
ANNUAL REPORT

2021

THE ACCOUNTANCY BOARD

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2021

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The Accountancy Board presents its Annual Report for the year ended 31 December 2021 pursuant to Article 7(19) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta.

14 March 2022

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Message from the Chairman



The continued prevalence of the Covid-19 Pandemic again resulted in most 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, as in the previous year, this did not in itself adversely affect the Board in its regular oversight of Maltese professional practices as set out by its regulatory framework.

Consultations were further strengthened with other relevant institutions such as the Malta Financial Services Authority, the Malta Business Registry and the Financial Intelligence Analysis Unit following the last year's introduction of Memoranda of Understanding. Furthermore, the process towards proposing or acceding to further regulatory changes was continued by discussions with interested parties including the public authorities, the Malta Institute of Accountants, examining bodies as well as other oversight bodies in the European Union. These *inter alia* included (i) the drafting of proposed changes in the Accountancy Profession Act to further improve the structure and operations of the Board, (ii) continued consultation in the important ongoing process of re-specifying in Maltese law the reserved, shared and other functions of accountants and auditors and (iii) participation of the drawing up of the ESEF Format in financial reporting together with the other relevant Maltese institutions. As for links with other European Union oversight bodies, the Board was again involved in *CEAOB* sessions aimed at bringing more cooperation, support and mutual understanding among these bodies.

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

This was another challenging year showing again that all team members involved at the Accountancy Board are doing their best in their regulatory work, at times even going beyond their call of duty. I therefore express my appreciation to all of them for their dedication.



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

14 March 2022

Organisational Structure



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

The Accountancy Board

The Members of the Board

The Board was re-constituted on the 19th April 2019 for a period of three years. Mr Nicholas Xuereb resigned as a member of the Accountancy Board with effect from 1 May 2021. Mr David Demarco B.A.(Hons) Accountancy, MBA, ACIB, FIA, CPA was appointed as member of the Board on 1 September 2021.

The Board Members at end of year 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, CPA

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

Mr Mario Magro, MBA, ACMA, CGMA, AMIT, CPA

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

Ms Denise Vella B.A. M.A. (Econ.)

The Accountancy Board met 11 times during the year. Meetings were held in January, February, March, April, May, July, August, September, November and December 2021. Furthermore, 3 ad-hoc meetings were also carried out between March and April 2021.

During 2021, the Accountancy Board and its representatives were involved in a number of ad-hoc meetings with respect to the following:

- Meetings to address the need for changes in legislation including the European Single Electronic Format (ESEF), matters in relation to CPE, Directive 2 - Code of Ethics, Professional Indemnity Insurance, as well as other changes to the Accountancy Profession Act and Regulations;
- The revamping of on-line application forms for CPA warrants, practising certificates in auditing, registration of accounting firms and/or audit firms;
- Information requests through questionnaires and surveys sent by the Committee of European Auditing Oversight Bodies (CEAOB).

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 Investigations Sub-Committee

The scope of the Investigations Sub-Committee is to investigate cases brought to the attention of the Board, mainly complaints. The sub-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 2021, 16 cases were investigated by this sub-committee, 9 of which were brought forward from the previous year. During the year, thirteen cases were concluded, and another two cases are in the final stages. Another case is kept in abeyance until the outcome of a court judgement concerning matters which are in part being investigated by the sub-committee.

Most of the cases were resolved by providing adequate recommendations to the parties involved. In other cases, the sub-committee engaged in deeper analysis of the situation, carried out interviews with the parties involved and requested corrective action.

The Investigations Sub-Committee met forty-two times during the year.

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.

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

- The imposition of a fine amounting to €232.94 and publishing on the Accountancy Board website on 1 CPA warrant holder; and
- 6 CPA warrant holders were reprimanded and had their reprimands published anonymously on the Accountancy Board website.

During 2021 Mr Nicholas Xuereb resigned as a Member of the Accountancy Board and as chairperson of the Disciplinary Committee and was replaced by Mr David Demarco in both positions.

Evaluation Sub-Committee

The Evaluation Sub-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.

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

The Evaluation Sub-Committee was 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 (QAOSC) reports directly to the Board.

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

The Quality Assurance Oversight Sub-Committee met five times during 2021. Meetings were held in January, March, April, July and December 2021.

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 last quarter of 2021, a reviewer joined the QAU team. Another reviewer who was shared with another government department on secondment, concluded her secondment with the QAU.

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

- The Head of Unit;
- Five reviewers; 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.

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.

In addition, in May 2021 the Accountancy Board collaborated with the University of Malta to organise a course for audit reviewers. The course involved 27 hours of training and amongst other areas, it covered IFRS 9, IFRS 15, IFRS 16, the new ISA 315 and the new audit quality standards ISQM 1 and 2. The training also covered the QAU inspections methodology and the approach to be adopted by external quality assurance reviewers.

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.

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:

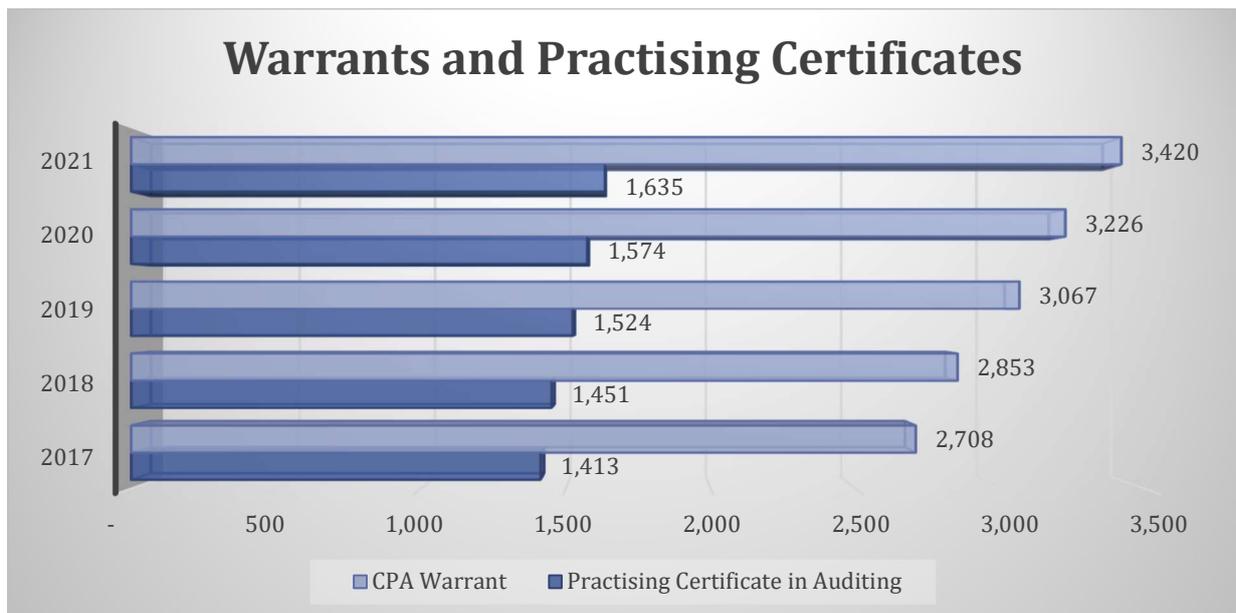
▪ Re-scheduling of review visit without justifiable reasons	€232.94
▪ Failure to respond to any requests made by the QAU within the time limits set out in such requests	€23.29 per day
▪ Delays in submission of fees and returns due	€23.29 per day
▪ Failure to submit documentation requested by the Board 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

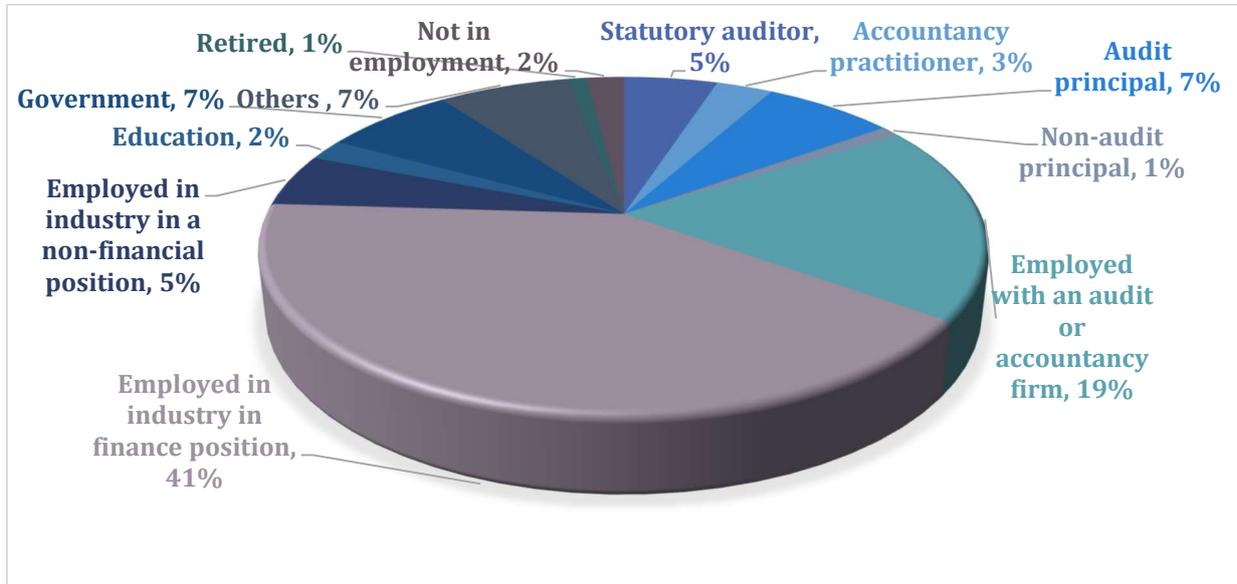
At year end, the total number of CPA warrant holders registered with the Accountancy Board stood at 3,420 (2020: 3,226) whereas the total number of holders of a practising certificate in auditing as on 31 December 2021 amounted to 1,635 (2020: 1,574).

The number of CPA warrant holders and holders of a practising certificate in auditing registered with the Accountancy Board is steadily increasing from one year to the next, as can be seen below:

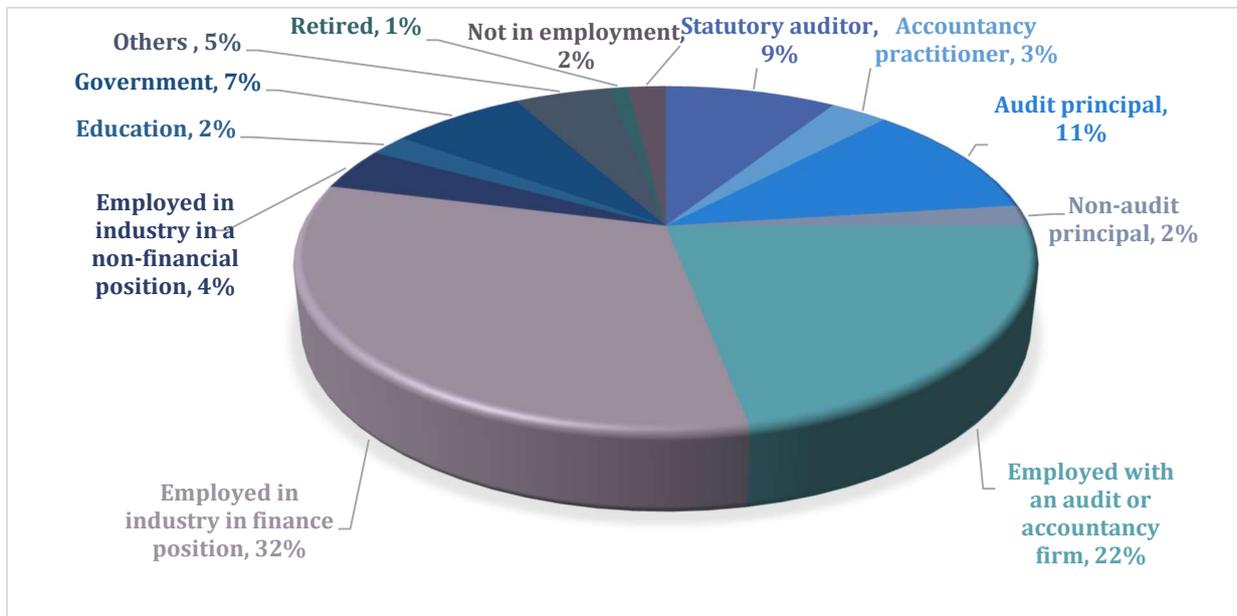


CPA warrant holders and practising certificate holders continue to be involved in a diverse range of sectors and roles and are availing of different positions and opportunities both within the profession and outside the profession. This is represented in the following analysis which is based on submissions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

CPA warrant holders - Work Sector



Practising Certificate in Auditing - Work Sector



Sole Practitioners

At year end, the number of sole practitioners increased by 1% and totalled 282 (2020: 278). Of these, 166 (2020: 184) provided statutory audit services (91 operating on a full-time basis and 75 operating on a part-time basis) and the remaining 116 (46 operating on a full-time basis and 70 operating on a part-time basis) did not conduct audits¹.

Statutory Audit Practitioners – share of market

Based on declarations made through annual return submissions, it is noted that statutory audit practitioners account for approximately 39% of total audits engagements.

Accountancy and Audit Firms

The Accountancy Board, apart from granting warrants and practising certificates in auditing to individuals, the Board also is responsible for registering accounting and audit firms. Accounting and audit firms may either be structured as a partnership, or else incorporated as a limited liability company. As on 31st December 2021, the number of accounting and audit firms registered with the Accountancy Board stood as follows:

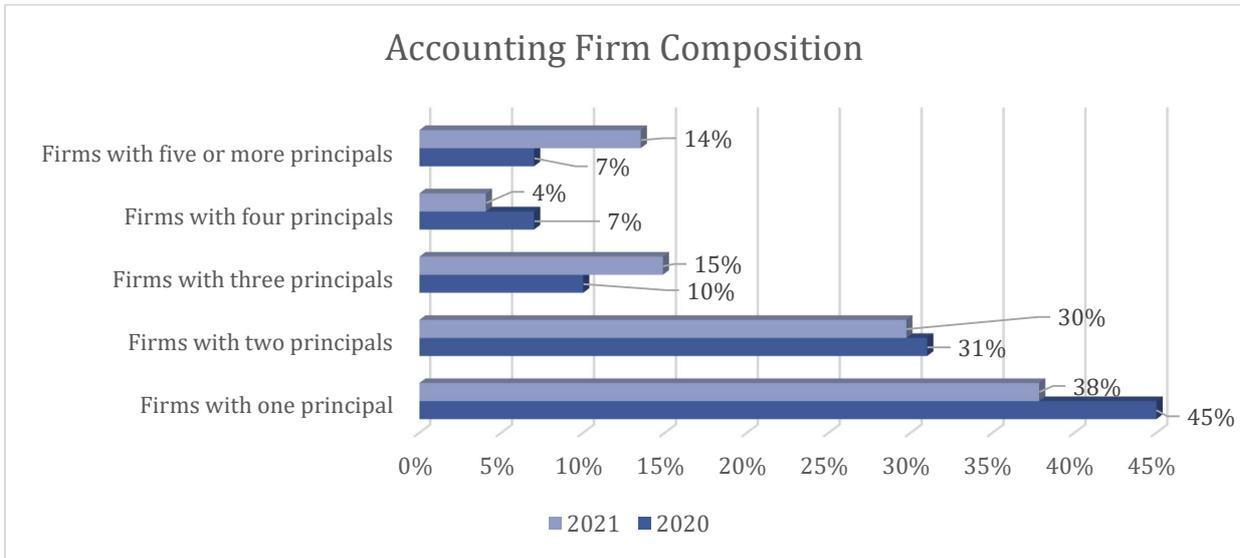
- 74 Accounting Firms (2020: 69); and
- 110 Audit Firms (2020: 101).

Accounting Firms

During the year, there was an increase of circa 7% in the number of accounting firms registered with the Board.

Furthermore, it was noted that during the year, 38% of accounting firms were composed of one principal (in 2020 - 45%), and 30% of accounting firms were composed of two principals (in 2020 - 31%). The following bar graph shows the composition of accounting firms during 2021 and 2020:

¹ This information is based on data extracted from 2021 Annual Returns submitted by 22 February 2022.

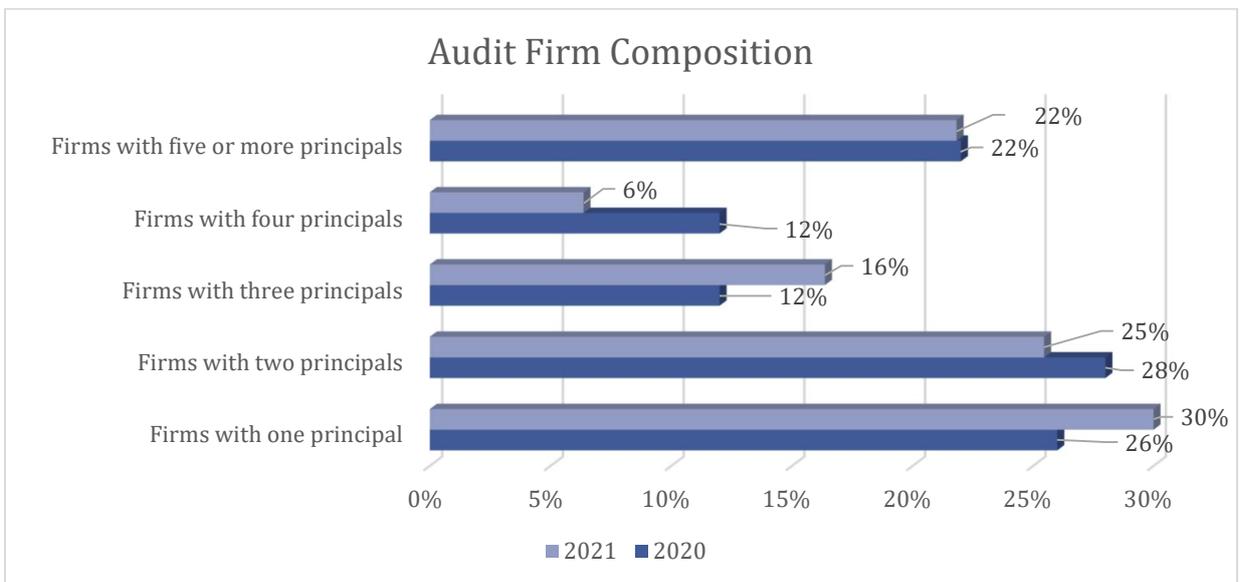


During 2021, 96% (97% in 2020) of accounting firms were incorporated as limited liability companies, whilst the remaining 4% (3% in 2020) were registered as partnerships.

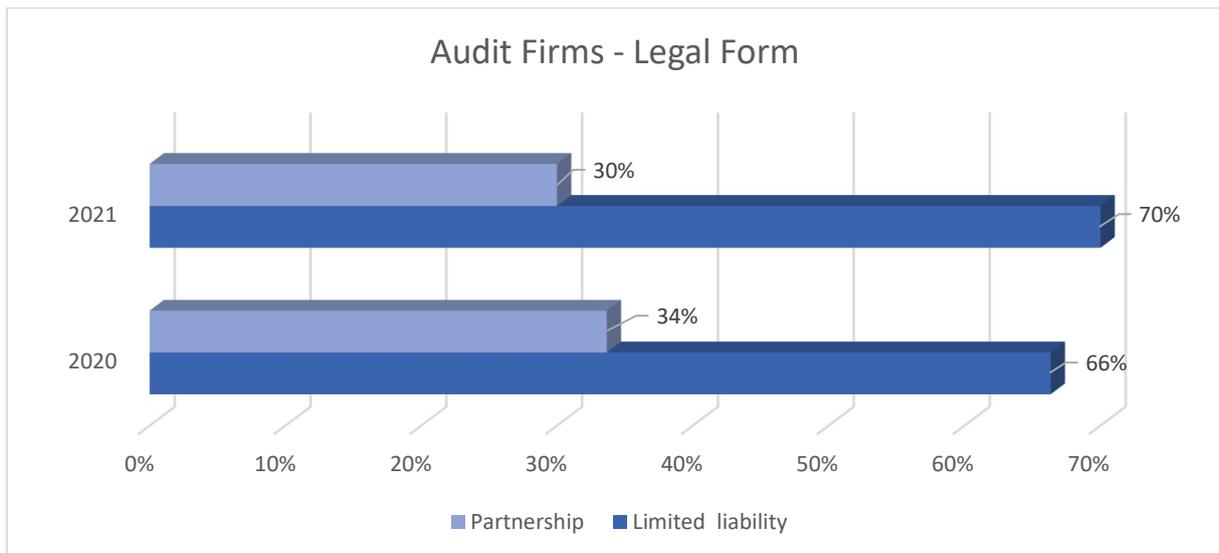
Audit Firms

At year end, there was an overall increase in the number of audit firms registered with the Accountancy Board of 9%. As a change from prior years, where most audit firms were composed of two principals, in 2021 most audit firms were composed of one principal.

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



During 2021 audit firms with a limited liability legal structure increased by 4% to 70% from 66% in 2020. This is a continuing trend, subsequent to the adoption the Audit Directive, where new audit firms tend to seek registration as limited liability companies, whilst existing audit firms are also shifting to limited liability structures and de-registering existing partnerships.



Statutory Audit Firms – share of market

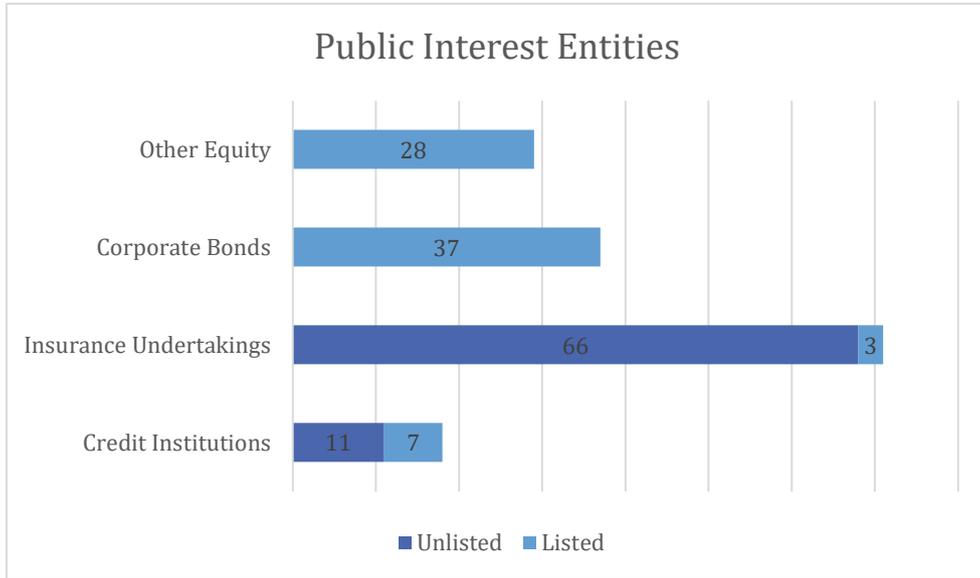
In respect to audit firms, as declared in annual return submissions, such firms carry out approximately 61% (62% in 2020) of total audit engagements.

PIE Auditors

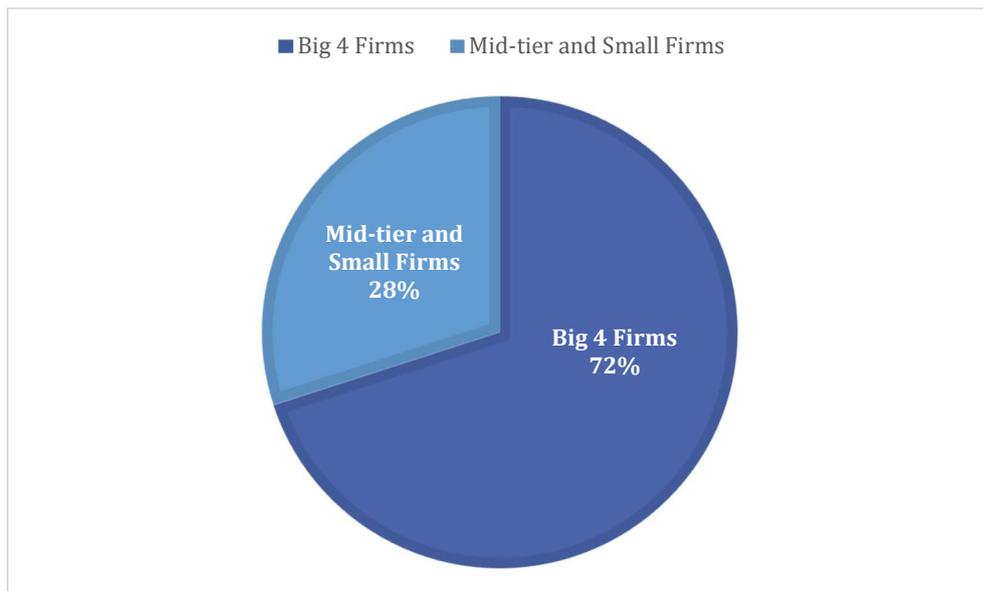
Public interest entities (PIEs) are entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, a credit institution as defined in point 1 of Article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

The Accountancy Board acquires information about statutory audit clients that are Public Interest Entities, through the information which audit firms and sole practitioners are required to submit through their annual returns. In 2021, the number of audit clients declared by audit firms, and which fall within the definition of a public interest entity, amounted to 152.

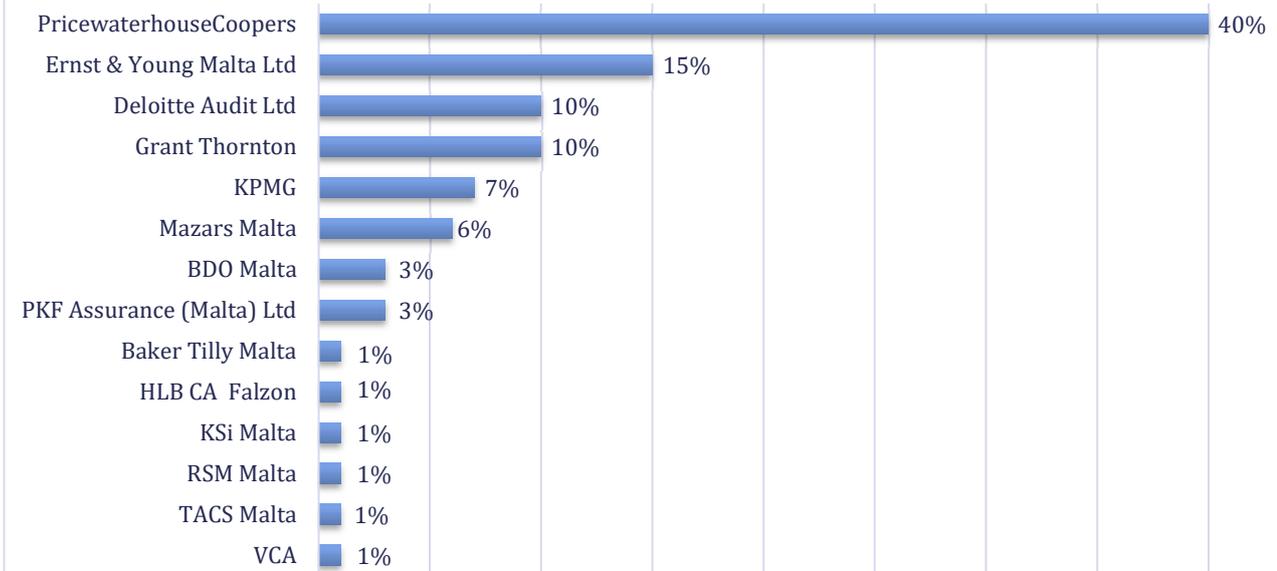
The following is a breakdown of the PIEs by type:



In 2021, the number of audit firms providing statutory audit services to PIE audit clients amounted to fourteen. It was noted that 72% of the PIE audits are being conducted by the big 4 statutory audit firms. The remaining 28% of PIEs audits are carried out by mid-tier statutory audit firms and one small firm.



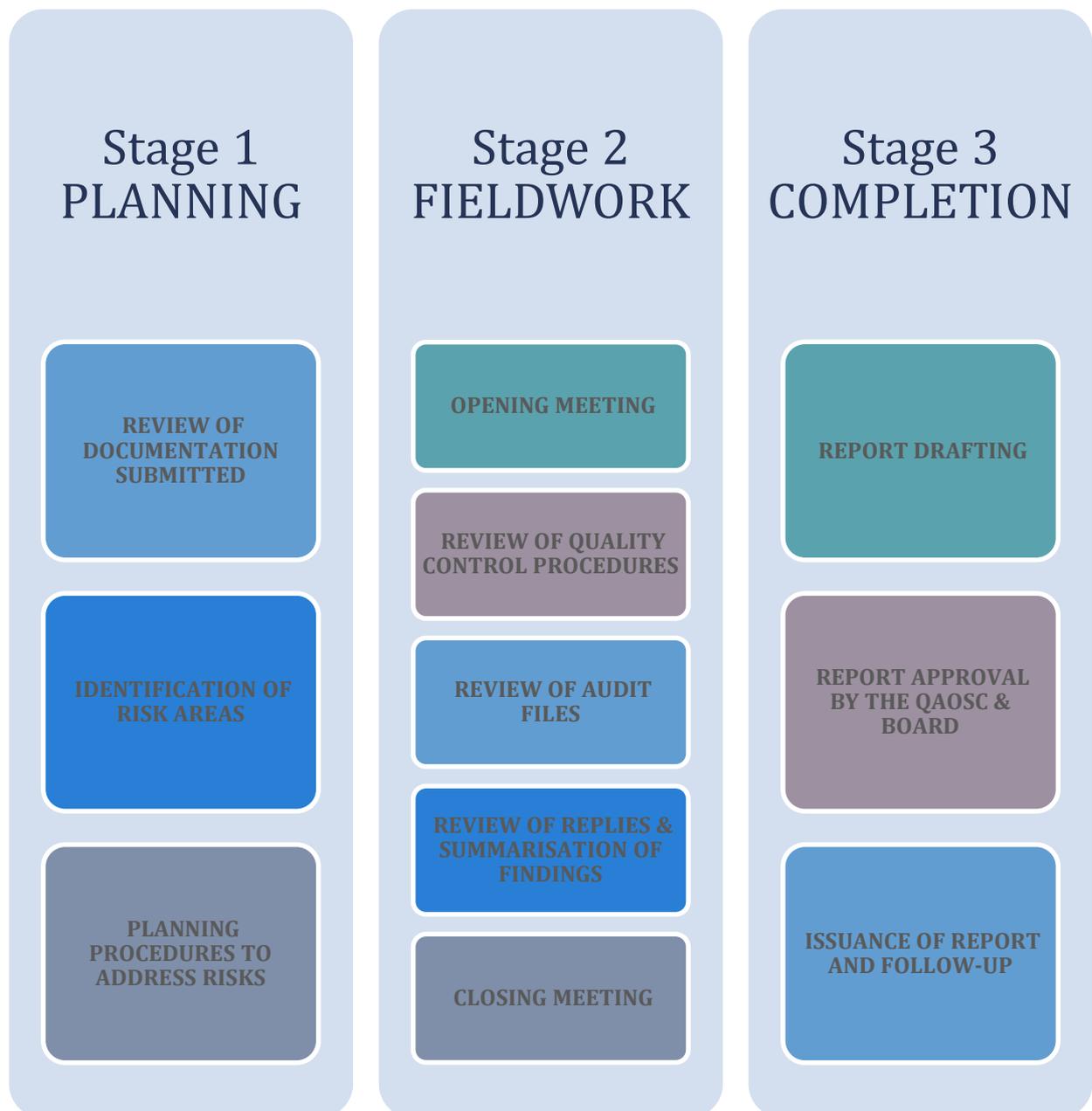
PIE Auditors



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 view of the new quality management standards ISQM 1 and 2 as well as the revised ISA 220, which are effective for periods on or after 15 December 2022, the QAU will be reviewing its methodology on quality control procedures to address the new requirements.

In addition, on visits to PIE statutory auditors/firms, the Unit applies the Common Audit Inspection Methodology ('CAIM'). CAIM is an inspection programme introduced by the European Audit Inspection Group (EAIG) to ensure an effective and consistent inspection approach across regulators within the EU.

The CAIM inspection programme consists of the following modules:

- A. Tone at the top work programme
- B. Ethics and independence work programme
- C. Acceptance & continuance work programme
- D. Partner matters work programme
- E. Staff matters work programme
- F. Methodology work programme
- G. Training work programme
- H. Consultation work programme
- I. EQCR work programme
- J. Other quality control reviews work programme
- K. Audit documentation and data security work programme
- L. Internal monitoring work programme
- M. Complaints and allegations work programme
- N. On and off-shoring work programme

New work programmes entitled IT audit inspection work programme as well as the information and cybersecurity work programme will be introduced going forward.

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

Review of Audit Files

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

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

Review of Findings and Summarisation of Findings

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

Closing Meeting

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

Stage 3 - Completion

Drafting of Quality Assurance Visit Report

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

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

Report Approval by the QAOSC and the Accountancy Board

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

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

Follow-up visits

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

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

External cold file reviews

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

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

Hot file reviews

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

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

External audit compliance reviews

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

Disciplinary actions

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

Other actions

The practice could be asked to provide an upcoming CPE plan and/or to implement an ISA compliant audit programme. Reprimands and/or declarations may also be issued and these are subsequently published on the Accountancy Board website.

Issuance of Report and Follow-up

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

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

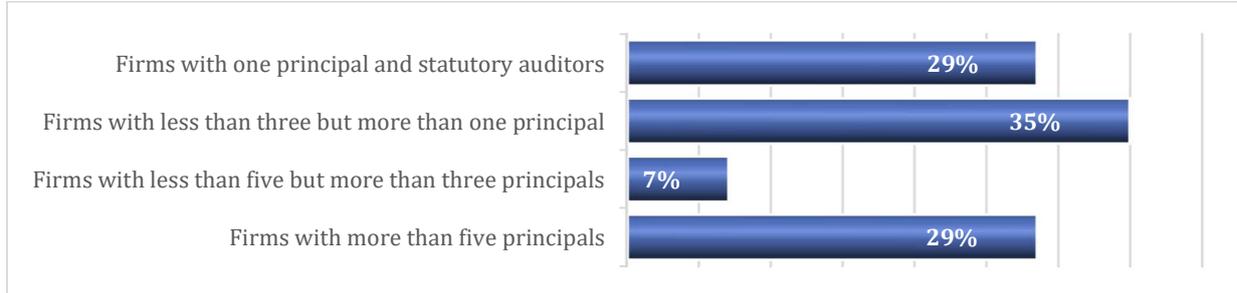
Quality Assurance Visits in 2021

Overview - Visits

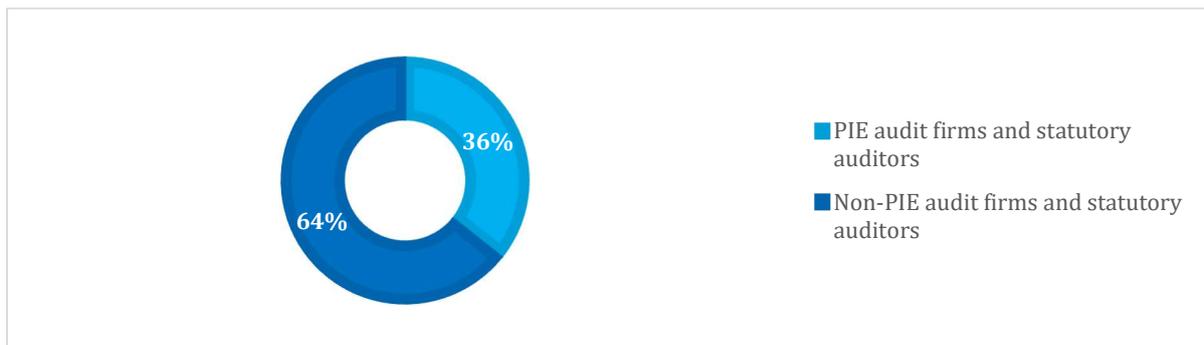
During this year, quality assurance visits continued to be carried out remotely in view of the ongoing pandemic. Despite this, firms, sole practitioners and QA reviewers have adapted to the situation.

As a result, the QAU were able to continue conducting quality assurance visits and carried out a total of 11 visits during 2021, 4 of which were to PIE auditor firms. Since the commencement of the QAU function, i.e. from 2007 to the end of 2021 a total of 454 quality assurance visits have been carried out by the Unit. Of these 454 quality assurance visits, as at year end a total of 448 had been approved by the Board.

Of the above quality assurance visits carried out as well as the conclusion of some visits which commenced in late 2020, during 2021 the Quality Assurance Sub-Committee and Accountancy Board reviewed a total of 14 quality assurance visit reports which can be shown graphically according to the size of the practice/firm inspected as follows:

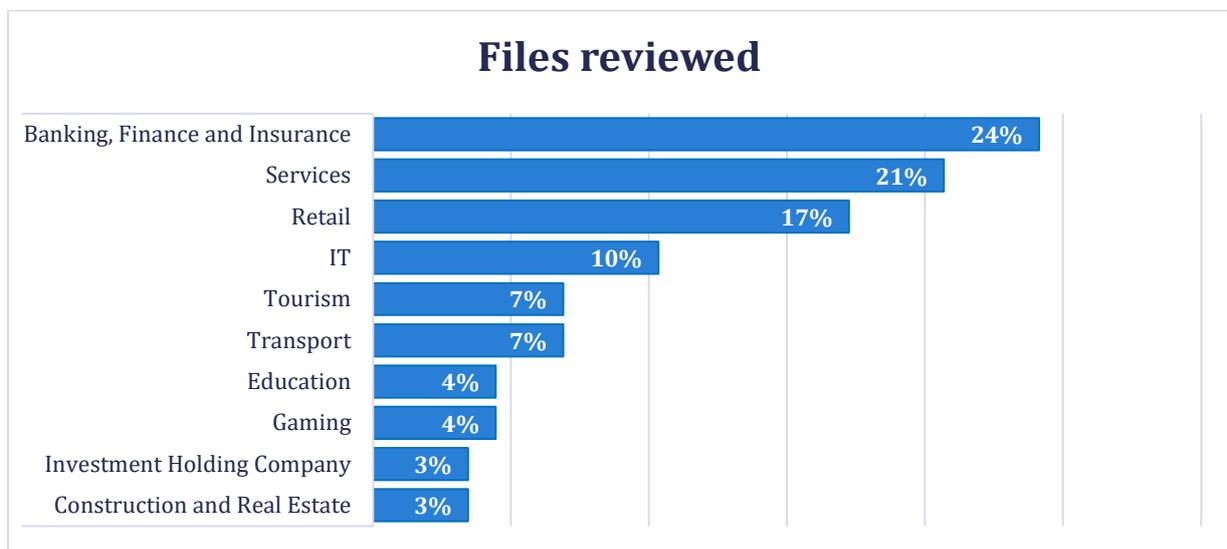


Furthermore, visits approved during the year consisted of a mix of both PIE auditors and non-PIE auditors. A total of 5 visits pertaining to PIE audit firms were approved, with the remainder being visits undertaken on sole practitioners and audit firms not auditing PIE engagements. This is shown below:

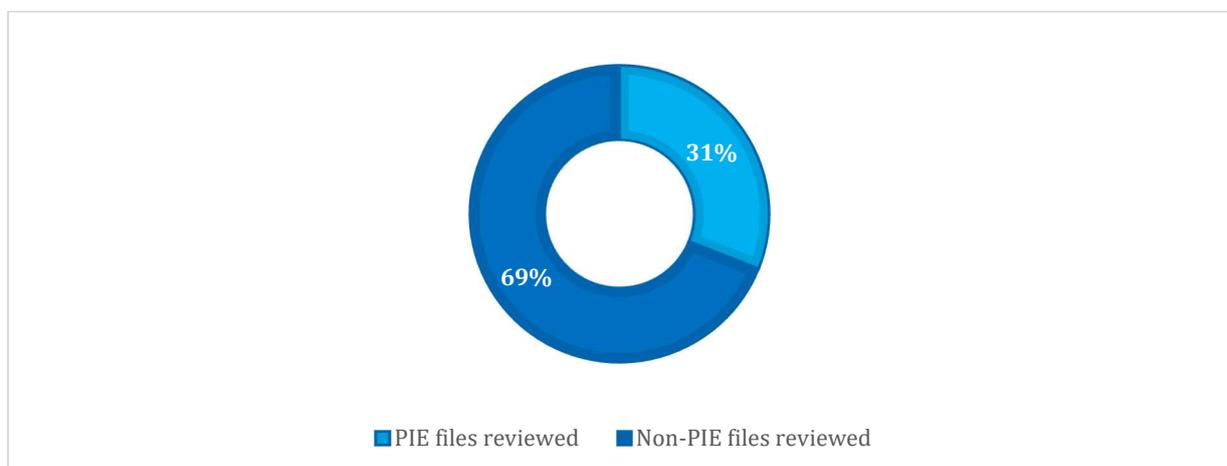


Overview - Files Reviewed

Reviewers, in line with QAU methodology analyse risks arising on each visit carried out and, on this basis, determine how many and which audit engagements are to be selected to address the risks identified. Thus, when analysing the 14 visit reports approved by the Quality Assurance Sub-Committee and Accountancy Board during 2021, a total of 29 audit files were reviewed by QAU reviewers during the inspection process. The files reviewed can be categorised as follows:



Furthermore, on PIE auditor visits, invariably one or more PIE audit engagements will be selected for review. The remaining engagements selected covered non-PIE engagements. Because more PIE auditors were reviewed, more PIE engagements were, as a consequence, reviewed by QAU Reviewers. In fact, 31% of all audit engagement files selected for review were PIE engagements. These engagements covered banks, insurance as well as other listed entities. This is an increase from the 24% of PIE audit engagements reviewed in 2020.



Summary of Decisions

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

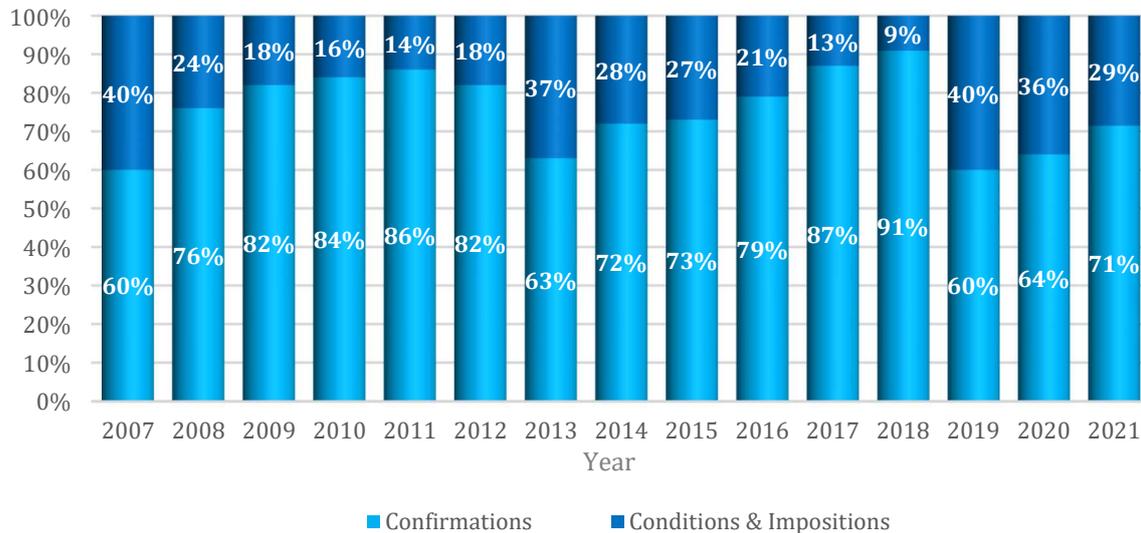
The Accountancy Board requests confirmations, in order to ensure the implementation of procedures to address matters raised during the QAU visit. Confirmations require statutory audit firms or statutory auditors to take action to address the findings identified. During subsequent visits, prior visit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

In addition, there are various types of sanctions/conditions which may be imposed at the end of a visit. Conditions include the imposition of follow-up visits, hot file restrictions, external 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.

One can note that based on visits approved by the Accountancy Board during 2021, a total of 29% (2020: 36%) of firms/statutory auditors reviewed had sanctions/conditions imposed in addition to confirmations.

On the other hand, an 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 71% of visits (2020: 64%) 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 the course of the year, the Accountancy Board imposed the following sanctions/conditions on practices and firms reviewed:

- *External audit compliance review* – 1 PIE audit firm was requested to have an external audit compliance review carried out by an approved Accountancy Board external reviewer;
- *External cold file reviews* – a total of 6 external cold file reviews were requested on 3 audit firms reviewed, 1 of which is a PIE auditor. The Board determined that 2 of these cold file reviews should pay particular attention to due diligence procedures, while another 2 were to be carried out on specified audit engagements, another 1 was to be determined at the discretion of the firm and another 1 was to be carried out on a PIE engagement; and
- *Audit resignations* – 1 audit firm was requested to resign from a number of audit clients in which independence threats were identified.

Up until the end of 2021, the total number of audit firms and sole practitioners whose quality assurance visit resulted in sanctions/conditions being imposed from 2007 to the end of 2021 amounted to 83. These are split as per the below table:

	Follow-up visits	External ACRs and/or cold file reviews	Hot file restrictions	Reprimands	Other restrictions
PIE Statutory Audit Firms	3	2	1	1	0
Non-PIE Statutory Audit Firms	5	16	0	0	1
Full-Time Statutory Auditors	8	21	6	0	1
Part-Time Statutory Auditors	4	9	4	0	1
Total	20	48	11	1	3

2021 Visit Findings – Key Observations

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

As already indicated earlier in this report, a total of 14 visit reports were approved during 2021 by the Accountancy Board, including both PIE statutory auditors/audit firms and non-PIE statutory auditors/audit firms. In order to analyse the findings, based on these reports, findings are grouped according to the different stages of the audit process and an analysis of whole firm policies and procedures in line with ISQC 1 requirements and other legislative requirements.

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

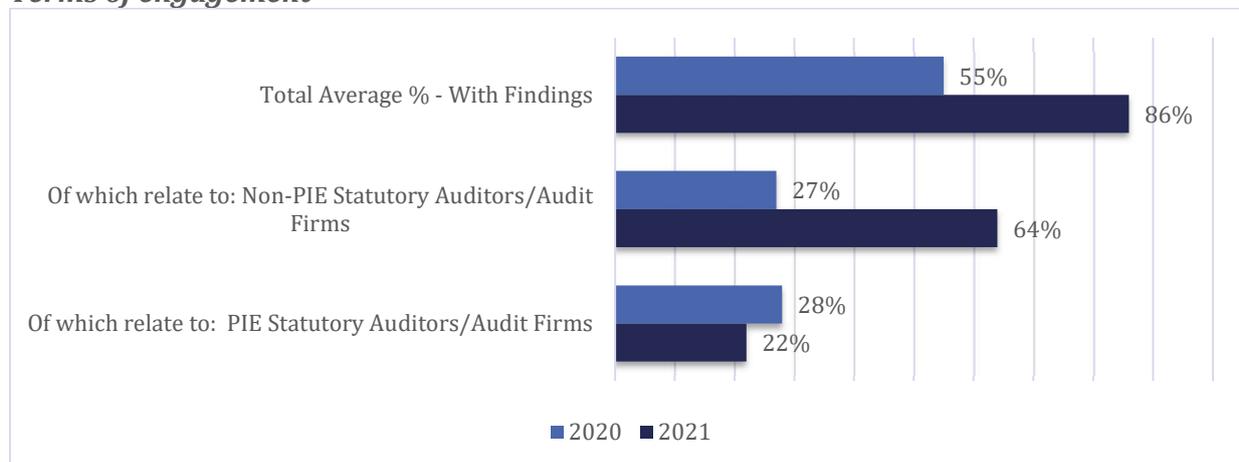
- Audit file findings at planning stage;
- Audit file findings at completion stage;
- Audit report review; and
- Whole firm/practice findings.

File findings - planning stage

During 2021, areas where planning findings were identified were consistent with last year's findings. Furthermore, planning considerations where most weakness were noted during the review of audit files by the QAU were as follows:

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

Terms of engagement



Omissions in the content of the letter of engagement continues to feature on a significant proportion of the Quality Assurance Inspections. Such findings have increased by 31% over the prior year.

Thus ISA 210 – *Agreeing the terms of audit engagements* is a standard which should be revisited by statutory audit firms and audit practices to address any deficiencies. In accordance with ISA 210, the auditor is required to agree the terms of the audit engagement with management or those charged with governance, as appropriate. ISA 210 also identifies the relevant sections to be included in the letter of engagement. In addition, ISA 210 on recurring audits requires that the auditor assesses whether circumstances require the terms of engagement to be revised, and whether there is a need to remind the entity of the existing terms of engagement.

During QAU inspections the findings identified in this regard are summarized as follows:

- the engagement letter was not drafted fully in line with the requirements of ISA 210;
- the engagement letter was issued before professional clearance was obtained from the prior auditor;
- an engagement letter was obtained in respect of the audit of the parent company and the other subsidiaries within the group, however the engagement letter did not make

reference to the audit of the consolidated set of financial statements and the audit opinion on the consolidated accounts;

- the applicable financial reporting framework was not being referred to in the engagement letter and in some cases the engagement letter was not being updated to reflect a change in the accounting framework, i.e. from IFRS to GAPSME or vice-versa; and
- a new letter of engagement was not issued to those charged with governance although there was a change in directorship and ownership of the entity.

Client acceptance & continuance



Robust client acceptance and continuance policies and procedures should be set by the audit firm or practice as part of its ISQC 1 policies and procedures. Subsequently at the audit engagement file level, ISA 220 – *Quality control for an audit of financial statements* requires engagement partners to be satisfied that appropriate procedures regarding the acceptance and continuance of audit engagements have been followed and considered appropriate.

In comparison with the prior year, the level of findings identified have remained stable with a slight 2% increase. A summary of the findings identified in this regard from QAU inspections is as follows:

- no client acceptance and continuance procedures were documented on file;
- although acceptance and continuance procedures were documented these did not reflect risks pertaining to owners/directors identified by the QAU from internet searches carried out;
- although the audit client was issued with a recurrent audit report qualification due to a disagreement with management on an accounting treatment, there was limited documentation found of the auditor’s re-appointment assessment regarding the pre-conditions of an audit in the client continuance considerations; and
- the request for professional appointment and clearance from the previous auditor was sought after approval of client acceptance procedures.

Laws and regulations



Auditors are reminded that in accordance with ISA 250- *Consideration of laws and regulations in an audit of financial statements*, firms and practitioners are required to obtain a general understanding of both the legal and regulatory framework applicable to the audit client and the industry/sector in which the entity operates and understand how the audit client is complying with that framework. Furthermore, the auditor is required to obtain sufficient appropriate audit evidence regarding compliance with those laws and regulations that can have a direct effect on material amounts and disclosures in the financial statements being audited. The auditor is required to inquire with management and, where appropriate, those charged with governance if the company is in compliance with laws and regulations. The auditor is also required to inspect correspondence, if any is available, with licensing or regulatory authorities. All such considerations should be adequately and appropriately documented on file.

The adequacy of documentation in respect to laws and regulations continues to be an area for improvement for a number of firms and practices, with findings being identified on 64% of the visits approved in 2021. In relation to this standard, weaknesses were noted in regard to the following matters:

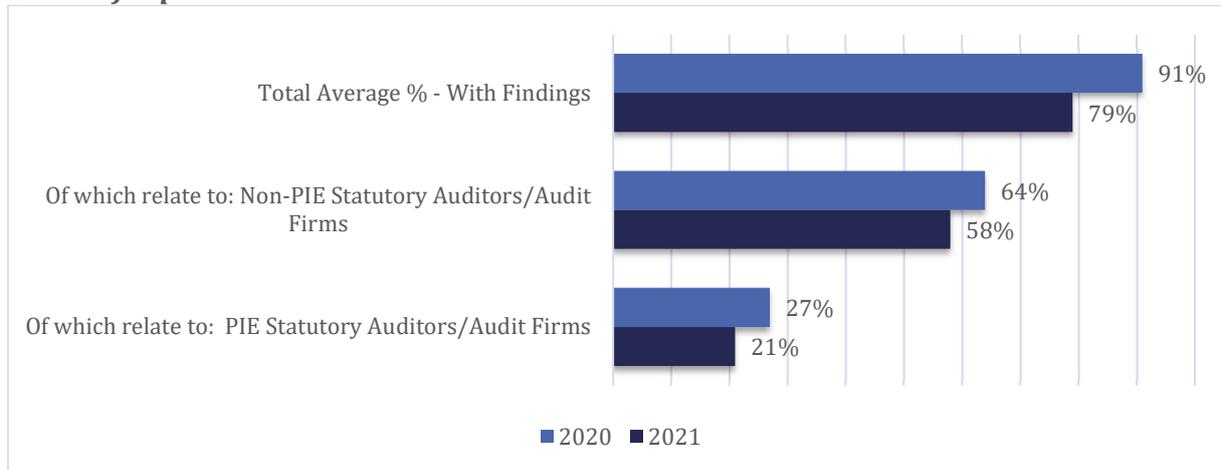
- laws that are expected to have a fundamental effect on the entity's operations and to determine material amounts and disclosure in the financial statements were not documented or not documented fully; and
- in some cases no documentation of the firm's consideration of laws and regulations was found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

File findings - completion stage including audit report review

In addition to a number of common findings being identified at the planning stage, a number of recurrent findings were noted at the audit completion stage of the files reviewed. The main ISA breaches related to the following areas:

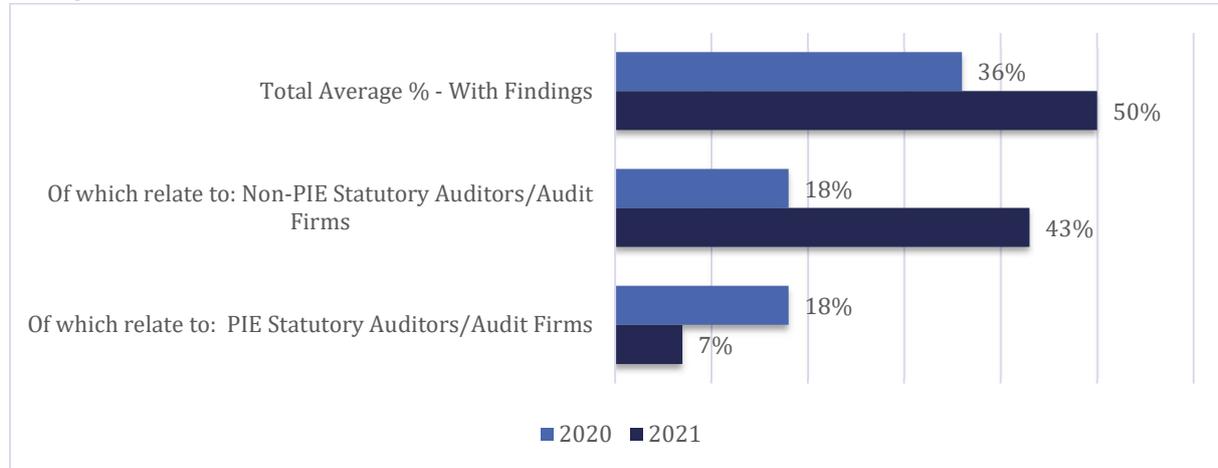
- Letter of representation;
- Going concern; and
- Audit reports.

Letter of representation



Findings identified in respect to the content of the letter of representation continue to be prevalent on a number of QAU visits with such findings being noted on 79% of visits approved in 2021. The most common finding identified in respect to ISA 580 – *Written representations* is that a number of representations as identified in the standard itself are not included in the letter of representation. Statutory auditors and audit firms are urged to assess whether their pro-forma letter of representation is fully in line with the requirements of ISA 580. The standard itself provides an illustrative letter of representation which may facilitate disclosure requirements, and practitioners and firms are advised to refer to the standard if they have not done so already.

Going concern



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

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

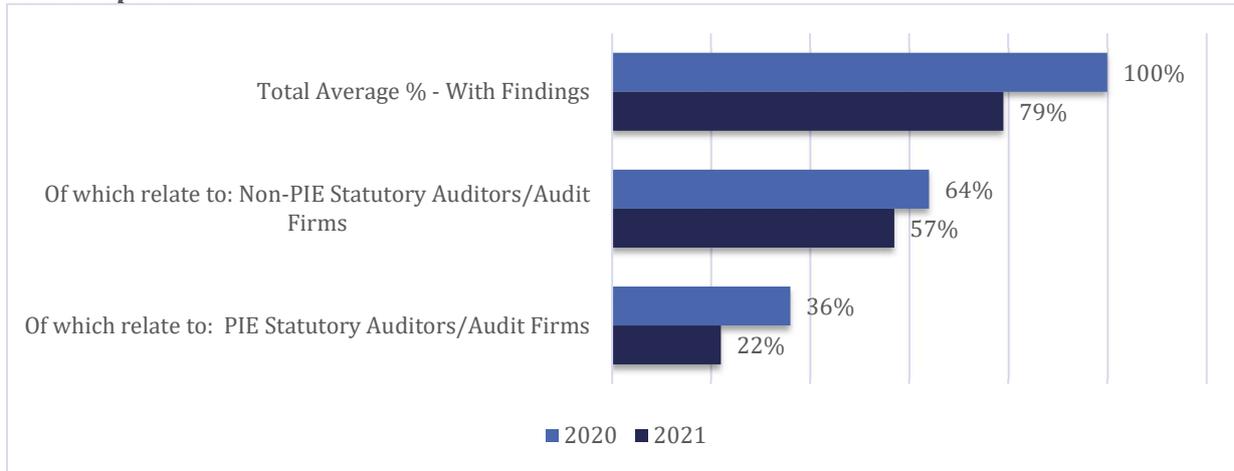
Furthermore, the engagement leader must assess the risk factors arising and any mitigating factors. This should be adequately documented on file and support the audit opinion found in the audit report.

On the visits approved during 2021, the following matters were identified in relation to going concern:

- the audit file documentation and conclusions did not support the audit report opinion on going concern i.e. on a file reviewed the audit file showed documentation that an emphasis of matter paragraph on going concern was not required, however in the audit report an emphasis of matter paragraph on going concern was included;
- the letter of support obtained did not cover a 12 month period after the financial year end;
- the going concern work paper and questionnaire only included “Yes”, “No” or “Ok” answers and did not include comments about work carried out in this regard;
- the estimates provided by management only covered 6 months after year end. Hence no documentation was found on file with respect to management’s assessment covering a 12 month period after year end and whether the auditor concurs with this assessment;

- on a number of files reviewed, although engagement teams in many cases have obtained letters of support from the company’s shareholders, no other work was carried out by the audit engagement team and full reliance was placed on such letter of support; and
- insufficient documentation and evidence was found to support the audit opinion in relation to going concern.

Audit reports



There was a marked decrease in the number of audit report matters identified by the QAU during their visits. Audit report matters comprise both issues with the audit report not being in line with the standards – primarily with the requirements of ISA 700, as well as situations where the audit evidence obtained and documented as well as conclusions found in the audit file did not sufficiently support the audit report found in the financial statements. In such situations, reviewers questioned the opinions given in the audit report.

In relation to departures from the requirements of ISA 570, 700, 701, 705, 706 and 710 the QAU is of the view that these 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 36% of visit reports contained such situations and can be summarised as follows:

- in one instance although there was an audit report qualification due to the effect of misstatements on various balances it was unclear how the effect was not material and pervasive;

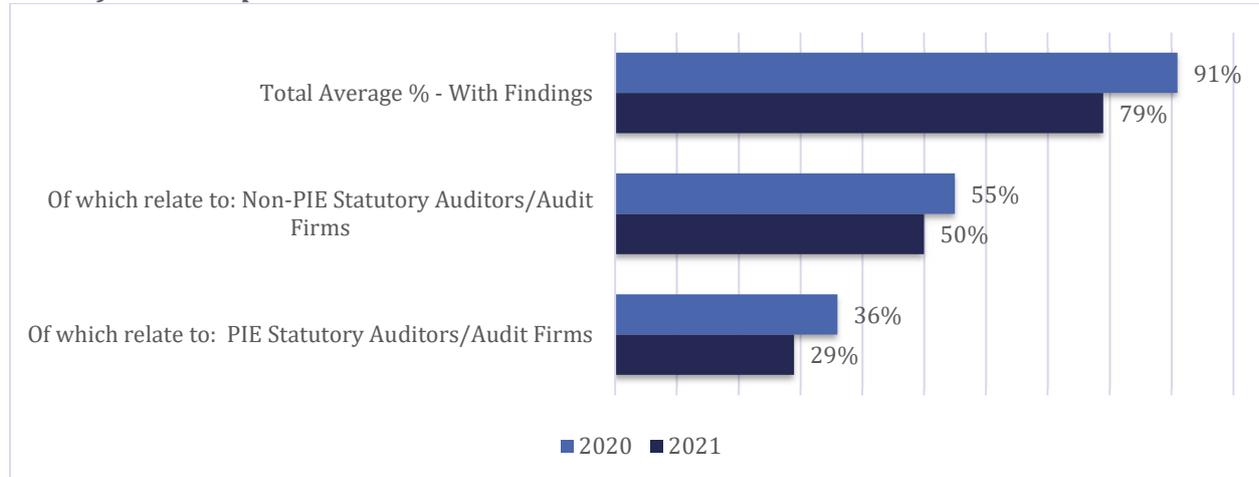
- in some instances, it was unclear if an emphasis of matter on going concern was required;
- in another instance, the audit report did not include the missing ultimate beneficial owner disclosure;
- in another situation, the audit report did not include disclosures in regard to the prior auditor; and
- on another file, the audit report did not include quantification of the financial effect of misstatements identified.

Whole firm/practice findings

During 2021, the main recurrent findings raised at whole practice/firm level include findings identified in relation to:

- Code of ethics requirements;
- ISQC 1 related matters; and
- Professional indemnity insurance.

Code of ethics requirements



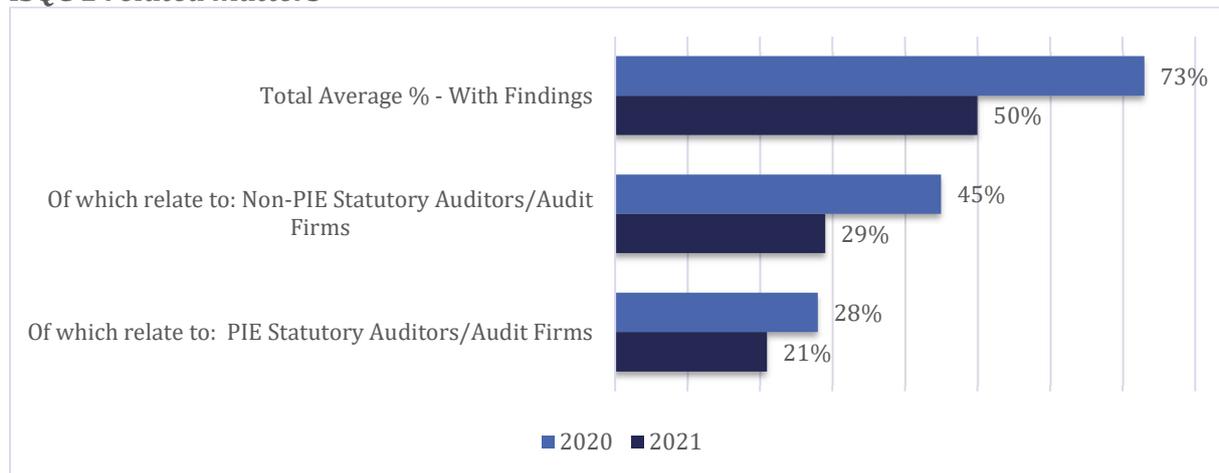
Weaknesses noted in respect to independence continue to feature in a significant number of visit findings, particularly in relation to visits carried out on non-PIE audit firms and sole practitioners.

Practitioners and firms are required to identify and evaluate circumstances and relationships that create threats to independence, in line with Code of Ethic requirements. They are also required to evaluate information on breaches of the practice's/firm's independence policies and procedures to determine whether they create a threat to independence for the audit engagement and to take appropriate action to eliminate such threats or reduce them to an acceptable level by applying safeguards or possibly withdrawing from the audit engagement.

The types of findings arising from Directive 2 - Code of Ethics varied during the year, with the following being some areas in the Code where non-compliance was noted, and which require attention:

- 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.

ISQC 1 related matters



The number of ISQC 1 related matters have decreased significantly when compared with the prior year and on most reviews, ISQC 1 policies and procedures have been in the most part, adequately documented. However, on a number of visits, further refinements were required in various areas.

Looking forward to 2022, for audits and review engagements beginning on or after 15 December 2022 new standards in relation ISQM 1 and 2 as well as the revised ISA 220 will become effective. Thus ISQC 1 requirements are being replaced with these new standards and firms and practices must ensure compliance with these standards going forward.

The transition from ISQC 1 to ISQM 1 should lead to the following key changes:

- a more proactive and tailored approach to managing quality, focused on achieving quality objectives through identifying risks to those objectives, and responding to the risks;
- enhanced requirements to address governance and leadership within the firm;

- expanded requirements to modernize the standard and reflect factors affecting the firm’s environment, including requirements to address technology, networks, and the use of external service providers;
- new requirements addressing information and communication, including communication with external parties; and
- enhanced requirements for monitoring and remediation to promote more proactive monitoring of the system of quality management (SOQM) as a whole, and effective and timely remediation of deficiencies.

Furthermore, the new ISQM 2:

- addresses the appointment and eligibility of the engagement quality reviewer; and
- addresses the engagement quality reviewer’s responsibilities relating to the performance and documentation of an engagement quality review.

These standards should be applicable and scalable to all sizes of firms and practices.

Professional indemnity insurance



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

As per the visit reports approved in 2021, 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 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.

Participation in International Fora

The Accountancy Board has been actively involved in a number of meetings and committees held throughout the year. In view of the persisting Covid-19 pandemic, meetings were again held virtually this year. The following are some of the meetings attended during 2021:

- *CEAOB Plenary meetings*
In 2021, CEAOB Plenary meetings were held in March, June and November. The meetings were held virtually and were attended by representatives and members of the Board.
- *CEAOB Inspections Sub-Group meetings and participation in the Deloitte College*
The Committee of European Auditing Oversight Bodies (CEAOB) Inspections Sub-Group organised two meetings during the year.

The first meeting was held between the 15 and 17 June and was chaired by the Irish Auditing and Accounting Supervisory Authority (IAASA). The second meeting was chaired by the Commission de Surveillance du Secteur Financier (CSSF) from Luxembourg and took place between the 17 and 19 November.

Meetings were held virtually and were attended by the Head of Unit and two reviewers.

In addition, CEAOB Member States carry out ongoing dialogue with the four largest international audit networks (Deloitte, EY, KPMG and PwC) with the objective of improving audit quality throughout Europe. The colleges fall under the remit of the CEAOB Inspections Sub-Group. The QAU is involved in one of the colleges, the Deloitte College.

During the year, the QAU participated in a number of conference calls held between college members to share their experience on inspections. Matters discussed included the new focus areas and approach to be followed on inspection visits, in relation to the implementation of ISQM1, engagement quality control reviews and ISQM2, data analytics and their deployment at local firm level.

In this regard, the QAU also exchanged information with other members of the college and analysed information shared by other college members. In addition, through participation in the Deloitte College, QAU reviewers also met with high-ranking international officers of the Deloitte network, during separate virtual meetings held during the year.

The activities and work plans of the colleges were communicated to the CEAOB Inspections Sub-Group members during the virtual meeting held in November 2021.

- *CEAOB Market Monitoring Sub-Group*

Every three years, Member States are required to carry out a market monitoring exercise which is submitted to the EU Commission. The last market monitoring exercise had been submitted to the EU Commission in 2019 and was published by the EU Commission in 2020. The 3rd market monitoring exercise will be carried out and submitted by June 2022.

The CEAOB Market Monitoring Sub-Group develops a consistent approach to be taken by competent authorities in Member States whilst also providing assistance to the Member States in carrying out this exercise. 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.

Due to the persisting Covid-19 pandemic, meetings were again held virtually in 2021. Meetings were attended in January, February, April, May, September, October and November. Furthermore, three other meetings were held by the Data Gathering Sub-Group in January, February and September. These meetings were attended by the Head of Unit.

- *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 six meetings and two workshops held by the CEAOB Enforcement Sub-Group. Meetings were attended in January, February, May, June, October and November 2021. The two workshops attended took place in February and October 2021.

In addition, the Head of Unit attended a conference call held in March and also participated in a workshop held in November. A number of QAU staff also attended the workshop held in November.

Meetings and workshops were held virtually.

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

During the year, six joint meetings were held by the Accounting Regulatory Committee and the Audit Regulatory Committee. The meetings were held virtually in February, March, April, July, September and December.

Representatives and members of the Board attended the meetings.

Collaboration with Other Institutions

The Accountancy Board has worked closely with a number of institutions over the years.

In 2019, a Memorandum of Understanding was signed with the Malta Institute of Accountants (MIA) in order to strengthen the relationship between the two bodies. In 2020, the Malta Institute of Accountants was also recognised as an approved accountancy body in line with Section 9(1) of the Accountancy Profession Act.

Furthermore, in 2020, the Accountancy Board had also signed a Memorandum of Understanding with the Malta Financial Services Authority (MFSA), the Malta Business Registry (MBR) and the Financial Intelligence Analysis Unit (FIAU) in order to continue to strengthen oversight and enforcement.

During 2021, the Accountancy Board in collaboration with the Malta Institute of Accountants issued the accreditation rules for on-line and face-to-face courses. These were published on the Accountancy Board's website. Discussions and consultations continued to be held with the MIA with respect to further regulatory changes. These included the drafting of proposed changes to the Accountancy Profession Act to further improve the structure and operations of the Board, the functions of accountants and auditors specified in Maltese Law.

Joint discussions were also on-going with respect to revisions to Directive 2 – Code of Ethics. Furthermore, the Board together with the MIA initiated discussions with the Association of Insurance Brokers with respect to the Professional Indemnity Insurance requirements.

Representatives of the Board were also involved in a working group setup by the MIA with respect to the European Single Electronic Format (ESEF). The ESEF 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 were 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 2021, representatives of the Board met numerous times in the ESEF working group and collaborated with other regulatory bodies, including the MBR and the MFSA with respect to the ESEF requirements and their implementation. As a result, in January 2022 Directive 6 – the Accountancy Profession (European Single Electronic Format) Assurance Directive came into force. Representatives of the Board were also involved in drafting of guidance to auditors subject to the requirements of ESEF.



During the year, collaboration with these institutions was also maintained through consultation and sharing of information.

Initiatives for 2022

Prospects for 2022

The Accountancy Board will be implementing the following initiatives in 2022:

- *Changes in legislation*
Directive 6 - the Accountancy Profession (European Single Electronic Format) Assurance Directive came into force in January 2022. Furthermore, particular areas of focus for 2022, include changes to the Accountancy Profession Act with respect to Professional Indemnity Insurance requirements, regulated services pertaining to accountants and auditors and a revision of fees amongst others.
- *Continuation of collaboration with other institutions*
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).
- *Participation in international fora*
The Board will continue to be represented in various meetings held at an international level.
- *Strengthening human resources*
Calls for management and professional staff will be published to engage additional human resources to assist the Board in carrying out its functions.
- *New audit software*
It is envisaged that the Quality Assurance Unit will be rolling out a new audit software to facilitate the work during inspection visits to audit firms and sole practitioners.
- *Revamping of the on-line application forms*
The Board will be rolling out revamped on-line forms for the application of CPA warrants, practising certificates in auditing, accounting firms and audit firm registrations. This will facilitate the applicants user experience as well as facilitating the processing from the back end.
- *Moving to new premises*
The Quality Assurance Unit will be relocating from Valletta to new premises in Marsa. It is envisaged that the relocation will take place in the first half of 2022.



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