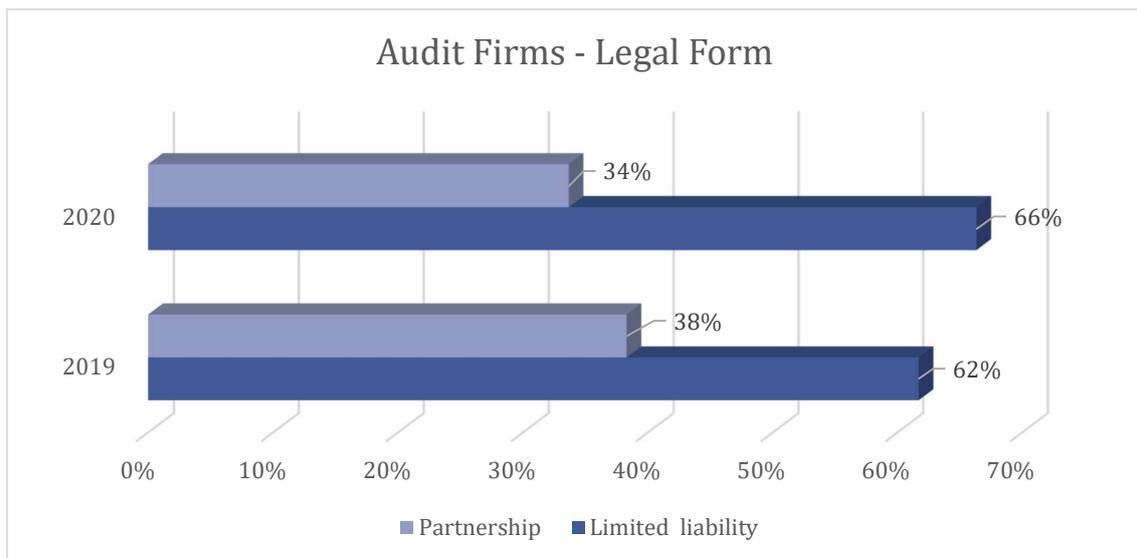
#### *Audit Firms*

At year end, there was an overall increase in the number of audit firms registered with the Accountancy Board of 7%. As was the case in the prior year, most audit firms were composed of two principals. In respect to audit firms, the composition of principals in such firms has remained fairly consistent with that of the prior year.



Also during 2020 the legal form of audit firms has remained fairly consistent, with 66% of audit firms now having a limited liability structure (62% in 2019).

As was noted in prior years, 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*

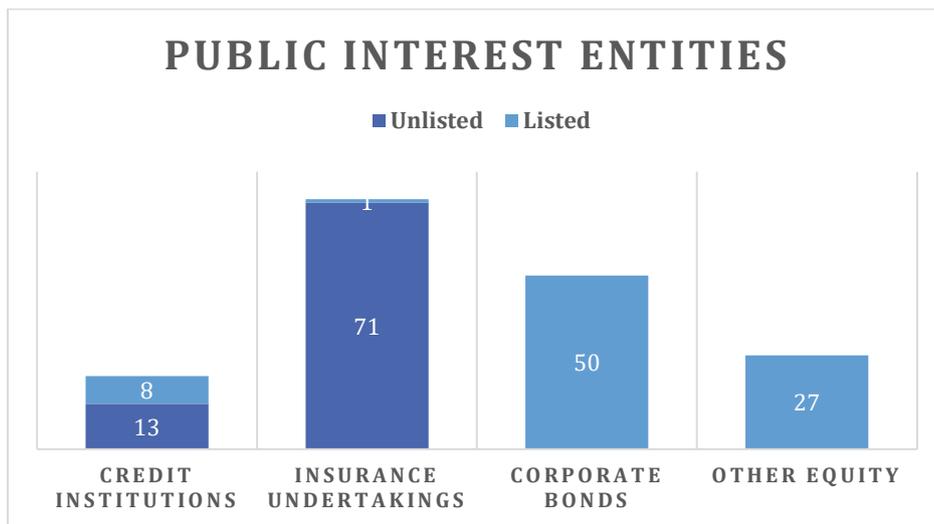
In respect to audit firms, as declared in annual return submissions, such firms carry out approximately 62% (64% in 2019) of total audit engagements. Furthermore, the majority of PIE audits are carried out by some of these audit firms.

**PIE Auditors**

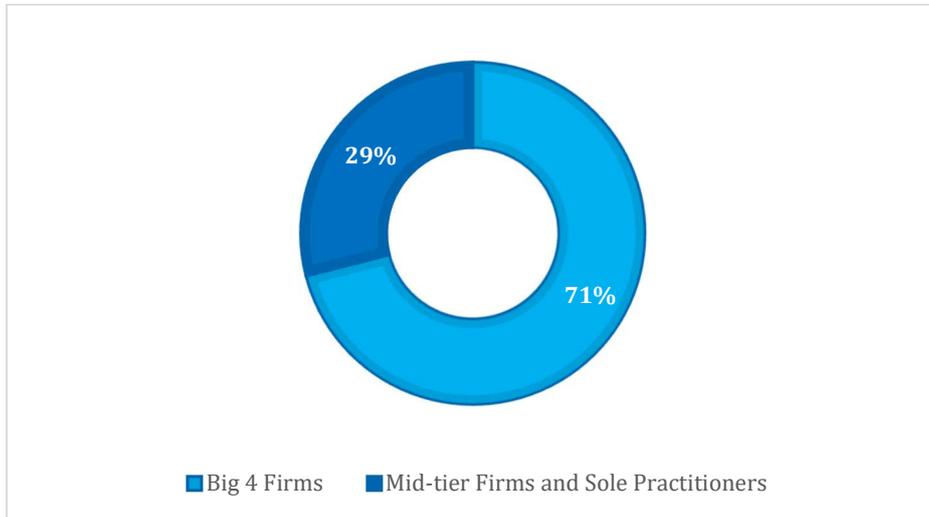
Public interest entities (PIEs) are entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, a credit institution as defined in point 1 of Article 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.

Through the annual returns, the Accountancy Board obtains information about statutory audit clients that are Public Interest Entities. As per declarations made by audit firms and statutory auditors in their annual return for 2020, 170 audit clients fall within the definition of a public interest entity.

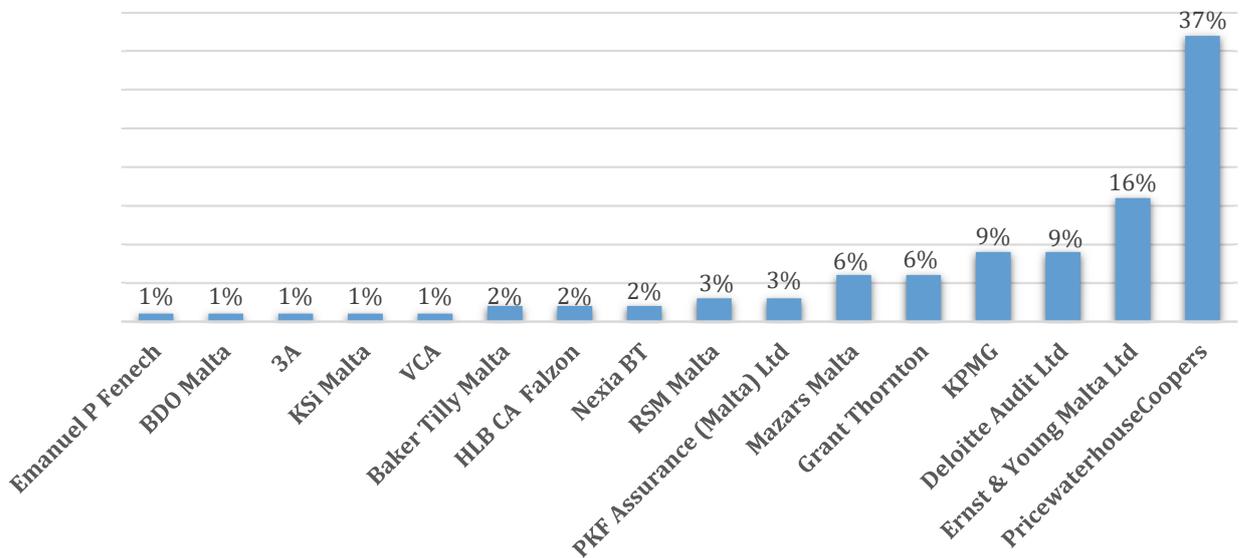
The following is a breakdown of the PIEs by type:



In 2020, the number of audit firms and audit practitioners providing statutory audit services to PIE audit clients amounted to sixteen. It was noted that 71% of the PIE audits are being conducted by the big 4 statutory audit firms. The remaining 29% of PIEs audits are carried out by mid-tier statutory audit firms and one sole practitioner providing audit services.



### PIE Auditors



## The QAU Inspection Methodology

A risk-based approach is adopted when carrying out monitoring visits to statutory auditors and audit firms. This approach is applied to select the statutory auditors and audit firms for review and also throughout the visit itself from the planning stage to the completion stage.

In summary, the monitoring visit process can be divided into three stages as follows:



### ***Stage 1 - Planning***

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

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

### ***Stage 2 - Fieldwork***

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

### *Opening Meeting*

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

### *Review of Quality Control Procedures*

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

- ISQC 1 manual;
- Professional indemnity insurance policy;
- Independence declarations of principals and staff;
- CPE declarations pertaining to principals and staff;
- Letterheads of the practice or firm and any connected undertakings; and
- Audit Compliance Reviews; and
- Cold file reviews including any EQCRs carried out.

In addition, on visits to PIE statutory auditors/firms, the Unit applies the Common Audit Inspection Methodology ('CAIM'). CAIM is an inspection programme introduced by the European Audit Inspection Group (EAIG) to ensure an effective and consistent inspection approach across regulators within the EU. On PIE auditor/audit firm visits, the compliance principal will be informed before the start of the visit, of the additional documentation required in respect to whole firm/practice procedures.

### *Review of Audit Files*

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

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

### *Review of Findings and Summarisation of Findings*

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

### *Closing Meeting*

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

## ***Stage 3 - Completion***

### *Drafting of Quality Assurance Visit Report*

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

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

### *Report Approval by the QAOSC and the Accountancy Board*

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

Based on the extent of the findings identified during the visit and the compliance principal's replies, the Board would then request confirmations from the statutory auditor/firm about actions expected to be taken by the statutory auditor/firm. Also, sanctions may be imposed, when necessary. Such confirmations and sanctions would be included in the closing down letter.

*Issuance of Report and Follow-up*

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

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

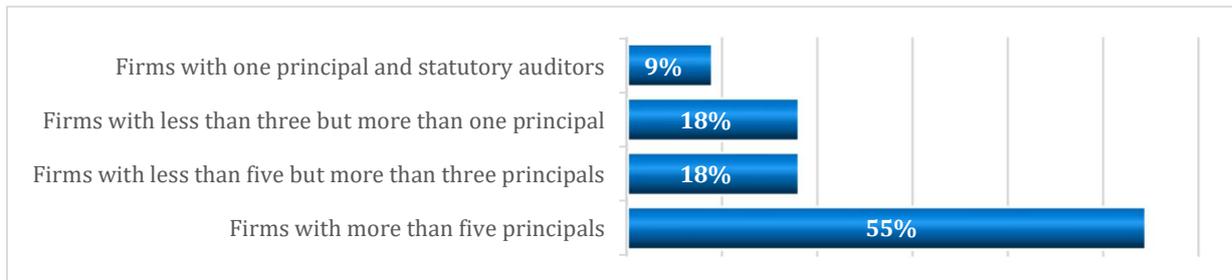
## Quality Assurance Visits in 2020

### Overview of Quality Assurance Visits Carried Out

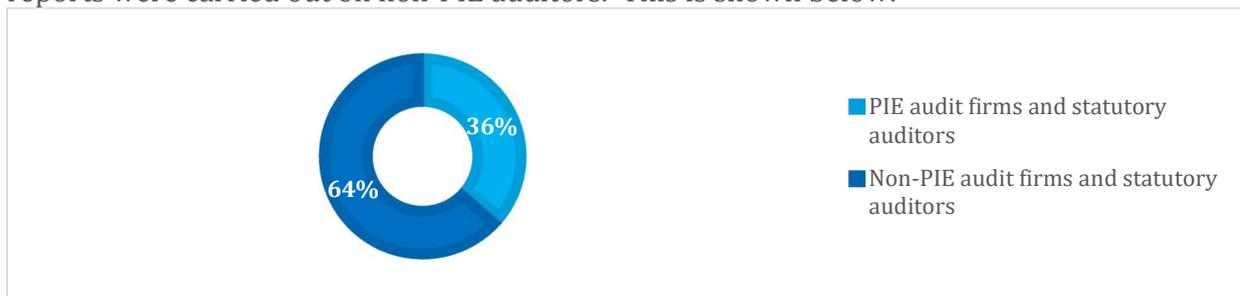
2020 proved a challenging year for the QAU, as due to the outbreak of Covid-19 in March 2020, the Unit had to change its mode of operations for the carrying out of inspection visits. From the normal practice of physically visiting firms and statutory auditors, the QAU transitioned virtually overnight to a situation of virtual meetings and remote working. Although, initially this presented some challenges particularly during the first few months, however the practices and firms reviewed during 2020 fully co-operated with the QAU and the QAU would like to thank those reviewed for their support.

As a result of this support, the QAU were able to continue conducting quality assurance visits and carried out a total of 13 visits during 2020. Since the commencement of the QAU function, i.e. from 2007 to the end of 2020 a total of 443 quality assurance visits have been carried out by the Unit. Of these 443 quality assurance visits, as at year end a total of 432 had been approved by the Board.

Of the above quality assurance visits carried out, during 2020 the Quality Assurance Sub-Committee and Accountancy Board had reviewed a total of 11 quality assurance visit reports which can be shown graphically according to the size of the practice/firm inspected as follows:



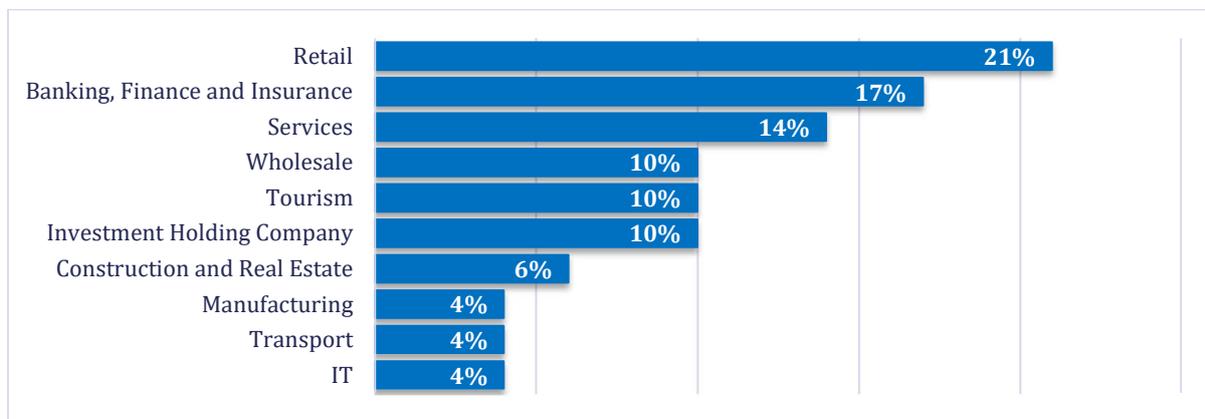
Furthermore, the reports reviewed by the Quality Assurance Sub-Committee and Accountancy Board consisted of a mix of both PIE auditors and non-PIE auditors. During 2020, the QAU placed more focus on PIE audit firms, than in the prior year, with a total of 36% of the visit reports approved by the Board being inspections to PIE auditors. The remaining 64% visit reports were carried out on non-PIE auditors. This is shown below:



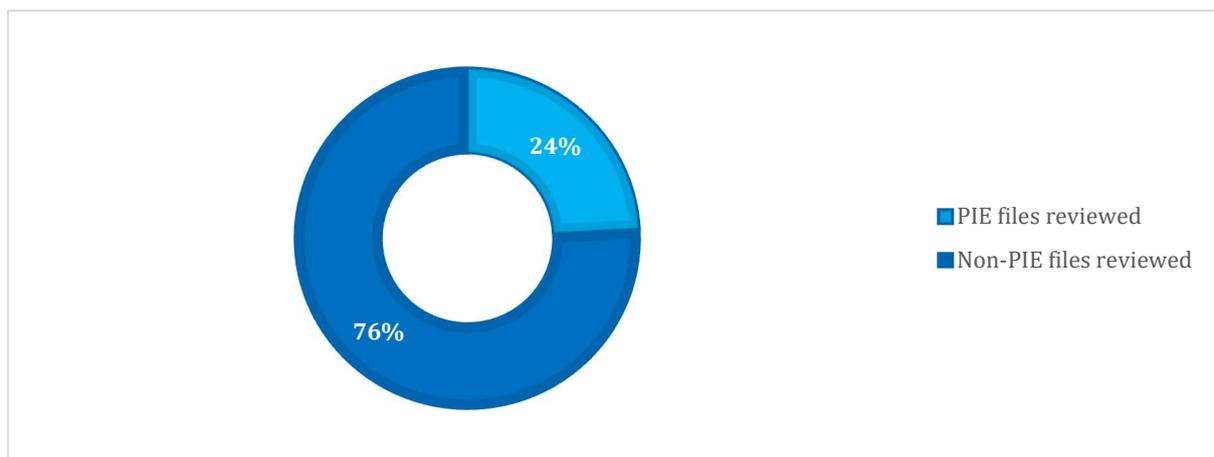
In 2019, 20% of visit reports approved related to PIE auditors, while the remaining 80% dealt with non-PIE auditors.

### Overview of Quality Assurance Files Reviewed

On each visit carried out, one or more audit files are reviewed as part of the quality assurance visit, based on the risks identified by the Quality Assurance Reviewers. Based on the 11 visit reports approved by the Quality Assurance Sub-Committee and Accountancy Board, a total of 29 audit files were reviewed. These files can be categorised as follows:



Furthermore, audit files selected comprised both PIEs as well as a number of non-PIE audits. In respect to the reports approved by the Quality Assurance Sub-Committee and Accountancy Board during 2020 a total of 24% of all audit files selected pertaining to PIE audits, including banks, insurance as well as other listed entities.



## Summary of Decisions Taken by the Accountancy Board

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

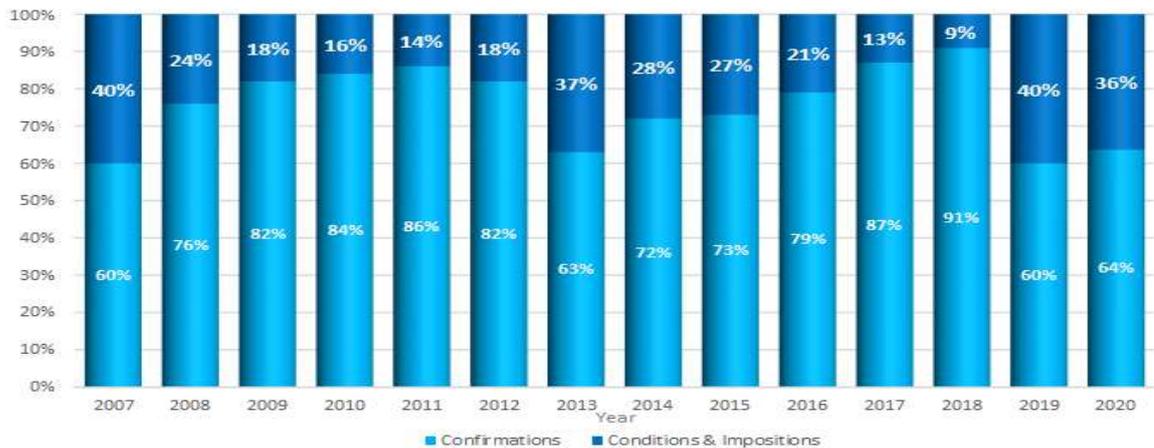
The Accountancy Board requests confirmations, in order to ensure the implementation of procedures to address matters raised during the QAU visit. Confirmations require statutory audit firms or statutory auditors to take action to address the findings identified. During subsequent visits, prior visit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

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

Based on the quality assurance visits that were concluded and approved by the Accountancy Board by the end of 2020, one can note that on a total of 36% of firms/statutory auditors reviewed had sanctions/conditions imposed in addition to confirmations. During 2020, one of the audit firms reviewed was reprimanded.

On the other hand, a slight improvement was noted on the number of visits which required the firm/statutory auditor to confirm that they intend to address findings identified by the QAU going forward. In fact, on 64% of visits (2019: 60%) carried out on statutory auditors/firms and approved by the Accountancy Board, only confirmations were required.

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



During 2020, based on the visit reports approved by the Accountancy Board the following summarizes the sanctions/conditions that were imposed:

- *External audit compliance review* – one PIE audit firm was requested to have an external audit compliance review carried out by an approved Accountancy Board external reviewer;
- *External cold file review* – one PIE audit firm and 2 non-PIE audit firms were requested to have a total of 5 external cold file reviews carried out by an approved Accountancy Board external reviewer. Of these 5 cold file reviews, 2 reviews were requested to be carried out on audit files which contain modified audit opinions, and another was required on a PIE audit engagement; and
- *Reprimand* – one PIE audit firm was reprimanded during the year. Reprimands are published on the Accountancy Board website.

In summary, the number of sanctions/conditions imposed on statutory audit firms and statutory auditors since 2007 amounted to 79 and these can be analysed as follows:

	Follow-up visits	External ACRs and/or cold file reviews	Hot file restrictions	Reprimands	Other restrictions
<b>PIE Statutory Audit Firms</b>	3	1	1	1	0
<b>Non-PIE Statutory Audit Firms</b>	5	14	0	0	0
<b>Full-Time Statutory Auditors</b>	8	21	6	0	1
<b>Part-Time Statutory Auditors</b>	4	9	4	0	1
<b>Total</b>	<b>20</b>	<b>45</b>	<b>11</b>	<b>1</b>	<b>2</b>

## 2020 Visit Findings – Key Observations

In this section of the report, an overview is provided of the more recurrent findings noted on visits. Statutory auditors and audit firms are encouraged to review their current methodologies and procedures to bring these in line with professional requirements, particularly in areas marked for improvement either by the QAU or by the practice’s/firm’s internal review processes.

As already indicated, 11 visit reports were approved during 2020 by the Accountancy Board, including both PIE statutory auditors/audit firms and non-PIE statutory auditors/audit firms. The analysis of findings, based on these reports, is grouped according to the different stages of the audit process and an analysis of whole firm policies and procedures in line with ISQC 1 requirements and other legislative requirements.

On this basis, findings are grouped into the following categories:

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

### Audit file findings at planning stage

An analysis of the main planning issues raised on the files reviewed is provided below as follows:

- Terms of engagement;
- Client acceptance & continuance;
- Laws and regulations; and
- Related parties.

### *Terms of engagement*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	43%	75%	55%	50%	↑

The letter of engagement is an area which still requires improvement. A number of findings were identified in this regard and are summarized as follows:

- the applicable financial reporting framework was not being referred to in the engagement letter and in some cases the engagement letter was not being updated to reflect a change in the accounting framework, i.e. from IFRS to GAPSME or vice-versa;
- the audit client's engagement letter was signed before client acceptance/continuance procedures were finalized;
- although a company level engagement letter was obtained, a group level engagement letter was not obtained even though the auditor was the group auditor; and
- although the firm's policies and procedures require that an engagement letter is issued annually, this was not being adhered to.

### *Client acceptance & continuance*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>43%</b>	<b>75%</b>	<b>55%</b>	50%	↑

Another area where a number of findings were noted relates to client acceptance and continuance. There was 5% increase from the prior year in the incidence of such findings during audit file reviews. In respect to client acceptance and continuance procedures the following are some of the matters which were identified during inspections:

- the client acceptance and continuance checklist used in the audit file was not updated to reflect changes in the ownership of the company and the new group structure and management;
- there was inappropriate consideration of the integrity of owners and management as well as relevant ethical requirements;
- the client acceptance and continuance checklist used was different from the one required to be used as per the firm's ISQC 1 policies and procedures; and
- although there were documented client continuance procedures in the reviewed audit files, limited documentation was found to indicate that client re-acceptance procedures were carried out in line with the firm's policies and procedures.

### *Laws and regulations*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>57%</b>	<b>50%</b>	<b>55%</b>	60%	↓

The adequacy of documentation in respect to laws and regulations continues to be an area for improvement for a number of firms. Although there was a 5% improvement when compared with the prior year, there are still more than half of the firm's reviewed with findings in this regard. Primarily weaknesses were noted in regard to the following matters:

- laws that are expected to have a fundamental effect on the entity's operations and to determine material amounts and disclosure in the financial statements were not documented;
- documentation in respect to laws and regulations was limited to "yes", "no" and "n/a" replies; and
- in some cases no documentation of the firm's consideration of laws and regulations was found on file.

### *Related parties*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>57%</b>	<b>25%</b>	<b>45%</b>	40%	↑

Deficiencies in the documentation of related parties is also another common area which needs to be addressed, primarily by non-PIE statutory auditors and audit firms. The following are the main areas where issues were noted based on the audit files reviewed:

- on a number of visits, the audit file did not contain documentation of the company's related parties as well as the relationship these related parties have with the company; and

- no information was documented in relation to the change of ownership and the resulting effect on related parties.

### **Audit file findings at fieldwork stage**

The most common findings identified at audit fieldwork stage are analysed as follows:

- Testing of inventory;
- Testing of receivables; and
- Testing of revenue.

### ***Testing of inventory***

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>86%</b>	<b>25%</b>	<b>64%</b>	<b>80%</b>	↓

Despite a decrease being noted from the prior year in the number of findings related to inventory, findings identified in relation to inventory is a recurrent theme across a number of visits carried out.

In respect to audit firm reviews, it was noted that:

- on some audit files there was limited evidence and documentation of the testing carried out in respect to inventory;
- on a number of audit engagements, the audit engagement team did not attend the year-end inventory count;
- on an audit engagement file, the inventory balance, comprising material ironmongery stock, was valued on the basis of an estimate and not based on actual stocks held;
- documentation of dates when stock-takes were held were incorrect; and
- no documentation of the engagement team's follow-up of discrepancies noted in quantities tested during the stock-take was found.

### *Testing of receivables*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>71%</b>	<b>25%</b>	<b>55%</b>	<b>70%</b>	↓

As per the above analysis, testing of receivables is an area identified as requiring more audit documentation and evidence. Although there was a decrease in findings from the prior year average, attention in this regard is still needed.

As noted in prior years, of particular concern is the testing of recoverability of trade debtors where a number of deficiencies were noted due to inadequate testing being conducted. In addition, in one particular case, accrued income accounted for was not adequately supported by contracts and documentation found on file. Furthermore, on a number of audit files, reliance was placed on obtaining related party confirmations without carrying out any additional testing. In some cases, amounts disclosed in related party confirmations did not correspond to balances in the client's trial balance. In other instances, although related party balances were identified, no audit procedures were documented on file.

### *Testing of revenue*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>57%</b>	<b>25%</b>	<b>45%</b>	<b>80%</b>	↓

Revenue is another area where firms and sole practitioners need to revisit current practices to ensure that testing is being carried out in line with requirements. Although the number of findings in relation to revenue declined significantly from 80% in 2019 to 45% in 2020, there still is room for further improvement.

During the visits carried out it was noted that in a number of instances:

- no documentation was found that detailed analytical procedures on turnover were carried out;
- documentation on file stated that revenue cut-off testing was carried out, however no details of testing carried out could be found on file;
- inadequate detailed testing of revenue was carried out;
- the audit working papers did not contain procedures for revenue; and
- anti-fraud procedures based on the presumption that there were risks of fraud in revenue recognition were not carried out.

### **Audit file findings at completion stage including audit report review**

The below analysis illustrates the most common findings noted at audit completion stage of the files reviewed. This includes issues raised as follows:

- Letter of representations;
- Communication with those charged with governance; and
- Audit reports.

#### ***Letter of representation***

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>100%</b>	<b>75%</b>	<b>91%</b>	50%	↑

Findings in respect to the content of the letter of representation continue to be prevalent on a significant number of QAU visits. In fact, during the current year, the instances where omissions were noted increased from 50% in the prior year to 91% during 2020. In the most part, weaknesses noted for this standard arose due one or more required ISA 580 representations not being included in the letter of representation.

Also on one particular case, the letter of representation found on file, incorrectly did not refer to the company audited.

Statutory auditors and audit firms are recommended to update their letters of representation to bring these in line with the requirements of ISA 580. The standard itself provides an illustrative letter of representation which facilitates disclosure requirements.

***Communication with those charged with governance***

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>86%</b>	<b>75%</b>	<b>82%</b>	60%	↑

Communication with those charged with governance is also another common finding noted during inspections. A marked increase of 22% in the occurrence of such findings was noted when comparing 2019 with 2020.

On one listed entity reviewed, the firm did not communicate in writing the auditor’s relevant ethical requirements regarding independence, in particular in relation to tax services provided, in line with paragraph 17 of ISA 260.

During 2020, the QAU reviewers are continuing to find a number of situations where the engagement team did not issue a management letter or document its oral communication with those charged with governance.

In other situations, although a management letter had been issued, this did not include reference to matters affecting the audit report such treatment of going concern and in some instances, audit report qualifications as well as other weaknesses identified during the course of the audit.

It is also recommended that feedback received from management on the matters raised in the management letter is also documented in the audit file.

***Audit report review***

For a second year in a row, on all visits, both to PIE and to Non-PIE auditors/audit firms, there have been a number of short-comings in respect to issuance of audit reports in line with the requirements as set out in relevant ISAs. In most instances, the departures from the requirements of ISA 570, 700, 701, 705, 706 and 710 could have been avoided by cross-checking the audit report to templates found in the standards themselves and also by proof-reading the audit report itself before its issuance. It is recommended that firms and

practitioners re-check their existing audit report templates to bring these in line with current requirements and ensure that when the audit report as set out in ISA 700 is modified that the additional requirements arising from other relevant standards are adequately addressed in line with those standards.

The QAU have also come across some situations where the audit evidence obtained and documented, as well as conclusions found in the audit file, did not sufficiently support the audit report opinion found in the financial statements. Approximately 45% of visit reports contained this type of finding and thus there was an improvement of 15% over the prior year.

As in the previous year, some cases arose in relation to going concern considerations and whether or not the inclusion of an emphasis of matter paragraph was justified based on the evidence and documentation found on file.

Also, in respect to some audit files reviewed, the audit report contained a qualified opinion. The QAU contended that due to multiple uncertainties arising from the audit which were material and pervasive, the issuance of a qualified opinion was not appropriate.

During the visit of another firm, although a material segment of the company's inventory balance was based on an estimate and could not be adequately tested, the audit firm did not qualify the audit report.

On another firm, it was noted that for a number of expense items as well as a balance sheet item, no supporting documentation could be found. The audit report was not qualified in this regard.

### **Whole firm/practice findings**

Issues raised at whole practice/firm level include issues in respect of:

- Code of ethics requirements;
- Continuing professional education (CPE);
- ISQC 1 related matters;
- Professional indemnity insurance;
- EQCRs; and
- The carrying out of audit compliance reviews (ACR) and cold file reviews.

### *Code of ethics requirements*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>86%</b>	<b>100%</b>	<b>91%</b>	60%	↑

Findings arising from Directive 2 - Code of Ethics varied significantly during the year, with the occurrence of Code of Ethics breaches being noted on almost all visits reviewed by the Board. The following are some areas in the Code where non-compliance was noted, and which require attention:

- Communications with Audit Committee – Section 290.40 of the Code;
- Financial interests – Sections 290.102 – 290.116 of the Code;
- Business relationships – Sections 290.123 to 290.125 of the Code;
- Family and personal relationships – Sections 290.126 – 290.131 of the Code;
- Serving as a director or officer of an audit client – Sections 290.146 – 290.148 of the Code;
- Long association – Sections 290.149 – 290.154 of the Code;
- Provision of non-assurance services to audit clients – Sections 290.155 – 290.160 of the Code; and
- Overdue fees – Section 290.223 of the Code.

### *Continuing professional education*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>71%</b>	<b>75%</b>	<b>73%</b>	50%	↑

Directive 1 of the Accountancy Profession Act dealing with CPE is relevant to all warrant holders. One can note from the above analysis, that there has been a marked increase in the instances where CPE has been identified as not being fully in compliance with the requirements. There were various reasons for weaknesses being identified as follows:

- structured CPE activities were not attended in a particular year by a principal/practitioner/staff member/subcontractor;
- structured CPE activities were not fully adhered to in line with Directive 1 requirements; and
- unstructured CPE activities declared did not satisfy Directive 1 requirements.

It is also recommended that firms, monitor CPE attendance and require staff to ensure that CPE submissions made to the Accountancy Board and the Malta Institute of Accountants as well as internal CPE monitoring documents held by the firm tally, as some discrepancies were noted on some firms reviewed.

Furthermore, some findings were noted in respect to training evaluation forms not being completed by every attendee for internally organized courses as required by the firm's own policies and procedures.

### *ISQC 1 related matters*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>71%</b>	<b>75%</b>	<b>73%</b>	40%	↑

The number of ISQC 1 related matters have increased when compared with the prior year and on most reviews, ISQC 1 policies and procedures have been in the most part, adequately documented on file. In addition, on a number of PIE firms, some matters required by the EU Audit Regulation did not form part of the firm's policies and procedures. Thus, it is recommended that practices and firms periodically revise their manual to ensure compliance with ISQC 1 requirements as well as tailor their policies and procedures manual.

*Professional indemnity insurance*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>86%</b>	<b>-%</b>	<b>55%</b>	<b>40%</b>	<b>↑</b>

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

As per the visit reports approved in 2020, the following were the matters raised in this respect on audit firms/practices reviewed:

- the professional indemnity insurance cover was not in line with the requirements of Article 5(2) of the Accountancy Profession Regulations;
- the policy did not cover damage brought about or contributed by any dishonest, fraudulent, criminal or malicious act or omission of all staff including seconded or sub-contracted staff as required by Section 11(1) of the Accountancy Profession Act;
- the policy did not duly cover claims arising in respect to loss or damage made in the five years immediately following the cessation of the policy as a result of the retirement of or the surrender of the warrant or practising certificate by any principal and provided that the negligent act, error or omission giving rise to the claim had occurred during the period of insurance of the policy as required by Section 11 (2)(a) of the Accountancy Profession Act; and
- the insurance policy did not cover the firm's/sole practitioner's connected undertakings.

*Engagement quality control reviews*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>29%</b>	<b>100%</b>	<b>55%</b>	20%	↑

Engagement quality control reviews are required on all PIE entities as well as on other non-PIE audit engagements when required by the firm’s ISQC 1 policies and procedures.

During 2020, the findings identified in respect to the carrying out of such EQCRs dealt with the following matters:

- no documentation was retained on file of EQC reviews carried out by the firm;
- although it was noted on one firm that EQCRs were carried out, these EQCRs were not required from review of the firm’s ISQC 1 policies and procedures;
- there was no evidence of EQCR sign-offs in the audit working papers of a number of PIEs;
- on some PIE audits, the EQCR reviewer did not document the oral and written information provided by the engagement audit partner to support the significant judgements as well as the main findings of the audit procedures carried out, the conclusions drawn from those findings and the opinions of the audit partner as expressed in the audit report and additional report to the audit committee in line with the requirements of Article 8(4) of the Audit Regulation (EU) No 537/2014;
- on a couple of PIE audits, the EQCR reviewer did not document has review of independence considerations for the provision of non-audit services by the firm; and
- also policies and procedures in respect to EQCRs were not adequately documented in line with ISQC 1 as well as by the EU Audit Regulations for PIE audits.

*Audit compliance reviews and cold file reviews*

	2020 % Non-PIE Statutory Auditors/ Audit Firms	2020 % PIE Statutory Auditors/ Audit Firms	2020 Total Average %	2019 Total Average %	Increase/ Decrease
<b>Findings identified on:</b>	<b>43%</b>	<b>-%</b>	<b>27%</b>	<b>40%</b>	↓

During 2020 there was an improvement of 13% on findings related to audit compliance reviews and cold file reviews.

However, it was still being noted that in respect to some audit firms, audit compliance reviews and cold file reviews were not being carried out annually in accordance with the guidance issued by the Board.

Such reviews should be a means for the firm or practice to identify areas for improvement and subsequently address those areas. Furthermore, principals should communicate areas of weaknesses arising from such reviews with audit staff. In addition, measures should be taken by the firm, such as staff training, to address those areas.

## Participation in International Fora

The Accountancy Board has been actively involved in a number of meetings and committees which were held throughout the year. Due to the Covid-19 pandemic, most of the meetings were held virtually. Amongst others, the following meetings were attended during 2020:

- *CEAOB Plenary meetings*

In March, a CEAOB Plenary meeting was held in Brussels, Belgium. The next CEAOB Plenary meetings were held virtually in June and November.

The CEAOB also organised three working group meetings relating to reporting on consolidating cooperation between CEAOB members. The meetings were held virtually in September, November and December.

Representatives and members of the Board attended the meetings.

- *CEAOB Inspections Sub-Group meetings*

In November, the Head of Unit and two reviewers attended a number of meetings organised by the Committee of European Auditing Oversight Bodies (CEAOB) Inspections Sub-Group. The meetings were held virtually, over a three-day period.

The QAU is also involved in the Deloitte College, which falls under the remit of the Inspections Sub-Group. In this regard, the QAU participated in a number of conference calls during the year.

- *CEAOB Market Monitoring Sub-Group*

Member states are required to submit a market monitoring exercise to the EU Commission from time to time. The Market Monitoring Sub-Group was formed to assist Member States with this exercise and also to develop a consistent approach to be taken by competent authorities in Member States. The market monitoring exercise is aimed to provide the Commission with information on the market structure of the audit profession, the market share held by the key players in the audit profession and to provide information on audit committees and also information with respect to quality assurance visits.

The 2<sup>nd</sup> market monitoring exercise, which had been submitted to the EU Commission in June 2019, was published early this year.

In 2020, a meeting was planned to be held in Prague. However, due to the Covid-19 pandemic, this was carried out virtually on the 10 November 2020. The Head of Unit attended this meeting. The QAU also participated in seven teleconferencing sessions organized by the Market Monitoring Sub-Group during the year.

The Market Monitoring Subgroup also held four meetings, between March and July, focusing on data gathering which were attended. Furthermore, another 4 teleconferencing sessions were held during the year. The Head of Unit attended the meetings and teleconferencing sessions.

- *CEAOB Enforcement Sub-Group*

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

A board representative attended the CEAOB Enforcement Sub-Group meetings which were held virtually in January, February, May and October 2020.

- *Accounting Regulatory Committee (ARC) and Audit Regulatory Committee (AuRC)*

During the year, three joint meetings were held by the Accounting Regulatory Committee and the Audit Regulatory Committee. The meetings were held virtually in April, June and December.

In July, another meeting was held by the Accounting Regulatory Committee.

Representatives and members of the Board attended the meetings.

## Developments/Strengthening relationships

### **Collaboration with the Malta Institute of Accountants (MIA)**

Over the years, the Accountancy Board has worked closely with the Malta Institute of Accountants (MIA), with the MIA providing a number of services in relation to CPE.

In 2020, the Malta Institute of Accountants was officially recognised as an approved accountancy body in line with Section 9(1) of the Accountancy Profession Act.

During the year, the Accountancy Board also collaborated with the MIA with respect to the definition of services which are to be provided by warrant holders, CPE requirements and requirements relating to corporate service providers.

### **Collaboration with other entities**

In 2020, the Accountancy Board signed three Memoranda of Understanding in order to continue to strengthen oversight and enforcement. Memoranda of Understanding were signed with the Malta Financial Services Authority (MFSA), the Malta Business Registry (MBR) and the Financial Intelligence Analysis Unit (FIAU).

### **Collaboration with regards to the European Single Electronic Format (ESEF)**

The European Single Electronic Format is an electronic reporting aimed at making reporting easier for issuers and to facilitate accessibility, analysis and comparability of the financial information.

The implementation of the ESEF requirements had to commence from the financial period starting 1 January 2020. However, the EU Parliament and the Council agreed to an amendment of the Transparency Directive, allowing EU member states to delay the application of the ESEF requirements by one year. In view of the difficulties posed by COVID-19, Malta opted to postpone the application of the ESEF requirement.

In 2020, meetings were held with various stakeholders with respect to the ESEF requirements and their implementation, including the required changes in legislation. The Head of the Quality Assurance Unit and a representative of the Accountancy Board were also involved in a committee set for this purpose by the Malta Institute of Accountants.

## Initiatives for 2021

Notwithstanding the challenges being posed by COVID-19, the Accountancy Board looks forward to implementing the following initiatives in 2021:

- *Changes in legislation*  
A new directive on the European Single Electronic Format (ESEF) requirements will come into force. Also, amendments are envisaged with regards to CPE requirements.
- *Continuation of collaboration with other stakeholders*  
The Accountancy Board will continue to collaborate with the Malta Institute of Accountants (MIA), Malta Financial Services Authority (MFSA), Malta Business Registry (MBR), Financial Intelligence Analysis Unit (FIAU), other competent authorities and professional bodies such as the Committee of European Auditing Oversight Bodies (CEAOB). An area of focus is the legislation relating to the requirements of the European Single Electronic Format (ESEF).
- *Participation in international fora*  
The Board will be represented in various meetings held at an international level.
- *Strengthening human resources*  
Additional professional staff will be engaged to ensure that adequate resources are available to carry out inspection visits.
- *Collaboration with the University of Malta*  
The Board will collaborate with the University of Malta to organise a course for reviewers.
- *Enhancements to the Accountancy Board website*  
A new website with particular improvements with respect to registers of firms and warrant holders.
- *Changes in internal systems used by the Accountancy Board*  
Consideration of new systems to be used in order to carry out its functions.
- *Moving to new premises*  
The Quality Assurance Unit will be relocating to new premises in Marsa. The relocation will take place in the second quarter of 2021.



**Accountancy Board**

Quality Assurance