

HLB CA Falzon Transparency Report
2017
9th March 2018



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Introduction

This transparency report has been prepared in accordance with the requirements of article 18 of the Maltese Accountancy Profession Act, Cap.281.

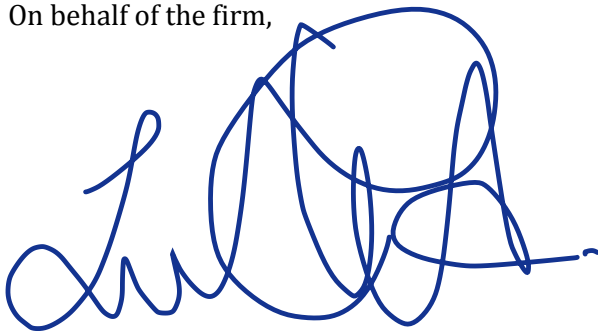
The act requires that auditors carrying out statutory audits of public interest entities must comply with certain regulations within three months of each calendar year.

The contents of this report explain how **HLB CA Falzon** operates, ensuring that we give our clients audits of high standards as expected by the local and international guidelines. This serves as a public statement to the firm's clients, regulators and the general public to provide assurance, compliance services and audit quality to both local and international clients.

This report will describe the policies and procedures adhered to by the firm and were effective as at 31 December 2017. The information below will better describe the firm's setup and governance structure in more detail mainly relating to:

- The Firm
- The setup of the firm and its network.
- Governance Structure

On behalf of the firm,



Jozef Wallace Galea
Partner and Compliance Officer

- **The Firm**

HLB CA Falzon is an offspring of Falzon & Co. which was founded in 1967 by John Falzon. In 2016, this partnership terminated and one of the partners Alfred Falzon merged his practice with that of Corporate Auditors as CA Falzon. Subsequently, the firm became the sole member of HLB International in Malta and the name was changed recently to HLB CA Falzon.

- **The setup of the firm and its network.**

HLB CA Falzon is a civil partnership constituted in Malta. The company is registered as a firm with the Accountancy Board in terms of the Accountancy Profession Act. As at 31 December 2017, the firm is wholly owned by four partners, three of which hold a practicing certificate in auditing.

The main services that the firm offers are audit services, consultancy & tax services, accounting & secretarial support and corporate and other related services.

The structure of HLB CA Falzon is as follows:

Partners:

Jozef Wallace Galea Partner - Audit services and Compliance Officer
Alfred Falzon Partner - Audit services
Patrizio Prospero Partner - Consultancy
Adrian Sultana Partner - Accounting and Payroll Services

The firm's registered address is Central Office Buildings, Block A, Level 1, Mosta Road, Lija – LJA 9016, Malta.

- **Governance Structure**

The partners meet on a regular basis to discuss various current issues including business in general, economic issues management's issues such as financial and human resources and the future prospects for the firm.

The partners make sure that they reach their goals and also make sure that they comply with the terms of the Accountancy Act and in line with the HLB international guide lines.

The body is composed of:

Jozef Wallace Galea – Partner and Compliance Officer
Alfred Falzon – Partner
Patrizio Prospero - Partner and Money Laundering Reporting Officer
Adrian Sultana - Partner

- **Quality Control procedures**

HLB CA Falzon has its own internal quality control manual. This maintains policies to provide assurance that the firm comply with the relevant ethical standards.

HLB International



HLB CA Falzon is a member of **HLB International, an international network of audit and accounting firms**. HLB International is a non-practicing firm which was formed in 1969; it does not even provide services to the public. The aim of HLB International is to generate business within its member firms. Each member firm carries out its business in its own name and in each country. HLB International is mostly ranked among the top 12 nationally.

As at 31st December 2016, HLB International covered more than 140 countries worldwide by means of 2,210 partners and 20,110 staff in 660 offices worldwide. HLB International is a dynamic network of independent professional accounting firms and business advisers and has been around for more than 40 years.

HLB members work together globally to serve clients' multinational needs, providing experienced solutions in a wide range of service lines and industry sectors.

General Policy Statement

It is the firm's objective to establish, implement, maintain, monitor and enforce a quality control system that provides reasonable assurance that the partners and staff members of the firm comply with the International Standard on Quality Control ("ISQC") 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and that the firm's engagement reports are appropriate for the circumstances.

Mission Statement

Our mission is to:

- Promote a profitable and sustainable business activity;
- Provide an exceptional service to our clients through our remarkable service;
- Produce work within reasonable timeframes and adhere to deadlines;
- Provide a professional and ethical service aiming for work uniformity and good practices throughout the firm.
- All partners and staff are, to varying degrees, responsible for implementing the firm's quality control policies and procedures.



Leadership Responsibilities for Quality within the Firm

The firm's partners decide on all key matters regarding the firm and its professional practice. The partners accept responsibility for leading and promoting a quality assurance culture within the firm and for providing and maintaining the manual and all other necessary practical aids and guidance to support engagement quality.

Partners may serve in more than one role as long as all personnel have a clear understanding of each partner's responsibilities. These roles are defined as follows:

The CP (Compliance Partner) is responsible for monitoring the effectiveness of work performed and for all complaint and allegation matters. The CP is also required to consult and respond on all matters related to ethics, including independence, conflict of interest, privacy and confidentiality.

The HR (Human Resources) partner is responsible for all human resource functions, including recordkeeping with respect to professional duties such as fees and continuing professional development.

The QCR (Quality Control Reviewer) is any professional performing the function of engagement quality control review.

Relevant Ethical Requirements

The objective is to provide reasonable assurance that the firm and its personnel comply with the relevant ethical and independence requirements. The Code of Ethics establishes fundamental principles which are to be followed by the firm and include:

- Integrity;
- Objectivity;
- Professional competence and due care;
- Confidentiality; and
- Professional behaviour.

1. Independence

The partners and all staff must be independent both in mind and appearance of their assurance, clients and engagements.

Independence of mind permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity and exercise objectivity and professional scepticism.

Independence in appearance involves the avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information would reasonable conclude that the firm's or a member of the engagement team's integrity, objectivity or professional scepticism have been compromised.

Independence is maintained throughout the engagement period for all assurance engagements as set forth in and by the International Federation of Accountants, *Code of Ethics for Professional Accountants* (IFAC Code), specifically Section 290, ISQC 1 and International Standard on Auditing (ISA) 220, "*Quality Control for an Audit of Financial Statements.*"

The firm is responsible for the development, implementation, monitoring and enforcement of policies and procedures designed to assist all partners and staff in understanding, identifying, documenting and managing independence threats and for the resolution of independence issues that arise prior to or during engagements.

The CP is ultimately responsible on the firm's behalf and, therefore (after consultation with other partners), has the final decision on any independence threat resolution, including:

- Resignation from a specific engagement or client relationship;
- Determining and imposing specified safeguards, actions and procedures to manage threats and potential threats appropriately;
- Hearing and investigating unresolved independence compliance concerns raised by members of the engagement team (or by other partners and staff);
- Ensuring appropriate documentation of the process and resolution of each significant independence issue;
- Invoking sanctions for non-compliance;
- Initiating and participating in pre-emptive planning measures to help avoid and manage potential independence concerns; and
- Arranging additional consultation, if needed.

When threats to independence that are not at an acceptable level are identified, and the firm decides to accept or continue the assurance engagement, the decision shall be documented. The documentation should include a description of threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level.

The firm shall maintain a database which provides a listing of all clients for whom independence is required and a list of prohibited investments in these clients which is easily accessible by all members of the firm.

2. Responsibilities – Partners and Staff

All partners and staff are required to be aware of and understand the IESBA Code Section 290 and Section 291, ISQC 1.20 - .25 and ISA 220.11. The firm's independence policy requires all members of the engagement team to meet these provisions for all assurance engagements and reports issued.

At least annually, the firm will obtain from all partners and staff, who are required to be independent by relevant ethical requirements, a written confirmation that they understand and have complied with the firm's independence policies and procedures.

Acceptance and Continuance

An important aspect of making sure that the firm delivers high quality engagements is to take the right clients and engagements. The firm only accepts or continues an assignment if it has concluded that:

- the appropriate due diligence is in place,
- the client does not lack integrity,
- the firm is competent to perform the services required,
- the client can comply with Ethical Standards.
- addressing the relevant independence and conflict of interest issues
- ensure to allocate the appropriately experienced and skilled staff

The engagement letter is part of the client engagement acceptance process. An engagement letter shall be issued every year.

The firm also implements policies and procedures to ensure confidentiality in the client's personal information.

New Client Proposals

An evaluation of a prospective client and authorized approval shall precede issuance of any client proposal. For each new engagement client, a review process is undertaken and documented before the firm can accept the engagement. This process will include an assessment of the risks associated with the client.



The engagement partner must approve and sign off on the decision to accept or continue an engagement.

Several due diligence documents are requested before a new client is accepted.

Human Resources

The firm recognizes the value and authority of the HR in all human resource matters. The HR has responsibility for:

- Maintenance of human resource policies;
- Identification of required policy changes resulting from labour laws and regulations, and to remain competitive in the marketplace;
- The provision, guidance and consultation on human resource related matters;
- Maintenance of performance evaluation appraisal systems;
- The recommendation of specific actions or procedures appropriate to the circumstance (that is discipline, recruitment), where applicable;
- The scheduling of in-house professional development;
- Maintenance of personnel files (including annual declarations of independence, acknowledgement of confidentiality, and continuing professional development reports); and
- Development and delivery of orientation training.



Continuing Professional Development

Partners and staff must meet the minimum Continuing Professional Education (“CPE”) requirements as defined in the regulations issued by the Malta Institute of Accountants under Section 2.17 of the Institute Statute, which regulations shall be followed by all the Institute’s Members in the maintenance and improvement of their professional competence and skills. CPE is the time spent by a member in assimilating knowledge and increasing competence in technical, professional, managerial and other subjects relevant to the conduct of his or her work. Such CPEs can take various forms, but all share one common objective, that of increasing one’s capabilities.

The minimum requirements that the firm’s staff is required to meet for the CPE requirements is of at least 120 hours of CPE over a period of three consecutive years; with a minimum of 25 hours every year.

Every year, the staff must ensure that they complete a confirmation form that the CPE requirements have been met. The firm regularly monitors and ensures that these requirements are being met.

HLB CA Malta performs in house training by providing seminars by its partners and staff in order to keep up with the relevant laws and regulations.

Assignment of Engagement Teams

Through its policies and procedures, the firm ensures the assignment of appropriate partners and staff to each engagement. Such engagement assignments are done by a simple discussion among the partners and audit managers considering the competencies of the individual and the complexities of the assignment.

The firm is responsible for ensuring that the engagement partner assigned to each engagement has the necessary competences and enough time to assume overall responsibility for performing the engagement according to professional standards and applicable regulatory and legal requirements.

Rewarding Compliance

The firm reinforces and stresses its commitment to a strong and effective quality control system through positive reinforcement and recognition of compliance, leadership, innovation, training, development and co-operation.

Engagement Performance

Through established policies and procedures and its quality control system, the firm requires that engagements are performed according to professional standards and applicable regulatory and legal requirements. The firm's overall systems are designed to provide reasonable assurance that the firm, its partners and staff adequately and properly plan, supervise, and review engagements and produce engagement reports that are appropriate in the circumstances.

Role of the Engagement Partner

The engagement partner is responsible for signing the engagement report. As leader of the engagement team, this individual is responsible for:

- The overall quality for each engagement to which the engagement partner is assigned;
- Forming a conclusion on compliance with independence requirements from the client, and, in doing so, obtaining the information required to identify threats to independence, taking action to eliminate such threats or reduce them to an acceptable level by applying appropriate safeguards, and ensuring that appropriate documentation is completed;
- Ensuring that appropriate procedures regarding the acceptance and continuance of client relationships have been followed, and that conclusions reached in this regard are appropriate and have been documented (ISA 220.12);
- Communicating promptly to the firm any information obtained that would have caused the firm to decline the engagement if that information had been available earlier, so that the firm and the engagement partner can take the necessary action (ISA 220.13);
- Ensuring that the engagement team collectively has the appropriate capabilities, competence, and time to perform the engagement in accordance with professional standards and regulatory and legal requirements;

- Supervising and/or performing the engagement in compliance with professional standards and regulatory and legal requirements, and ensuring that the report issued is appropriate in the circumstances (ISA 220.15);
- Communicating to key members of the client's management and those charged with governance his or her identity and role as engagement partner;
- Ensuring, through review of the documentation and discussion with the engagement team, that appropriate evidence has been obtained to support the conclusions reached and for the report to be issued (ISA 220.16–.17);
- Taking responsibility for the engagement team through appropriate consultation (both internal and external) on difficult or contentious matters (ISA 220.18); and
- Determining when an engagement quality control review should be performed in accordance with professional standards and firm policy; discussing significant matters arising during the engagement and identified during the engagement quality control review with the engagement quality control reviewer; and not dating the report until the review is complete.

Consultation

The firm encourages consultation amongst the engagement team and, for significant matters, with others inside and, with authorization, outside the firm. Internal consultation uses the firm's collective experience and technical expertise to reduce the risk of error and improve the quality of engagement performance. A consultative environment improves the partner or staff's learning and development process and adds strength to the firm's collective knowledge base, quality control system, and professional capabilities.

Engagement Quality Control Review ("EQCR")

All engagements must be assessed against the firm's established criteria (see below) to determine whether an EQCR shall be performed. This assessment should be made, in the case of a new client relationship, before the engagement is accepted, and in the case of continuing client, during the planning phase of the engagement.

The EQCR shall include, as a minimum:

- A discussion of significant matters with the engagement partner;
- A review of the financial statements or other subject matter information and the proposed report;
- Consideration of whether the proposed report is appropriate in the circumstances; and
- A review of selected working paper file documentation relating to the significant judgments the engagement team made and the conclusions it reached.

Monitoring



The quality control policies and procedures are a key part of the firm's internal control system. Monitoring consists primarily of understanding this control system and determining — through interviews, walk-through tests, and file inspections — whether, and to what extent, this control system is operating effectively. It also includes developing recommendations to improve the system, especially if weaknesses are detected or if professional standards and practices have changed.

The firm relies on every partner or staff member at all levels to informally monitor and enforce quality, ethics, and professional and firm standards. This monitoring shall be inherent in every aspect of professional work. Partners and staff who are in a position to make decisions or oversee the work of others have a greater level of responsibility.

The firm will also consider any feedback received from the Quality Assurance Unit of the Accountancy Board following their cyclical visits to the firm.

Since the setting up of the Quality Assurance Unit, the firm has been reviewed once. The last review took place on 22 November 2016.

Evaluating, Communicating, and Remediating Deficiencies

The firm shall address all deficiencies detected and reported by the compliance reviewer. Structural flaws indicated by deficiencies may require changes to the quality control or documentation system. If deficiencies are determined to be systemic or repetitive, immediate corrective action will be taken. The HR shall review detected deficiencies to determine whether courses or supplemental education could effectively address some of the issues behind the deficiencies.

Complaints and Allegations

The firm is committed to providing a high-quality service to clients and takes all complaints and allegations against the firm very seriously. All complaints of whatever nature are reported to the respective engagement partner for immediate appropriate action. Any complaint received from a client or other third party will be responded to at the earliest practical moment, with an acknowledgement that the matter is being attended to, and that a response will be forthcoming after it has been appropriately investigated. Periodic reports of complaints shall be prepared and circulated to all partners for further advice, training, disciplinary action or internal quality control systems changes.

Documentation

The firm maintains policies and procedures that specify the level and extent of documentation required in all engagements and for general firm use. It also maintains policies and procedures requiring appropriate documentation to provide evidence of the operation of each element of its system of quality control.



Financial information

The combined turnover of the entity as at 31st December 2017 amounted to € 1,350,807.

Revenue Breakdown

	€
1 Audit services	722,179
2 Consultancy and tax services	85,286
3 Accounting and secretarial support services	166,342
4 Corporate services	335,000
5 Other services	<u>42,000</u>
	<u>1,350,807</u>



Public interest entities

The Accountancy Profession Act Cap 281 defines public interest entities as those:

- whose transferable securities are admitted to trading on a regulated market of any EU member state;
- credit institutions;
- insurance undertakings; and
- any other entities as may be prescribed by the Accountancy Board.

The company that falls into the definition of public interest entity was:

- Halmann Vella Group P.L.C.
- Klikk Finance P.L.C.