Accountancy Board

Quality Assurance

2008

ANNUAL REPORT

ACCOUNTANCY BOARD

Contents

CHAIRMAN'S STATEMENT

During 2008, the Accountancy Board went through an extensive exercise to transpose the Statutory Audit Directive of the EU into the legislation governing the accounting and the auditing profession in Malta. Act IX of 2008 which brought about the changes made to the Companies Act 1995 as well as the Accountancy Profession Act and its subsidiary legislation was approved by Parliament on the 16 July 2008. This bill was published on the 14th August 2008 and the effective date of this new legislation is the 1st October 2008 as notified in the Government Gazette of the 24th October 2008. Furthermore, two legal notices were published on the 16 January 2009. There are still two the four APA directives (which have been repealed) which need to be approved and published before we can say that the 8th Directive has been fully transposed into our legislation. The publication of these documents is imminent.

The date set for the transposition of the 8th Directive by the EU was the 28 June 2008. The main reason for the delay in the transposition of this legislation was the 2008 General Elections which took place on the 8th March of the year under review. The new legislation had in fact gone through the second reading in Parliament in February - after which, regrettably, Parliament was dissolved only to meet again under a new legislature on the 12 May 2008. This meant that the Bill had to go through the whole parliamentary process again which meant a delay of some sixteen weeks!

There was a considerable consultation process between the Board, the MIA and the Malta Financial Services Authority. Indeed some issues, particularly the one relating to the legal form of audit entities, were subject to particularly long debate and consultation. This, in essence, now recognizes that audit entities can take the legal form of corporate entities.

The Directives to the Accountancy Profession Act and its subsidiary legislation 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. This again will be repealed by way of legal notice and this will incorporate changes brought about by the transposition into our legislation of the 8th EU Directive.

I take this opportunity to thank all those who have in some way or another made this massive change in legislation possible. A special thanks goes to the legal advisors to the Accountancy Board – Camilleri Preziosi and Associates who have been instrumental in the realization of this onerous task.

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 EU decision concerning the transitional period of third country auditors and audit entities was issued on the 29 July 2008.

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.

Last year the Malta Institute of Accountants took the initiative in the publication of its technical release on General Accounting Principles for Smaller Entities (GAPSE) in Malta. This document was originally launched at a press conference on the 17 December 2007. There was an exposure period of 60 days, during which period, members of the public, the profession and other constituted bodies were asked to give their comments on the proposed changes brought about by the technical release. The comments received were carefully considered by a Committee, set up for this purpose, and a long process of consultation ensued. One hotly debated topic pertained to the setting of thresholds which fall within the scope of these new regulations. This gave rise to significant redrafting of the document which should be now in its final stages. Once approved, the Technical Release will become another APA Directive.

I am pleased to say that to date 1,382 (97%) of the 2007 annual returns sent out to warrant holders in December of 2007 were received. These returns provide us with a wealth of information and give us a much clearer profile of the profession. Since the setting up of the first Disciplinary Committee meeting in December of last year two meetings have been held. Both focused on the suspension of warrant holders who have failed to submit their 2006 and 2007 Annual returns. Other proceedings against defaulting warrant holders are also being considered. We are now at a very advanced stage of this process and very shortly we should have a public notice of defaulters being published in the Government Gazette.

In 2008, the Quality Assurance Unit (QAU) carried out 52 monitoring visits. This brings the total number of visit carried out to date to 74. These visits spanned from part time sole practitioners to Big 4 firms. The files reviewed were those of listed companies as well as those of small family companies. During 2008, 65 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. This document summarises the outcome of these reviews.

The QAOC introduced, as from this year, a Visit Evaluation Questionnaire which is being enclosed for completion by the practice, along with the closing down letter. The responses to this questionnaire will enable us to take note of practitioners' views regarding the administration, planning and conduct of the Quality Review Visit. Consequently, this will help us assess and improve our audit quality assurance methodologies. The positive feedback which we had from these responses has surpassed our expectations. This encourages us tremendously.

One must state that, cognizance has been taken by the QAOC of the learning process and due allowance was given to practices visited at the earlier stage of the quality assurance process. Reviewers themselves learned a lot from the process and even tailored some of their methodologies and visit documentation to suit the local environment. Needless to say, however, the learning process needs to be expedited and all existing set ups, particularly smaller practices, should strive to raise their standards now rather than later. One cannot but emphasise the fact that our reviewers are the regulators and not the educators. The QAU will be paying a brief visit to firms and practitioners visited over the last thirty months to be able to establish the extent to which the QAOC's recommendations for improvements have been taken up.

On a negative note, the Accountancy Board still does not have an interactive warrant portal and interactive web site. Regrettably, valuable time has been lost in this regard. After a good eighteen months of consultation with MITC and the appointed software developer, the original IT project, which was one specific to the Accountancy Board, was changed to include other professions. This new project started in June of this year. This will, initially, focus on the development of an electronic register of all warrant holders which will also allow the downloading and submission of warrant applications, Annual Returns as well as the payment of registration fees, regulatory fees and any other services. Phase 2 of the project, which will be more specific to our own requirements, will deal with the extraction of reports from our database by way of a back office tool for use by the Quality Assurance Unit.

It is opportune to point out that the Credit Crunch crisis and recession, which hit both sides of the Atlantic in 2008, brought banking organisations and other financial institutions to their knees. Governments of various countries bailed out a number of financial institutions to bring back stability within and outside their own territory. This will undoubtedly call for more vigilance and transparency. It is my firm believe that, particularly in situations like these, 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.

As chairman of the Accountancy Board, when I look back on what has been achieved in the last 30 months, 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.

One should never forget or under estimate that the role that the Accountancy Profession plays. This is no longer confined to the territory of our country but is open to the world at large. Globalization has given rise to a more pronounced need to adhere to common high quality auditing and accounting standards. We as accountants and auditors simply cannot isolate ourselves from the rest of the world.

Joseph Zammit Tabona
Chairman – Accountancy Board

INTRODUCTION & OVERVIEW

This booklet is structured under the following sections:

- *Sections 1, 2 and 3* – give a brief overview of the composition, frequency of meetings, summary of activities carried out during 2008 and plans for 2009 pertaining to the Accountancy Board, Disciplinary Committee and Quality Assurance Oversight Committee respectively; and
- *Section 4 - 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 2008.

ACCOUNTANCY BOARD

1.1. COMPOSITION

During 2008 the Accountancy Board was made up of seven board members, namely:

Chairman – Mr. Joseph Zammit Tabona FCA, FIA, CPA, AMIT.KM

Members – Prof. Daniel Darmanin MSc, FIA, CPA, Dip. Ed(Lond) *;
Mr. Mario P. Galea FCCA, CPA, FIA;
Mrs. Helen Meli Attard FIA, CPA, CSA, MIM, B.A.(Hons) Acc, M.A. Financial Services;
Mr. Bernard Scicluna FCCA, FIA, AMIT, CPA;
Mr. Anthony Zarb FCCA, FIA, CPA, MBA(Warwick); and
Mr. John Zarb FCCA, CPA, FIA

Secretary - Mr. Joseph Croker

*Prof. Daniel Darmanin resigned from the Accountancy Board with effect from 31 March 2008 on his reaching retirement age.

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

Change in Accountancy Board Composition

With effect from 1st October 2008, a legal notice dated 24 October 2008 and published in the Government Gazette has effected a change to the composition of the Accountancy Board, which has increased from seven to eleven members. As per the revised Accountancy Profession Act, the composition of the eleven members is to consist of the following:

(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 responsible for 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) three members who are practising accountants holding a warrant; and
(f) three other members who are non-practitioners.

The members of the newly constituted Accountancy Board have been agreed to by the Cabinet of Ministers. However, as there is to be a change in the Chairman, due to our present Chairman's acceptance of the post of High Commissioner of the United Kingdom, the Minister of Finance, the Economy and Investment has had to go back to Cabinet to agree on the appointment of a new Chairman as well as identify another member of the Board in representation of the non practitioners.

1.2. FREQUENCY OF MEETINGS

During 2008, the Board met on nine occasions in total.

1.3. COMMITTEES

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

To this effect during 2008, the Accountancy Board had two such Committees to assist it in discharging its functions and responsibilities:

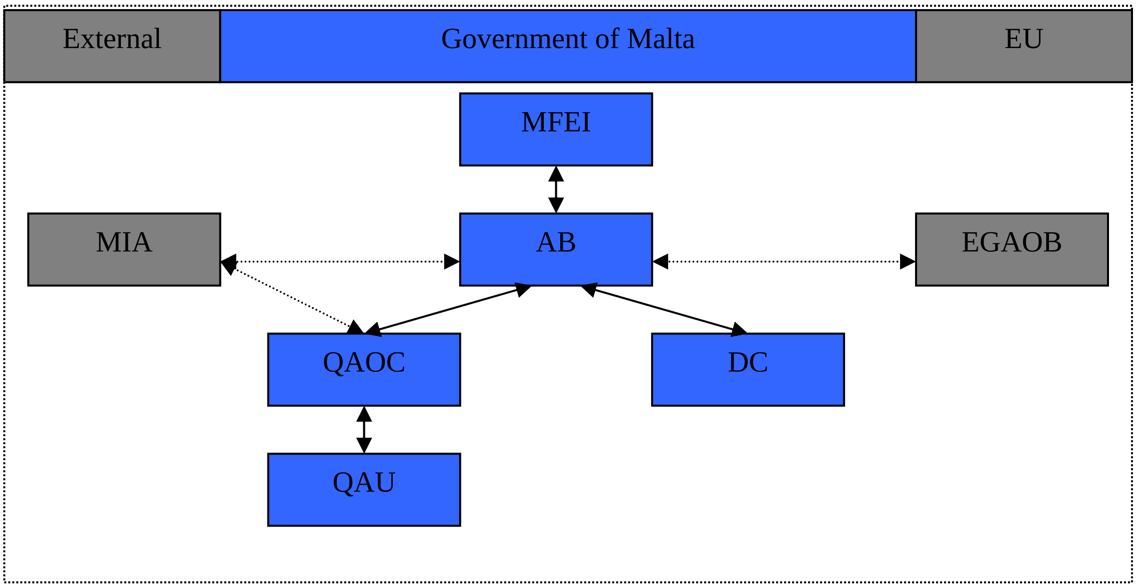
- Disciplinary Committee; and
- Quality Assurance Oversight Committee.

The structure and activities of such Committees can be found in Sections 2 and 3 of this document.

In addition, the Accountancy Board has delegated its monitoring of continued professional education (CPE), under the remit of the legislative requirements as set out in Directive 1 to the Malta Institute of Accountants.

1.4. 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:

MFEI - Ministry of Finance, the Economy and Investment
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

1.5. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2008

During the year, the Board has been involved in a number of activities, which are summarised below:

- Attendance and participation in numerous meetings in regard to the transposition of the EU Directive on Statutory Audits of Annual Accounts and Consolidated Accounts. The transposition of this Directive into local legislation took effect on 1st October 2008.

- Issue of warrants and practicing certificates in auditing.

- Dealing with complaints against warrant holders.

- Attendance and participation in several meetings dealing with the creation of a warrant holder portal. This portal will facilitate the application of practicing certificates and CPA warrants. Furthermore, warrant holders will be able to complete and submit their Annual Returns and pay their Annual Registration Fees and Quality Assurance Regulatory Fees on line. Through this portal the warrant holder register will be on line and continually updated. It is envisaged that this portal will be operational in the coming year.

- Maintaining a close working relationship with the Malta Institute of Accountants in a number of areas including:
  - Continued professional education including participation in a number of seminars; and
  - Practice support especially in areas such as quality assurance.

- Attendance and participation in numerous meetings in regard to the introduction of GAPSE which was done in collaboration with the Malta Institute of Accountants. This accounting framework is to be adopted during 2009 as Directive 5 to the Accountancy Profession Act.

- Attendance and participation at eight EGAOB, six Accounting Regulatory Committee and three Audit Regulatory Committee meetings held in Brussels.

- Provision of an advisory role with Government on all issues relating to accounting and auditing. During 2008 a number of meetings were held to discuss issues such as the credit crisis and required changes to IAS 39.

- Attendance and participation in meeting held relating to the transposition of the EU Services Directive.

1.6. PLANS FOR 2009

During 2009, the Accountancy Board plans to carry out a number of projects. These include:

- The finalisation of the web portal project. This project has been divided into two sub-projects. The initial phase whereby warrant applications and annual returns can be completed on line should be completed in the first part of the year. Whereas, the second part of this project, which concerns report generation and submission analysis should be completed in the second half of the year.

- The introduction of measures addressed at compliance with changes brought about through the transposition of the EU Directive on Statutory Audits of Annual Accounts and Consolidated Accounts.

- Continued participation in meetings concerning the Services Directive.

- Identify and register all companies providing accounting and audit services which to date have not registered themselves with the Board

Furthermore, during early 2009, the legal notices bringing the changes made to Directives 1-Continued Professional Education, Directive 2 – Code of Ethics, Directive 3 – Annual Return and Registration Fees, Directive 4 – Quality Assurance as well as the Accountancy Profession (Accounting and Auditing Standards) Regulations and Directive 5 pertaining to GAPSE came into effect.

DISCIPLINARY COMMITTEE

2.1. COMPOSITION

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

During 2008, the Disciplinary Committee was composed of the same five members as that of the prior year who were as follows:

Chairman – Mr. Joseph Zammit Tabona FCA, FIA, CPA, AMIT.KM

Members – Mr. John Borg FCCA, FIA, CPA;
Mr. Edward Camilleri FCCA, FIA, CPA, FMIT;
Mr. Mario P. Galea FCCA, FIA, CPA; and
Mr. Charles Rapa FCCA, FIA, CPA, MBA (Brunel)

Secretary - Ms. Karen Sultana B. Accty (Hons), AIA, CPA

2.2. FREQUENCY OF MEETINGS

During the year, the Committee held two meetings, one held in July and the other in November which meetings were attended by all committee members.

2.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2008

2.3.1. Non compliance with Directive 3 and Directive 4

During July 2008, the Committee discussed a number of warrant holders and practicing certificate holders who were in default of the Accountancy Profession Act and its Directives. The number of defaulters has been analysed in Table 2.1 as follows:

Table 2.1

	Number of Defaulters
Annual Return 2006	40
Annual Return 2007	117
Annual Registration Fee 2007	32
Annual Registration Fee 2008	110
Quality Assurance Regulatory Fee 2008 - Full-time sole practitioners	6
Quality Assurance Regulatory Fee 2008 - Part-time sole practitioners	8
Quality Assurance Regulatory Fee 2008 - Firm	1

It was agreed that letters would be sent to these defaulters. The Committee decided that defaulters would have their warrant suspended if continued non compliance subsisted past 31st October 2008.

As a result of the letters sent out in September in this regard, the number of defaulters as presented in Table 2.2 was reduced to the following:

Table 2.2

	Number of Defaulters
Annual Return 2006	26
Annual Return 2007	44
Annual Registration Fee 2007	21
Annual Registration Fee 2008	35
Quality Assurance Regulatory Fee 2008 - Full-time sole practitioners	0
Quality Assurance Regulatory Fee 2008 - Part-time sole practitioners	1
Quality Assurance Regulatory Fee 2008 - Firms	0

Based on the non-compliance noted in Table 2.2 above, it has been agreed that based on the recommendations made by the Disciplinary Committee to the Accountancy Board these warrants are to be suspended until such time as they conform to the requirements of local legislation.

2.3.2. Complaints

Complaints were lodged with the Accountancy Board against two warrant holders during 2008. These were investigated by the Disciplinary Committee. One case has been resolved whilst the other is still awaiting a decision.

2.4. PLANS FOR 2009

During the upcoming year, the Committee will continue to deal 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 practising certificate issued under this Act.

QUALITY ASSURANCE OVERSIGHT COMMITTEE

3.1. COMPOSITION

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

During 2008, the QAOC was made up of five Committee members who were as follows:

Chairman – Mr. Joseph Zammit Tabona FCA, FIA, CPA, AMIT.KM

Members – Mr. Peter J. Baldacchino M.Phil., FCCA, FIA, CSA, CPA, K.Phil *;
Ms. Heather Briers FCA;
Prof. Daniel Darmanin MSc, FIA, CPA, Dip. Ed(Lond) *;
Mr. Alfred Lupi FCCA, BSc Econ, FIA, CPA; and
Dr. Michelle Mizzi Buontempo LL.D., M.A. (Fin Serv)

Secretary - Mr. Marcel Coppini FCCA, FIA, CPA

*Prof. Daniel Darmanin resigned from the Accountancy Board with effect from 31 March 2008 on his reaching retirement age. Mr. Peter J. Baldacchino M. Phil., FCCA, FIA, CSA, CPA, K.Phil. was appointed by the Minister of Finance, the Economy and Investment in his stead being a non-practitioner nominated from the University of Malta.

Left to right: - Mr. Peter J. Baldacchino, Mr. Alfred Lupi, Ms. Heather Briers, Mr. Joseph Zammit Tabona, Mr. Marcel Coppini and Dr. Michelle Mizzi Buontempo

3.2. FREQUENCY OF MEETINGS

The Committee holds regular meetings (typically every two months). During 2008, the QAOC conducted a total of seven meetings. The number of meetings attended by individual Committee members is set out in Table 3.1 below.

Table 3.1

	Attendence
Mr. Joseph Zammit Tabona FCA, FIA, CPA, AMIT. KM	7
Mr. Peter J. Baldacchino M.Phil., FCCA, FIA, CSA, CPA, K.Phil.	1
Ms. Heather Briers FCA	3**
Prof. Daniel Darmanin MSc, FIA, CPA, Dip. Ed(Lond)	0
Mr. Alfred Lupi FCCA, BSc Econ, FIA, CPA	7
Dr. Michelle Mizzi Buontempo LL.D., M.A. (Fin Serv)	6

**During 2008, it had been agreed that as the number of reports presented to the QAOC for their consideration had increased significantly from that of the prior year that additional QAOC meetings would be held to expedite reports which were rated as satisfactory. Three such meetings were held during the year. Furthermore, it was also agreed that Ms. Heather Briers would pass on her comments without her need to physically attend such meetings.

3.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2008

3.3.1. 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.

3.3.1.1 Conclusion of quality assurance reviews during 2008

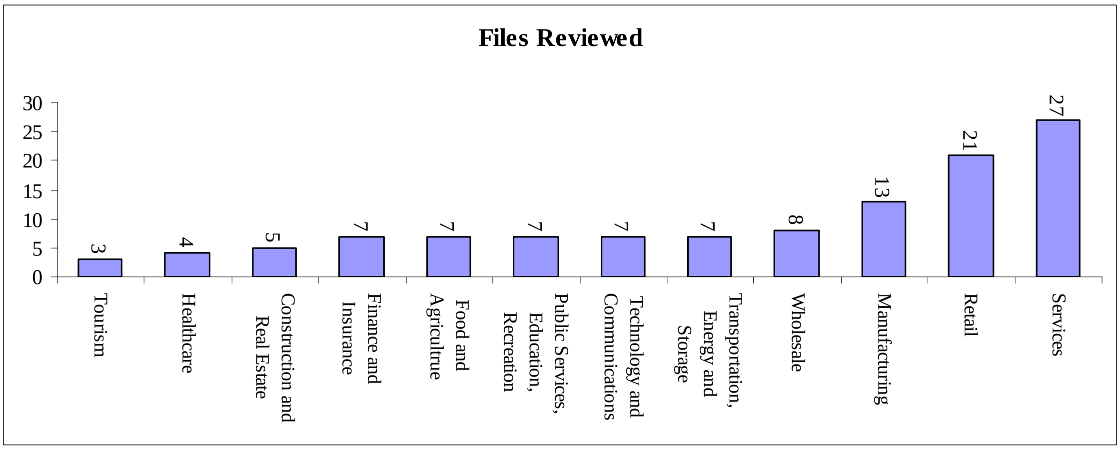
During 2008, the Quality Assurance Unit carried out 52 visits. Of these visits the QAOC had concluded 50 visits (of which seven were visits conducted during 2007) which are analyzed as follows:

- 23 full-time sole practitioners;
- 16 part-time sole practitioners;
- 2 firms with five or more principals;
- 2 firms with less than five but more than two principals; and
- 7 firms with less than three but more than one principal.

Based on the above visits, 116 audit files were reviewed by the QAU reviewers. Of this amount three reviews were of public interest entities.

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

Graph 3.1



As depicted above, the majority of reviews related to companies dealing in retail activities and the provision of services.

3.3.1.2 Overview of reports

3.3.1.2.1 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 QAOC considers should be applied. The criteria for report ratings are as follows:

REPORTS RATED AS 'SATISFACTORY'

No breaches were recorded and thus no regulatory action is required, or alternatively relatively minor issues are raised and the QAOC 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 AS 'SATISFACTORY BUT NEEDS IMPROVEMENT'

Issues or 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 'Needs improvement' 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 AS 'REQUIRING ATTENTION'

Breaches or issues were noted which require to be considered by QAOC. 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.

In the case of more serious failings, the QAOC would require 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 and could include requiring the firm/sole practitioner to obtain external compliance reviews.

REPORTS RESULTING IN AN 'SERIOUS FAILINGS' ASSESSMENT

The use of 'Serious failings' assessments will be restricted to the most serious situations, where loss of registration is proposed. Alternatively, when the QAOC considers that it is possible for the problems to be corrected, depending on the firm's/sole practitioner's representations, a 'Serious failing' assessment requires the QAOC to consider whether the firm's/sole practitioner's warrant may not be continued, or withdrawn. In the latter instance, 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..

'Serious failings' assessments 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 withdrawals or suspensions of warrants are to be approved by the Minister of Finance, the Economy and Investment.

3.3.1.2.2 Report ratings given to firms reviewed

Of the 50 quality assurance reports issued by the QAOC during 2008 the following report ratings were given:

Table 3.2

Report rating	Number of reports	%
Satisfactory	1	2
Satisfactory but needs improvement	37	74
Requiring attention	11	22
Serious failings	1	2
	50	**100**

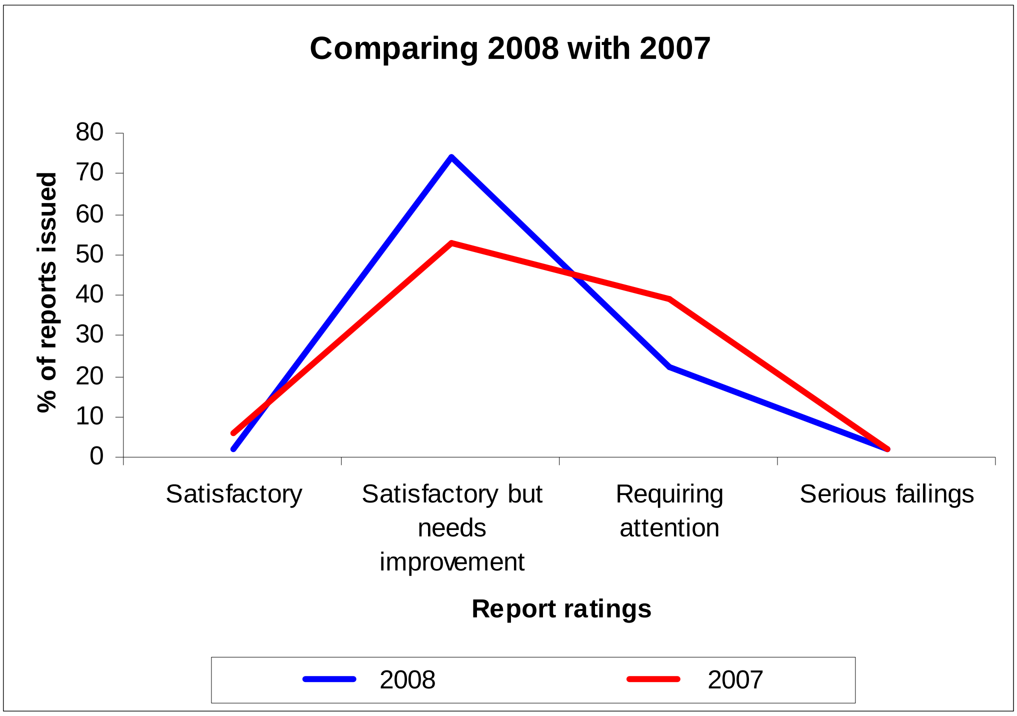
As one can see the majority of reports issued were Satisfactory reports. This indicates that generally speaking, the audit files reviewed contained audit work of a good standard. Although a scope for improvement was noted in most such reviews, the QAOC considers this as the typical outcome of most reviews. Moreover the firms reviewed have undertaken to address those issues and no impositions or restrictions were imposed.

The Committee is pleased to note that overall the audit quality of practitioners visited by the QAU has improved from the prior year due to the following factors:

- Awareness of changing regulatory / technical requirements;
- Use of ISA compliant audit programmes;
- Compliance with CPE requirements;
- Implementation of ISQC 1 procedures and policies; and
- Knowledge that the practice at some stage will be reviewed by the QAU.

The following table provides a pictorial representation of the report ratings given during the two years the QAOC has been in operation:

Graph 3.2



3.3.1.3 General overview of main weakness encountered during visits

Although the weaknesses identified during visits vary, the following are a summary of the most common weaknesses noted during the course of visits carried out during 2008 in accordance with how these weaknesses are presented in the QAOC report issued to the practitioner/firm.

Independence and Ethics

(a) Long association with audit clients
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 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) Provision of non-audit services
As also stipulated by the EU Statutory Audit Directive, the Code of Ethics permits the provision of non-audit services and sets out the safeguards that a firm needs to put in place, to counter any potential threats to independence and reduce them to an acceptable level. A firm must document these safeguards.

File Findings

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.

The most common weaknesses noted during the course of the QAU visits have been identified and commented on as follows:

(a) Planning

(i) Assessing audit risk and fraud (ISA 315, 330 & 240)
For a number of audit files reviewed, a number of deficiencies were noted in the documentation on file demonstrating that the requirements of the audit risk and fraud had not been adequately addressed. Furthermore, the majority of these reviews regarded audits where a substantive approach was adopted without any consideration of the impact of controls or the processes required to determine the most appropriate audit approach.

(ii) Consideration of laws and regulations (ISA 250)
Although management is responsible for its compliance with laws and regulations pertaining to its company's industry, ISA 250 requires that when designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements. Therefore, when the auditor is planning an audit, he/she should gain a general understanding of the legal and regulatory framework pertaining to the particular company and how that company is adhering to such framework.

During the course of QAU reviews, a number of practitioners were not documenting such considerations.

(iii) Audit materiality (ISA 320)
Audit materiality is a key aspect of carrying out an efficient and effective audit. Practitioners are reminded that the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In establishing a materiality level the practitioner is to use his professional judgement. During a number of visits, it was noted that this assessment was not made.

(iv) Preliminary analytical review (ISA 520)
During the planning of the audit, the auditor is required to use preliminary analytical procedures as part of his/her risk assessment procedures, as the application of analytical procedures can prove to be a powerful tool as through its use, it may detect risk areas to which the auditor was previously unaware.

It was noted that such preliminary analytical reviews in a number of instances were not applied. Practitioners have been requested to carry out such analysis.

(v) Going concern (ISA 570)
ISA 570 requires that when the auditor plans and performs audit procedures and evaluates the results of these procedures, the auditor should consider if the going concern assumption is appropriate. At the planning stage of the audit, when the auditor is gaining an understanding of the entity, the auditor should consider if there are events or conditions which may cast significant doubt on the company's ability to continue as a going concern.

In a number of situations, it was noted that although practitioners would state that they have assessed going concern, no documentation could be found on file of such assessment. Thus it is recommended that such considerations are documented on file.

(b) Fieldwork

(vi) Audit documentation (ISA 230)
As stated in ISA 230, preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalized. Documentation prepared at the time the work is performed is likely to be more accurate than documentation prepared subsequently.

Furthermore, ISA 230 states that audit documentation serves a number of purposes, including:
assisting the audit team to plan and perform the audit; assisting members of the audit team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA 220 (Revised), "Quality Control for Audits of Historical

Financial Information;" enabling the audit team to be accountable for its work; retaining a record of matters of continuing significance to future audits; enabling an experienced auditor to conduct quality control reviews and inspections in accordance with ISQC 1, "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements;" and enabling an experienced auditor to conduct external inspections in accordance with applicable legal, regulatory or other requirements.

Many of the issues raised in our QAOC reports related to the clarity or sufficiency of audit documentation.

(vii) Audit sampling and other means of testing, (ISA 530)
During the course of the Unit's reviews it was noted that in the majority of cases, substantive testing is being used as a means of obtaining evidence. Additionally, it was noted that in many cases no documentation was being included on file identifying the method of testing nor how the auditor has ensured that he has obtained sufficient appropriate evidence.

An auditor is required to determine the appropriate means of selecting items for testing. This can either result in all items being selected (testing of 100% of the population); selecting specific items or audit sampling. Furthermore, the means of testing selected should enable sufficient appropriate audit evidence to meet the objectives of the audit procedures to be obtained.

It is recommended that auditors review their current procedures in line with the requirements of this standard to ensure that sufficient appropriate audit evidence is being obtained during the course of the audit.

(c) Completion

(viii) Consideration of fraud (ISA 240)
As stated in ISA 240, the auditor should consider whether analytical procedures that are performed at or near the end of the audit when forming an overall conclusion as to whether the financial statements as a whole, are consistent with the auditor's knowledge of the business indicate a previously unrecognized risk of material misstatement due to fraud. When the auditor identifies a misstatement, the auditor should consider whether such a misstatement may be indicative of fraud and if there is such an indication, the auditor should consider the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations.

When the auditor confirms that, or is unable to conclude whether, the financial statements are materially misstated as a result of fraud, the auditor should consider the implications for the audit and whether the audit report should be modified.

The auditor should obtain written representations from management specifically addressing fraud and should instances of fraud be noted these should be brought to the attention of management.

(ix) Consideration of laws and regulations (ISA 250)
During the course of the audit, the auditor should have obtained evidence whether or not the company is adhering to laws and regulations affecting it. The auditor should also make reference to minutes, lawyers' letters, etc to determine any potential area of concern. If any such instances are noted that may have a material impact on the audit, these should be communicated to management. Furthermore, practitioners are reminded that the letter of representation should include reference to laws and regulations.

As a result of the findings of audit testing carried out during the fieldwork stage of the audit, these may have implications on the audit report issued.

(x) Communication of audit matters with those charged with governance (ISA 260)

ISA 260 requires that the auditor should communicate audit matters of governance interest arising from the audit of financial statements with those charged with governance of an entity. These audit matters include audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements; material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern; disagreements with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter; and expected modifications to the auditor's report.

It is important to note that the auditor can either communicate in writing through a management letter or else orally. If communication is made orally, the auditor should document in the working papers the matters discussed and any responses received from management.

During the course of the year, it was noted that auditors more frequently discuss matters arising from the audit verbally with the client. However, it was furthermore noted that these discussions were not being recorded on the audit file. It is recommended that minutes of these discussions are documented on file.

(xi) Subsequent events (ISA 560)

It was noted during the course of the visits carried out, that in a number of instances the auditor had not documented his/her consideration of subsequent events. This is an important consideration as subsequent events may have an implication on the auditor's report.

It is recommended that the auditor documents such consideration in line with the requirements identified in ISA 560.

(xii) Going concern (ISA 570)

At the completion stage of the audit, an assessment of going concern should be made based on the audit evidence obtained during the course of the audit. The auditor should determine if, in the auditor's judgment, a material uncertainty exists related to events or conditions that alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern.

During the course of a number of visits it was noted that consideration was not being documented on the audit file. It is therefore recommended, that going concern issues are addressed by practices.

Statutory/IFRS Compliance

Within this section of the report, there is a wide range of different omissions in audited financial statements, which have been noted during the course of the reviews carried out during 2008. It is strongly recommended that practitioners/firms make use of an up to date Financial Statement Disclosure Checklist or pro forma set of financial statements.

Furthermore, it was also noted that in a number of situations the contents of the Directors' Report were not prepared in accordance with the requirements of the Sixth Schedule of the Companies Act.

Audit Report

The audit report section of the QAOC report deals with breaches noted in respect to ISA 700 – Independent Auditor's Report and ISA 701 – Modifications to the Independent Auditor's Report. The main breaches noted in this area, mainly resulted due to the fact that out of date wording was being used and that departures in the auditor report wording was being made by practitioners/firms.

Quality Control

In the previous year, one of the most significant deficiencies noted during the Quality Assurance Reviews was that a substantial number of practitioners did not have a quality control document which incorporated the requirements of ISQC1. During 2008, it has been encouraging to note that the majority of practitioners visited now have implemented a quality control document, which addresses the majority of the ISQC1 requirements. Two principal areas where weaknesses are still being encountered relate to:

- the setting of criteria for engagement quality control reviews. An engagement quality control review must be carried out prior to the signing of the audit report and must be carried out by another qualified auditor, who has the appropriate experience to carry out such function.
- the carrying out of cold file reviews. The majority of visits carried out during 2008, resulted in breaches in respect to cold file reviews, as these were not being carried out. ISQC 1 requires that engagements selected for inspection include at least one engagement for each engagement partner over an inspection cycle, which ordinarily spans no more than three years. ISQC1 furthermore requires that those inspecting the engagements are not involved in performing the engagement or engagement quality control review.

Whole Firm Matters

The whole firm matters section of the QAOC report incorporates non compliance with the other requirements, not already identified in one of the preceding sections, emanating from the Accountancy Profession Act and Directives. The more common breaches noted during the year pertained to matters such as:

- the inappropriate designatory letter written on printed matter;
- inadequate professional indemnity insurance coverage;
- non compliance with Continued Professional Education requirements;
- non-submission or late submission of the Annual Return; and
- non-payment or late payment of Annual Registration Fee and/or Quality Assurance Regulatory Fee.

3.3.2. Evaluation Forms

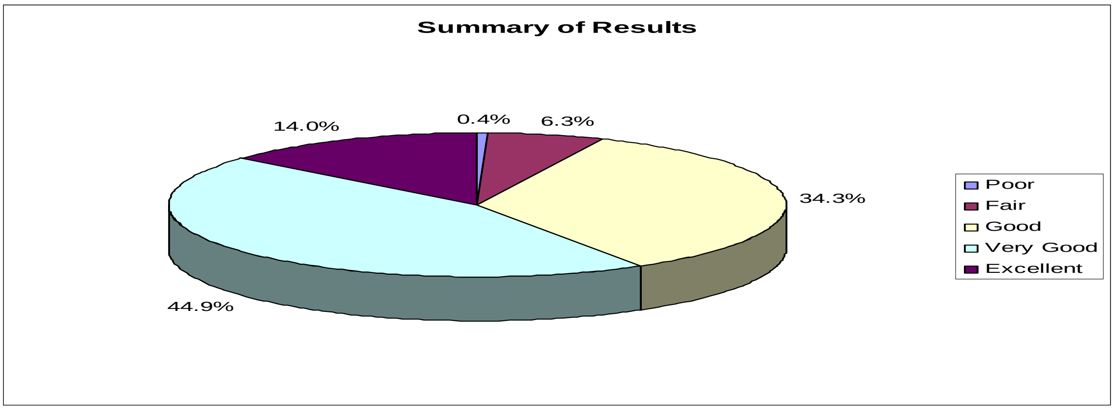
During 2008, the QAOC has felt the need to obtain feedback from practitioners/firms who have undergone a visit. Thus during the early part of 2008, the process was begun, through the adoption of an Evaluation Form, whereby upward feedback was obtained. A total number of thirty-four evaluation forms were received back from practitioners visited throughout the course of the year.

Feedback given was structured under the following headings in the Evaluation Form:

- Initial communication
- Administering the Review
- The Review and the Reviewers
- Guidance and Technical Support
- Website
- Overall Assessment

Overall the feedback received was positive. It is the Quality Assurance Unit's intention to address considerations raised by practitioners visited during the course of 2009. Graph 3.3 below depicts a summary of results:

Graph 3.3



3.3.3. Chartered Accountants Regulatory Board of Ireland (CARB)

During the year, the Chartered Accountants Regulatory Board of Ireland (CARB) has assisted the QAU in training needs, review of particular QAOC reports, technical assistance as well as the carrying out of two Big 4 audit visits. During the year, the QAU reviewers attended two separate training activities carried out in Belfast, with our CARB counterparts, one in June and the other in September. It is envisaged that this support will continue in the upcoming year.

3.3.4. Team Meetings

Apart from the team meetings held in Belfast, Northern Ireland, locally the Quality Assurance Unit carried out 2 internal team meetings held between the quality assurance reviewers to discuss issues arising during the visits as well as ensure consistency on visits carried out by different reviewers.

3.4. PLANS FOR 2009

During 2009, the Quality Assurance Oversight Committee plans to achieve the following:

- the Quality Assurance Unit is to carry out 66 mandatory visits of firms and practitioners. These will include visits to:
  - 1 Big 4 audit firm;
  - 8 2-4 partner firms;
  - 25 full-time sole practitioners; and
  - 32 part-time sole practitioners.

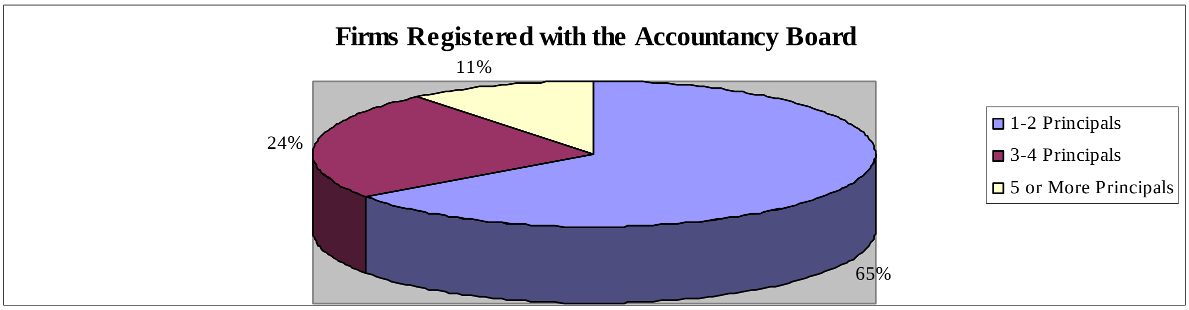
- attend training in Belfast, Northern Ireland
- co-ordinate another Quality Assurance Workshop
- undergoing of training by one of the reviewers for Big 4 visits
- recruit one person as reviewer to replace one experienced reviewer who left the QAU on the 8th October 2008. The number of reviewers at the moment is three.

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. Since the enactment of this Act, Malta's accounting and auditing profession has a total number of 651 warrant holders and 856 holders of practicing certificates in auditing. During 2008, the Accountancy Board approved 116 warrants and 55 practicing certificates to 126 individuals in auditing during 2 ceremonies, one held in June and the other in December.

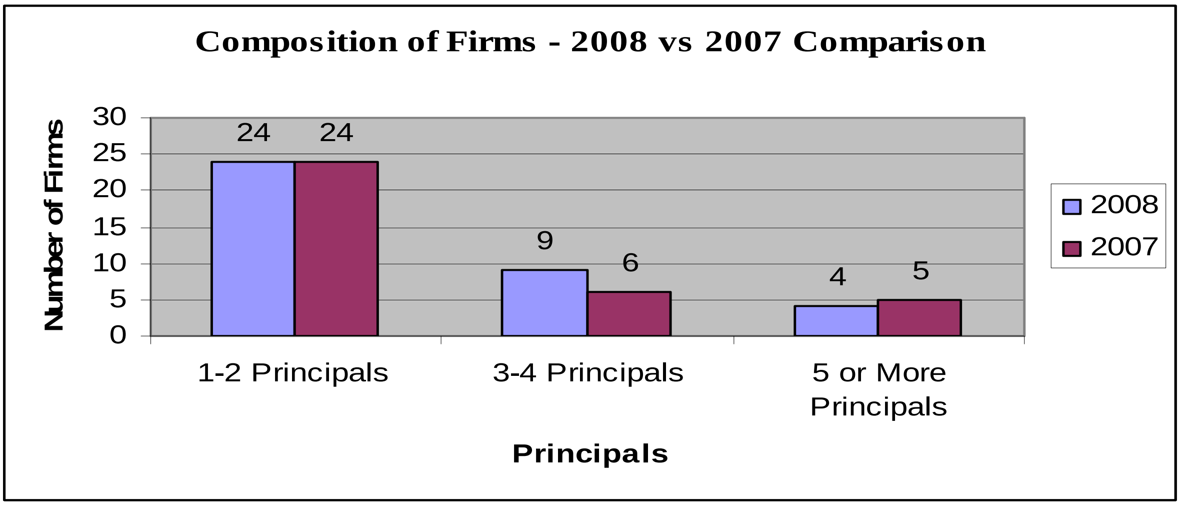
The Accountancy Board during 2008, approved both the registration of three audit firms and the dissolution of another firm, bringing the total registered accounting and audit firms to a total of 37. Graph 4.1 depicts the number of firms with either 1-2 principals, 3-4 principals and 5 or more principals. From the graph, as was the case in 2007, one can note that the majority of firms are made up of 1-2 principals.

Graph 4.1



During the year, a number of changes have been brought about to the composition of firms registered with the Board apart from the dissolution and formation of additional partnerships. During the year, the partner structures of a number of firms have been changed and 3 partnerships have changed their names. Graph 4.2 highlights the main changes in the firm's structure that arose between 2008 and the prior year.

Graph 4.2

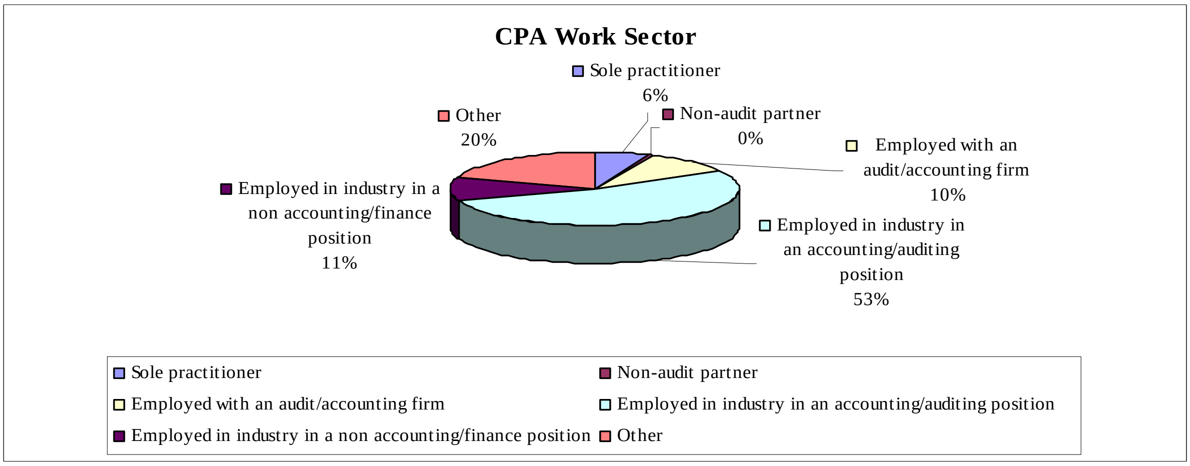


Based on the declarations made in the Annual Returns, Graphs 4.3 and 4.4 depict where warrant holders and holders of practicing certificates are employed. As was the case in 2007, one can note that the majority of warrant holders are employed in industry in an accounting or auditing position. Additionally, 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.

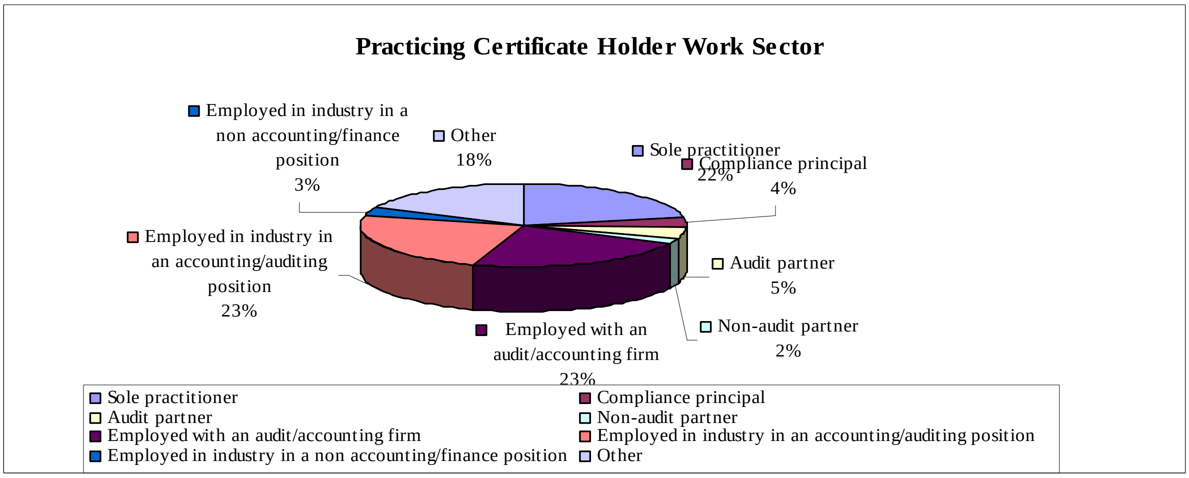
In regard to CPA warrant holders there are 16 full-time sole practitioners and 20 part-time sole practitioners. Furthermore, practicing certificate holders falling subject to Quality Assurance Reviews can be analyzed as follows: 70 full-time sole practitioners; 102 part-time sole practitioners; and 37 firms.

From the annual returns submitted, it was noted that 18% of warrant and practicing certificate holders have encountered difficulties in fulfilling their Continued Professional Education (CPE) requirement. Although this is slightly less than the prior year this level 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 4.3



Graph 4.4



It is of importance to note that the above information is based on data compiled from the 2007 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.