Accountancy Board

Quality Assurance

2009
ANNUAL REPORT

(issue date - March 2010)

CONTENTS

CHAIRMAN'S STATEMENT

I am honoured to be able to present the third Annual Report issued by the Accountancy Board. Since my appointment as Chairman of the Accountancy Board, on the 24th April 2009, I moved into Joseph Zammit Tabona's shoes as from this date. Joseph Zammit Tabona had served the Accountancy Board as Chairman for over 10 years. He will undoubtedly be remembered for his leadership and drive – at a time when the profession was passing through, and still is passing through truly exciting times. Joe was part of all this change. I thank him for the sterling work, his time and effort as Chairman of the Accountancy Board for all those years before taking up his post as the Maltese High Commissioner in London.

In 2008, and the earlier part of 2009, 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 16th July 2008. This bill was published on the 14th August 2008 and the effective date of this new legislation was the 1st October 2008 as notified in the Government Gazette of the 24th October 2008. The four amended directives to the Accountancy Profession Act were published on the 13th March 2009. The publication of these directives finally fully transposed the 8th EU Directive, better known as the Statutory Audit Directive.

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

Legal Notice 51 of 2009 issued on the 24 February 2009 gave birth to General Accounting Principles for Smaller Entities (GAPSE) - the main scope of which legislation was to make the financial reporting by smaller entities as defined in the Legal Notice itself less onerous than those as previously required by IFRSs. One expects that many companies in Malta fall within the scope of this new legislation and one augurs that a number of these companies will take up this option to report under GAPSE.

March and April of 2009 saw a concerted effort by all professions in Malta to transpose into parent legislation, the provisions of the EU Services in Internal Markets Directive. Again a task force was set up to deal with this new legislation to ensure that Malta meets the transposition deadline of the 28th December 2009.

I take this opportunity to thank all members of the Accountancy Board who have in some way or another made this massive change in legislation possible. 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 Audit Regulatory Committee, Accounts Regulatory Committee & Inspections Co-operation sub groups. These meetings at European level ensure smooth and efficient co-operation amongst public oversight bodies within Member States and with third countries. The Commission, through the EGAOB, led a number of discussion meetings with FEE, the European Contact Group and other European Associations on quality assurance issues. On the 15th March 2007, the Accountancy Board applied for recognition by IFIAR – The Independent Forum of Independent Audit Regulators which forum was set up in Paris on the 16th September 2006. Malta was accepted as a member country of IFIAR on the 27th August 2009.

The Accountancy Board has also been working closely with the MFSA throughout 2009 and there is still a lot of scope for this collaboration with the Authority.

I am pleased to say that to date 1,466 (96%) of the 2008 annual returns sent out to warrant holders in December of 2008 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 July of last year, four meetings have been held. These focused on disciplinary action to be taken against warrant holders who have failed to submit their Annual Returns and pay Annual Registration and Regulatory Fees. We are now at a very advanced stage of this process and very shortly disciplinary action will be taken against these defaulters.

In 2009, the Quality Assurance Unit (QAU) carried out 56 monitoring visits. This brings the total number of visits carried out since February 2007 to 131. The QAU should be completing its first full cycle of visits by next year. These visits spanned from part time sole practitioners to Big 4 firms. The files reviewed were those of listed companies as well as those of small family owned companies. Of these visits, 121 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.

In 2009 the financial crisis, which hit both sides of the Atlantic, twelve months earlier, still persisted and many fora have been held and literature written on the subject. Here in Malta, we did not go unscathed by this phenomenon but when compared to other countries, I believe that, so far, we weathered the storm well and with the minimum of damage. Financial services did feel the pinch but perhaps not to the same extent as that of the tourism and manufacturing industries.

It is my firm belief that, particularly in situations like these, one calls for more vigilance and transparency. Our profession is undoubtedly one of the more regulated professions. The Accountancy Board and the Quality Assurance Oversight Committee play an important role in serving the public interest. As regulators we seek to strengthen accountability and reinforce trust and confidence in financial reporting and corporate governance.

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

Undoubtedly, there will be new challenges ahead of us which we will need to address – but these will be taken within our stride as we have done in the past. The past three years, in particular, have seen radical changes within the Accountancy and Audit Profession – changes to which, the profession, in general, has responded favourably. We are small and adapt to changes much more expeditiously than larger jurisdictions. Academically our standards are of the highest levels and we should never underestimate the importance of this fact. Corresponding with other network firms across the globe, and our ability to communicate in different languages, also contributed to the versatility of our profession. Equally important however, is that globalization has given rise to a more pronounced need to adhere to the common high quality and ever changing auditing and accounting standards.

Charles Rapa
Chairman – Accountancy Board

INTRODUCTION & OVERVIEW

Since its establishment in 1979, the Board has been responsible for regulating the accountancy profession in the public interest and as set out in the Accountancy Profession Act, CAP 281 has been entrusted with the following functions:

- the consideration of applications for the issue of warrants or practising certificates and to advise the Minister;
- dealing with cases of professional misconduct and other disciplinary proceedings in respect of warrant holders or holders of a practising certificate including cases leading to the suspension or withdrawal of any warrant or practising certificate issued;
- taking such measures as may be reasonably necessary to protect the public interest and the integrity of the profession including the placing of restrictions, the imposition of fines and other similar measures on warrant holders and holders of a practising certificate;
- advising or making recommendations and expressing its views to the Minister;
- carrying out all such things as may be necessary to meet the obligations arising from Directive 2006/34/EC;
- establishing procedures for the registration of warrant holders and practising certificate holders;
- the operation of an appropriate system of quality assurance;
- the publication of guidelines on the interpretation of the Accountancy Profession Act and the regulations and directives issued under it;
- the maintenance of a register of warrant holders, practising certificate holders, third-country auditors and third country audit entities; and
- such other functions arising from any law or as may be delegated to it by the Minister under the Accountancy Profession Act.

In line with Article 7(19 & 20) of the Accountancy Profession Act, CAP 281, the Board is required to publish by not later than 31st March an annual report including details of its annual work programme, activity reports, a description of the work carried out by the disciplinary committee, a summary of the work carried out in respect of quality assurance and such other things which the Board deems relevant.

This is the third Annual Report issued by the Board to comply with such requirements.

This report is structured under the following sections:

- *Sections 3 to 7* – give a brief overview of the composition, frequency of meetings, summary of activities carried out during 2009 and plans for 2010 pertaining to the Accountancy Board, Disciplinary Committee, Quality Assurance Oversight Committee, Legislative Clarifications Sub-Committee and Investigation Committee respectively; and
- *Section 8 - Profile of the audit and accounting profession* provides an overview of the audit and accountancy profession in Malta and of the new warrants and practising certificates issued during 2009.

ACCOUNTANCY BOARD

3.1. COMPOSITION

From the beginning of 2009 up until 24th April 2009, the Accountancy Board was composed of the following Board members:

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

Members
Mr. Peter J Baldacchino, M.Phil (Lough), FCCA, FIA, CPA;
Mr. Mario P. Galea FCCA, CPA, FIA;
Mrs. Helen Meli Attard FIA, CPA, CSA, MIM, MIT, 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

Change in Accountancy Board Composition

However with effect from 1st October 2008, a legal notice dated 24th 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 now consists 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.

Thus to meet these new legislative requirements, the Minister of Finance, the Economy and Investment on 24th April 2009, appointed the following Board members:

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

Members
Mr. Peter J Baldacchino, M.Phil (Lough), FCCA, FIA, CPA;
Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);
Mr. Simon Flynn FCCA, BA(Hons)Accty., FIA, CPA;

Mr. Mario P. Galea FCCA, FIA, CPA;
Ms. Elvia George BA(Hons) Accty., FIA, CPA;
Ms. Angele Grech BA(Hons) Accty., CPA;
Mr. Godfrey Leone Ganado FIA, CPA;
Ms. Helen Meli Attard FIA, CPA, CSA, MIM, MIT, B.A.(Hons Acc.), M.A. (Financial Services);
Mr. Benjamin Rizzo ACMA, FIA, CPA; and
Mr. Bernard Scicluna FCCA, FIA, FMIT, CPA

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

Secretary
Mr. Joseph Croker

Left to right: -
Mr. Joseph Croker,
Mr. Peter J. Baldacchino,
Mr. Simon Flynn,
Ms. Angele Grech,
Ms. Elvia George,
Mr. Benjamin Rizzo,
Mr. Godfrey Leone Ganado,
Mr. Charles Rapa,
Mr. Mario P. Galea,
Ms. Helen Meli Attard,
Mr. Bernard Scicluna

Not in attendance:
Dr. Bernice Buttigieg,
Mr. John Zarb,
Mr. Anthony Zarb

3.2. FREQUENCY OF MEETINGS

During 2009, the Board met on ten occasions in total.

3.3. COMMITTEES

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

To this effect during 2009, the Accountancy Board had four such Committees to assist it in discharging its functions and responsibilities:

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

The structure and activities of such Committees can be found in Sections 4 to 7 of this report.

In addition, as was the case in 2008, the Accountancy Board has delegated its monitoring of continued professional education (CPE), as contemplated under Directive 1, to the Malta Institute of Accountants.

3.4. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2009

The Board has been involved in a number of activities during 2009. The main activities have been summarized below.

- ***Attendance and participation in numerous meetings in regard to the transposition of the EU Services in Internal Markets Directive and EU Recognition of Professional Qualifications Directive.***

  Throughout 2009, Government held a number of meetings for competent authorities in relation to the EU Services in Internal Markets Directive with the aim of ensuring transposition of this Directive by the transposition date of the 28th December 2009.

  Another EU Directive which had been in force for a number of years but not formally transposed into the Accountancy Profession Act, its Regulations and Directives was the Professional Qualifications Directive. As there is some inter linkage between these two Directives, it was decided to transpose these two Directives together.

  With the involvement of the Board's legal advisors, the necessary amendments have been made to the Accountancy Profession Act which were approved on the 29th December 2009 and published in the Government Gazette. During the early part of 2010, the amendments made to the Accountancy Profession Act Regulations as well as Directive 1(Continued Professional Education), 3(Annual Return and Registration Fees) and 4(Quality Assurance) have since been approved by Cabinet.

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

  Throughout the year, a number of applications were received for both warrants and practising certificates in auditing. The Board, as per the requirements of the EU Statutory Audit Directive, which were transposed, has revised its evaluation criteria for practising certificate applications received.

  Furthermore, as firms may now be structured as limited liability companies, the Board had received a number of information requests in this regard. By the end of the year, one new audit and accountancy firm was set up as a limited liability company on the 15th December 2009.

  For more information pertaining to the issue of CPA warrants and practising certificates in auditing, please refer to Section 8 of this report.

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

  Another new requirement brought about by the transposition of the EU Statutory Audit Directive, was the publication by 31st March 2009 of a transparency report by auditors of public interest entities. This deadline was met by the majority of auditors of public interest entities. However two firms and one sole practitioner had not published their transparency report by the required date. By the end of April 2009, all transparency reports were in place.

The Board vetted such documents to ensure that the requirements set out in the Accountancy Profession Act were duly detailed in the published transparency report.

- ***Setting up of a Clarification Sub-Committee***

  During 2009, subsequent to amendments being made to the Accountancy Profession Act, its Regulations and Directives, a sub-committee was set up whose main aim was to clarify and if required, amend certain areas identified in the Accountancy Profession Act, its Regulations and Directives.

  For more information pertaining to the work carried out by this Sub-Committee, please refer to Section 6 of this report.

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

  The Board dealt with three complaints during the year, one such complaint was against an accountant who was not a warrant holder and thus no further action was taken. Another case was referred to the Investigative Board which was set up by the Board. In the third complaint, the Board ruled in favour of the warrant holder. No complaints were referred to the Board's Disciplinary Committee.

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

  Although the warrant holder portal initiative has been in the pipeline for a number of years now, this project has not yet been brought to its fruition. A number of difficulties and delays were encountered. After eighteen months of consultation with MITA and the appointed software developer, the original IT project, specific to the needs of the Board evolved to include other Government warranting bodies. This new project commenced in June 2008. Since this date, a number of meetings have been held between the Board, MITA and the software developer. However until year end, the IT project was still in progress.

- ***Maintaining a close working relationship with the Malta Institute of Accountants.***

  Over the years, the Malta Institute of Accountants (MIA), the Board and the QAU have fostered a close working relationship.

  The QAU in collaboration with the MIA have held the fourth annual Quality Assurance Workshop in October. Two members of the QAU and two Board members as well as the Chairman took part, in addition to the other speakers present.

  In addition, during the year, the QAU contributed to the November MIA journal the Accountant. This article was entitled "The Independent Auditor's Report – A Different Perspective".

  Furthermore, during 2009, the QAU provided the MIA with a number of weaknesses identified during QAU visits. The MIA, during the latter part of 2009, started addressing these weaknesses by providing detailed seminars focusing on these areas.

QAU reviewers were also included in a number of MIA committees dealing with areas such as Professional Qualifications, Continued Professional Education, Ethics, GAPSE, Accounting and Auditing.

In addition, as in previous years, the Board has delegated the monitoring of CPE to the MIA.

- ***Fostering a close working relationship with the Malta Financial Services Authority (MFSA).***

  A number of discussions were held to determine how the Accountancy Board and the MFSA could provide each other with information so that both bodies could ensure better regulation. From an exercise carried out, it was noted that there were a number of practising certificate holders who signed audit reports which were submitted to the MFSA when these persons declared themselves as non-practitioners in the Annual Return submitted to the Accountancy Board. As a result a number of practising certificate holders were contacted and in some cases fined in accordance with Directive 3 of the Accountancy Profession Act. This was due to the fact that incorrect declarations were being made by practitioners or due to the fact that practitioners had not informed the Board that they were in practice during the year as they had not submitted their Annual Return. By carrying out this exercise, the Board will ensure that all audit practitioners will be subject to a quality assurance review.

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

  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. These meetings at European level ensure smooth and efficient co-operation amongst public oversight bodies within Member States and with third countries. The Commission, through the EGAOB, led a number of discussion meetings with FEE, the European Contact Group and other European Associations on quality assurance issues. There are today, other than the EGAOB Plenary Committee itself, five other sub-committees of the EGAOB. These include the ISAs subgroup, Intra EU Co-operation, Third Countries, the subgroup on inspections and the Audit Regulatory Committee. Ten meetings were attended during 2009. A representative of the Accountancy Board also attends meetings of the Accounting Regulatory Committee. Four meetings were attended during 2009. All of these meeting were held in Brussels.

- ***Attendance and participation at the conference held by the International Forum of Independent Audit Regulators (IFIAR).***

  On the 15th March 2007, the Accountancy Board applied for recognition by IFIAR. Malta was accepted as a member country on the 27th August 2009. A representative of the Accountancy Board attended the plenary meeting that was held in Singapore during September 2009. An inspections workshop was held in Paris during February 2010.

- ***Assistance provided to Turkish Cypriots.***

  During the year, the Board in collaboration with the MIA and the MFSA, held a 1 day workshop with our Turkish Cypriot counterparts to go through the Maltese regulatory framework as well as the methodologies used by the QAU team to ensure quality assurance during inspection visits.

- ***Provision of an advisory role with Government on all issues relating to accounting and auditing.***

3.5. PLANS FOR 2010

In 2010, the Accountancy Board intends to continue and start a number of initiatives which include:

- ***The finalisation of the warrant holder portal project.***

  As stated above, this project has been in progress for a number of years, but it is hoped that during 2010 this portal will be operational. The 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. However, the second part of this project, which concerns report generation and submission analysis, should be completed at a later stage.

- ***Identify and register firms and companies providing accounting and audit services which to date have not been registered themselves with the Board.***

  During 2010, the Board will seek to ensure that accounting and audit providers will be duly registered with the Board.

  In regard to persons signing off audit reports, the Board has already commenced this process with the MFSA, but during 2010 as more financial statements are filed with the Registry this analysis process with continue. Any discrepancies will be followed up.

  In relation to persons providing or holding themselves out to provide accounting services, the Board has come across a number of entities and individual warrant holders who state that they provide accounting services but at the same time are not duly registered with the Board. It is presumed that if such entity or individual warrant holders provide these services, then the services so provided would include those as outlined in Article 3(2) of the Accountancy Profession Regulations. In such cases, these entities and individuals would be regulated by the Accountancy Board and must therefore be registered. There are also instances where non warrant holders promote themselves as providing accounting services.

  The identification and registration of all accounting service providers is envisaged to be a lengthy process and cases will be investigated on an ad hoc basis.

- ***Review of current work practices to ensure that these are in line with the transposed EU Directives.***

  Due to the numerous amendments which have been made to the Accountancy Profession Act, its Regulations and Directives, current work practices will have to be revised to bring these practices in line with the requirements set out in the transposed Act. In this regard the Clarification Sub-Committee will address any matters arising.

- ***Carrying out of a number of initiatives with the MFSA.***

  Throughout 2010, it is hoped that further initiatives with the MFSA will be brought to fruition. These initiatives will again focus on ensuring that proper and complete declarations are made by warrant holders when submitting their annual return.

- ***Approval of amendments to the Accountancy Profession Regulations and GAPSE***

  As already detailed earlier, during the first part of 2010, amendments to fully transpose the EU Services in Internal Markets Directive and EU Recognition of Professional Qualifications Directive have been approved by Cabinet.

  Furthermore, the amendments to extend the GAPSE transitional provision from financial reporting periods from 31 December 2009 to 31 December 2010 came into force on 1st January 2010.

- ***Revision of Directive 2 – Code of Ethics***

  During July 2009, the revised Code of Ethics for Professional Accountants prepared by the International Ethics Standards Board for Accountants was issued. As this Code is effective form 1 January 2011, the Board is to revise Directive 2 – Code of Ethics.

DISCIPLINARY COMMITTEE

4.1. COMPOSITION

In accordance with the requirements set out in Article 7(2) of the Accountancy Profession Act, the Accountancy Board appointed individuals to be represented on the Disciplinary Committee. 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 2009, the composition of the Disciplinary Committee was made up of newly appointed members which were as follows:

Chairman
Mr. Godfrey Leone Ganado FIA, CPA

Members
Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);
Mr. Marcel Cassar MBA (Manchester/Wales), FIA, CPA;
Ms Helen Meli Attard FIA, CPA, CSA, MIM, MIT, B.A.(Hons Acc.), M.A. (Financial Services); and
Mr. Martin Said FCCA, FIA, CPA.

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

Left to right: -
Mr. Marcel Cassar,
Ms. Karen Sultana,
Mr. Martin Said,
Mr. Godfrey Leone Ganado

Not in attendance:
Dr. Bernice Buttigieg,
Ms. Helen Meli Attard

4.2. FREQUENCY OF MEETINGS

The Committee held one meeting in August.

4.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2009

4.3.1. Disciplinary action against an audit practitioner

During the year, the Committee met to discuss a sole practitioner who had in prior years, undergone a Quality Assurance Visit. This practitioner was scheduled for a follow up visit in 2009, however on a number of occasions the practitioner was postponing the commencement of such follow-up visit. A meeting was held with this practitioner, wherein the date of the follow up visit was fixed. The Committee discussed with the practitioner that should the practitioner fail to comply with the requests made by the Quality Assurance Unit that disciplinary action would be taken.

Subsequent to this meeting, the practitioner underwent a follow-up visit as agreed with the Disciplinary Committee. During the early part of 2010, the results of this visit will be reviewed by the Quality Assurance Oversight Committee and appropriate action will be taken, if necessary.

4.3.2. Non compliance with Directive 3 and Directive 4

As illustrated in Table 4.1, up until the end of the year, a number of warrant holders and practising certificate holders were in default of the Accountancy Profession Act and its Directives, in spite of the fact that a number of reminder letters were sent out warrant holders and practising certificate holders to remind them of their legal obligations.

This was due either to the non-submission of annual returns, non-payment of the annual registration fee as well as non-payment of the quality assurance regulatory fee.

Table 4.1

	Number of Defaulters
Annual Return 2006	25
Annual Return 2007	43
Annual Return 2008	61
Annual Registration Fee 2007	20
Annual Registration Fee 2008	31
Annual Registration Fee 2009	55
Quality Assurance Regulatory Fee 2008 - Part-time sole practitioners	1
Quality Assurance Regulatory Fee 2009 - Full-time sole practitioners	1
Quality Assurance Regulatory Fee 2009 - Part-time sole practitioners	1

It was agreed that these defaulters would be referred to the Disciplinary Committee to discuss sanctions that will be taken against defaulters.

4.3.3. Disciplinary fines imposed

An exercise carried out by the Board during 2009 resulted in eight practising certificate holders being contacted in November and fined €232.94 in accordance with Directive 3 of the Accountancy Profession Act. This was due to the fact that incorrect declarations were made by practitioners or due to the fact that practitioners had not informed the Board that they were in practice during the year as they had not submitted their Annual Return.

Up until February 2010, seven out of the eight practising certificate holders had settled the fine imposed. The remaining fine outstanding will be follow up and if necessary, further disciplinary action will be taken during 2010.

4.3.4. Complaints

No complaints had been referred to the Disciplinary Committee.

4.4. PLANS FOR 2010

- ***Initiation of disciplinary proceedings against defaulters***

  During 2010, disciplinary proceedings will commence for those warrant holders who have failed to submit annual returns, pay annual registration fees as well as quality assurance regulatory fees in prior years. These proceedings could lead to warrant and practising certificate suspensions or the withdrawal of any warrant or practising certificates issued under the Act.

- ***Amendments to disciplinary procedures***

  Furthermore, during 2010, the Accountancy Profession Act, Regulations dealing with disciplinary procedures to be adopted by the Board (or its Committees) will be amended in relation to proceedings leading to the revocation, suspension or to other conditions, as well as the imposition of administrative fines, reprimands or other measures on practising certificates and warrant holders.

QUALITY ASSURANCE OVERSIGHT COMMITTEE

5.1. COMPOSITION

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

During 2009, the QAOC was made up of five Committee members who were as follows:

Chairman
Mr. Joseph Zammit Tabona FCA, FIA, CPA, AMIT.KM *
Mr. Charles Rapa FCCA, FIA, CPA, MBA(Brunel/Henley), MIM, MCMI *

Members
Mr. Peter J. Baldacchino M.Phil (Lough), FCCA, FIA, CPA;
Ms. Heather Briers FCA, (Director Professional Standards, CARB);
Mr. Alfred Lupi FCCA, BSc Econ, FIA, CPA; and
Dr. Michelle Mizzi Buontempo LL.D., M.A. (Fin. Serv.), (Deputy Director, Company Compliance Unit, Malta Financial Services Authority)

Secretary
Mr. Marcel P. Coppini FCCA, FIA, CPA

** Mr.Charles Rapa was appointed as Chairman instead of Mr. Joseph Zammit Tabona on 24th April 2009.*

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

5.2. FREQUENCY OF MEETINGS

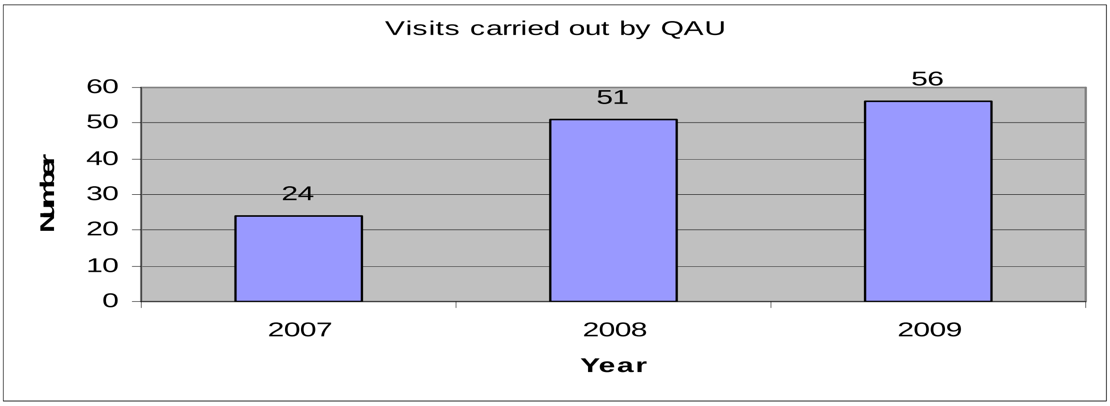
The Committee held regular meetings (typically every two months). During 2009, the QAOC conducted a total of six meetings.

5.3. SUMMARY OF ACTIVITIES, VISITS AND FINDINGS DURING 2009

5.3.1. Quality assurance visits

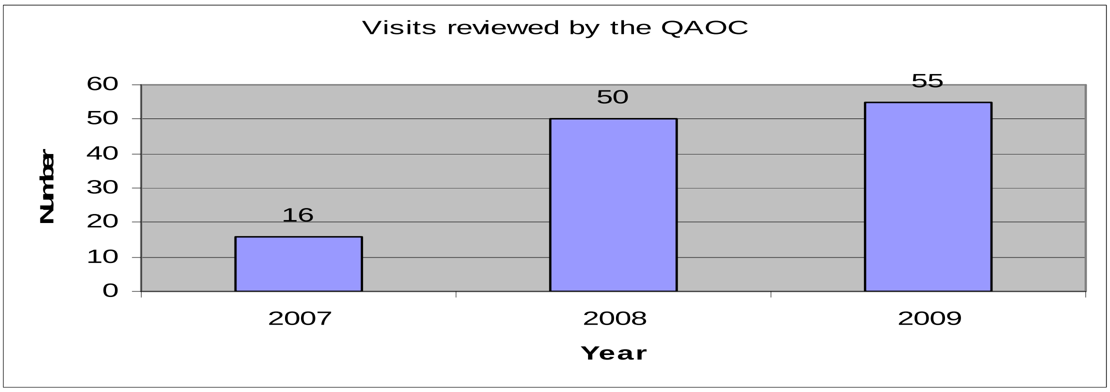
Based on declarations made in the 2008 Annual Returns, locally there were 200 firms and sole practitioners providing statutory audit services. During 2007, the Quality Assurance Unit (QAU) started carrying out quality assurance visits and to date the total number of visits carried out amounted to 131. This is illustrated in Graph 5.1.

Graph 5.1 – Visits carried out by the QAU



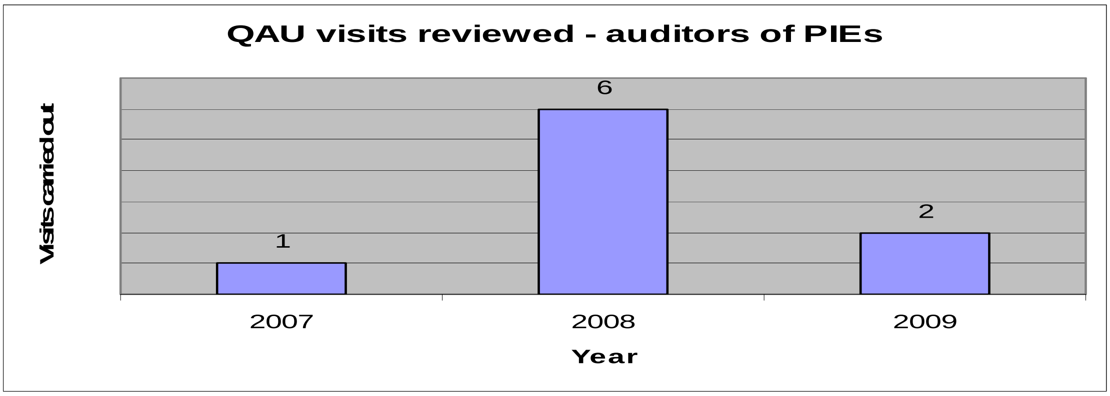
Once a quality assurance visit has been concluded by the QAU, it is passed on to the QAOC for their consideration. Since 2007, a total of 121 visits have been concluded by the QAU and reviewed by the QAOC. This is illustrated in Graph 5.2 below.

Graph 5.2 – Visits reviewed by the QAOC

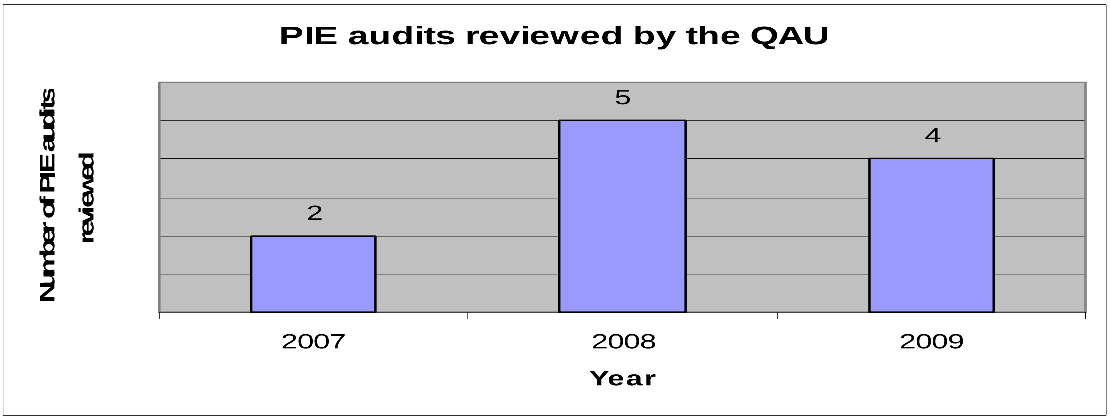


At year end, there were 9 auditors/audit firms of public-interest entities. As required by the EU Statutory Audit Directive which has been transposed locally, the QAU has taken a policy of visiting the auditors of public-interest entities every three years. By the end of 2009, the QAU had visited all auditors/audit firms auditing public-interest entities. All of these reports have been reviewed by the QAOC. This can be seen in Graph 5.3. Furthermore to date, the QAU has reviewed the audits of 11 public-interest entities as illustrated in Graph 5.4. This equates to approximately 15% of all local public-interest entities identified by the MFSA.

Graph 5.3 – Visits to auditors of Public-Interest Entities



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



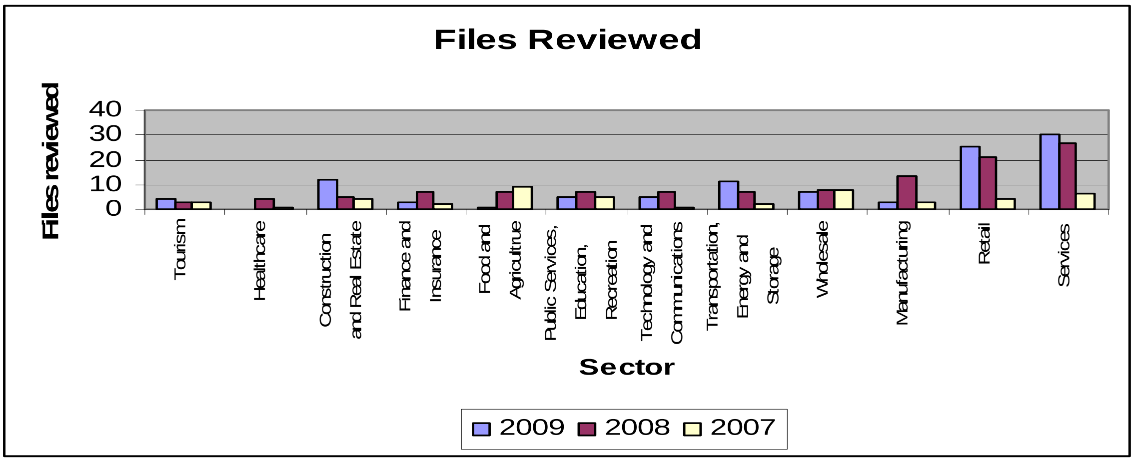
5.3.1.1 Conclusion of quality assurance reviews during 2009

During 2009, the QAU was made up of the Head of Unit, 3 reviewers and one administrative person. The reviewers as well as the Head of Unit are all qualified and have a practising certificate in auditing. Throughout 2009, the QAU carried out 56 visits. This represents a slight increase over the prior years as shown in Graph 5.1. The QAOC reviewed 55 visits as shown in Graph 5.2 (of which eight were visits carried out by the QAU during 2008) which are analyzed as follows:

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

Throughout the year, the QAU reviewed 106 statutory audits of financial statements in total when compared with 116 in 2008 and 48 in 2007. The following is a comparative analysis of the statutory audits reviewed since 2007 to 2009, based on the industry segment:

Graph 5.5 – Audit files reviewed by the QAU



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

5.3.1.2 Overview of reports

5.3.1.2.1 Report ratings

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

Throughout the year, the QAU has noted an overall improvement. Although the majority of the weakness noted were similar to those noted in prior years, the frequency of occurrence of these deficiencies has decreased. This has reduced the number of findings noted in the QAOC reports and thus has resulted in less confirmations as well as conditions and impositions being imposed by the QAOC.

At the end of 2009, the QAOC had asked practitioners/firms on 82% of visits for just confirmations as opposed to 76% in 2008. In addition, conditions including impositions such as follow up visits and external audit compliance reviews and external cold file reviews were sanctioned on 18% of practitioners visited in 2009 when compared to 24% in 2008. Considering this oversight body has been set up within the last three years, the QAOC is pleased with the overall results and augurs that 2010 will be even better.

5.3.1.2.2 Report structure

At the final stage of the QAU visit, a summary document of the findings identified during the course of the visit is prepared by the QAU reviewer on the quality assurance visit. The practitioner or firm is given fourteen days to respond to this document, which is known as the Closing Meeting Notes. On receipt of the practitioner's or firm's responses to this document, a report is prepared for the consideration of the QAOC based on the findings identified during the QAU visit and responses received from the practitioner or firm in the Closing Meeting Notes. This QAOC report is a relatively standardised document, as the relevant findings are structured under six headings as follows:

- ***Independence & Ethics***

  This section of the report addresses compliance with Directive 2 of the Accountancy Profession Act - the Code of Ethics.

- ***File Findings***

  In this part of the report compliance is assessed with International Standards on Auditing on audit files selected for review.

- ***Statutory/IFRS Compliance***

  Under this heading any non compliance with the Companies Act and IFRS as well as any other relevant legal framework would be noted.

- ***Audit Report***

  Compliance with the requirements of ISA 700 and 701 is assessed and any departures are noted in this part of the report.

- ***Quality Control***

  In this section of the report, ISQC1 requirements are addressed.

- ***Whole Firm Matters***

  Other requirements emanating from the Accountancy Profession Act and Directives are dealt with in this section.

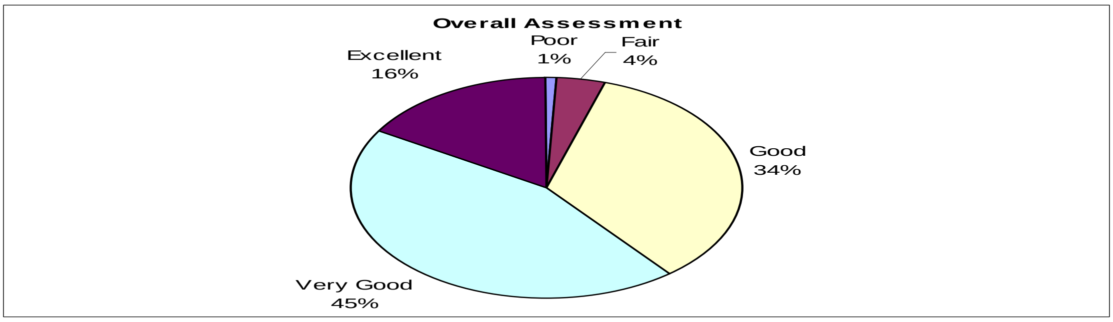
5.3.2. Evaluation forms

On completion of a quality assurance visit, practitioners and firms are provided with an evaluation form which they are required to fill in and return to the QAU. This evaluation form enables an analysis of the quality assurance process to be carried out.

Although a good proportion of practitioners and firms have filled in this evaluation form, not all such forms were being submitted to the QAU, in fact out of the 55 forms given to practitioners and firms a total of 47 evaluation forms (85%) were received back.

Overall feedback received was very positive which is encouraging. Graph 5.6 provides a graphical illustration of the summary of results:

Graph 5.6 – Evaluation Form Summary



5.3.3. Chartered Accountants Regulatory Board of Ireland (CARB)

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

In addition, during 2009, CARB has also reviewed the procedures adopted by the QAU as well as reviewed 11 completed quality assurance visits. The results of this review are to be assessed in 2010.

During the year, QAU reviewers attended two separate training activities carried out in Belfast, with our CARB counterparts, one in February and the other in May. In addition CARB have reviewed a number of QAOC reports as well as assisted in a Big 4 visit carried out during the year. It is envisaged that this support will continue in the upcoming year.

5.3.4. Team meetings

In addition to team meetings attended in Belfast, Northern Ireland as part of the Unit's continuous training programme, locally two team meetings were organised. One was held in March while the other was carried out in November. These meetings enabled reviewers to discuss methodologies and ensure that quality reviews are carried out consistently by each of the reviewers.

5.4. General overview of main weaknesses encountered during visits

Even though the extent and types of weaknesses identified vary from visit to visit, a description of the most common deficiencies noted during the course of the 2009 QAU visits have been included below. Based on these findings, the MIA has organised a number of seminars addressing the following QAU findings which were held during 2009 and the remainder will be held during 2010.

Independence and Ethics

Article 153 of the Companies Act requires that: 'an auditor must at all times adhere to the rules of independence and professional ethics set out in the Code of Ethics and any other regulations, directives or guidelines issued from time to time in terms of the Accountancy Profession Act.'

However, as in past years, the QAU encountered a number of weaknesses in regard to independence issues such as the provision of non-assurance services (non PIEs) and long association.

Furthermore during the year, a few instances were noted where practitioners had family and personal relationships with their audit clients.

Article 8.134 of Directive 2 - Code of Ethics requires that 'when an immediate family member of a member of the assurance team is a director, an officer or an employee of the assurance client in a position to exert direct and significant influence over the subject matter of the assurance engagement, or was in such a position during any period covered by the engagement, the threats to independence can only be reduced to an acceptable level by removing the individual concerned from the assurance team. The closeness of the relationship is such that no other safeguard could reduce the threat to independence to an acceptable level. If application of this safeguard is not used, the only course of action is to withdraw from the assurance engagement.'

File Findings

Whilst carrying out the QAU visits during 2009, it was noted that in the majority of cases, practitioners and firms were making use of audit programmes. In a significant amount of the reviews carried out, the ACCA audit programme was being followed. In some instances, the ACCA audit programme was tailored by the practitioner – however in such cases care must be taken to ensure that all relevant ISA requirements are being addressed during the course of the audit.

While there has been some progress in addressing findings as noted in prior Annual Reports, there are still weaknesses which repeat themselves in a number of audit areas. As in prior years, the main ISAs which were breached by the QAU reviewers were ISAs dealing with the planning and completion considerations.

The QAU is aware that small practices face difficultly in keeping abreast of changing audit requirements, however local training institutions have carried out a number of training activities to address matters noted during the QAU visits.

The most common weaknesses noted during the course of the QAU visits carried out during 2009 have been identified and commented on as follows:

(a) Planning

Although documentation of planning considerations has improved during the year, it was noted that documentation of the following International Standards on Auditing was still not apparent in the audit file or in some cases insufficient:

- *ISA 240 – The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statement*
  For a number of audit files reviewed, no documentation was found in regard to the auditor's consideration of the risk of material misstatements in the financial statements due to fraud. In addition, a number of auditors did not discuss with management, as part of its process of understanding the entity and its environment, to determine whether they had knowledge of any actual, suspected or alleged fraud affecting the entity.

- *ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements*
  Consideration of laws and regulations continues to be an ISA which is not adequately considered or documented in the audit files of many practitioners. Practitioners should gain a general understanding of the legal and regulatory framework which affects the company and how the company adheres to such legislation and regulatory framework. Although compliance with laws and regulations pertaining to the company's industry is management's responsibility, 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.

- *ISA 315 - Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*
  It was noted that on a number of audit files reviewed, inadequate documentation was included in the audit file regarding the key elements of the understanding obtained

pertaining to the entity and its environment to assess the risks of material misstatement of the financial statements; the sources of information from which the understanding was obtained; and the risk assessment procedures identified.

For significant risks identified, the auditor is required to evaluate the design of the entity's related controls, including relevant control activities, and determine whether they have been implemented.

Furthermore, for practices which involve a number of people on the engagement team, the auditor is required to document his discussion with the engagement team regarding the susceptibility of the entity's financial statements to material misstatement due to error or fraud, and the significant decisions reached.

- *ISA 320 – Audit Materiality*
  In a number of situations, practitioners had not established materiality levels. Auditors are required to assess audit materiality in conjunction with audit risk. Calculating 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.

- *ISA 520 - Analytical Procedures*
  In some instances, preliminary analytical procedures were not carried out during the planning stage of the audit. Preliminary analytical procedures aid the auditor to obtain an understanding of the entity and its environment. Furthermore, application of analytical procedures may indicate aspects of the entity of which the auditor was unaware and will assist in assessing the risks of material misstatement in order to determine the nature, timing and extent of further audit procedures.

- *ISA 570 - Going Concern*
  During the planning stage, as part of the auditor's understanding of the entity, the auditor should consider if the going concern assumption is appropriate or whether there are events or conditions and related business risks which may cast significant doubt on the entity's ability to continue as a going concern.

  As in prior years, although some practitioners have stated that this consideration would have been made, no documentation was noted on file.

(b) Fieldwork

During the fieldwork stage of the audit the main deficiencies were noted in auditing standards dealing with audit documentation, audit evidence and audit sampling as detailed below.

- *ISA 230 – Audit Documentation*
  Documenting the work carried out during the course of the audit on a timely basis, is fundamental to a properly carried out audit as this helps enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained during the course of the audit and the conclusions reached before the auditor's report is finalized.

  Although through the use of ISA compliant audit programmes, documentation has improved, a number of instances were noted where documentation was lacking.

- *ISA 500 – Audit Evidence*
  Auditors during the course of carrying out an audit are required to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

  From review of a number of audit files, throughout the year, it was noted that audit evidence which was sufficient and appropriate was not always obtained. In these instances, the reviewers could not establish how the auditor drew his conclusions on which the audit report was based.

- *ISA 530 – Audit Sampling and Other Means of Testing*
  As was the case in prior years, the majority of practitioners reviewed principally use detailed substantive testing as the means of obtaining evidence during the audit. Although a number of practitioners have implemented methodology for the selection of samples in line with ISA 530, other practitioners did not comply with this ISA dealing with audit sampling. Thus the QAU has questioned how the auditor ensured that sufficient and appropriate audit evidence had been obtained.

(c) Completion

As stated earlier, completion procedures still require improvement, in particular in relation to the following areas:

- *ISA 240 – The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*
  As outlined above, in the planning section, consideration of fraud at the completion stage of the audit was also found to be weak on a number of reviews carried out. ISA 240 requires the auditor to consider whether analytical procedures 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.

  Additionally it was noted that in a number of cases, the auditor did not obtain written representations from management specifically addressing fraud.

- *ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements*
  It was noted on a number of audit files reviewed throughout 2009, consideration of laws and regulations was not documented at the completion stage of the audit. By the completion stage of the audit, an auditor should have obtained evidence whether or not the company has adhered to laws and regulations affecting it. Reference should be made to minutes, lawyers' letters, etc to determine any potential area of concern. If instances are noted which may have a material impact on the audit, these should be communicated to management. Furthermore, laws and regulations were not being referred to in the letter of representation.

- *ISA 260 – Communication of Audit Matters with Those Charged with Governance*
  This standard requires that the auditor of an entity should communicate audit matters to those charged with governance either formally through a management letter or else orally. If communication is made orally, the auditor should document any responses received from management on one's working papers.

  During the course of the QAU's visits, it was noted that in a number of instances a management letter was not issued, furthermore although the auditor would indicate that the audit issues had been discussed, no minutes were kept on file evidencing this discussion and the responses received.

- *ISA 560 – Subsequent Events*
  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 significantly impact the financial statements auditor's report.

- *ISA 570* **-** *Going Concern*
  On a number of visits carried out, it was noted that an assessment of going concern was not 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.

  Furthermore, if an audit report modification is required, the auditor should document his considerations in this regard.

Statutory/IFRS Compliance

Based on audit files reviewed during the year, the QAU has noted a number of deficiencies in the form and content of the financial statements. In particular to:

- The contents of the Directors Report;
- Presentation of the financial statements; and
- Omission of a number of accounting policies and notes.

In many instances this was due to the fact that an up to date IFRS Disclosure Checklist or Illustrative set of financial statements were not being used.

In addition, although the Directors' Report is the responsibility of the company's directors, ISA 720 (Other information in documents containing audited financial statements) requires that the auditor should read the other information to identify material inconsistencies with the financial statements. The Directors' Report should also meet 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 from the fact that out of date wording was being used. Furthermore, the report wording often departed from that used in ISA 700 and 701.

Quality Control

During the year, it was noted that a significant number of practitioners and firms had documented policies and procedures in accordance with the requirements found in ISQC 1. However, as in past years, the main weaknesses noted by the QAU reviewers in regard to the documentation and implementation of this document were in two main areas:

- the setting of criteria for engagement quality control reviews; and
- the carrying out of cold file reviews. It was noted that a significant number of practitioners had either not carried out cold file reviews or had failed to document the findings of such reviews. The QAU noted that for those practitioners who did carry out cold file reviews, the majority of these reviews were carried out by external reviewers.

Whole Firm Matters

The main breach noted in this area was in regard to Continued Professional Education (CPE). A number of practitioners did not comply with the minimum required CPE activities as set out in Directive 1 of the Accountancy Profession Act. This resulted in confirmations being sought to ensure that in the coming year any CPE deficiencies noted would be rectified. In a number of reports issued by the QAOC, the underlying cause for the weaknesses identified were a result of the fact that practitioners had not maintained audit competence.

5.5. PLANS FOR 2010

In 2010, the QAOC in collaboration with the QAU aims to achieve the following:

- the QAU is to conclude its first visit cycle of cyclical visits. Thus all remaining practitioners, who have not yet undergone a visit, will be scheduled. It is envisaged that this involves the following visits:
    - 1 Big 4 audit firm;
    - 1 3-4 partner firm;
    - 3 2 partner firms;
    - 13 full-time sole practitioners; and
    - 34 part-time sole practitioners.

- updating the forms required to be filled in by audit practitioners visited

- attend training in Belfast, Northern Ireland

- attend Clarified ISA training

- training of new QAU recruit

- IFIAR inspection workshop in February 2010

LEGISLATIVE CLARIFICATIONS SUB-COMMITTEE

6.1. COMPOSITION

Subsequent to amendments being made to the Accountancy Profession Act, its Regulations and Directives, a sub-committee was set up whose main aim was to clarify and potentially amend certain grey areas identified in the Accountancy Profession Act, its Regulations and Directives. This sub-committee was made up of the following members:

Chairman
Mr. Bernard Scicluna FCCA, FIA, AMIT, CPA

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

Left to right:
Ms. Angele Grech,
Ms. Karen Sultana,
Mr. Bernard Scicluna,
Mr. Tonio Zarb

Not in attendance:
Mr. Marcel Coppini

6.2. FREQUENCY OF MEETINGS

Throughout the year, the Legislative Clarifications Sub-Committee held four meetings.

6.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2009

During the year, the Clarifications Sub-Committee discussed amongst others the following subjects:

- The difference between the definition ‘affiliate’ and ‘connected undertaking’;
- The definition of ‘principal’;
- Professional indemnity insurance requirements; and
- Services which can only be performed by a warrant holder.

Based on these discussions, two documents were prepared. The first, ‘Clarification of the definition of principal and the legal requirements for professional indemnity insurance and the quality assurance regulatory fee’ can be downloaded from the Accountancy Board website. The second entitled ‘Corporate entities and individuals providing accounting services’ was issued during 2010.

6.4. PLANS FOR 2010

During the early part of 2010, Mr. Bernard Scicluna presented to the Board a number of recommendations based on the discussions held during the legislative clarifications sub-committee meetings. On approval, the amendments proposed will be passed onto the Board's legal advisors so that the necessary amendments can be made to the effected legislation.

Furthermore, as a number of amendments are to be made to the Accountancy Profession Act, its Regulations and Directives to bring the Accountancy Profession in line with the EU Directives regulating internal markets and professional qualifications the Sub-Committee will continue analysing local legislation to determine if further clarifications or amendments are necessary. Based on this analysis, suggestions will be made to the Board on an ongoing basis.

INVESTIGATION COMMITTEE

7.1. COMPOSITION

This Committee is made up of three members and is formed on an ad hoc basis. During 2009, two such committees were formed as follows:

Members of First Committee
Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);
Ms. Angele Grech BA(Hons) Accty., CPA; and
Mr. John Zarb FCCA, CPA, FIA

Members of Second Committee
Dr. Bernice Buttigieg LL.D, B.A., M. Jur (EU & Comp. Law);
Mr. Simon Flynn FCCA, BA(Hons)Accty., FIA, CPA; and
Ms. Elvia George BA(Hons) Accty., FIA, CPA

7.2. FREQUENCY OF MEETINGS

Throughout the year, the Investigation Committee held two meetings.

7.3. SUMMARY OF ACTIVITIES CARRIED OUT DURING 2009

During the year, the Committee met twice to discuss two separate complaints lodged with the Accountancy Board. One complaint was resolved, whilst the other was being addressed by the Committee. None of these complaints were referred to the Disciplinary Committee.

7.4. PLANS FOR 2010

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

PROFILE OF THE AUDIT & ACCOUNTING PROFESSION

In line with the functions entrusted to the Board, the Board has considered a number of applications for the issue of warrants and practising certificates.

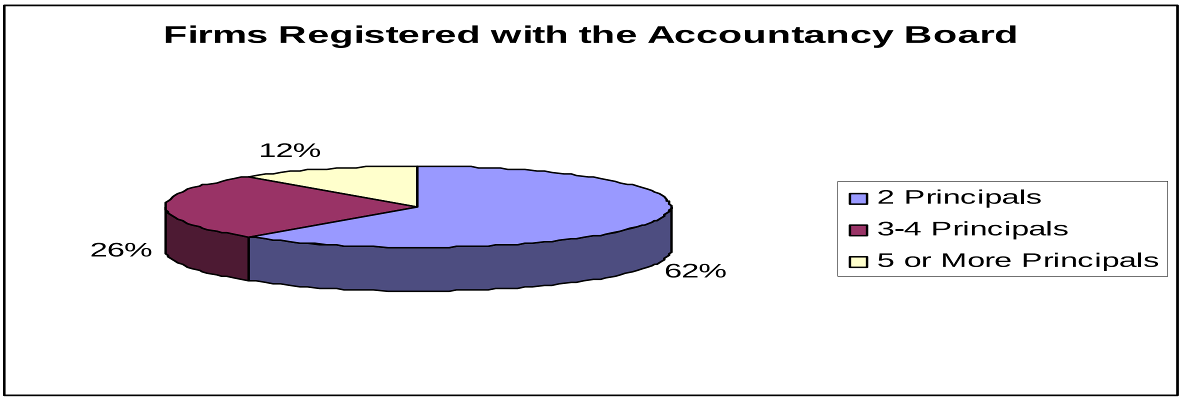
8.1. FIRMS

Through the transposition of the EU Statutory Audit Directive, audit firms may now be structured in a manner such that the liability of its owners is directly or indirectly limited and no longer are restricted to forming civil partnerships. During the course of this year, the Board had received a number of information requests in this regard. By year end, two new audit firms had registered with the Board, one of these firms was set up as a limited liability company on the 15th December 2009.

Furthermore, the Board identified that due to various reasons, a number of registered firms were made up of a single individual. These amounted to 5 in total. Through the course of 2009, the Board decided to reclassify these 'firms' from the list of firms as their present status no longer met the criteria of a firm. The Board had agreed that these individuals would appear on the list of statutory auditors including reference to the trade name they are practising under and which was registered with the Board. Thus at the end of the year, the Board had a total of 34 registered firms.

Graph 8.1 depicts the number of firms with 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 2 principals.

Graph 8.1



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

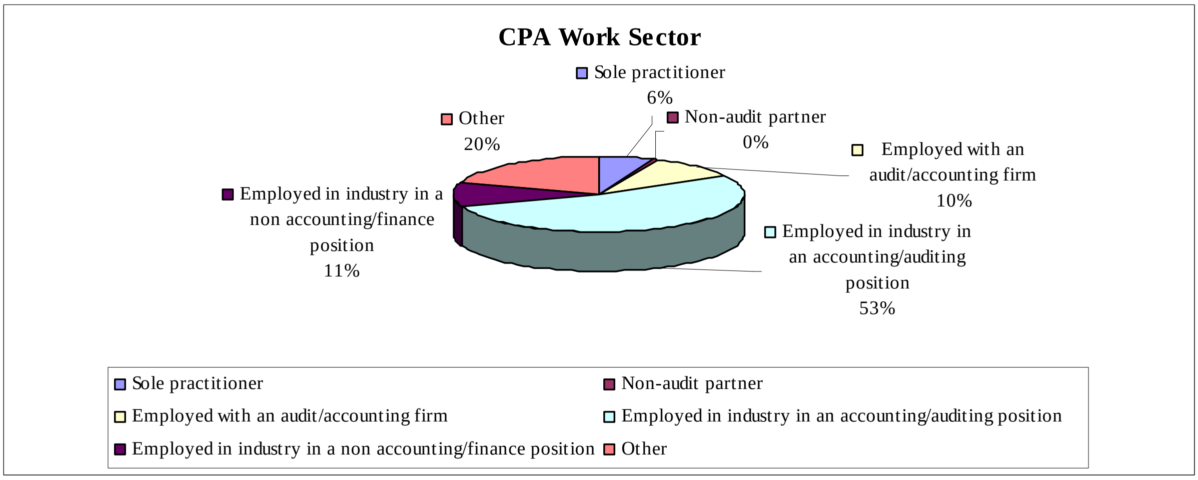
Throughout the year, a number of applications were received for both warrants and practising certificates in auditing. The Board, as per the requirements of the EU Statutory Audit Directive, which were transposed, has revised its evaluation criteria for practising certificate applications received.

The Board also handled requests from auditors from other member states to practise in Malta. To date, no statutory auditors from other member states had been registered in Malta.

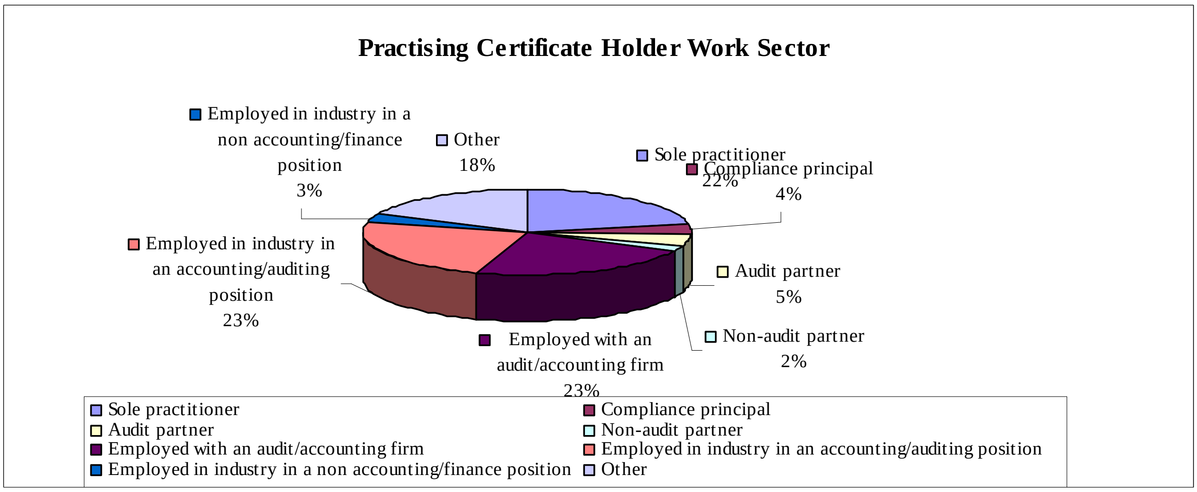
At year end, the Board regulated 686 warrant holders and 909 holders of a practising certificate in auditing. During 2009, the Accountancy Board approved 102 warrants and 63 practising certificates in auditing to 128 individuals during 2 ceremonies, one held in July and the other in December.

Based on the declarations made in the 2008 Annual Returns, Graphs 8.2 and 8.3 illustrate warrant holders and holders of practising certificates employment status analysed by work sector.

Graph 8.2

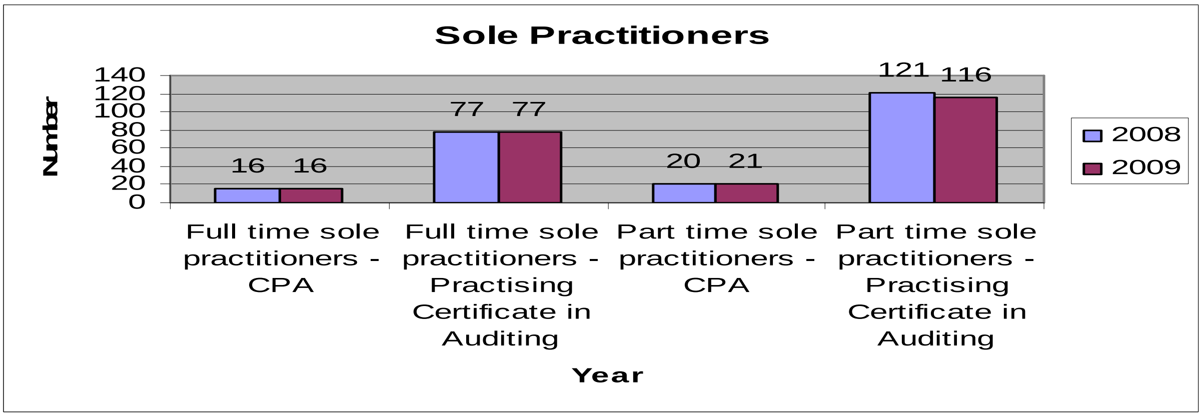


Graph 8.3



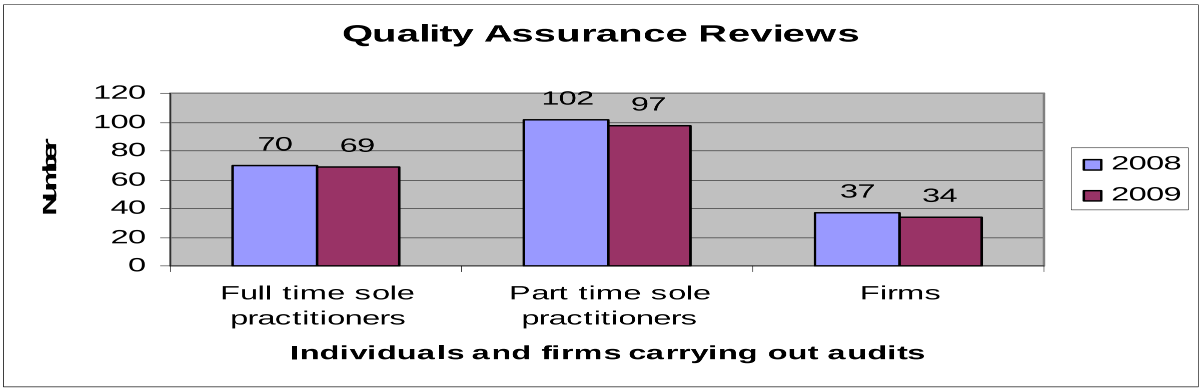
In regard to CPA warrant holders, there are 16 full-time sole practitioners and 21 part-time sole practitioners. In addition, in regard to practising certificate holders in total there are 77 full-time sole practitioners and 116 part-time sole practitioners. In Graph 8.4 below, it can be noted that there has been a slight decrease in the number of part time sole practitioners holding a practising certificate when compared with the prior year.

Graph 8.4



Furthermore, practising certificate holders falling subject to Quality Assurance Reviews can be analyzed as follows: 69 full-time sole practitioners; 97 part-time sole practitioners; and 34 firms. Firms including sole practitioners subject to a Quality Assurance Review have decreased from the prior year as follows:

Graph 8.5



From the annual returns submitted, it was noted that 16% of warrant and practising 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. Over the coming years, particular emphasis will be placed in this area. To achieve this aim, the Accountancy Board has entrusted the monitoring of CPE to the Malta Institute of Accountants.

It is of importance to note that the above information is based on data compiled from the 2008 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.