Accountancy Board

Quality Assurance

Annual Report 2016

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

31 March 2017

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1. Chairman's Statement

On behalf of the Accountancy Board and in compliance with its legal requirement, I am pleased to present the Board's annual publication disclosing annual work programmes, activity reports and information on the quality assurance system.

This 10th annual report marks a significant milestone for both the Board and the accounting profession. During the last decade, capital markets have been marked with financial crisis spurred on by accounting and financial scandals. Whilst acknowledging that the waves of trouble may have hit certain sectors more than others, Malta may consider itself fortunate not to experience the same levels of distress as those experienced by other countries close to our shores. This was definitely not a result of mere chance but due to the stringent regulation surrounding Malta's financial services sector, which regulation is crucial in upholding market confidence and safeguarding public interest.

As with any other crisis, the financial crisis brought about reform and sure enough the financial sector (with the accounting profession at the forefront) has passed through a decade of change. The past year has also seen its fair share of such change.

During 2016, we saw the transposition of the EU Statutory Audit Directive (2014/56/EU) through the amendments to the Accountancy Profession Act and its subsidiary legislation (including directives) and the entry into force of the EU Audit Regulation (537/2014). The aim of this reform was to improve statutory audits in the EU by reinforcing auditors' independence and their professional scepticism towards the management of the audited entity. In the case of public interest entities, statutory auditors and firms will be required to rotate on a regular basis and are no longer allowed to provide certain non-audit services to their audit clients.

One other change brought about by the transposition of the Audit Directive was the composition of the board of governance of the competent authority, which must be independent from statutory auditors and audit firms. The Accountancy Board, which was re-constituted in April 2016, is a first for Malta, as it is now composed entirely of non-practitioners. This will ensure greater independence and autonomy in regulating the profession.

The public oversight of statutory auditors and audit firms at EU level was one other area of focus of the audit reform. The Committee of European Audit Oversight Bodies (CEAOB) was established in 2016 to improve cooperation between national audit oversight bodies within the EU. Malta is a founding member of the CEAOB through the Accountancy Board.

2016 also marked the tenth year of activities of the Quality Assurance Unit, which is the Unit (acting on behalf of the Board) responsible for the local audit oversight regime. As can be seen throughout the report, this year was also a busy year for the Unit. Remarkably, the QAU carried out a significant increase in monitoring visits during 2016 when compared with the previous two years. In this regard, the commitment and dedication of the four QAU reviewers is to be commended.

Another significant milestone for our profession was brought about by the EU Single Accounting Directive (2013/34/EU). The technical aspects of the Directive were transposed into Maltese law through the introduction of the General Accounting Principles for Small and Medium-Sized Entities (GAPSME), as well as through amendments to the Companies Act. 2016 was the year of first adoption of GAPSME. The Board is certain that this change has been welcomed by the smaller entities as it is aimed to reduce burdens and simplify the preparation of their statutory financial statements.

Our profession is indeed a changing profession. Those of us who have been in the profession for the past decades will indeed attest to this statement. It is now our attitude towards change that will shape our future. I believe that accounting and audit professionals in Malta are responsive to change as some form of change is experienced on a daily basis. Thus, I am confident that the profession will take such change as an opportunity to drive quality standards in the years to come.

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

31 March 2017

2. The Accountancy Board

Functions of the Board

The Accountancy Board regulates the accountancy profession in Malta and is entrusted with a number of functions, including:

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

Composition of the Board

Article 6(2) of the Accountancy Profession Act sets out that the Accountancy Board must comprise of:

- a chairman of recognised standing and experience in the accountancy and auditing profession;
- a member from a list of two nominated by the University of Malta from among the teaching staff of the Faculty or Faculties in which teaching of and research in the field of accountancy and auditing is organised;
- a senior official of the Ministry responsible for finance;
- two members from a list of four nominated by a recognised accountancy body; and
- two other members.

The Board was re-constituted on the 19th April 2016 and the following are the present Board members:

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

Secretary
Mr. Martin Spiteri IEng, MIIE, MBA (Leicester)

Members
Mr Peter Baldacchino MPhil (Lough), FCCA, FIA, CPA, CSA
Mr Edward Camilleri FCCA, FIA, CPA
Dr Desiree Cassar BA, LLD, Dip.Tax

Mr Mario P. Galea FCCA, FIA, CPA
Mr Paul Grech BA (Hons) Accty, FIA, CPA
Mr John Sammut MA (Fin. Serv.), BA (Hons) Accty, ACIB, CPA, FIA

Structure

The Accountancy Board has set up a number of committees and sub-committees to assist it in its various functions, as follows:

- The CPE Sub-Committee;
- The Warrant Evaluations Sub-Committee;
- The Investigative Sub-Committee;
- The Disciplinary Committee; and
- The Quality Assurance Oversight Sub-Committee.

The CPE Sub-Committee

The CPE Sub-Committee is run jointly with the Malta Institute of Accountants to provide direction in the administration of CPE. This includes the evaluation of CPE exemptions and ensuring that CPE requirements are met by warrant holders.

The Warrant Evaluations Sub-Committee

The Warrant Evaluations Sub-Committee assists the Board in evaluating CPA warrant applications, applications for practising certificate in auditing and applications for registration of accounting and audit firms. This sub-committee also evaluates requests for the recognition of accounting qualifications.

The Investigative Sub-Committee

The Investigative Sub-Committee was set up to investigate cases brought to the attention of the Board. This sub-committee would then provide advice to the Board on whether it should refer the case for disciplinary proceedings.

The Disciplinary Committee

Once the Board decides whether to start proceedings based on the recommendations of the Investigative Committee, the case would then be referred to the Disciplinary Committee by the Board. This committee would then hold enquiries with the warrant holder or firm in respect of their case and make recommendations to the Board of disciplinary action to be taken (if any).

Quality Assurance Oversight Sub-Committee

In prior years, the Quality Assurance Oversight Committee was responsible for the quality assurance function. However, as from 2016, and as a result of the changes to the Audit

Directive, the quality assurance function is being dealt with directly by the Accountancy Board, which is now solely composed of non-practitioners. However, the Board has set up a Quality Assurance Oversight Sub-Committee to assist in this role, reporting directly to the Board.

The Quality Assurance Unit (QAU) is the Unit which acts on behalf of the Accountancy Board in the implementation and supervision of the quality assurance process as contemplated in the provisions set out in Directive 4 to the Accountancy Profession Act.

Meetings

During 2016, the Accountancy Board met 7 times. These meetings were held during May (twice), June, July, October, November and December.

The CPE Sub-Committee met twice during 2016, once in May and once in December.

During 2016, the Warrant Evaluations Sub-Committee met 6 times. These meetings were held during May, June, July, October, November and December.

The Investigative Sub-Committee met once during June 2016.

The Disciplinary Committee did not meet during 2016.

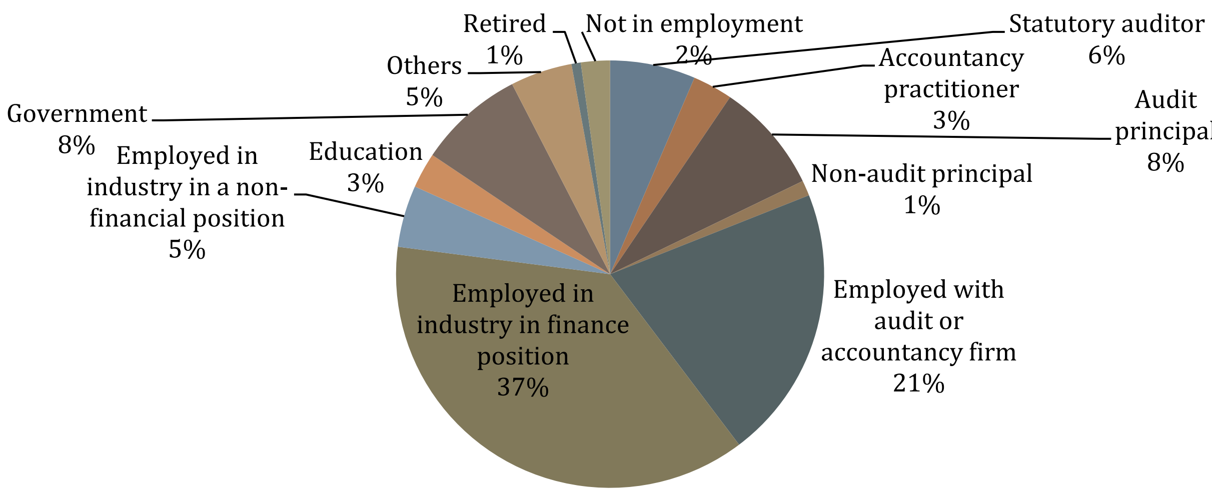
During 2016, the Quality Assurance Oversight Sub-Committee met three times. These meetings were held during July, September and December.

3. Profile of the Accountancy and Audit Profession

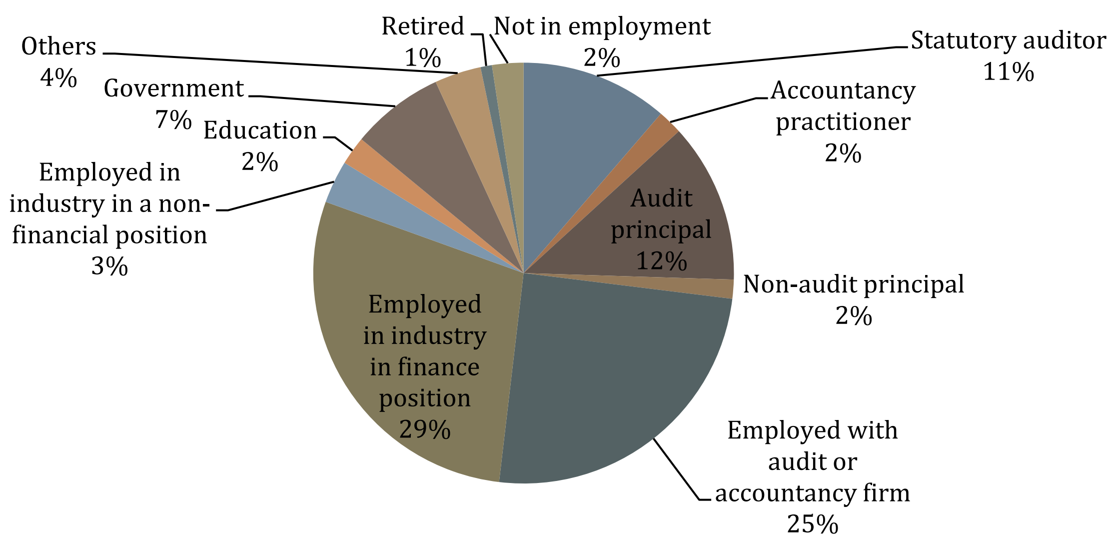
CPA Warrant Holders and Holders of a Practising Certificate in Auditing

The total number of CPA warrant holders as at 31 December 2016 stood at 2,490 (2015: 2,311) whereas the total number of holders of a practising certificate in auditing as at year end stood at 1,339 (2015: 1,276).

CPA warrant holders are involved in a number of sectors, as depicted in the following chart:



The following chart depicts the sectors in which the holders of a practising certificate in auditing are involved in:



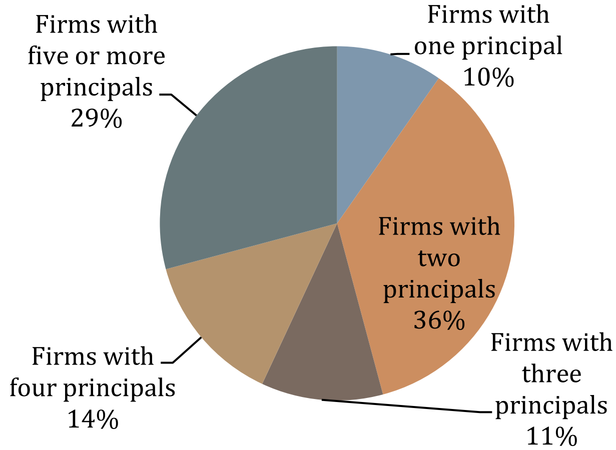
Sole Practitioners

During 2016, the number of warrant holders in practice was 281. Of these, 181 provided statutory audit services (84 operating on a full-time basis and 97 operating on a part-time basis) [1].

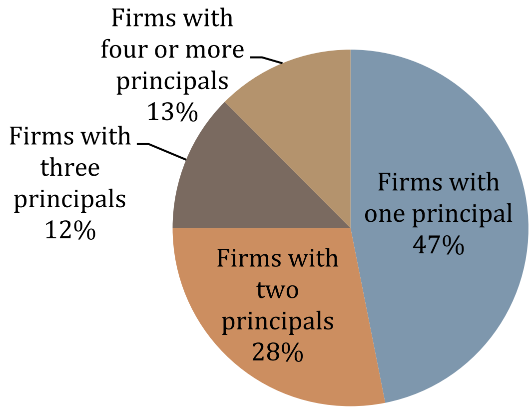
Accountancy and Audit Firms

Up to year end, there were 39 accounting firms and another 75 audit firms registered with the Board.

Most of the statutory audit firms are composed of two principals, as shown in the chart below:



On the other hand, most of the accounting firms are made up of one principal, as noted in the chart below:

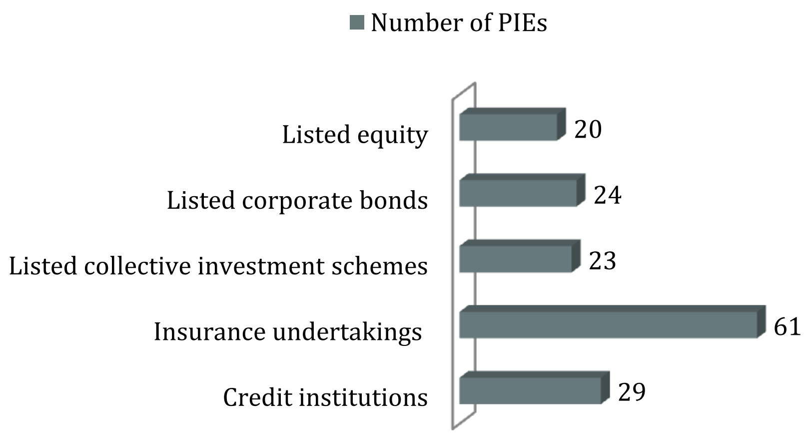


[1] This information is based on data extracted from 2016 Annual Returns submitted by 28 February 2017.

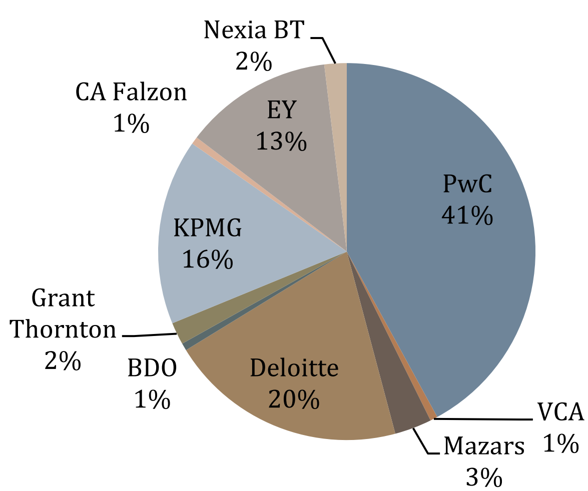
Share of Market of PIE Audits

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

An illustrative segmentation of all types of entities which are deemed to be PIEs is noted below:



As at end of year, the number of audit firms providing statutory audit services to PIEs stood at nine. 90% of the audits of all PIEs are conducted by the Big 4 internal network statutory audit firms. The audits of the remaining 10% are carried out by other mid-tier statutory audit firms, all of which (other than one), form part of an international network.



4. The Quality Assurance Unit

The Unit

As previously stated, the Quality Assurance Unit (QAU) is the Unit which acts on behalf of the Accountancy Board in the implementation and supervision of the quality assurance oversight function as contemplated in the provisions set out in Directive 4, the Quality Assurance Directive.

The primary function of the QAU is that of carrying out monitoring visits to statutory auditors and firms providing statutory audit services and preparing reports on those inspections for consideration by the Board. The main objective of these monitoring visits is to ensure that all statutory auditors and firms maintain the highest level of professional standards and audit quality.

QAU Staff and Basis of Funding

By end of 2016, the staff complement of the QAU was composed of three full-time reviewers and one reviewer on a reduced hour basis (same number as in previous year). In early 2016, Mr Marcel Coppini retired from the post of Head of QAU but was not replaced by year end. A full-time administrator was appointed towards the beginning of the year but resigned towards the end of the year.

The Accountancy Board imposes an annual Quality Assurance Regulatory Fee on all statutory auditors and firms, as stipulated in Directive 4. All fees received by the Board are submitted to the Ministry for Finance. The Unit is then funded by the Ministry. This system of funding ensures that the Unit is free from undue influence by statutory auditors and firms.

The following is the QA Regulatory Fee structure imposed on statutory auditors and firms:

- Part-time sole practitioners €116
- Full-time sole practitioners €233
- Firms with one principal €233
- Firms with less than three but more than one principal €582
- Firms with less than five but more than two €1,630
- Firms with five or more principals €5,590

In the case of follow-up visits, an additional fee is charged in respect of such visits to statutory auditors and firms. The follow-up fee is calculated by multiplying the number of hours spent on the visit by a charge-out rate of €34.94 per man hour. Regulatory penalties are also charged in respect of a number of breaches as laid down in Schedule 1 to Directive 4.

Training

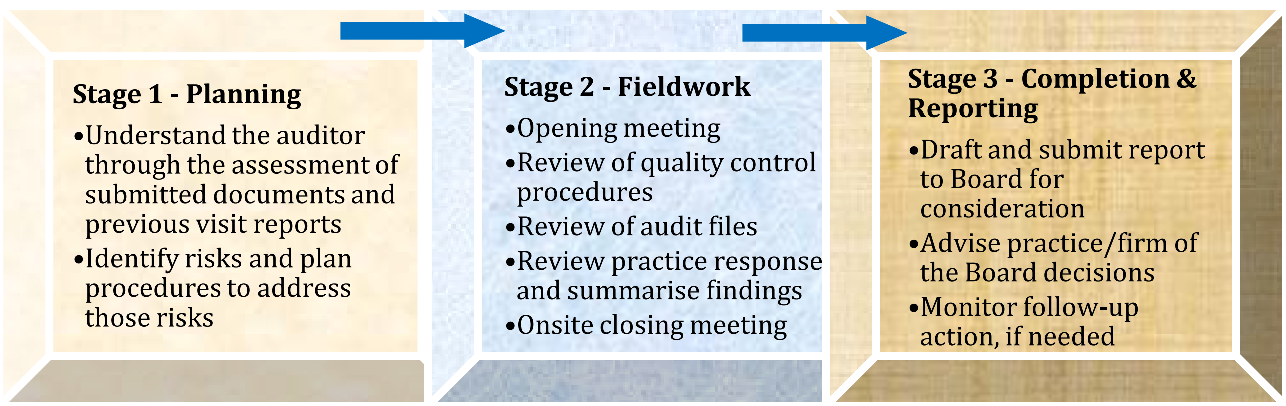
The Board is committed towards ensuring competence of its staff. During 2016, the QAU reviewers carried out a significantly higher amount of CPE hours than the amount required by regulation.

Training focussed primarily on audit-related courses, however courses in financial reporting, legislation and taxation were also attended. Furthermore, most of the staff members attended courses addressing insurance-related matters.

QAU Inspection Methodology

The QAU adopts a risk-based approach when carrying out monitoring visits to statutory auditors and firms, including the selection stage of statutory auditors and firms for review as well as throughout the visit itself from planning to completion.

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



Stage 1 Planning

Prior to the onsite inspection, a review is carried out of information available pertaining to the statutory auditor or firm. This information is obtained through documentation such as correspondence files, annual returns, forms requested on notification of the visit, previous visit reports, transparency reports and MFSA registry searches.

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

Stage 2 Fieldwork

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

The general practice/firm review entails a review of the quality controls of the statutory auditor/firm and a review of compliance with legislative requirements such as professional indemnity insurance and CPE.

File selection is risk-based and depends on risk factors such as public interest, the size of audit clients and any audit qualifications, amongst others. Prior to the file review, the reviewer analyses risks relating to the audit client through a review of the audited financial statements. The reviewer would then assess how the statutory auditor/firm addressed those risks through the documentation found in the audit file.

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

Stage 3 Completion and Reporting

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. This document is discussed during the closing meeting and the statutory auditor or firm is given fourteen days to reply to the issues raised and to identify how issues will be addressed.

Following the completion of the visit and on receipt of the statutory auditor's or firm's responses to the closing meeting document, a report is drawn on the main findings of the visit and the conclusions of the quality assurance process in respect of the statutory auditor/firm.

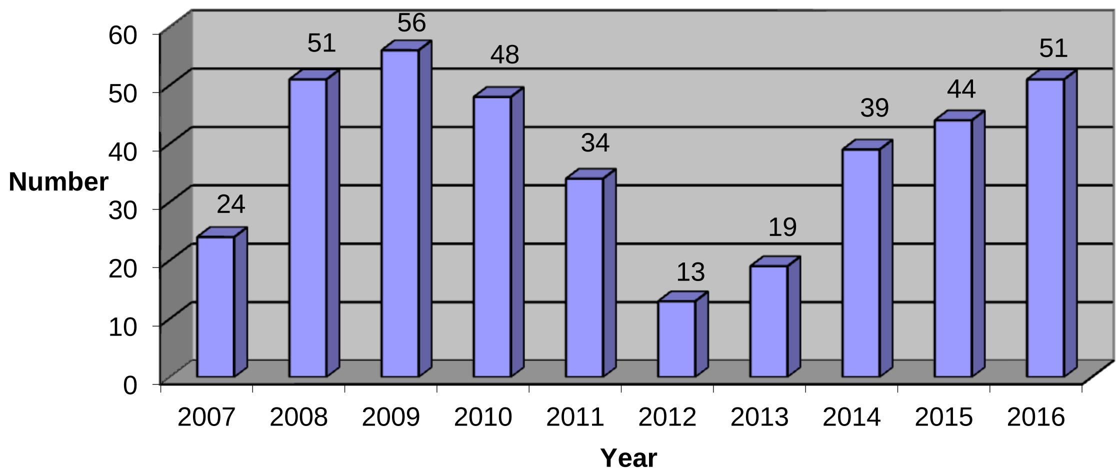
Reports are categorized for internal purposes into ratings which are determined by the instances and magnitude of non-compliance with the relevant regulations, the level of commitment and ability of the statutory firm/auditor to correct the problems identified and the regulatory action, if any, which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

The Board would then inform the statutory auditor/firm about any additional actions expected to be taken by the statutory auditor/firm and about any sanctions imposed, if it deems necessary, by way of a closing down letter (which would include a copy of the report).

Quality Assurance Visits

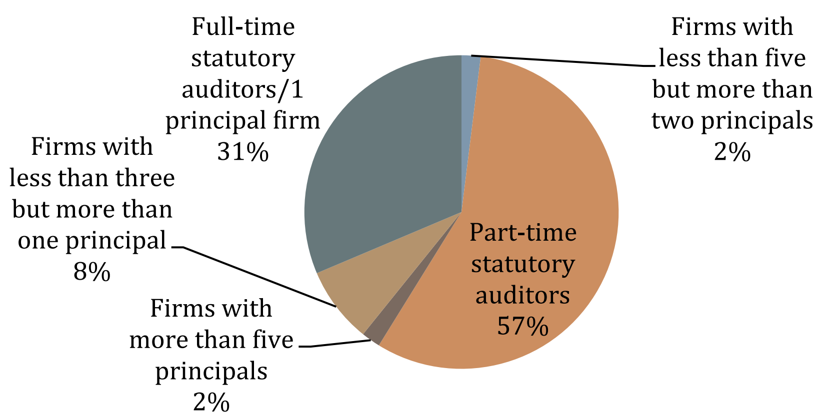
Quality assurance visits are carried out on the basis of an analysis of risk. Visits to PIE auditors and firms are carried at least once every three years whilst visits to non-PIE statutory auditors and firms performing audits of entities under the European Union Law are carried out at least once every six years. Where audit quality issues are noted, follow-up visits (outside the normal visit cycles) are also carried out. These normally occur within nine months from the completion of the prior visit.

Since the first year of operations in 2007 and up to the end of 2016, the QAU carried out a total of 379 quality assurance visits. Of these, 368 had been approved by the Board by the end of 2016. During 2016, the QAU started the fourth visit cycle on PIE statutory auditors and firms. It is envisaged that the QAU will complete the second visit cycle for non-PIE statutory auditors and firms in early 2017. The number of visits carried out by the QAU for each year since 2007 is illustrated in the diagram below:



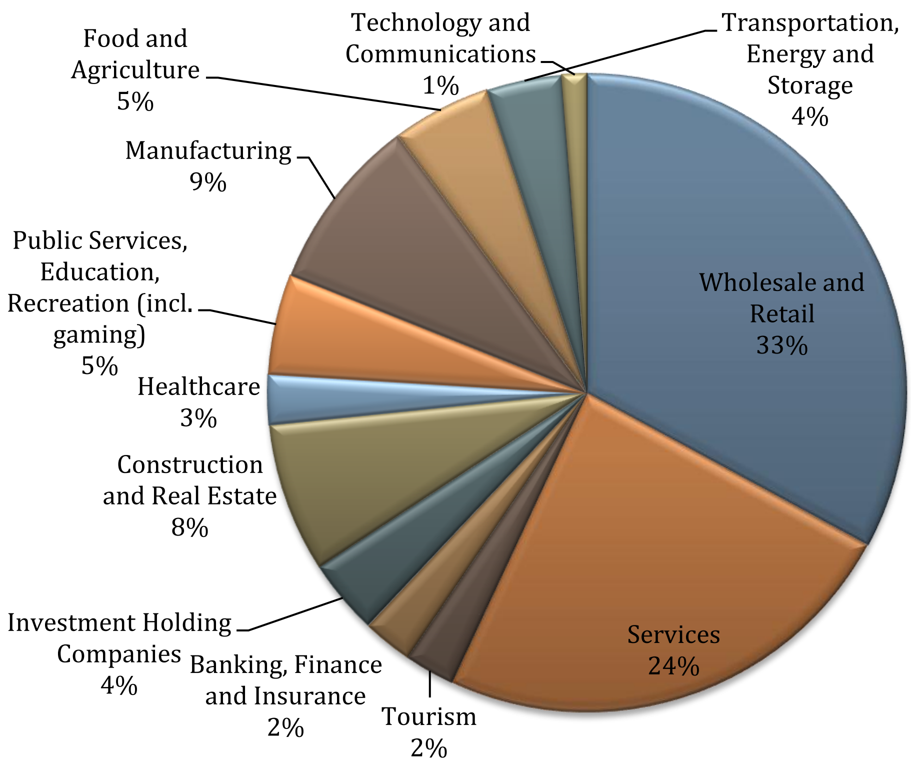
Throughout 2016, the QAU carried out a total of 51 visits (2014: 44), including one visit on a statutory audit firm carrying out audits of public interest entities. The number of visits carried out in 2016 represents an increase of 16% of visits carried out over 2015 and an increase of 31% over 2014.

The following analysis depicts the composition of statutory auditors and firms reviewed during 2016 by the QAU:



During the year, seven reports pertaining to visits carried out in 2015 were discussed and approved in 2016 (including the report on one visit pertaining to a PIE statutory audit firm). The number of visits closed down by the Board during 2016 attributed to visits carried out by the QAU reviewers during the same year amounted to 40, bringing the total of visits closed down to date to 368. The main findings identified during the visits closed down during 2016 are included in Section 5 of this report. At end of year, the Board still had to discuss 11 reports on visits carried out in 2016 (including the report on one visit to a PIE statutory audit firm). These will be discussed and approved in early 2017.

During 2016, the QAU reviewed a total of 79 audit files, of which 2 audit files were related to audits of public interest entities. The analysis of audit files selected by industry sector reviewed by the QAU in 2016 is shown below:



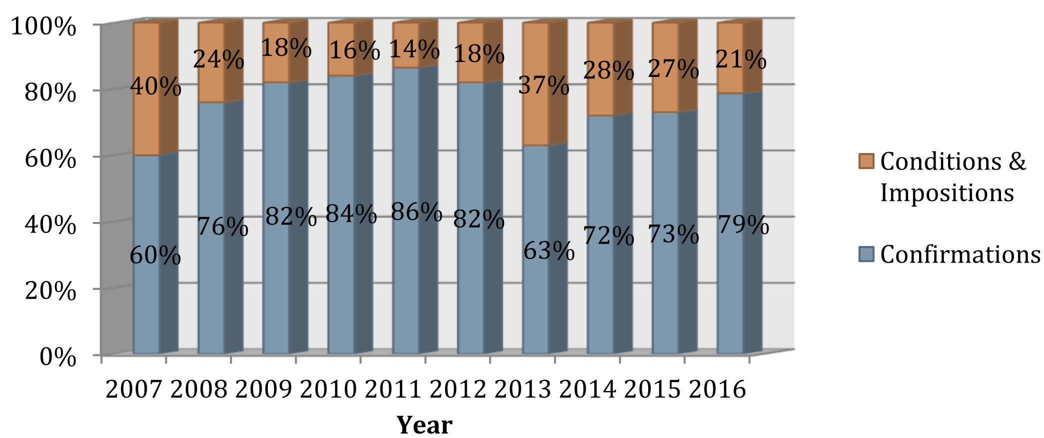
5. Overview of 2016 QAU Visits

Overview of Reports

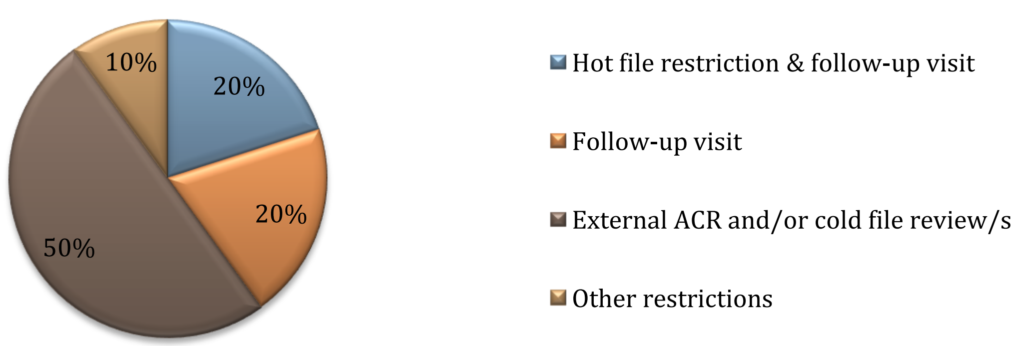
Following the completion of the QAU visit, issues arising from those visits are communicated to the statutory auditors and firms in the form of a report. In its closing down letter to statutory auditors and firms, the Board may request further confirmations and/or impose conditions depending on the seriousness of the issues raised.

Confirmations are requested in order to ensure the implementation of procedures to address matters raised during the QAU visit. Conditions include the imposition of follow-up visits, hot file restrictions, external audit compliance reviews and external cold file reviews.

During 2016, the Board requested solely confirmations from statutory auditors/firms on 79% of visits carried out (2015: 73%). Conditions were imposed on 21% of statutory auditors/firms visited in 2016 when compared to 27% in 2015. An analysis of the courses of action taken by the Board since 2007 is illustrated in the diagram below:



During 2016, the conditions imposed on audit practices where significant audit issues were raised can be analysed as follows:



The number of conditions imposed since 2007 amounted to 65 and these can be analysed as follows:

	Follow-up visits	External ACRs and/or cold file reviews	Hot file restrictions	Other restrictions
PIE Statutory Audit Firms	3	0	1	0
Non-PIE Statutory Audit Firms	4	10	0	0
Full-Time Statutory Auditors	8	16	6	0
Part-Time Statutory Auditors	4	8	4	1
Total	**19**	**34**	**11**	**1**

On average, 18% of the inspections visits closed down to date were subject to one form of sanction or another.

Key Observations from 2016 Visit Findings

This section summarizes the areas in which the most common weaknesses were noted based on the findings identified on reports prepared following QAU visits and approved by the Board during 2016.

At year end, reports pertaining to eleven inspection visits (including one PIE statutory auditor firm) carried out by the QAU during 2016 were not yet approved by the Board. Therefore, the findings identified during these visits have not been included in this section of the report. However, the analysis includes findings identified during seven visits carried out in 2015 but whose reports were approved by the Board during 2016.

Therefore, the analysis carried out relates to findings raised during a total of 47 QAU visits, made up of 7 visits to statutory audit firms (including one PIE statutory audit firm) and 40 visits to statutory auditors. Findings have been categorised as follows:

- At pre-planning and planning stage of the audit files reviewed;
- At audit fieldwork stage of the files reviewed;
- At audit completion and reporting stage of the files reviewed; and
- At statutory auditor/firm level.

On a general note and in view of the size, nature and structure of the entities audited by the smaller practices, the findings noted on visits to such practices tend to be more basic than those normally raised during visits to larger firms.

An analysis of the pre-planning and planning issues raised on the files reviewed is presented in the diagram below:

Analysis of File Findings Pre-Planning and Planning	Statutory Audit Firms (percentage)	Statutory Auditors (percentage)	Total Average (percentage)
Materiality	14%	48%	43%
Terms of engagement	14%	33%	30%
Knowledge of the company	57%	18%	23%
Client acceptance and continuance	0%	25%	21%
Laws and regulations	57%	15%	21%
Related parties	14%	23%	21%
Risk assessment and identification	29%	18%	19%
Preliminary analytical procedures	0%	20%	17%
Fraud	14%	18%	17%
Going concern	0%	8%	6%

As can be noted from the above, the most common pitfalls at planning stage relate to the following areas:

Materiality – The above analysis indicates that the calculation of materiality was the area requiring most improvement at the audit planning stage. Issues dealing with materiality were more notably raised during visits to statutory auditors as opposed to statutory audit firms. One of the main pitfalls noted was in relation to the lack of documentation in respect of the professional judgement applied to determine the benchmark used to calculate materiality. Performance materiality was also not calculated on a number of audit engagements reviewed.

Terms of engagement – Issues commonly noted on visits in relation to terms of audit engagement were the lack of written agreement of terms and matters noted in relation to the content of the engagement letter.

Knowledge of the company – This category of finding is broadly defined with issues relating to understanding the client and internal controls adopted by the client. The most common issue raised was the lack of documentation in relation to the client's background and internal control systems.

The issues raised at audit fieldwork stage are analysed as follows:

Analysis of File Findings Audit Fieldwork	Statutory Audit Firms (percentage)	Statutory Auditors (percentage)	Total Average (percentage)
Testing of inventory	71%	50%	53%
Testing of loans and receivables	57%	41%	43%
Testing of revenue	29%	38%	36%
Going concern	14%	15%	15%
Testing of opening balances	29%	5%	9%
Laws and regulations	29%	3%	6%
Group audits	14%	0%	2%
Other	43%	23%	26%

The analysis above indicates that testing of inventory, testing of loans and receivables and testing of revenue are notably the most common areas, at audit fieldwork stage, in which the QAU have found matters to be reported. In this context, the QAU applies the principle that audit work which was not documented is audit work which has not been done.

The areas noted as "Other" include issues relating to insufficient scepticism in challenging key assumptions relating to property and investment valuations and lack of testing of other financial statements items.

The following table denotes the most common pitfalls noted at audit completion stage of the files reviewed. This includes issues raised at audit reporting stage, broadly classified as report wording issues and the more serious issues relating to the audit opinion.

Analysis of File Findings Audit Completion and Reporting	Statutory Audit Firms (percentage)	Statutory Auditors (percentage)	Total Average (percentage)
Audit report wording	86%	75%	77%
Representations	43%	65%	62%
Communication with management	71%	55%	57%
Audit report issues	29%	45%	43%
Final analytical procedures	43%	33%	34%
Going concern	57%	18%	23%
Related parties	43%	18%	22%
Reviews and sign-offs	29%	20%	21%
Laws and regulations	43%	13%	17%
Fraud	29%	10%	13%
Subsequent events	29%	10%	13%

The most common issues raised at audit completion stage relate to the following areas:

Audit report wording – The auditor's report is the auditor's end product as a result of all his efforts during the audit and is usually the only document prepared by the auditor which is made available for scrutiny by shareholders and other stakeholders. Therefore, the QAU places particular emphasis in ensuring that the auditor's report is worded in line with the applicable standards. This category of finding relates to issues such as the use of outdated or inappropriate audit report wording and missing headings. In this regard, the QAU would like to draw the attention of statutory auditors and firms on the revised auditor reporting standards applicable for periods ending on or after 15 December 2016. As a result of the application of these amendments, the wording of the audit report has now been completely revised.

Representations – Another common finding noted at the audit completion stage is in relation to missing or inappropriate written representations. In the QAU's view, this weakness should be relatively easy to address as an illustrative representation letter is found in Appendix 2 to ISA 580 (Written Representations).

Communication with management – It was noted that, in a number of instances, significant matters arising from the audit were not formally communicated with management and/or with those charged with governance. In other instances, where the auditor included an audit report modification or emphasis of matter or other matter paragraph in the auditor's report, no evidence of communication of the matter raised and/or of the proposed wording of the auditor's report was found on file.

Issues raised at whole practice/firm level include issues in respect of ISQC 1, independence issues, professional indemnity insurance and continuing professional education. The following is an analysis of such issues:

Analysis of Firm-Level Issues	Statutory Audit Firms (percentage)	Statutory Auditors (percentage)	Total Average (percentage)
Quality control issues	71%	70%	70%
Non-assurance services	29%	40%	38%
Continuing professional education	14%	25%	23%
Long association	0%	25%	21%
Professional indemnity insurance	0%	18%	15%
Other independence issues	14%	10%	11%

The most common firm-level issues identified during visits were the following:

Quality control issues – The number of findings arising from the review of individual audits indicates that the internal quality control system and monitoring procedures required improvement. Included with this category are matters in relation to the documentation of the quality control system itself, which was an issue raised during the review of a number of smaller practices. On a number of visits, it was noted that quality control procedures were not tailored to suit the circumstances of the practice, which resulted in inconsistencies between procedures set out in the quality control manual and those applied in practice. The non-application of certain required procedures was also noted on some visits and, in particular, it was noted that monitoring procedures were weak and not in line with guidance issued on compliance reviews.

Non-assurance services – The provision of certain non-assurance services to audit clients creates an independence threat which should be minimised through the application of appropriate safeguards. In some instances, particularly in smaller practices, no safeguards were applied or were considered inappropriate.

Continuing professional education – Competence is acquired by keeping abreast with the latest developments within our profession. It was noted that in a number of situations where CPE requirements were not met by practices, audit quality was also found to be poor.

6. Other Developments and Initiatives

Participation in International Fora

The activities of the European Audit Inspection Group (EAIG) transitioned to the newly established Committee of European Audit Oversight Bodies (CEAOB). The CEAOB is now the new framework for co-operation between national audit oversight bodies at EU level. Its role is to strengthen EU-wide audit oversight, which is a key objective of the new EU legislation on statutory audit that took effect on 17 June 2016.

The CEAOB contributes to the proper application of EU audit legislation by facilitating the cooperation between audit supervisors, allowing rules to be consistently implemented using similar approaches.

Malta is a founding member of the CEAOB through the Accountancy Board and a Board representative attended the first CEAOB plenary meeting held in November 2016 in Brussels.

Board representatives also participated in a number of EGAOB and EAIG meetings held during 2016 and in the PwC and Deloitte subgroups meetings at EAIG level.

Co-operation with the Malta Institute of Accountants

Over the years, the Malta Institute of Accountants (MIA) and the Accountancy Board have fostered a close working relationship. Both members of the MIA and the Board have participated in the Audit Directive Transposition working group which was set up under the auspices of the Accountancy Board.

The Board was also represented on a number of MIA committees dealing with areas such as Continued Professional Education.

Amendments to the CPE Scheme

Towards the end of the year, the Board also updated the CPE Scheme in relation to reporting requirements, exemption procedures and procedures for re-entry into the profession following an exemption period.

As a result of these changes, warrant holders are now no longer required to provide details of CPE activities carried out during the year (other than the number of CPE hours attended) to the Board. With respect to exemption and re-entry procedures, the Board is moving from declarations made in advance to ones being made retrospectively on a self-assessment basis. The onus to confirm eligibility of exemptions has now been passed on to the warrant holder.

The Board will now shift its focus towards monitoring to ensure that requirements are being met.

Market Monitoring

During 2016, the first market monitoring exercise was carried out by the EU Commission. During 2015 and 2016, a number of meetings and conference calls were held between Member States and the EU Commission to establish the form and required content of the data to be provided by each individual Member State to the EU Commission. As a result of such discussions, each Member State was required to provide information dealing with market structure, market share, quality assurance and audit committees. Locally, the Accountancy Board collaborated with the MFSA to compile some of the information required and sent out questionnaires in respect to audit committees to all listed entities.

Malta submitted its report to the EU Commission during June 2016.

Outlook for 2017

The Accountancy Board looks forward to the challenges ahead, particularly in relation to:

- Participation during the various meetings of the CEAOB and of its sub-groups and colleges;
- The implementation of the latest modules of the Common Audit Inspection Methodology ('CAIM') on the inspection visits of all PIE statutory audit firms;
- The continuation of on-going co-operation with the MIA; and
- The completion by the QAU of the second cycle of monitoring visits in respect of non-PIE auditors.

Abbreviations

AB	Accountancy Board
ACCA	Association of Chartered Certified Accountants
CAIM	Common Audit Inspection Methodology
CPE	Continued Professional Education
CEAOB	Committee of European Auditing Oversight Bodies
EAIG	European Audit Inspections Group
EGAOB	European Group of Audit Oversight Bodies
ESMA	European Securities and Markets Authority
GAPSE	General Accounting Principles for Smaller Entities
GAPSME	General Accounting Principles for Small- and Medium-Sized Entities
IAASB	International Auditing and Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
ISAs	International Standards on Auditing
ISQC 1	International Standard on Quality Control
MIA	Malta Institute of Accountants
PIE	Public Interest Entity
QA	Quality Assurance
QAU	Quality Assurance Unit
SME	Small- and Medium-Sized Entities
SMP	Small & Medium Practices

Accountancy Board

Quality Assurance