



Accountancy Board

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# Annual Report 2019

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*The Accountancy Board presents its Annual Report for the year ended 31 December 2019 pursuant to Article 7(19) of the Accountancy Profession Act, Cap. 281 of the Laws of Malta.*

*27 March 2020*

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## Chairman's Statement



Throughout 2019 the Accountancy Board continued to regulate and oversee professional practices as set out by its regulatory framework. In addition to their contributions in regular Board meetings, Board members were very active in one or even more of the Board's sub-committees.

Major stakeholders such as the Malta Institute of Accountants, relevant regulatory authorities, other professions and, where necessary, the professional firms themselves were consulted so that the Board could obtain the appropriate feedback before proceeding to propose or accede to any regulatory changes.

In recent years, the work of the Board has noticeably increased in line with the steady growth of the profession. This has resulted not only in more demands on the Quality Assurance Unit and its oversight but also in the creation of additional challenges for the Board to ensure that all warrant and audit practising certificate holders are upholding their professional responsibilities.

The above notwithstanding, I am confident that all team members involved at the Accountancy Board are fully rising to the occasion, at times even going beyond their call of duty. I therefore express my gratitude to all of them and look forward to even more progress in regulation and oversight in the foreseeable future.



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

27 March 2020

## **The Accountancy Board**

### **Members of the Board**

#### ***Chairman***

Professor Peter Baldacchino Ph.D. (L'boro) M.Phil, FCCA, FIA, CPA

#### ***Secretary***

Mr Martin Spiteri IEng, MIIE, MBA (Leicester)

#### ***Members***

Ms Christine Bartolo Perici, B.Com (Hons) Econ., MA Econ.

Mr Lino Casapinta, FIA

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

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

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

Mr Nicholas Xuereb, CPA, FIA

The Board was re-constituted on the 19<sup>th</sup> April 2019 for a period of three years.

### **Board Composition**

The structure of the Accountancy Board is set out in Article 6(2) of the Accountancy Profession Act which states that the Board should consist of:

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

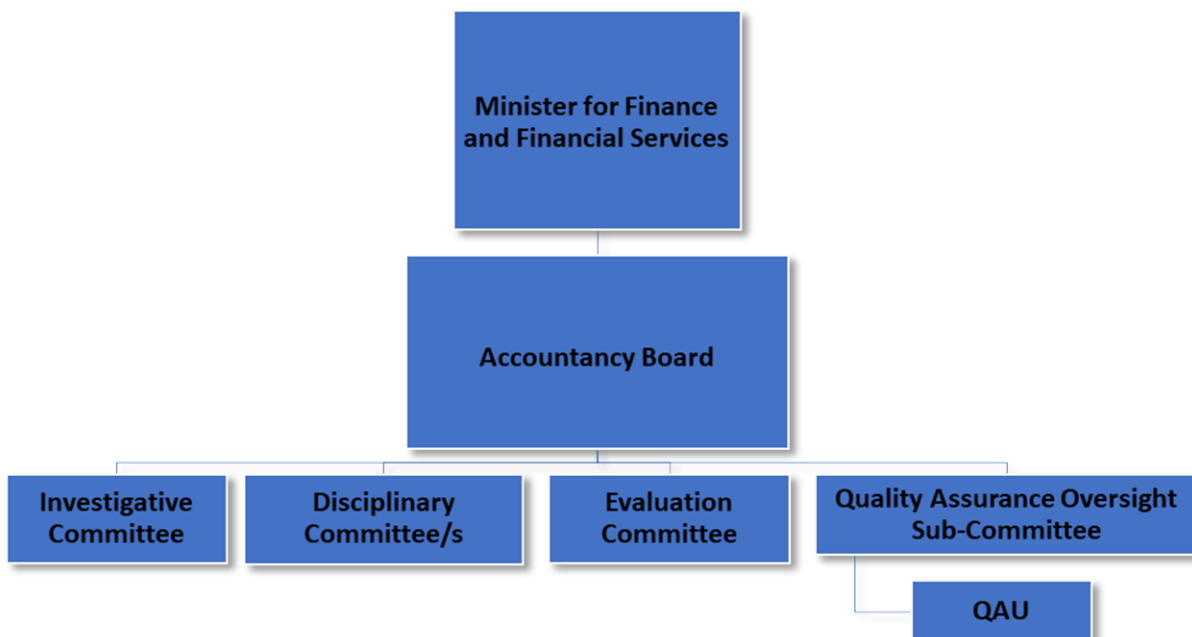
**Functions of the Board**

The Accountancy Board regulates the accountancy profession in Malta and is entrusted with a number of functions, as outlined in Article 7 of the Accountancy Profession Act, including:

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

**Organisational Structure**

In order for the Accountancy Board to carry out its functions in line with Article 7 of the Accountancy Profession Act, the Board has set up a number of committees and sub-committees to assist it in this role.



### *The Investigative Sub-Committee*

The Investigative Sub-Committee was set up to investigate cases brought to the attention of the Board, mainly complaints. The committee carries out an assessment of the cases presented and provides the Board with advice on whether such cases should be referred to the Disciplinary Committee.

In 2019, six cases were investigated by this Committee, five of which were brought forward from the previous year. During the year, five out of the six cases were concluded. Most of the cases were resolved by providing adequate recommendations to the parties involved. In other cases, the committee engaged in a deeper analysis of the situation, carried out interviews with the parties involved and requested corrective action. None of the cases investigated, were referred to the Disciplinary Committee.

The Investigative Sub-Committee was chaired by Mr Mario Galea.

### *The Disciplinary Committee*

The Disciplinary Committee acts on behalf of the Board in respect of cases of professional misconduct and other disciplinary proceedings. Disciplinary proceedings may lead to the suspension or withdrawal of any warrant or practising certificate issued under the Accountancy Profession Act. The Disciplinary Committee is set up on an ad hoc basis.

In 2019, disciplinary proceedings were underway in respect of a statutory auditor providing audit services. The Disciplinary Committee was chaired by Mr Benjamin Rizzo.

Towards the end of the year, another Disciplinary Committee was also set-up to deal with cases relating to non-submission of annual returns and fees by warrant holders. The Disciplinary Committee was chaired by Mr Nicholas Xuereb.

### *Evaluation Committee*

The Evaluation Committee assists the Accountancy Board with respect to the evaluation of applications for warrants, practising certificates as well as firm registrations which are approved during Accountancy Board meetings. This Evaluation Committee is chaired by Prof Peter Baldacchino.

### *The Quality Assurance Oversight Sub-Committee*

As a result of the changes made to the Audit Directive, which became effective during 2016, the quality assurance function now falls directly under the remit of the Accountancy Board, which

is composed of non-practitioners. In this regard, the Board set up a Quality Assurance Oversight Sub-Committee to assist in this role. The Quality Assurance Oversight Sub-Committee reports directly to the Board. The sub-committee carries out a detailed review of quality assurance visit reports and provides recommendations to the Board prior to their final approval.

In 2019, the Quality Assurance Oversight Sub-Committee was chaired by Prof Peter Baldacchino.

### ***The Quality Assurance Unit***

The Quality Assurance Unit (QAU) acts on behalf of the Accountancy Board in the implementation and supervision of the quality assurance process as contemplated in the provisions set out in Directive 4 to the Accountancy Profession Act. The quality assurance process is intended to be the means through which the Board provides assurance as to the quality of the professional work of statutory auditors and statutory audit firms and on the maintenance of appropriate levels of professional standards. The QAU conducts visits to statutory auditors and statutory audit firms. Ms Karen Sultana is the Head of this Unit.

### **Enforcement**

During 2019, the Accountancy Board filed a police report against a statutory auditor since the statutory auditor was practicing the profession of auditing and accounting without having a professional indemnity insurance cover and therefore, was in breach of Article 11 of the Accountancy Profession Act, Chapter 281.

Following court proceedings, the Court found the statutory auditor guilty and imposed a fine of €2,000.

### **Meetings held in 2019**

During 2019, the Accountancy Board met ten times. These meetings were held during January, February, March, May, June, July (two meetings held), September, October and November.

The committee and sub-committee meetings held during 2019 were as follows:

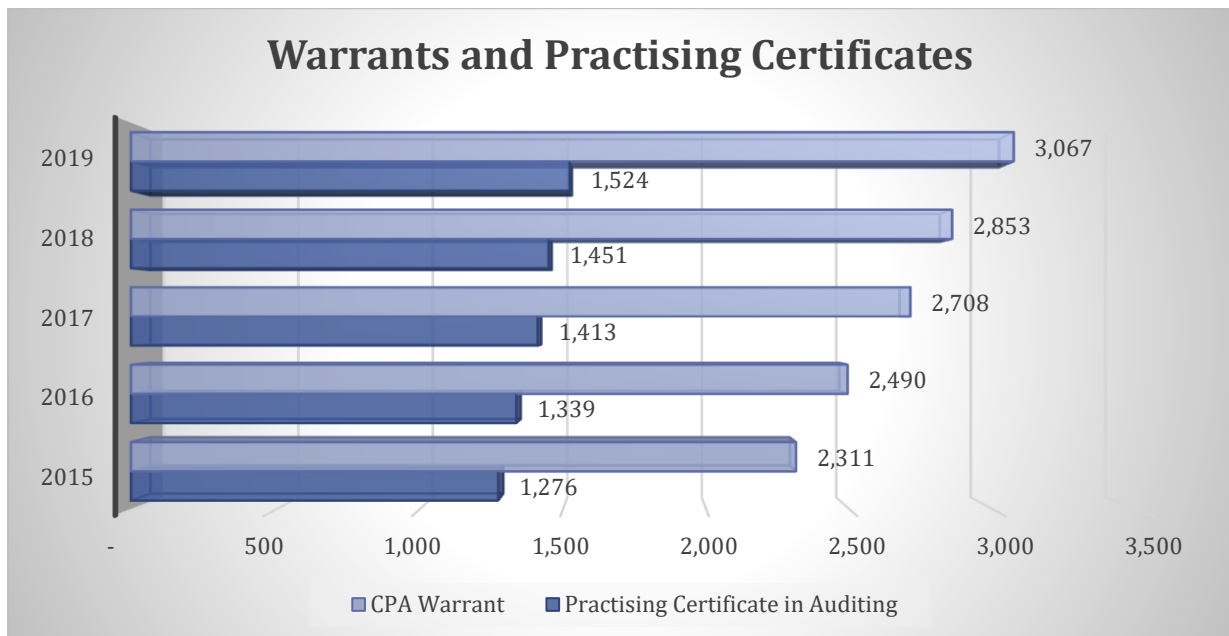
- The Investigative Sub-Committee met four times;
- The Disciplinary Committee met three times; and
- The Quality Assurance Oversight Sub-Committee met eight times.

## The Accountancy and Audit Profession

### CPA Warrant Holders and Holders of a Practising Certificate in Auditing

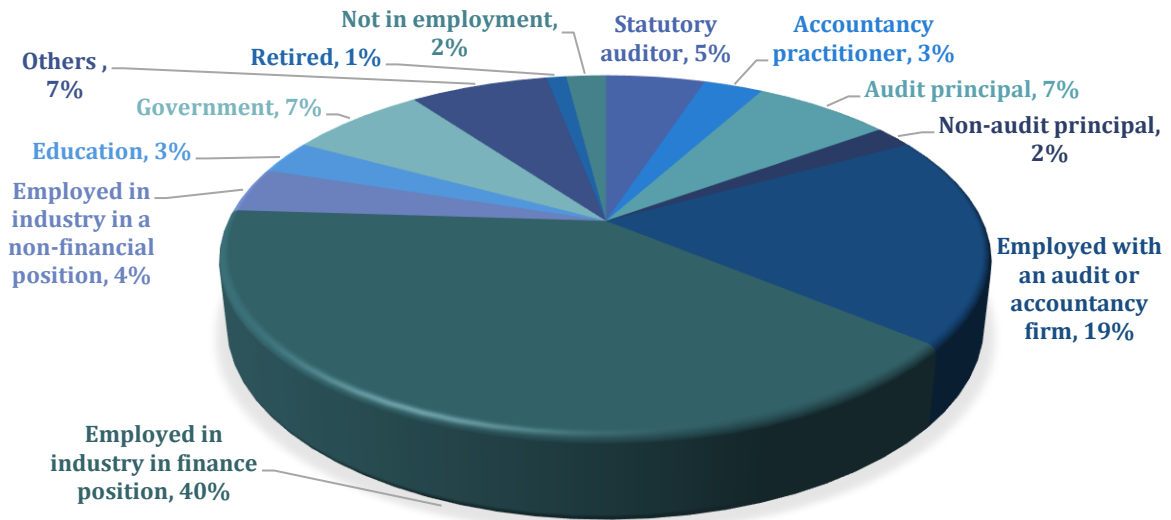
At year end, the total number of CPA warrant holders stood at 3,067 (2018: 2,853) whereas the total number of holders of a practising certificate in auditing as at 31 December 2019 amounted to 1,524 (2018: 1,451).

Year on year, the number of CPA warrant holders and holders of a practising certificate in auditing registered with the Accountancy Board is steadily increasing as can be seen below:

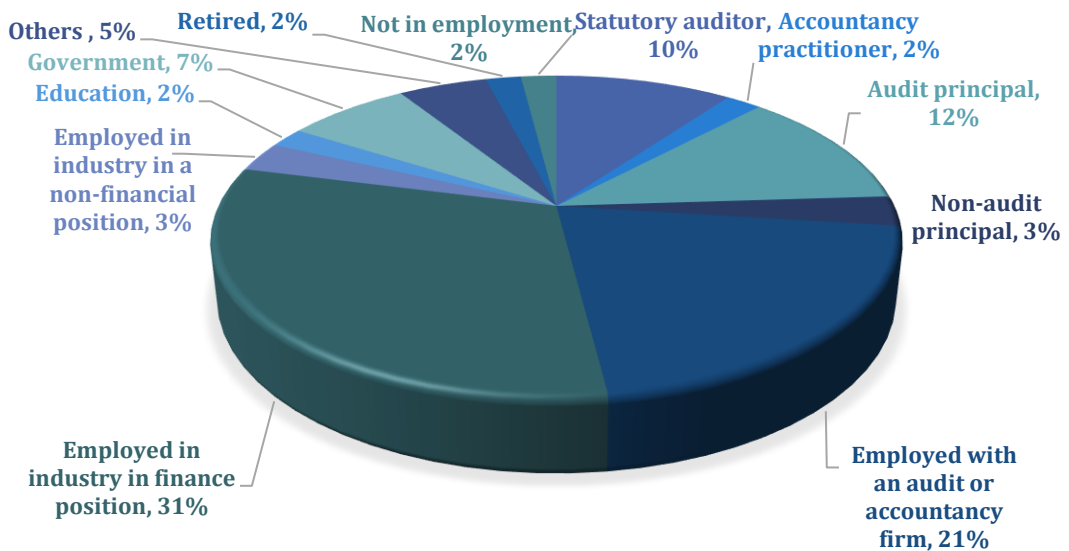


CPA warrant holders and practising certificate holders are availing of a number of different positions and opportunities both within the profession and outside the profession. This is represented in the below analysis which is based on submissions made by registered warrant holders and practising certificate holders through the annual return:

*CPA warrant holders - Work Sector*



*Practising Certificate in Auditing - Work Sector*



## **Sole Practitioners**

At year end, the number of sole practitioners remained consistent and totalled 257 (2018: 256). Of these, 169 (2018: 168) provided statutory audit services (92 operating on a full-time basis and 77 operating on a part-time basis) and the remaining 88 (44 operating on a full-time basis and 44 operating on a part-time basis) did not conduct audits<sup>1</sup>.

### *Statutory Audit Practitioners – share of market*

Based on declarations made through annual return submissions, it is noted that statutory audit practitioners account for approximately 36% of total audits engagements. In addition, one statutory audit practitioner also carries out the audit of a public interest entity which is listed on the Malta Stock Exchange.

## **Accountancy and Audit Firms**

The Accountancy Board, apart from granting warrants and practising certificates in auditing to individuals, the Board also is responsible for registering accounting and audit firms. Accounting and audit firms may either be structured as a partnership, or else incorporated as a limited liability company. At 31<sup>st</sup> December 2019, the number of accounting and audit firms registered with the Accountancy Board stood as follows:

- 66 Accounting Firms (2018: 56); and
- 94 Audit Firms (2018: 83).

### *Accounting Firms*

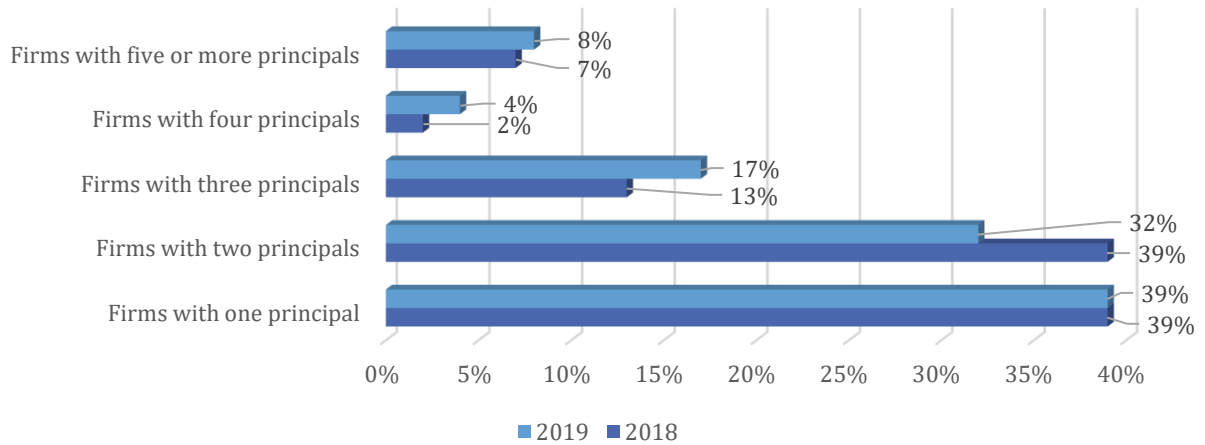
During the year, there was a marked increase of circa 18% in the number of accounting firms registered with the Board.

Furthermore, during the year, it was noted that during the year, 39% of accounting firms were composed of one principal (in 2018 - 39%), and 32% of accounting firms were composed of two principals (in 2018 - 39%). The following bar graph shows the composition of accounting firms during 2019 and 2018:

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<sup>1</sup> This information is based on data extracted from 2019 Annual Returns submitted by 18 February 2020.

### Accounting Firm Composition

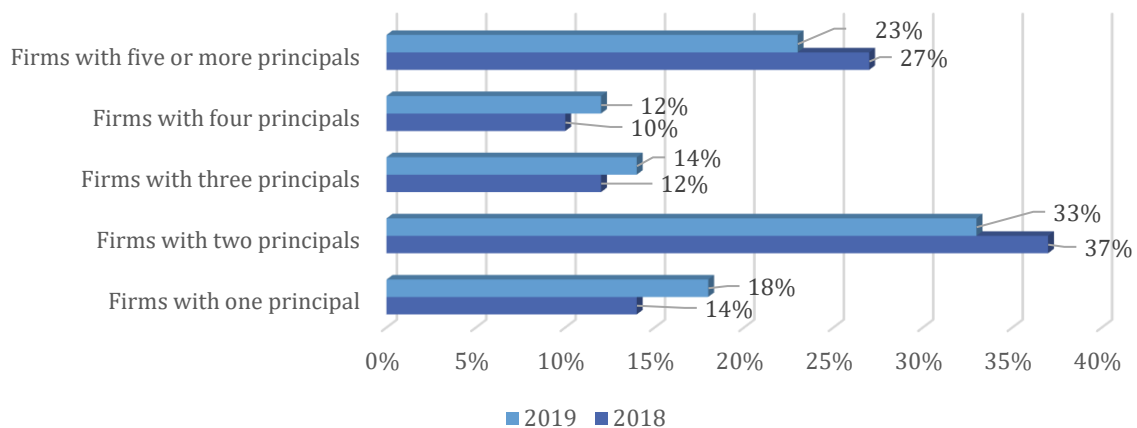


During both 2019 and 2018, in respect to the structure of firms it was noted that 98% of accounting firms were incorporated as limited liability companies, whilst the remaining 2% were registered as partnerships.

#### Audit Firms

At year end, there was an overall increase in the number of audit firms registered with the Accountancy Board of 13%. As was the case in the prior year, most audit firms were composed of two principals. In respect to audit firms, the composition of principals in such firms has remained fairly consistent with that of the prior year, with no major shifts in the categories as indicated in the bar graph.

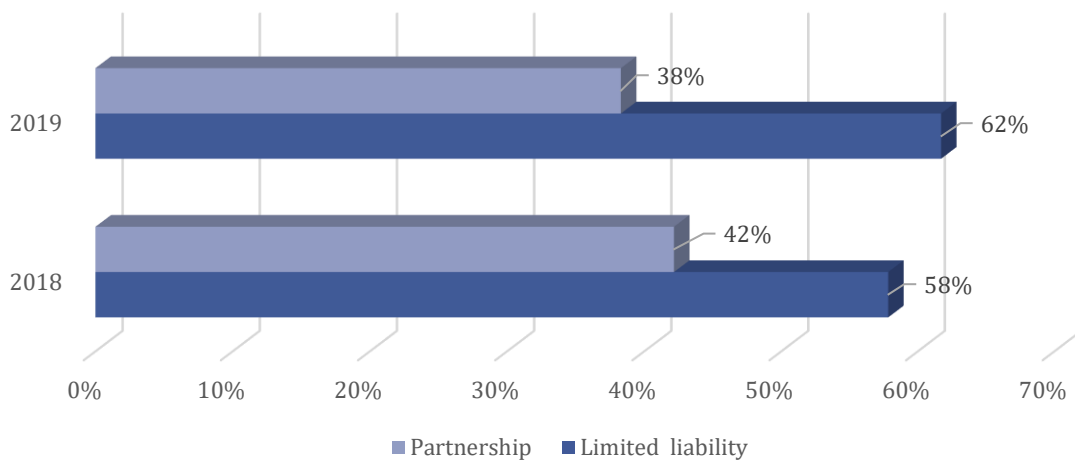
### Audit Firm Composition



Although the composition of principals in audit firms has remained similar to that of the prior year, during 2019 the legal form of audit firms has changed, with 62% of audit firms now having a limited liability structure (as opposed to 58% in 2018).

It was noted that new audit firms prefer to register as limited liability companies, whilst existing audit firms are also shifting to limited liability structures and de-registering existing partnerships.

### Audit Firms - Legal Form



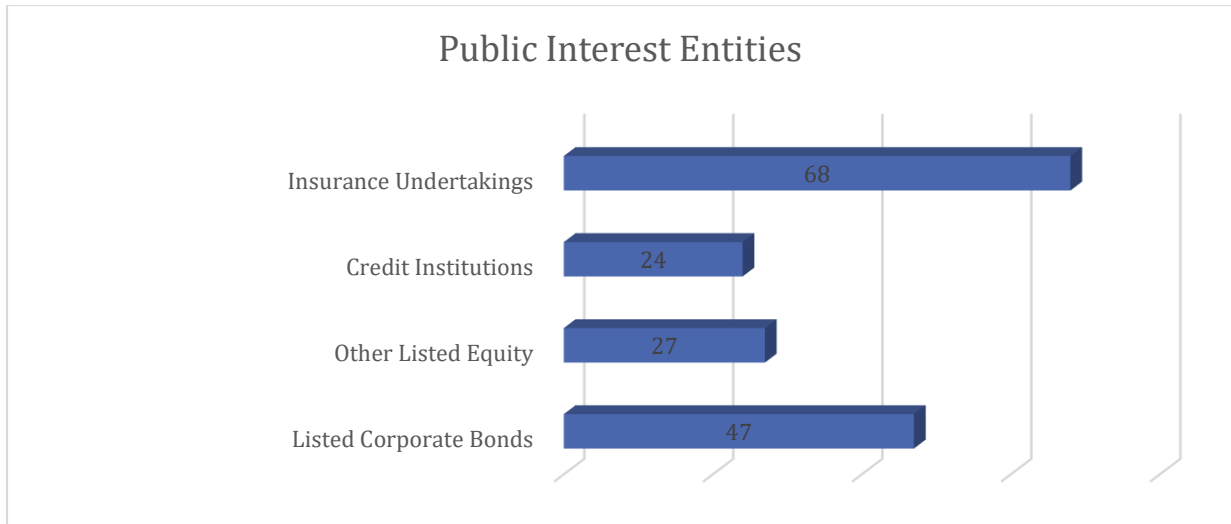
### *Statutory Audit Firms – share of market*

In respect to audit firms, as declared in annual return submissions, such firms carry out approximately 64% of total audit engagements. Furthermore, the majority of PIE audits are carried out by some of these audit firms.

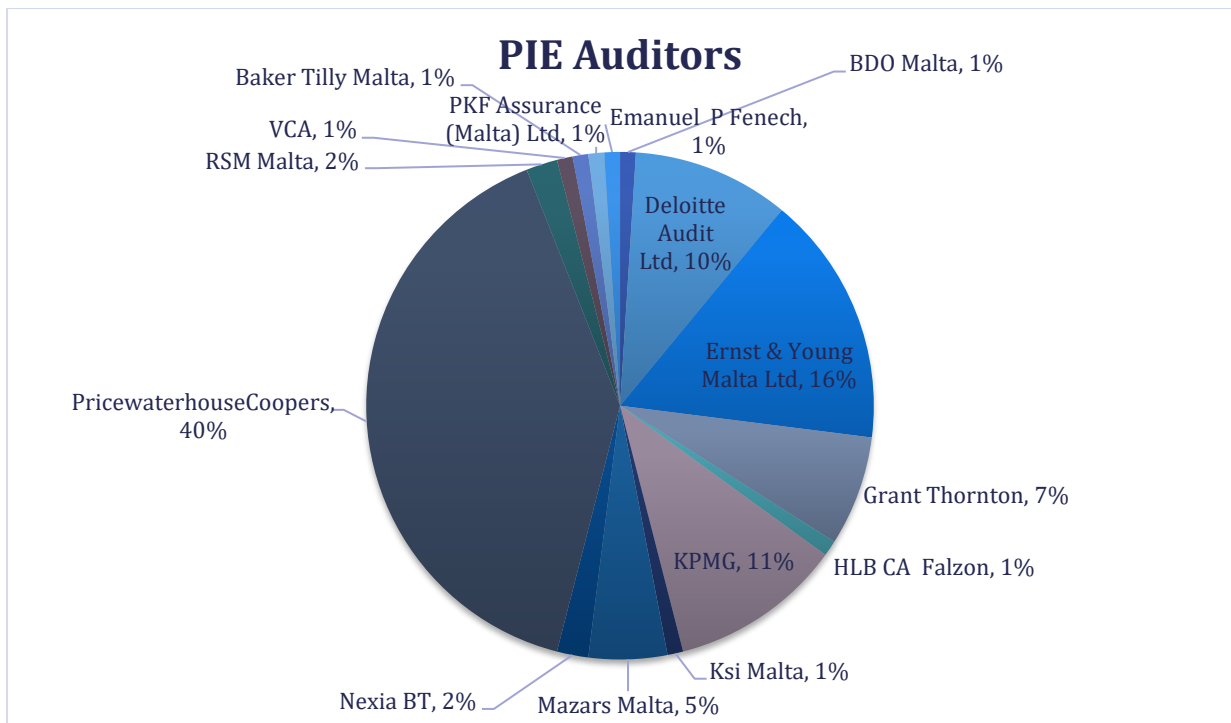
### **PIE Auditors**

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

As per 2019 Annual Return declarations made by audit firms as well as statutory auditors, the following graph illustrates entities falling with the definition of a public interest entity.



As at end of year, the number of audit firms and audit practitioners providing statutory audit services to PIEs stood at fifteen. Furthermore, 77% of all PIE audits are conducted by the big 4 statutory audit firms. The remaining 23% of PIEs audits are carried out by mid-tier statutory audit firms and one sole practitioner providing audit services.



## The Quality Assurance Unit

### Overview

The Quality Assurance Unit (QAU) was set up in terms of Directive 4 to the Accountancy Profession Act to assist the Accountancy Board in implementing a quality assurance process. This process is aimed at providing the Board with assurance in regard to the quality of the professional work carried out by statutory auditors and/or audit firms and ensure that professional standards are maintained.

In this regard, the QAU carries out monitoring visits to auditors and audit firms providing statutory audit services. After each visit, a report is prepared for consideration by the Board.

### Human Resources

During 2019, the following joined the QAU team:

- Three reviewers, one of which is shared with another government entity; and
- Two administrative staff, one of which works on part-time basis.

As a result, the QAU staff complement at year end was composed of the following:

Head of Unit	1
Reviewers	5
Administrative staff	2
<b>Total</b>	<b>8</b>

One of the reviewers is also partially involved in the administration of the unit on a day to day basis.

### Source of Funding

Statutory auditors and audit firms are required by Directive 4 of the Accountancy Profession Act to settle an annual Quality Assurance Regulatory Fee. The Directive also stipulates other fees and penalties that may be imposed on statutory audit firms and statutory auditors.

The fees received by the QAU or the Board are remitted to the Ministry for Finance and Financial Services and subsequently, any operational expenses incurred by the Board or the Quality Assurance Unit are financed by the Ministry for Finance and Financial Services. This system of funding ensures that the Unit is free from undue influence by statutory auditors and audit firms. Currently, the Ministry for Finance and Financial Services funds approximately

55% of the Accountancy Board's expenditure, which is primarily related to the Quality Assurance Unit. The remaining 45% is funded through fees paid by warrant holders and firms.

Quality Assurance Regulatory Fees as stipulated in Directive 4 of the Accountancy Profession Act are as follows:

▪ Part-time sole practitioners	€116
▪ Full-time sole practitioners	€233
▪ Firms with one principal	€233
▪ Firms with less than three but more than one principal	€582
▪ Firms with less than five but more than two principals	€1,630
▪ Firms with five or more principals	€5,950

When the Board deems that a follow-up visit is necessary, the statutory auditor or audit firm will be subject to an additional fee for such visit. A rate of €34.94 per man hour will be charged for the total number of hours spent on the visit.

Also, regulatory penalties may also be charged in respect to breaches as stipulated in Schedule 1 to Directive 4, which are as follows:

▪ Re-scheduling of review visit without justifiable reasons	€232.94
▪ Failure to respond to any requests made by the QAU within the time limits set out in such requests	€23.29 per day
▪ Delays in submission of fees and returns due	€23.29 per day
▪ Failure to submit documentation requested by the Board or the QAU within the specified time	€23.29 per day
▪ Failure to provide access to information in terms of paragraph 16	€23.29 per day
▪ Failure to respond to the Board on requested remedial action	€23.29 per day

## **Training**

The Board is committed to ensuring competence of its staff members. To this end, internal training sessions were coordinated and carried out during the year for QAU reviewers. Reviewers are also encouraged and supported to attend Continued Professional Education (CPE) events both locally and abroad.

One such CPE event, attended by the Head of the QAU and two reviewers, was organised by the Committee of European Auditing Oversight Bodies (CEAOB) Inspections Sub-Group – Smaller Regulators Task Force and took place over three days in Athens, Greece. This event dealt with IFRS 7 – Financial Instruments: Disclosures; IFRS 9 – Financial Instruments; IFRS 15 – Revenue from Contracts with Customers; IAS 39 – Financial Instruments: Recognition and Measurement and included a session on IT inspections.

Professional staff are required, as a minimum, to adhere to the CPE requirements set out in Directive 1 of the Accountancy Profession Act and to keep updated with recent changes in the profession.

The training hours attended by reviewers during the year were over and above the mandatory CPE requirements. The training addressed primarily audit related topics which are relevant to carry out audit reviews. However, other areas such as financial reporting, legislation and taxation were also covered.

### **QAU Inspection Methodology**

A risk-based approach is adopted when carrying out monitoring visits to statutory auditors and audit firms. This approach is applied to select the statutory auditors and audit firms for review and also throughout the visit itself from the planning stage to the completion stage.

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



#### ***Stage 1 - Planning***

In preparation for the inspection visit, a review is carried out of information available pertaining to the statutory auditor or firm. This information is obtained through documentation such as correspondence files, annual returns, forms requested on notification of the visit, previous visit reports, transparency reports in the case of PIE auditors and MBR searches.

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

## *Stage 2 - Fieldwork*

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

### *Opening Meeting*

On the first day of the visit, the reviewer(s) hold an 'opening meeting' with the compliance principal, who is the individual appointed within a firm to address compliance related matters or in the case of the sole practitioner, the sole practitioner himself. The opening meeting with the compliance principal is utilised to discuss risks arising during the planning stage as well as to identify other potential risks areas to focus on during the course of the fieldwork stage of the visit. During this meeting, other documentation will be provided, by the compliance principal, to the reviewer(s), such as the audit client list.

### *Review of Quality Control Procedures*

The general practice/firm review entails a review of the quality controls of the statutory auditor/firm and a review of compliance with legislative requirements. In this regard, the following documentation is requested:

- the firm/practice professional indemnity insurance policy;
- CPE declarations pertaining to principals and staff;
- the practice or firm ISQC 1 manual;
- independence declarations of principals and staff;
- letterheads of the audit firm and/or practice as well as any connected undertakings; and
- Audit Compliance Reviews as well as cold file reviews.

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

### *Review of Audit Files*

Apart from an assessment of the general practice/firm procedures, reviewers will also select one or more audit files for review. The number of files selected for review is at the discretion of the QAU. File selection is risk-based and depends on risk factors such as public interest, the size of audit clients and any audit qualifications, amongst others. Prior to the file review, the

reviewer analyses risks relating to the audit client through a review of the audited financial statements. The reviewer would then assess how the statutory auditor/firm addressed those risks through the documentation found in the audit file.

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

#### *Review of Findings and Summarisation of Findings*

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

#### *Closing Meeting*

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

### **Stage 3 - Completion**

#### *Drafting of Quality Assurance Visit Report*

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

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

#### *Report Approval by the QAOSC and the Accountancy Board*

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

Based on the extent of the findings identified during the visit and the compliance principal's replies, the Board would then request confirmations from the statutory auditor/firm about actions expected to be taken by the statutory auditor/firm. Also, sanctions may be imposed, when necessary. Such confirmations and sanctions would be included in the closing down letter.

#### *Issuance of Report and Follow-up*

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

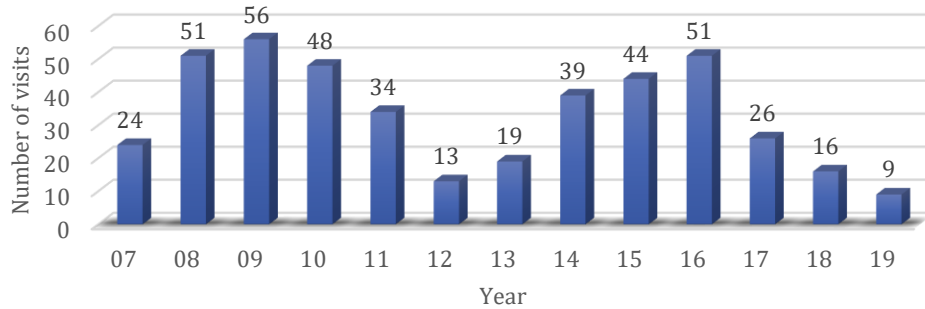
The QAU ensures that any required confirmations provided by the compliance principal as well as any sanctions imposed will be satisfactorily addressed. If the QAU has any concerns regarding the confirmations received or the results of the sanctions imposed, the statutory auditor or statutory audit firm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

### **Quality Assurance Visits**

Quality assurance visits are carried out on the basis of an analysis of risk. Visits to PIE auditors and firms are carried out 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.

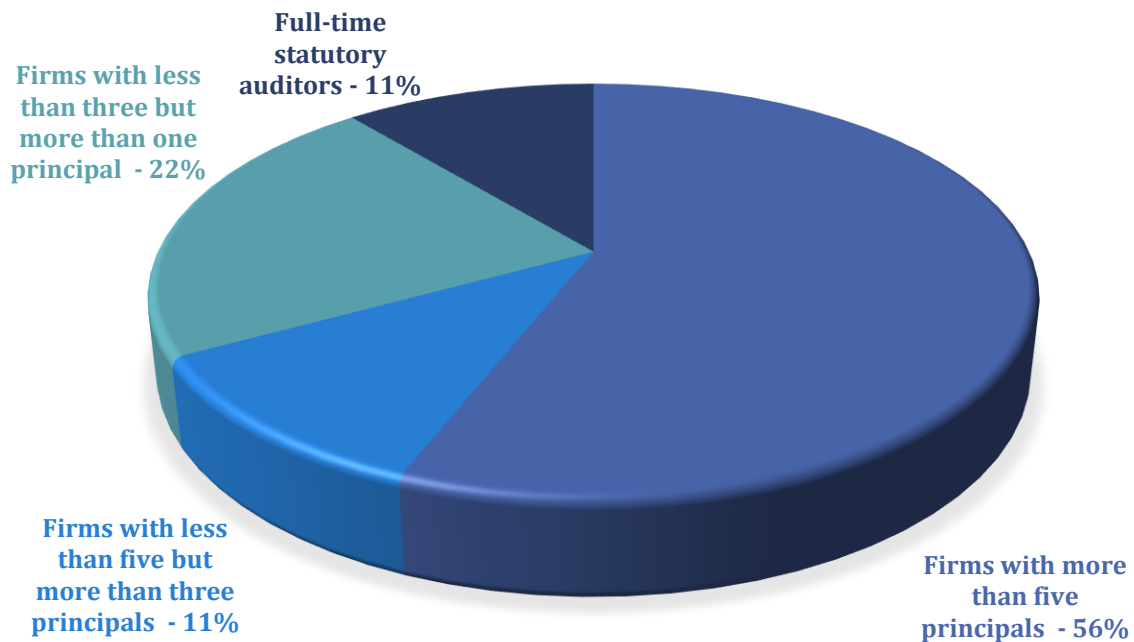
Over the period 2007 to 2019, the QAU carried out a total of 430 quality assurance visits. Of these, 421 had been approved by the Board by the end of 2019. During 2019, the QAU continued the fourth visit cycle on PIE statutory auditors and firms. The number of visits carried out by the QAU from 2007 to 2019 is illustrated in the following diagram:

### Visits carried out by the QAU



During 2019, the QAU carried out a total of nine visits (2018: sixteen), this includes five visits to statutory audit practices carrying out audits of public interest entities.

The following analysis depicts the composition of statutory auditors and firms reviewed during 2019 by the QAU:



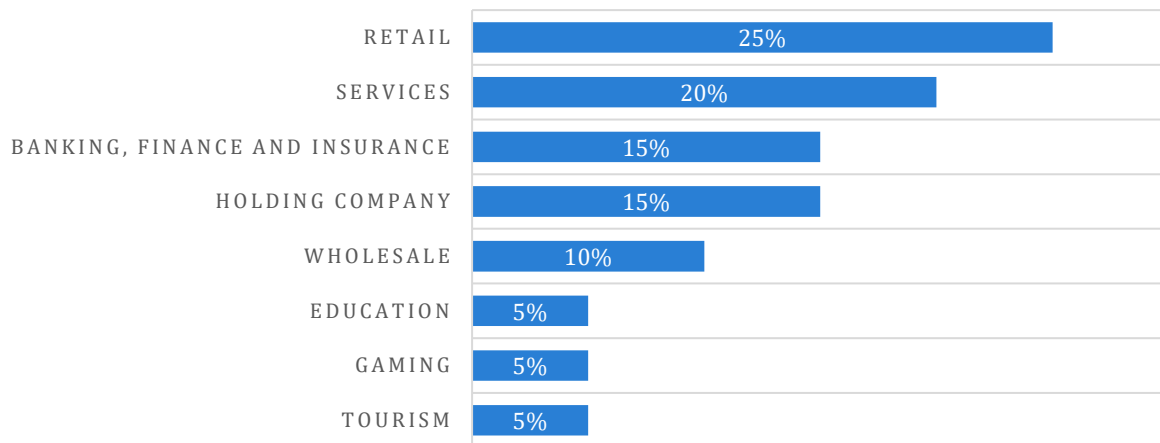
At the end of the year, a total of seven visits were still work-in progress. Four of these visits pertained to PIE statutory audit firms. The reports in relation to these seven visits will be

presented and discussed with the Quality Assurance Oversight Sub-Committee and the Accountancy Board in 2020.

The Quality Assurance Oversight Sub-Committee and Accountancy Board reviewed ten visit reports during 2019. The main findings identified from visits approved by the Accountancy Board during 2019 are included in Section 5 of this report.

During these visits, a total of twenty audit files were reviewed by the QAU, of which two pertained to public interest entities. An analysis of the audit files reviewed by industry sector by the QAU is shown below:

### FILES REVIEWED



## 2019 QAU Visits

### Overview of Reports

During quality assurance visits carried out, a number of matters will be identified by the reviewers and discussed with the audit practice. The QAU will obtain feedback from the statutory auditor or audit firm on steps the audit practice intends to take to address the matters identified through the Closing Meeting Notes document.

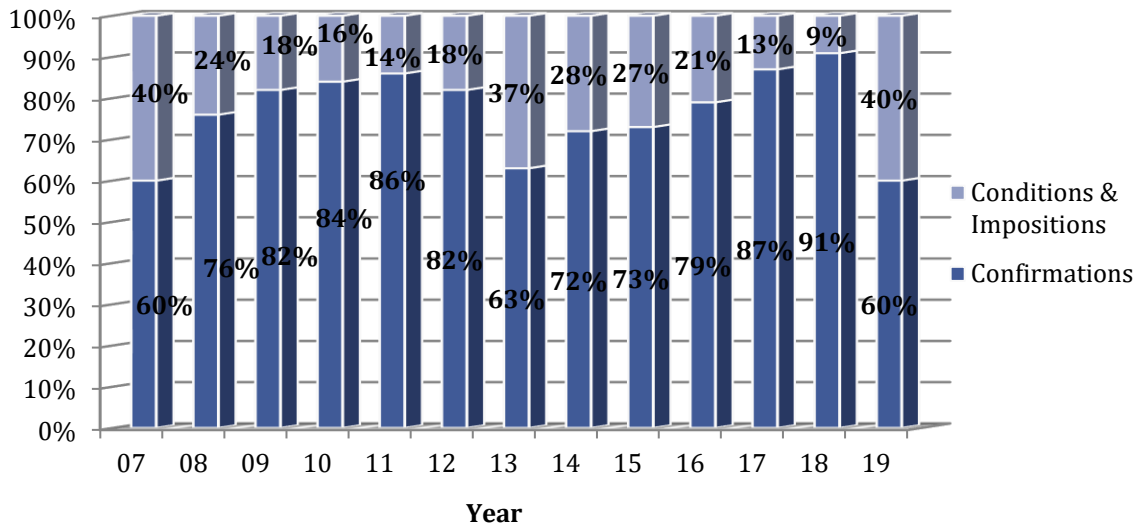
Subsequent to such feedback being received, a visit report will be drafted which includes both the issues arising and feedback received from the statutory auditor or audit firm. This report is presented to the Accountancy Board, subsequent to review by the Quality Assurance Oversight Sub-Committee. Based on the extent and gravity of findings identified, the Accountancy Board will determine the course of action to be taken. Such course of action may be limited to the request for confirmations that matters identified will be addressed. However, in other situations sanctions may also be imposed. Such confirmations and sanctions are included in the Accountancy Board's closing down letter.

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

There are various types of sanctions/conditions which may be imposed at the end of a visit. Conditions include the imposition of follow-up visits, hot file restrictions, external audit compliance reviews and external cold file reviews. Furthermore, reprimands may also be issued. In some cases, depending on the gravity of the findings, audit firms or statutory auditors may be referred to the Accountancy Board for possible referral to the disciplinary committee.

Based on the quality assurance visits that were concluded and approved by the Accountancy Board by the end of 2019, there was a significant percentage increase in the number of visits that resulted in sanctions being imposed. During the course of 2019, in regard to 60% of visits (2018: 91%) carried out on statutory auditors/audit firms and approved by the Accountancy Board, only confirmations were required. On the other hand, confirmations as well as conditions were imposed on 40% of statutory auditors/audit firms visited in 2019 when compared to 9% in 2018. Furthermore, during 2019, a Disciplinary Committee was convened in respect to one statutory auditor relating to a quality assurance visit carried out in prior years.

An analysis of the courses of action taken by the Board since 2007 is illustrated in the diagram below:



During 2019, the Accountancy Board imposed external cold file reviews on four visits – three sole practitioners and one audit firm. None of these practices audit PIEs. In total, 7 external cold file reviews were requested to be submitted to the Accountancy Board. No other sanctions were imposed during the year on visits that were approved in 2019.

The number of conditions imposed on statutory audit firms and statutory auditors since 2007 amounted to 75 and these can be analysed as follows:

	Follow-up visits	External ACRs and/or cold file reviews	Hot file restrictions	Other restrictions
<b>PIE Statutory Audit Firms</b>	3	0	1	0
<b>Non-PIE Statutory Audit Firms</b>	5	12	0	0
<b>Full-Time Statutory Auditors</b>	8	21	6	1
<b>Part-Time Statutory Auditors</b>	4	9	4	1
<b>Total</b>	<b>20</b>	<b>42</b>	<b>11</b>	<b>2</b>

## 2019 Visit Findings – Key Observations

During 2019, the number of sanctions imposed on practices reviewed increased significantly when compared with the previous year. The underlying reason for such sanctioning was primarily due to a lack of documentation and evidence found in the audit file across a number of areas. In some cases, it was noted that an ISA compliant audit programme was not being used. A total of 3 sole practitioners and 1 audit firm were required to undertake measures to address such deficiencies. These measures included the requirement that external reviewers, approved by the Accountancy Board, be appointed to carry out reviews of seven audit files to confirm that identified weaknesses had been remedied by the practice.

As was done in prior years, as part of the Accountancy Board’s Annual Report, an analysis of the more recurrent findings identified during quality assurance reviews is provided. It is recommended that statutory auditors and audit firms review their own methodologies and procedures and implement improvements to ensure that professional requirements are adhered to and adequately documented within audit files and in whole firm policies and procedures.

As already stated, 10 visit reports were approved during 2019 by the Accountancy Board, including both PIE and non-PIE reviews. The analysis of findings, based on these reports, is grouped according to the different stages of the audit process and an analysis of whole firm policies and procedures in line with ISQC 1 requirements and other legislative requirements.

On this basis, findings are grouped into the following categories:

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

### Audit file findings at planning stage

An analysis of the main planning issues raised on the files reviewed is provided below as follows:

- Laws and regulations;
- Independence considerations;
- Materiality;
- Risk assessment and identification through understanding the entity and its environment; and
- Terms of engagement.

*Laws and regulations*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	75%	50%	60%	64%

The adequacy of documentation of the practice's consideration of laws and regulations remains an area where improvement is needed. Although a slight decrease has been noted from 64% in 2018 against 60% in 2019, breaches to laws and regulations is one of the most recurrent finding identified during QAU visits.

ISA 250 – *Consideration of laws and regulations in an audit of financial statements* requires that as part of the practice's obtaining an understanding of the entity and its environment in accordance with ISA 315 – *Identifying and assessing the risks of material misstatement through understanding the entity and its environment*, the auditor is required to obtain a general understanding of both the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; as well as how the entity is complying with that framework. Furthermore, the standard requires the auditor to obtain sufficient appropriate evidence regarding compliance with laws and regulations having a direct effect on the determination of material amounts and disclosures in the financial statements. The standard also requires audit procedures such as inquiry with management (or those charged with governance) as to whether the company is complying with laws and regulations as well as inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

In most cases, in respect to audit firms, it was noted that although the practice was not aware of instances of non-compliance or suspected non-compliance with laws and regulations, documentation of ISA 250 was not sufficiently in line with the requirements. In the case of statutory auditors, a number of cases were noted where laws and regulation considerations were not documented at all within the planning stage of the audit.

*Independence considerations*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	75%	50%	60%	45%

During 2019, independence issues related solely to the provision of non-assurance services to audit clients.

In the case of audit firms, although firms had adequate policies and procedures to address the provision of non-audit services to audit clients in their ISQC 1 manual, it was noted on some of the files reviewed, that such policies and procedures were not being adhered to in practice.

On the other hand, for statutory auditors, instances were noted where the practice carried out an incorrect assessment of independence relating to non-audit services. Consequently, no safeguards were applied. On another case, the statutory auditor did not document independence considerations within the audit file.

During the course of 2019, on one PIE audit it was noted that no documentation of the engagement team's consideration of the requirements of Article 18A(3) of the Accountancy Profession Act was found on file.

### Materiality

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	50%	67%	60%	27%

During 2019, there was a marked increase in the number of findings relating to materiality with an average of findings identified on 60% of all visits approved during the year.

In respect to firms there was insufficient documentation regarding the appropriateness of the benchmark used in the materiality calculation. In the case of sole practitioners, in most cases there was no documentation of materiality calculations in the audit files reviewed. The root cause of this was that some of these practices were not using an ISA compliant audit program. Furthermore, on one of the PIE audit files reviewed, the materiality level identified in the Report to the Audit Committee did not agree with the materiality calculation found on file.

### Risk assessment and identification through understanding the entity and its environment

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	50%	67%	60%	36%

In line with the requirements of ISA 315 – *Identifying and assessing the risks of material misstatement through understanding the entity and its environment*, the engagement team is required to carry out procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion level. Such procedures

should include inquiries with management and others within the entity, analytical procedures as well as observation and inspection. Apart from this, the engagement principal should consider client acceptance and continuance procedures, prior knowledge of the client as well as factors identified on other engagements within the same group. These factors should be discussed internally by the engagement team.

Apart from the identification and assessment of risk, the auditor is also required to obtain an understanding of the entity and its environment as well as the internal control processes which are relevant to the audit.

As required by ISA 315, the auditor is required to include documentation of the following:

- The discussion among the engagement team & the significant decisions reached;
- Key elements of the understanding obtained regarding each aspect of the entity & its environment and of each of the internal control components, the sources of information from which the understanding was obtained and the risk assessment procedures performed;
- The identified & assessed risks of material misstatement at the financial statement and assertion level; and
- The risks identified, and related controls about which the auditor has obtained an understanding.

During the course of QAU visits, in a number of situations, such considerations were not adequately carried out and documented on file as per requirements of ISA 315. In respect to statutory auditors, it was noted that as some practices did not have ISA compliant audit programs, it was unclear whether these considerations had been made as no documentation was found on file.

### ***Terms of engagement***

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>50%</b>	<b>50%</b>	<b>50%</b>	<b>36%</b>

In accordance with ISA 210 – *Agreeing the terms of audit engagements*, the auditor is required to agree the terms of the audit engagement with management or those charged with governance, as appropriate. ISA 210 also identifies the relevant sections to be included in the letter of engagement.

In addition, ISA 210 on recurring audits requires that the auditor assesses whether circumstances require the terms of engagement to be revised and whether there is a need to remind the entity of the existing terms of engagement.

Findings identified in respect to audit firms related to the applicable financial reporting framework not being referred to in the engagement letter. In respect to statutory auditors in

a number of cases the engagement letter had not been updated in a number of years even though, since then the company's applicable financial reporting framework had changed.

### **Audit file findings at fieldwork stage**

The most common findings identified at audit fieldwork stage are analysed as follows:

- Testing of inventory;
- Testing of revenue;
- Testing of receivables; and
- Testing of creditors.

It is of the utmost importance that work carried out in these areas is sufficiently and appropriately documented and adheres to the requirements emanating from relevant standards as there has been a marked increase in the number of findings being identified during quality assurance reviews.

### *Testing of inventory*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>75%</b>	<b>83%</b>	<b>80%</b>	<b>36%</b>

Findings identified in relation to inventory is a recurrent theme across a number of visits carried out. In respect to audit firm reviews, it was noted that on one audit file there was limited evidence regarding the existence and condition of inventory. In addition, in other instances procedures used during the stock take were not documented. In another case, although stock was held at two different locations, a stock take was only carried out at one of these locations. It was unclear whether stock at the second location was material as no documentation was found on file.

In regard to sole practitioners, on one case although a stock take was attended by the engagement team, no documentation was included on file of the stock items counted as well as whether discrepancies were noted. Furthermore, there was a lack of sufficient audit evidence being obtained through testing of inventory on a number of files reviewed. On one visit, it was noted that the sole practitioner did not attend the year end stock take, even though the inventory balance was material and no alternative procedures were carried out.

*Testing of revenue*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>75%</b>	<b>83%</b>	<b>80%</b>	<b>36%</b>

Revenue is another area where firms and sole practitioners need to revisit current practices to ensure that testing is being carried out in line with requirements. It was noted that during 2019, 80% of visits contained findings related to revenue. This is a significant increase over what was reported in the previous year.

During the visits carried out it was noted that in a number of instances, no audit testing was carried out to obtain audit comfort on completeness of income. On one particular visit, no testing of revenue was carried out, apart from a reconciliation of the revenue balance to VAT statements. Furthermore, anti-fraud procedures based on the presumption that there were risks of fraud in revenue recognition were not carried out.

*Testing of receivables*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>100%</b>	<b>50%</b>	<b>70%</b>	<b>45%</b>

As per the above analysis, testing of receivables is an area identified as requiring more audit documentation and evidence. On all audit firm visit reports and on half of the sole practitioner visit reports this area was identified as containing deficiencies. Furthermore, the increase from the prior year average indicates that more attention needs to be directed to this area of the audit.

Of particular concern is the testing of recoverability of trade debtors where a number of deficiencies were noted due to inadequate testing being conducted. Furthermore, reliance was placed on obtaining related party confirmations without carrying out any additional testing.

### *Testing of creditors*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	25%	83%	60%	18%

Testing of creditor balances is another area where sufficient appropriate audit evidence was not obtained nor documented on file. This was particularly evident on the reviews carried out on sole practitioners and relates to inadequate sample sizes used by practices to test creditors, as well as reliance being placed on confirmations without any further testing being carried out.

### **Audit file findings at completion stage including audit report review**

The below analysis illustrates the most common findings noted at audit completion stage of the files reviewed. This includes issues raised as follows:

- Wording used in the audit report not being in line with ISAs;
- Subsequent events;
- Communication with those charged with governance;
- Audit report opinions issued;
- Going concern; and
- Letter of representations.

It is of particular concern to the QAU, that on all audit reports reviewed, weaknesses in the wording used was identified. Furthermore, in half of the cases, the audit report opinion was not fully supported by audit work carried out and documented.

### *Wording used in the audit report*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	100%	100%	100%	45%

During 2019, on every visit carried out, issues were noted with respect to the wording used in the audit report of those financial statements selected for review. This is of particular concern to the Accountancy Board as the audit report is the end result of the audit process and the report is made public through the company's financial statements.

While many of the findings identified did not reveal significant departures from the requirements, the quality assurance unit feels that with more due care the instances of non-compliance can be significantly reduced. Thus, practices are urged to bring their audit report templates in line with the requirements of ISA 570, 700, 701, 705, 706 and 710.

***Subsequent events***

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>100%</b>	<b>50%</b>	<b>70%</b>	<b>36%</b>

As per the above analysis, one can note that on all statutory audit firms, treatment of subsequent events was identified as not being compliant with the standard. Furthermore, on half of sole practitioners similar findings were identified. In a number of situations this standard was completely omitted from audit engagement files and most had poorly documented their considerations of subsequent events. Audit practitioners and audit firms are required to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected. These considerations should be adequately documented in the audit file.

***Communication with those charged with governance***

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>75%</b>	<b>50%</b>	<b>60%</b>	<b>9%</b>

During the course of quality assurance reviews, in a number of situations, the engagement team did not issue a management letter or document its oral communication with those charged with governance.

In other situations, although a management letter had been issued, this did not include reference to matters affecting the audit report such treatment of going concern and in some instances, audit report qualifications as well as other weaknesses identified during the course of the audit.

*Audit report opinions*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	75%	50%	60%	36%

Another area, of particular concern, is the determination of audit report opinions. Again, a significant increase was noted in the number of cases where findings were identified.

On this basis we believe that more effort is needed to address these types of issues. Throughout the year, reviewers came across a number of situations where the audit evidence obtained and documented, as well as conclusions found in the audit file, did not sufficiently support the audit report opinion found in the financial statements. In most situations, these related to whether or not to include an emphasis of matter regarding going concern in the audit report. In such cases, practitioners and firms are directed toward the requirements found in ISA 570 – *Going concern*.

In another instance, it was unclear to the reviewers how the audit engagement team and in particular the audit engagement leader determined that a qualified audit opinion was appropriate, as opposed to other types of modifications.

Thus, firms and practices are urged to revisit their current policies and procedures in this regard as well as the relevant standards and consult as necessary.

*Going concern*

	Statutory Audit Firms 2019 (%)	Statutory Auditors 2019 (%)	Total Average 2019 (%)	Total Average 2018 (%)
<b>Findings identified on:</b>	50%	50%	50%	27%

As already indicated above, going concern is an area where the audit engagement team must revisit its current policies and procedures to align these with the requirements of ISA 570, especially when there are events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

Furthermore, the engagement leader must assess the risk factors arising and any mitigating factors. This should be adequately documented on file and support the audit opinion found in the audit report. On a number of files reviewed, although engagement teams are in many cases obtaining letters of support from the company's shareholders, no other work is carried out by the audit engagement team and full reliance was being placed on such letter of support.

***Letter of representation***

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>75%</b>	<b>33%</b>	<b>50%</b>	<b>55%</b>

Findings in respect to the content of the letter of representation continue to be prevalent on a number of QAU visits. The most common finding identified in respect to ISA 580 – *Written representations* is that a number of representations as identified in the standard itself are not included in the letter of representation. Statutory auditors and audit firms are urged to assess whether their pro-forma letter of representation is fully in line with the requirements of ISA 580. The standard itself provides an illustrative letter of representation which may facilitate disclosure requirements. Practitioners and firms are urged to refer and abide to the standard.

**Whole firm/practice findings**

Issues raised at whole practice/firm level include issues in respect of:

- Continuing professional education (CPE);
- Professional indemnity insurance;
- ISQC 1 related matters; and
- The carrying out of audit compliance reviews (ACR) and cold file reviews.

***Continuing professional education***

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>25%</b>	<b>67%</b>	<b>50%</b>	<b>18%</b>

Directive 1 of the Accountancy Profession Act dealing with CPE is relevant to all warrant holders. In the case of half of the practices reviewed, the QAU came across CPE non-compliance. In a number of cases, CPE requirements were not adhered to by principals within the firm or by the sole practitioner or else by staff. In addition, on some visits, the practice did not ensure that all qualified staff had satisfied CPE requirements.

*Professional indemnity insurance*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>75%</b>	<b>17%</b>	<b>40%</b>	<b>27%</b>

The Accountancy Profession Act and the Accountancy Profession Regulations sets out the obligations of the firm or statutory auditor to have a professional indemnity insurance cover. The following were the matters raised in this respect on visits carried out:

- The policy did not duly cover claims arising in respect to loss or damage made in the five years immediately following the cessation of the policy as a result of the retirement of or the surrender of the warrant or practising certificate by any principal and provided that the negligent act, error or omission giving rise to the claim had occurred during the period of insurance of the policy as required by the Accountancy Profession Act;
- The policy did not cover damage brought about or contributed by any dishonest, fraudulent, criminal or malicious act or omission of all staff including seconded or sub-contracted staff;
- The policy did not cover all staff including subcontracted staff; and
- The policy did not cover the firm's/sole practitioner's connected undertakings.

*ISQC 1 related matters*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>50%</b>	<b>33%</b>	<b>40%</b>	<b>64%</b>

The number of ISQC 1 related matters have decreased when compared with the prior year and on most reviews, ISQC 1 policies and procedures have been adequately documented on file. However, reviewers still note instances where these policies and procedures did not fully address ISQC 1 requirements. Thus, it is recommended that practices and firms periodically revise their manual to ensure compliance with ISQC 1 requirements as well as tailor their policies and procedures manual to reflect what is actually being done within their practice.

*Audit compliance reviews and cold file reviews*

	<b>Statutory Audit Firms 2019 (%)</b>	<b>Statutory Auditors 2019 (%)</b>	<b>Total Average 2019 (%)</b>	<b>Total Average 2018 (%)</b>
<b>Findings identified on:</b>	<b>25%</b>	<b>50%</b>	<b>40%</b>	<b>45%</b>

Guidance on audit compliance reviews as well as cold file reviews was issued a number of years ago by the Accountancy Board.

However, QAU reviewers still come across a number of situations where audit compliance reviews and cold file reviews are either not carried out in accordance with the guidance issued or not carried out at all.

Such reviews should be a means for the firm or practice to identify areas for improvement and subsequently address those areas. Thus, the importance of such reviews cannot be stressed enough. Audit staff should be informed of areas of weaknesses arising from such reviews and measures should be taken, such as staff training, to address those areas.

## Other Activities and Prospects for 2020

### Participation in International Fora

The Accountancy Board has been actively involved in a number of meetings and committees abroad which were held throughout the year. Amongst others, the following meetings were attended during 2019:

- **CEAOB Plenary meetings**  
Representatives and Members of the Board attended the CEAOB Plenary meetings held in June and November in Brussels, Belgium.
- **CEAOB Inspections Sub-Group meetings**  
Two Inspections Sub-Group meetings were attended during the year. One was held in June in Luxembourg City, Luxembourg and the other was held in November in Bucharest, Romania.

The Head of Unit and two reviewers also attended the IFRS update and IT inspections workshop organized by the Inspections Sub-Group – Smaller Regulators Task Force in October in Athens, Greece.

The QAU is also involved in the Deloitte College, which falls under the remit of the Inspections Sub-Group. In this regard, the QAU participated in a number of conference calls during the year.

- **CEAOB Market Monitoring Sub-Group**  
In June, the 2<sup>nd</sup> market monitoring exercise was submitted to the EU Commission. The Market Monitoring Sub-Group was formed to assist member states in this regard and develop a consistent approach to be taken by competent authorities in Member States. The market monitoring exercise is aimed to provide the Commission with information on the market structure of the audit profession, market share held by the key players in the audit profession, information on audit committees as well as information in respect to quality assurance visits.

In September, the Head of Unit attended a meeting held in Warsaw, Poland. Furthermore, the QAU participated in five conference calls organized by the Market Monitoring Sub-Group during the year.

- **CEAOB Enforcement Sub-Group**  
The CEAOB Enforcement Sub-Group held a meeting in Luxembourg in June 2019, for which a representative from the Board was present. The Board was also represented in seven conference calls during the year.

The purpose of the Enforcement Sub-Group is to facilitate the exchange of information, expertise and best practices in the area of investigations and sanctions and to collect for annual publication by the CEAOB aggregated information on all administrative measures and sanctions imposed by competent authorities (Article 30f (1) of the Audit Directive).

- **Audit Regulatory Committee (AuRC)**  
A representative of the Board attended the Audit Regulatory Committee meeting held in November in Brussels, Belgium.
- **Accounting Regulatory Committee (ARC)**  
Representatives of the Board attended the Accounting Regulatory Committee meeting held in December in Brussels, Belgium.

### **Collaboration with the Malta Institute of Accountants (MIA)**

Over the years, the Accountancy Board has worked closely with the Malta Institute of Accountants (MIA), with the MIA providing a number of services in relation to CPE.

The Accountancy Board participated in fora organized by the MIA including:

- SME Forum – this Forum was held during February 2019 in which the Head of the QAU delivered a presentation on Quality Assurance; and
- Accountancy Profession Strategic Forum – this Forum was held during April 2019 in which the Accountancy Board Chairman delivered a speech on the role of the Accountancy Board in Malta.

### **Updating of firm registration details with the Accountancy Board**

During December 2019, a new procedure was established for updating firm registration details with the Board. Going forward, when notifying the Board with a change made within the firm, particularly in relation to amendments to voting rights as well as changes in principals, accounting and audit firms are now required to provide a certified true copy of the updated partnership agreement or Memorandum & Articles of Association, as applicable, showing evidence of this change. Updates of information on the website will only be made when the above-mentioned documentation is duly submitted and evaluated.

### **Collaboration with the Malta Financial Services Authority (MFSA)**

During the course of 2019, the Accountancy Board and MFSA collaborated on a number of initiatives, amongst others:

- Issuance of Audit Committee Questionnaires to public interest entities;
- Compilation of statistics for the 2nd Market Monitoring Exercise carried out; and

- Dialogue in respect to the impact of the European Single Electronic Format (ESEF) on listed entities as well as implications on the audit of such subject entities.

### **Prospects for 2020**

- Strengthening the QAU human resources through the engagement of additional professional staff to ensure that adequate resources are in place to carry out inspection visits;
- Considering the possibility of delegation of inspection visits on non-PIE auditors/audit firms;
- Enhancing co-operation with the MFSA, Financial Intelligence Analysis Unit (FIAU), other competent authorities and professional body through signing Memoranda of Understanding;
- To enact legislation to recognize the MIA as the approved accountancy body;
- Collaboration with the MIA and MFSA to provide guidance and amend legislation, when necessary, in respect to the requirements of ESEF; and
- Participation in international fora.





Accountancy Board  
Quality Assurance