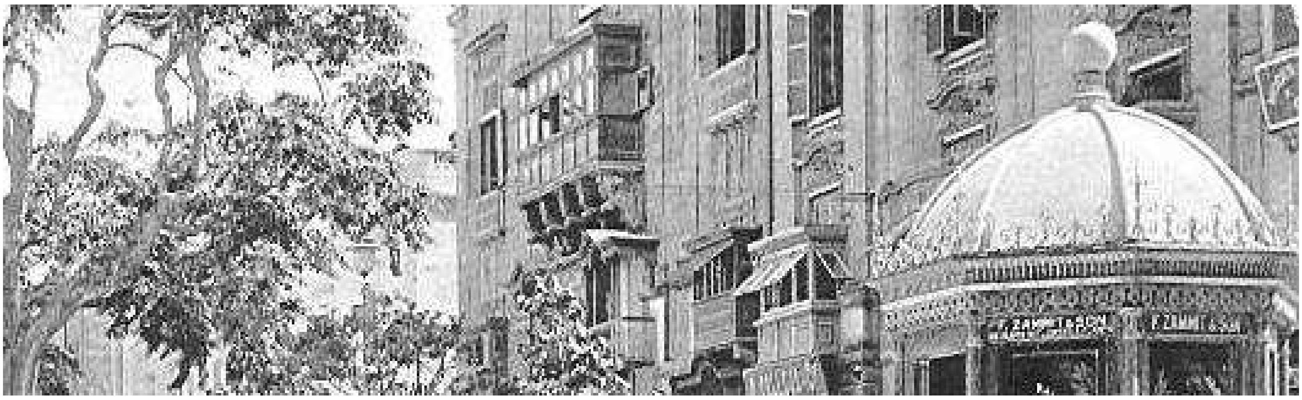
Accountancy Board

Quality Assurance



2007
ANNUAL REPORT

ACCOUNTANCY BOARD

Contents

CHAIRMAN'S STATEMENT

As a result of the radical changes to the regulatory framework of our Profession brought about by the EU 8th Directive, 2007 was indeed a very challenging year for the Accountancy Board.

During 2007, the Accountancy Board, together with a team of individuals, went through an extensive exercise to amend the respective sections of our legislation that concern the accounting profession. We had changes made to the Companies Act 1995 as well as The Accountancy Profession Act and its subsidiary legislation. In addition, the Directives have also been heavily modified. The revised Directive 4 – the Directive which governs Quality Assurance in Malta was published in the Government Gazette on the 7th August 2007.

In addition, our representation and active participation in the *European Group of Auditors' Oversight Board* (EGAOB) has helped us to keep abreast of what is happening within the European Union. The Accountancy Board is represented on a number of sub committees of the EGAOB namely the Quality Assurance sub committee, the Audit Regulatory Committee, & International Standards on Auditing sub groups. These meetings at European level ensure smooth and efficient co-operation amongst public oversight systems within Member States and with third countries. The Commission, through the EGAOB, led a number of discussion meetings with FEE, ECG and other European Associations on quality assurance issues. Quality assurance equivalence with other third countries including the USA, Canada and Australia is one example of such meetings.

The new recommendations on quality assurance for statutory auditors and audit firms auditing listed companies, is another topic which has been hotly debated at European level. In a communication issued during June of 2007, the EU Commission recognized the need to simplify the business environment for companies in the areas of company law, accounting and auditing.

By reducing regulatory and reporting burdens on Small and Medium Sized Entities (SMEs) Europe's economy will be boosted. On the other side of the coin, however, the public interest must be safeguarded. Amongst other things, this communiqué introduced the concept of "micro" entities which it defines as those entities which satisfy two of the following criteria: less than 10 employees; a balance sheet total of half a million Euros; & turnover of a million Euros.

In this regard, the Malta Institute of Accountants has taken the initiative in the publication of its technical release on General Accounting Principles for Small Entities (GAPSE) in Malta. This document, which simplifies to a great extent financial reporting requirements of smaller entities, has been discussed with all major stakeholders and one can fairly state that there is general consensus. Once approved, the Technical Release will become effective for financial periods beginning on or after the 1st January 2008. One is free to choose an earlier application so long as this is not applied for financial periods beginning on or before the 31st December 2006. In the case of listed companies, however, even if two of the three listed criteria defining small entities are met, these are still required to comply with full IFRSs.

I am pleased to say that to date 96% of the 2006 annual returns sent out to warrant holders in December of 2006 were received. These returns provided us with a wealth of information and give us a much clearer profile of the profession. We note, for example, that 21% of all warrant holders have Continuous Professional Education (CPE) problems which they now have to address in the light of Directive 1, which directive, is now being heavily overhauled to bring it in line with the CPE guidelines issued by the Malta Institute of Accountants in February 2007. The data so collected was particularly useful to the Quality Assurance Unit (QAU) team, in highlighting to them, those practices which could be more vulnerable to risk than others.

During 2007, the QAU carried out 22 monitoring visits. These spanned from part time sole practitioners to a Big 4 firm. Of these visits, 15 of the reports prepared by the QAU for consideration by the Quality Assurance Oversight Committee (QAOC) have now been concluded and the visits closed down.

One must state that, cognizance has been taken by the QAOC of the learning process and due allowance has been given to practices visited at the earlier stage of the quality assurance process. Reviewers themselves have learned a lot from the process and have had some of their methodologies and visit documentation tailored to suit the local environment. Needless to say, however, the learning process has to be expedited and all existing set ups, particularly smaller practices, should strive to raise their standards now rather than later.

The main remit of the QAU inspection remains one of monitoring the quality of audits and promoting improvements in order to enhance public confidence in the auditing profession in Malta. An important part of the QAU's role is to monitor compliance with the local as well as international regulatory framework.

I believe that quality assurance serves a vital economic purpose by playing an important role in serving the public interest to strengthen accountability and reinforce trust and confidence in financial reporting and corporate governance.

The Accountancy Board worked very closely with the Malta Institute of Accountants with regards to Practice Support. The Institute is fully committed to assisting audit firms and practitioners on a day to day basis. Not only will it help accountants to conform with mandatory standards like ISQC 1 but to support audit firms and sole practitioners who may need further assistance to develop their practices.

Another milestone in 2007 was the CPA warrant holders' portal project, which is now well underway. We should soon have an interactive portal which will allow the downloading and submission of warrant applications, Annual Return submissions as well as the payment of registration fees, regulatory fees and any other services. This will ensure that we will have an up to date register of all warrant holders at all times. Regrettably, however, the system was not up and running in time for the submission of the 2007 returns.

It is also pertinent to note that the Accountancy Board is working closely with the MFSA and we hope that, as regulators, we will both be able to share information to our mutual benefit in the near future.

As chairman of the Accountancy Board, when I look back on what has been achieved since June 2006, I cannot but, believe that the future augurs well for the Accountancy and Audit Profession in Malta. We are indeed small but all eager to learn from our own experiences. During December 2007, the first Disciplinary Committee meeting was held. In 2008, the Committee will endeavor to safeguard the profession by the setting up of a Disciplinary Committee to sanctioning penalties or other corrective measures for all those members and warrant holders who fall out of line, or indeed for those people, at large, who portray themselves to be members of the profession when they are not.

Last but not least, I am pleased to announce that we are in the process of obtaining membership with IFIAR – the International Forum of Independent Audit Regulators – an alliance which will undoubtedly enhance the credibility of the Accountancy Board's oversight of the audit profession in Malta.

Ours is a profession of people. What unites us is not simply shared technical expertise, but rather a shared commitment of people, professional accountants, with common values and objectives and the same mission to serve the public interest. This is what distinguishes our profession from all others and enables us to contribute towards our country's stability and prosperity.

I would like to take this opportunity to thank my Board members for their continued support and commitment as well as Marcel Coppini – Head of the Quality Assurance Unit for their relentless support to the profession.

Joseph Zammit Tabona
Chairman – Accountancy Board

INTRODUCTION & OVERVIEW

With the European Union enacting the 8th Council Directive, our profession in Malta has needed to revise its current system of public oversight to conform with European requirements. During 2007, the Accountancy Board reviewed and revised the legislation surrounding the accounting profession with a view to implementing the requirements set out in the 8th EU Council Directive.

This publication conforms with the requirements of the Accountancy Profession Act Section 7(19) & (20) as well as Directive 4 Section 11. Its scope is to highlight work carried out by the Accountancy Board and Quality Assurance Oversight Committee during 2007 as the accountancy and audit profession's public oversight body in this regard.

This booklet is structured under the following sections:

- *Section 1 - Structure & organization* gives a brief overview of the powers and functions of the Accountancy Board;
- *Section 2 - Profile of the audit and accounting profession* provides an overview of the audit and accountancy profession in Malta and of the new warrants and practicing certificates issued during 2007;
- *Section 3 - Quality assurance* sets out the structure of the Quality Assurance Oversight Committee and the Quality Assurance Unit as well as a summary of the results of the visits carried out during 2007;
- *Section 4 - Disciplinary Action* outlines the structure of the Disciplinary Committee, its powers & functions, as well as gives an overview of defaulters arising during 2007;
- *Section 5 - Continued professional education* provides an overview of the responsibilities assigned to the Malta Institute of Accountants as the approved accountancy body;
- *Section 6 - Our plans for 2008* gives a brief overview of the projects planned for the coming year.

STRUCTURE AND ORGANIZATION

1.1 ACCOUNTANCY BOARD

Left to right: - Mr. John Zarb, Mr. Bernard Scicluna, Prof. Daniel Darmanin, Mr. Mario P. Galea, Mr. Joseph Zammit Tabona, Mr. Marcel Coppini, Ms. Helen Meli Attard, Mr. Anthony Zarb

The Accountancy Board was established in 1979 when the Accountancy Profession Act Cap 281 was enacted. The Accountancy Board is entrusted with:

- the issue of accountant's warrants and auditor's practicing certificates after making their recommendations to the Minister of Finance;
- dealing with cases of professional misconduct and other disciplinary proceedings in respect of certified public accountants including cases leading to the suspension or withdrawal of any warrant or practicing certificate issued;
- advising or making recommendations and expressing its views to the Minister;
- such other functions arising from any law or as may be delegated to it by the Minister under the Accountancy Profession Act; and
- the publication of a list of persons who hold warrants of accountants and practicing certificates in auditing.

In addition, the Minister may, on the recommendation of the Board, make regulations which support the provisions of the Accountancy Profession Act and regulate the profession. Over the years, the Accountancy Board has taken various initiatives within the ambit of its role. These include the enactment of regulations for Continued Professional Education (Directive 1), the Code of Ethics for accountants and auditors (Directive 2), the annual return and submission of an annual registration fee (Directive 3), and the setting up of a system of Quality Assurance (Directive 4). During 2007, the Board invested considerable time and effort to revise the aforementioned legislation so that it conforms with the requirements set by the EU. By early 2008, the following revised legislation regulating the accounting profession should be published in the Government Gazette:

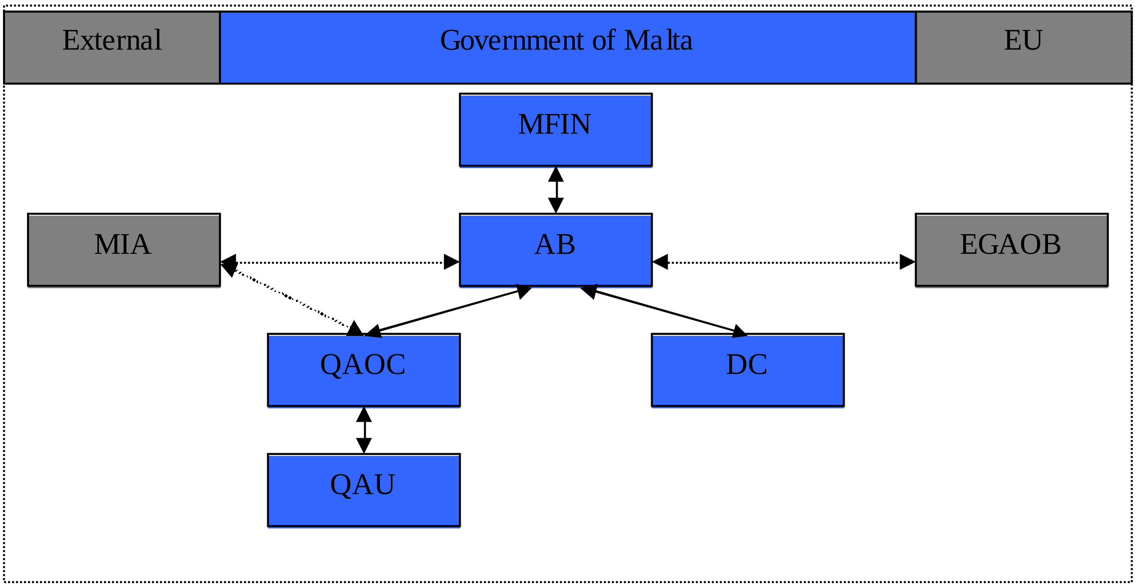
- Accountancy Profession Act;
- Accountancy Profession (Accountancy and Auditing Standards) Regulations;
- Accountancy Profession Regulations;
- Directive 1 – Continued Professional Education;
- Directive 2 – Code of Ethics;
- Directive 3 – Annual Return;
- Directive 4 – Quality Assurance; and
- The Companies Act.

Furthermore, the Accountancy Board participates actively in the EU Commission proceedings on Accountancy and Auditing in Brussels. The Board has the collaboration and technical support of the Malta Institute of Accountants (MIA) which is an approved accountancy body as established under the Accountancy Profession Act.

Accountancy Board Structure
The Accountancy Board, whose members are appointed by the Minister of Finance is composed of a chairman and eight other members all of which shall be knowledgeable in the fields of auditing and accounting. The members are appointed for a period not exceeding three years. Any member shall be eligible for re-appointment. In addition, the Board has appointed a secretary. The Board consists of:
(a) a chairman of recognised standing and experience in the accountancy profession and who is a non-practitioner;
(b) a non-practitioner nominated by the University of Malta from among a list of not less than two persons nominated by the said university from among the teaching staff of the Faculty or Faculties in which teaching of and research in the field of accountancy is organised;
(c) a senior official of the Ministry of Finance who is a non-practitioner;
(d) two members recommended by a recognised accountancy body from among a list of not less than four members nominated by the said body;
(e) two members who are practising accountants holding a warrant; and
(f) two other members who are non-practitioners.

1.2 RELATIONSHIP OF KEY PLAYERS

The following is a pictorial representation of the functions and relationship of the following entities:



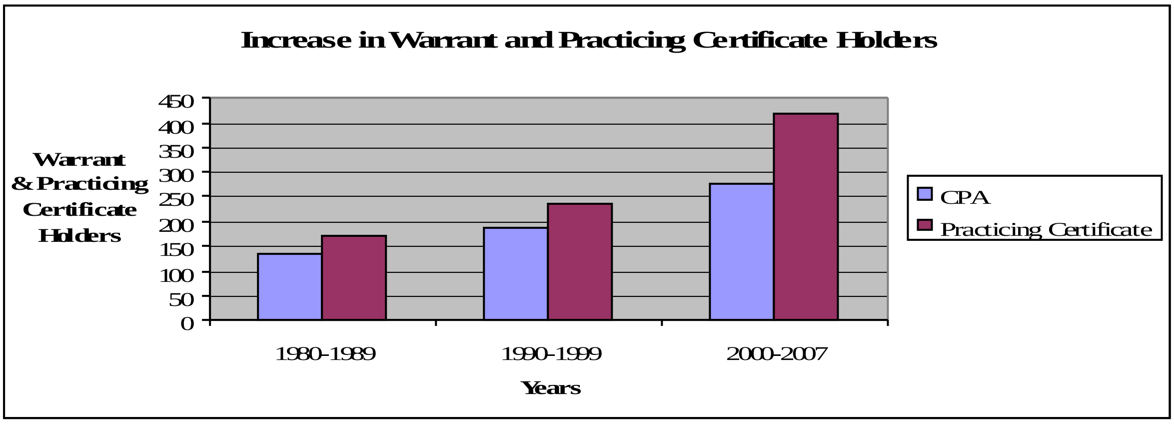
The abbreviations above have the following meaning:

MFIN - Ministry of Finance
AB - Accountancy Board
EGAOB - European Group of Auditors' Oversight Bodies
QAOC - Quality Assurance Oversight Committee
QAU- Quality Assurance Unit
DC - Disciplinary Committee
MIA - Malta Institute of Accountants

PROFILE OF THE AUDIT & ACCOUNTING PROFESSION

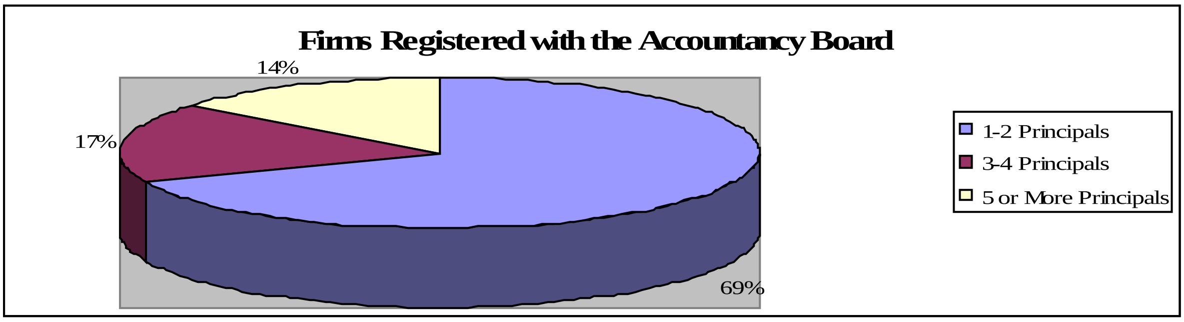
The Accountancy Profession Act, Cap 281 set out the criteria required for warrants and practicing certificates to be given. During the years following the enactment of this Act, Malta has a total number of 598 warrant holders and 821 holders of practicing certificates in auditing. Graph 1 shows how over the years these numbers have increased. During 2007, the Accountancy Board has approved 42 warrants and 59 practicing certificates in auditing during 2 ceremonies, one held in May and the other in December.

Graph 1



The Accountancy Board during 2007, approved both the registration of an audit firm and the dissolution of another firm, bringing the total registered accounting and audit firms to a total of 35. Graph 2 depicts the number of firms with either 1-2 principals, 3-4 principals and 5 or more principals. From the graph, one can note that the majority of firms are made up of 1-2 principals.

Graph 2



As required by the 8th EU Council Directive, each Member State is to maintain an up-to-date register of statutory auditors and audit firms. Locally, the Accountancy Board has invested considerable effort to revise the list that was previously held to ensure compliance with the Directive. This was done by revamping the original Annual Return form that was published with Directive 3 and which is submitted on an annual basis by warrant and practicing certificate holders. During 2007, the Board has also begun consultations with IT specialists with the aim of creating an innovative online portal which includes a register. This will allow warrant holders and holders of practicing certificates in auditing to make submissions and payments online. These facilities of this new system will include:

- completion of warrant/practicing certificate application forms;
- payment of €23.29 (Lm10) application fees for warrant/practicing certificate application forms;
- completion of annual returns;
- payment of €23.29 (Lm10) annual registration fees; and
- payment of Quality Assurance Regulatory Fees.

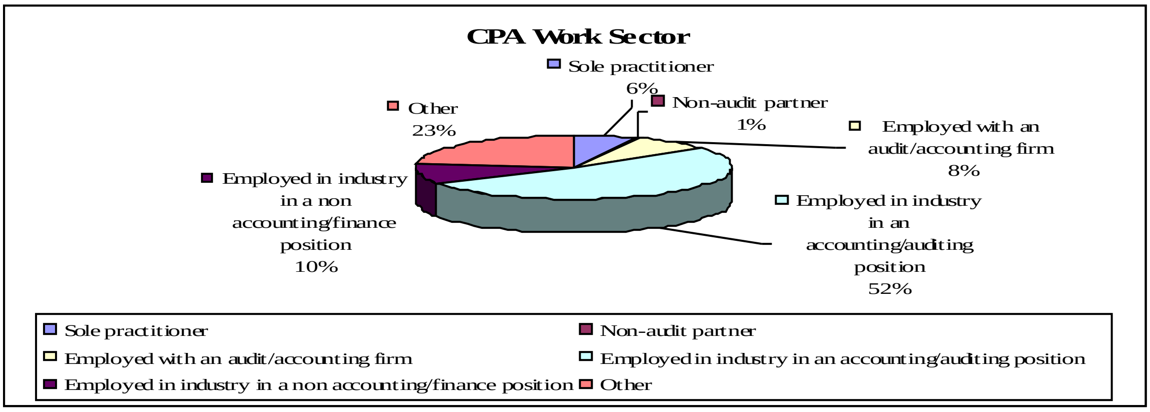
It is hoped that during 2008, this online system will be up and running.

Based on the declarations made in the Annual Returns, Graphs 3 and 4 depict where warrant holders and holders of practicing certificates are employed. One can note that the majority of warrant holders are employed in industry in an accounting or auditing position. The percentage of practicing certificate holders who are employed in industry in an accounting or auditing position is considerably less than the percentage of CPA warrant holders. In addition, the amount of practicing certificate holders who are sole practitioners is significantly higher when compared with CPA warrant holders.

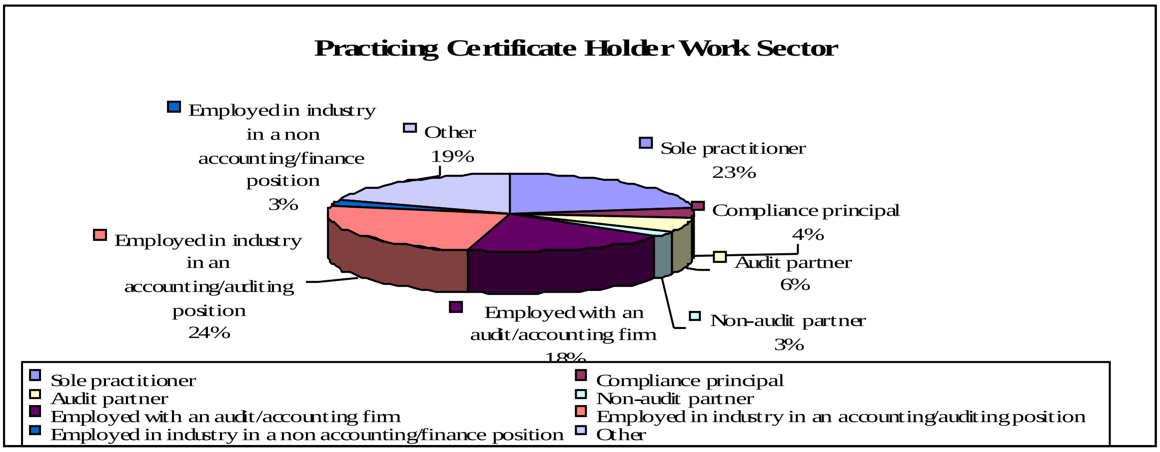
In regard to CPA warrant holders there are 15 full-time sole practitioners 15 and 20 part-time sole practitioners. Furthermore, practicing certificate holders falling subject to Quality Assurance Reviews can be analyzed as follows: 81 full-time sole practitioners; 108 part-time sole practitioners; and 35 firms.

From the annual returns submitted, it was noted that 21% of warrant and practicing certificate holders have encountered difficulties in fulfilling their Continued Professional Education (CPE) requirement. This is of serious concern to the profession. Thus, over the coming years, particular emphasis will be placed on this area and to achieve this aim, the Accountancy Board has entrusted the monitoring of CPE to the Malta Institute of Accountants.

Graph 3



Graph 4



It is of importance to note that the above information is based on data compiled from the 2006 Annual Returns submitted and that in some instances more than one work category was selected. Additionally, the other category includes individuals employed within Government, working in education and others who are not in employment.

QUALITY ASSURANCE

Obtaining assurance that quality audits are being carried out has become of critical importance around the globe. The EU 8th Council Directive requires that all member states have an effective system of public oversight for statutory auditors and audit firms. To this aim the Accountancy Board during 2005 had enacted Directive 4 – the Quality Assurance Directive. Within this Directive, the Accountancy Board has delegated its responsibility for quality assurance to the Quality Assurance Oversight Committee (QAOC).

3.1 QUALITY ASSURANCE OVERSIGHT COMMITTEE

Left to right: - Mr. Alfred Lupi, Ms. Heather Briers, Mr. Joseph Zammit Tabona, Profs. Daniel Darmanin and Dr. Michelle Mizzi Buontempo

The QAOC is the policy-making body and regulator of the quality assurance function in the accountancy and auditing profession in Malta. Its primary function is to oversee, support and appraise the work of the Quality Assurance Unit (QAU) and follow up action by audit firms/sole practitioners in response to the QAU's visit recommendations. It also provides a formal communication link between the QAU, the Accountancy Board and audit firms/sole practitioners.

Save as aforesaid and subject to such directions as may be given thereto by the Board, the QAOC may make its own rules and otherwise regulate its own procedures. The powers and responsibilities of the QAOC are detailed in Section 15 of Directive 4 of the Accountancy Profession Act – Quality Assurance Directive.

Responsibilities and powers
The QAOC have the following responsibilities and powers:
i. Development of policy in relation to Quality Assurance on behalf of the Board, including:

a) Recommending to the Board amendments to the Directives issued by the Accountancy Profession Act and guidelines which have a bearing on the operation of the quality assurance system.
b) Deciding the content and frequency of submission of any return required by Directive 4 and submitting this for the formal approval of the Board.
c) Deciding the form and frequency of any visit conducted in terms of Directive 4.

ii. Acting on behalf of the Board in ensuring the application of the provisions of Directive 4 and ensuring compliance therewith and with any other regulations governing the proper performance of professional work by firms.

iii. Requiring the co-operation of firms and the production of any document or information it considers appropriate to the proper performance of its duties.

iv. Reviewing all returns made under the provisions of Directive 4, investigating failure to make such returns or reports and reviewing all returns received by the Board in terms of the Annual Return and Annual Fees Directive 2004.

v. Reviewing all reports made under the requirements of Directive 4 and taking such regulatory action as it may deem appropriate in the particular circumstances.

vi. Authorising, with the approval of the Board, any duly appointed agent to enquire into all matters related to the exercise of its functions under Directive 4 and for this purpose the QAOC may, at its discretion, delegate certain of its responsibilities and powers to such agent. In particular, the QAOC may require any such agent to make appropriate enquires to confirm whether or not a firm is complying with the requirements of Directive 4 (by writing, visiting the warrant holder's or firm's office or offices, using a periodic return, third party enquiry or in any other way).

vii. To establish appropriate procedures to ensure the confidentiality of any information, which is identified by the firm to constitute strategic commercially sensitive information, is adequately protected.

viii. To appear in front of the disciplinary committee appointed in terms of sub-article (4) of article 7 of the Act, to provide evidence on any of its findings as may be relevant to any enquiry held in terms of paragraph (a) of sub-article (1) of article 14 of the Act.

Committee structure
The QAOC is composed of five individual members appointed for a period determined by the Board which shall not exceed three years. For the avoidance of doubt, any member shall be eligible for re-appointment. The members of the QAOC shall be appointed by the Board prior to the commencement of their term of office. The nomination of the members of the Board is regulated by Section 14 of Directive 4 of the Accountancy Profession Act – Quality Assurance.

During 2007, the Committee met on four separate occasions to discuss the findings on visits carried out by the QAU and to report back to practitioners on these visits. The Committee also discussed Quality Assurance issues or concerns which arise from one meeting to another. In 2007, the QAOC also reported to the Accountancy Board for consultation on the more contentious issues arising from monitoring visits.

The Chairman of the QAOC represents the Maltese quality assurance function during meetings held by the European Group of Auditors' Oversight Bodies –EGAOB in Brussels.

3.2 QUALITY ASSURANCE UNIT

The QAU is the duly appointed agent of the QAOC. The QAU is the entity responsible for delivering the quality assurance service within the accountancy and auditing profession in Malta. It is managed by the Head of the QAU who is responsible for ensuring an effective quality assurance process that meets pre-defined performance standards and covers the scope and objectives set out in Directive 4.

In carrying out its duties, the QAU interacts with audit firms and sole practitioners based on its remit as set out in Directive 4.

The primary function of the QAU is to carry out monitoring visits to firms and preparing reports on those inspections for consideration by the QAOC. Another function is that of reviewing the returns submitted on behalf of the QAOC.

3.2.1 QUALITY ASSURANCE VISITS

The following is a brief overview of the visits carried out during the year and the main findings noted during the course of the reviews.

3.2.1.1 Analysis of quality assurance reviews carried out during 2007

During 2007, the Quality Assurance Unit carried out 22 visits. Of these visits the QAOC had concluded 15 visits which are analyzed as follows:

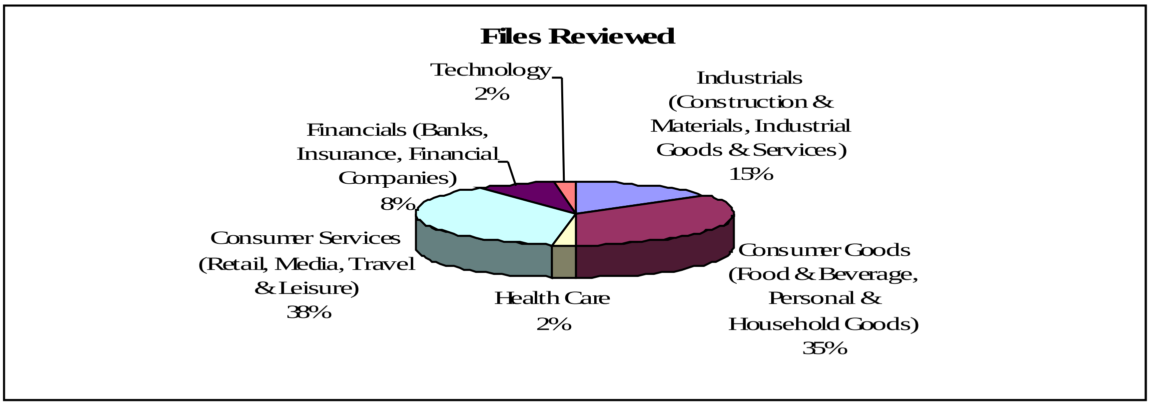
- 8 full-time sole practitioners;
- 1 firm with five or more principals;

- 1 firm with less than five but more than two principals; and
- 5 firms with less than three but more than one principal.

Based on the above visits, 48 audit files were reviewed by the QAU reviewers. Of this amount 2 reviews were of public interest entities. The number of visits is envisaged to increase during 2008 based on the fact that reviews will commence from the beginning of the year and during late 2007 and early 2008 two additional reviewers were employed.

The following is an analysis of the files reviewed based on the industry segment:

Graph 5



As depicted above, the majority of reviews related to companies dealing either in Consumer Goods or Services.

3.2.1.2 Overview of reports

3.2.1.2.1 Report ratings

Reports for internal purposes are categorized into A, B, C and D ratings which are determined by the instances and magnitude of non-compliance with the relevant regulations, the level of commitment and ability of the firm/sole practitioner to correct the problems identified and the regulatory action, if any, which QAU considers should be applied. The criteria for report ratings are as follows:

REPORTS RATED A
No breaches were recorded and thus no regulatory action is required.

There will be generally no matters to follow up on such reports and the conclusion should be short. A letter informing the firm/sole practitioner of this outcome will accompany the report sent to the firm/sole practitioner.

REPORTS RATED B
Breaches were noted but QAU is satisfied on each of the following:

- the proposed actions set out in the firm's/sole practitioner's closing meeting notes adequately address all the issues i.e. they are specific, timely, complete and when taken together with the factors below are likely to be effective;
- the firm/sole practitioner has the ability (competence and resources) to take the action within the stated timescale; and
- the firm/sole practitioner has the commitment to take the action.

No follow up action is required based on the understanding that the firm/sole practitioner will act upon its undertakings. A letter informing the firm/sole practitioner of this outcome will accompany the report sent to the firm/sole practitioner.

REPORTS RATED C

Breaches were noted and the firm/sole practitioner has undertaken to take actions that address the issues raised. In view of the actions volunteered, there is no need for QAOC to impose any conditions or restrictions, but there is a need for further confirmation/follow up e.g. there may be some doubt about the actions to be taken, or the firm's/sole practitioner's competence, resources or commitment.

A C report must not be used to impose any conditions or restrictions upon a firm/sole practitioner. For the avoidance of doubt, the request to submit evidence of an action agreed to by the firm/sole practitioner, e.g. to obtain external cold reviews or to establish a training programme, is not an imposition of a condition.

As further confirmations are required the report will be accompanied by a letter requesting the appropriate confirmations.

REPORTS RATED D

Breaches or issues were noted which require to be considered by QAOC. There are four classes of D report: D1, D2, D3 and D4 each determined by the seriousness of the regulatory action recommended.

The regulatory action will be determined by the seriousness of the breaches, the quality of the closing meeting notes, the assessment of the firm's/sole practitioner's competence, resources and commitment to correct matters together with any imminent material changes.

REPORTS RATED D1

The use of D1 reports will be restricted to the most serious situations, where loss of registration is proposed.

D1 reports are given priority and are fast-tracked to the Head of Review and the Chairman of QAOC. In turn these will be passed on to the Accountancy Board for regulatory action, by the Disciplinary Board. Any suspensions are to be approved by the Minister of Finance.

REPORTS RATED D2

A D2 rating is normally given when QAOC requires to consider whether the firm's/sole practitioner's warrant may not be continued, or withdrawn. The firm/sole practitioner is notified that the Committee is "minded to withdraw" and is requested to make representations as to why this course of action should not be followed.

A D2 rating is distinguished from a D1 in that QAU considers that it is possible for the problems to be corrected, depending on the firm's/sole practitioner's representations, and it is this which distinguishes it from a D1 rating.

REPORTS RATED D3

A D3 report should be used where QAOC requires the imposition of conditions and/or restrictions on the firm/sole practitioner. For example, this could be due to the firm's/sole practitioner's confirmations not fully addressing serious issues or could be to require the firm/sole practitioner to obtain external compliance reviews.

REPORTS RATED D4

A D4 report is used to provide information to the Committee or provide the Committee with matters for consideration. The visit area affected must also be given an underlying rating, which in itself would not have resulted in a D e.g. D4(C) or D4(B) report.

3.2.1.2.2 Report ratings given to firms reviewed

Of the 15 quality assurance reports issued by the QAOC during 2007 the following report ratings were given:

Report Rating	Number of reports issued	%
A	-	0%
B	1	7%
C	8	53%
D4	2	13%
D3	4	27%
D2	-	0%
D1	-	0%
	15	

As one can see the majority of reports issued were C reports. This indicates that generally speaking, the audit files reviewed contained audit work of a good standard. Although breaches were noted the firms have undertaken to address those issues and no impositions or restrictions were imposed.

It is hoped in 2008, with the heightened awareness of practitioners to the requirements of ISQC1, International Standards on Auditing as well other regulatory and legal requirements, firms will introduce measures to address all compliance requirements. Many of the smaller practices have invested in new audit programs and methodologies and undergone training courses to ensure correct use of such programmes. In addition, larger firms have looked again at current practices to ensure that all regulatory and legal requirements have been addressed and not overlooked.

3.2.1.3 General overview of main weakness encountered during visits

ISQC1

ISQC1, which is applicable to all firms, establishes standards and provides guidance regarding a firm's responsibility to provide systems of quality control for audits carried out. This standard is divided under the following headings:

- Leadership responsibilities for quality within the firm;
- Ethical requirements;
- Acceptance & continuance of client relationships & specific engagements;
- Human resources;
- Engagement performance; and
- Monitoring.

During the visits carried out, it was noted that a substantial proportion of firms did not have any policies and procedures in respect of quality control formally documented. Of the 15 visits carried out, 10 breaches were noted in this regard, of which 7 related to sole practitioners. The rationale for a number of sole practitioners not preparing such a document is that they do not need to distribute this document to staff as they work alone. However, subsequent to the quality assurance visit, the firms concerned have agreed that they will address this issue by the compilation of this document. In addition, during the year a training course on the practical application of ISQC1 was provided by the Malta Institute of Accountants in this regard for which a number of practitioners attended.

The areas we have chosen to comment on are set under the following broad headings:

- Ethical requirements; and
- Engagement performance.

Ethical Requirements

(a) Long association with audit clients (non public interest entities)

It is common for engagement partners to be involved with their audit clients for a number of years. Although such long involvement is not prohibited, the Code of Ethics requires that the significance of the familiarity threat must be evaluated. If the threat is other than clearly insignificant, safeguards should be considered and applied to reduce the threat to an acceptable level. Furthermore these safeguards must be documented. In the case of engagement partners of listed companies the rotation issue must be also be addressed.

On a number of visits, where the reviewers determined that the engagement partner was involved with the audit client for a number of years, the firm's policies had not been formally documented in its quality control procedures and policies. Additionally, the firm had not documented its assessment of its familiarity threat in its audit file including the implementation of appropriate safeguards. We recommended that firms assess the familiarity threat surrounding long involvement and take the necessary actions to ensure that the appropriate safeguards are in place and documented.

(b) Assistance with the preparation of accounts for listed companies

It is common practice, that firms assist their audit clients in the preparation of accounts. However, in the case of accounts preparation for listed companies the section 8.166 of the Code of Ethics clearly states the following: "the provision of accounting and bookkeeping services, including payroll services and the preparation of financial statements or financial information which forms the basis of the financial statements on which the audit report is provided, on behalf of an audit client that is a public interest entity, may impair the independence of the firm or network firm, or at least give the appearance of impairing independence. Accordingly, no safeguard other than the prohibition of such services, except in emergency situations and when the services fall within the statutory mandate, could reduce the threat created to an acceptable level." Thus, a firm or a network firm should not provide such services to public interest entities which are audit clients.

We advised that firms review their policies and procedures in this regard to ensure that they comply with the requirements set in the Code of Ethics.

(c) Provision of non-audit services

This point can be linked to (b) above. However in the case of non public interest entities, the Code of Ethics does not include this clear prohibition, but it does set out stringent factors a firm needs to take into account, when assessing the potential of a self-review threat. A firm must document the reasons why it has decided to undertake non-audit services in addition to the carrying out of the audit. Additionally, the firm must ensure that the necessary safeguards adopted to bring the self-review threat to an acceptable level are also documented in the audit file.

An auditor may not provide non-audit services to a public interest entity.

In the case of a firm reviewed during one of the quality assurance visits, it was noted that the firm was carrying out both the accounting and auditing services for a number of clients. Although this is not strictly disallowed in the Code of Ethics, the firm had not taken the appropriate safeguards to bring the risk to an acceptable level. Furthermore, the firm was taking managerial decisions on the client's behalf. This practice is not in conformity with the Code of Ethics and the firm was asked to remedy the situation.

Engagement Performance

(a) Inexistence of audit programs

Firms are required to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the firm or the engagement partners issue reports that are appropriate. Thus to ensure that quality audits are carried out, audit programs/manuals are often utilized.

From a number of visits carried out, it was noted that the underlying weaknesses of these reviews occurred due to the fact that these firms did not utilize an up to date audit program. In many cases documentation pertaining to planning and completion was lacking. This resulted in little audit evidence being found on file relating to these areas. Subsequent to the quality assurance review, many of these firms purchased an audit program from a well known accountancy body and commenced using this program on its audit clients with immediate effect.

We recommended that all firms make use of audit programs which satisfy the requirements of professional standards as well as the regulatory and legal framework.

(b) Compliance with International Standards on Auditing (ISA)
As the independent auditor's report states that the audit was conducted in accordance with International Standards on Auditing the firm must ensure compliance with all ISAs. The utilization of a standardized audit program will ensure that the ISA requirements will be addressed. It was noted that non-compliance with ISAs tended to be in areas such as planning and completion, where in some cases no work had been carried out. However the review of the fieldwork stage of the audit process has also raised a number of concerns. It was noted in the course of the quality assurance visits that there was a general disregard to certain ISAs which include the following:

Planning

- The auditor's responsibility to consider fraud in an audit of financial statements, ISA 240;
- Consideration of laws & regulations in audit of financial statements, ISA 250;
- Planning an audit of financial statements, ISA 300;
- Understanding the entity & its environment & assessing the risks of material misstatement, ISA 315;
- Audit materiality, ISA 320;
- The auditor's procedures in response to assessed risks, ISA 330;
- Analytical procedures, ISA 520;
- Audit sampling and other means of testing, ISA 530; and
- Going concern, ISA 570.

Audit fieldwork

- Audit documentation, ISA 230;
- Audit evidence, ISA 500;
- Analytical procedures, ISA 520; and
- Audit sampling and other means of testing, ISA 530.

Completion

- The auditor's responsibility to consider fraud in an audit of financial statements, ISA 240;
- Analytical procedures, ISA 520;
- Subsequent events, ISA 560;
- Going concern, ISA 570; and
- Management representations, ISA 580.

We recommend that firms carry out training programs to update themselves with the requirements set out in the International Standards on Auditing.

3.3 CHARTERED ACCOUNTANTS REGULATORY BOARD (CARB) OF IRELAND

From the QAU's initial development stages, the Chartered Accountants Regulatory Board of Ireland (CARB) have assisted in the development of the quality assurance procedures based on their own practices in Ireland. During 2007, additional training was provided to the QAU reviewers on an on-going basis. Furthermore, our CARB counterparts assisted us on one of the Big 4 reviews as well as provided us with technical support and training. Three members of the Quality Assurance team underwent training for a week in Dublin and Belfast respectively. It is envisaged that this support will continue in 2008.

3.4 OTHER QAU INITIATIVES DURING 2007

Apart from the monitoring visits carried out by the QAU, the QAU was also responsible for the following:

- the evaluation of the 2006 Annual Return which was received during 2007;
- sending out reminders to those warrant holders who had not submitted the 2006 annual return or paid the 2007 annual registration fee;
- attended 2 training courses - one in Dublin, Ireland and the other in Belfast, Northern Ireland;
- participated in European fora on quality assurance including the EGAOB and other subgroups;
- worked closely with the MIA regarding the practice support initiative launched in December 2006;
- participated in a joint seminar with the MIA regarding Quality Assurance that was held on 20 November 2007;
- presenting a number of documents for approval by the Accountancy Board; and
- worked closely with the MFSA on the possible exchange of information between the two regulatory bodies.

DISCIPLINARY ACTION

The Accountancy Board, during the year has appointed a Disciplinary Committee made up of five members in accordance with the requirements set out in Article 7 of the Accountancy Profession Act. Of these five members, two are appointed from a list of not less than ten persons submitted to the Board by the MIA and of the three remaining members at least one person must be a warrant holder. Furthermore, the Board appointed one of the members who held a warrant, to act as Chairman.

The Disciplinary Committee has the power to impose administrative fines against any person in case of professional misconduct and other disciplinary proceedings. However, it is only the Accountancy Board and the Minister of Finance that may suspend, withdraw or impose other measures on a warrant holder when found guilty following an enquiry of the Disciplinary Committee or by a court of law.

During December 2007, the first Disciplinary Committee meeting was held in respect of warrant holders who had not complied with the following:

- non-submission of 2006 Annual Return;
- non-payment of Annual Registration Fees; and
- non-payment of Quality Assurance Regulatory Fee.

Action in respect of these defaulters is to be taken during 2008.

CONTINUED PROFESSIONAL EDUCATION

The Malta Institute of Accountants (MIA) is the approved accountancy body of the Accountancy Board. During 2007, the MIA have been delegated a number of functions, which include:

- the continuing professional education (CPE) function; and
- monitoring of CPE activities declared by warrant holders and holders of practicing certificates.

As in prior years, the MIA has provided a number of CPE courses on a vast range of topics relating to the accounting profession. Throughout the year, the Quality Assurance Unit and the MIA have kept in close contact as to areas requiring additional training which have arisen from quality assurance reviews carried out.

During the current year, the MIA revised its own CPE regulations and it is envisaged that the Accountancy Board will implement these changes during 2008 under Directive 1. Furthermore, the Accountancy Board has delegated the monitoring of CPE declarations made by warrant holders and holders of practicing certificates to the MIA. However, the Accountancy Board will retain supervision and control of this delegated role.

For the second year, the QAOC held the annual Quality Assurance Workshop which it holds jointly with the MIA. At this workshop, the QAOC gave a synopsis of the QAU findings including the results of the voluntary visits carried out during 2007. Ms. Heather Briers who is also a member of the QAOC delivered a talk on Ethics & Independence. The workshop was well attended.

OUR PLANS FOR 2008

During 2008, the Accountancy Board plans to carry out a number of projects:

- the QAU is to carry out 57 mandatory visits of firms and practitioners. These will include visits to:
    - 2 Big 4 audit firms;
    - 11 2-4 partner firms;
    - 24 full-time sole practitioners; and
    - 20 part-time sole practitioners.
- To have an interactive web portal in place to facilitate the submission of application forms, annual returns, and effect payments. Access to this portal would be via an electronic ID system. This portal will also allow warrant holders to view the register of warrant holders at their discretion.
- Consolidate further our relationship with our Irish counterparts through further training and technical support.
- Seek membership with IFIAR – International Forum of Independent Audit Regulators – this is to occur during the next meeting in Oslo in April 2008. This alliance will undoubtedly enhance the credibility of the Accountancy Board's oversight of the audit profession.
- Strengthen our relationship with the EU and its Member States;
- Set up disciplinary proceedings;
- Foster a working relationship with MFSA;
- Work more closely with the MIA in specific areas where the Accountancy Board has delegated authority:
    - CPE;
    - Practice support;
    - Disciplinary issues;
    - New accounting standards for small entities.