



BDO Malta 2024
Audit Quality Report

Strengthening Audit Quality Through Continuous Improvement



BDO Malta 2024 Audit Quality Report

At BDO Malta, quality is the foundation of everything we do. It defines our purpose, strengthens our reputation, and reinforces the trust our clients and stakeholders place in us.

Delivering high-quality work is a continuous and demanding effort. High-quality audits require not only technical excellence but also integrity, independence, and professional skepticism. These principles guide our people and our processes every day.

Quality is not a one-time achievement it is a mindset that we embed into our culture. We appreciate the dedication and commitment of our staff and leadership in consistently upholding a culture of quality.

As we look to the future, we will continue to prioritise quality in every engagement and decision we make. Our commitment to quality ensures that we deliver value with integrity and confidence.

Commitment to Quality and continuous improvement

Throughout this report, we detail how we are strengthening our culture of quality within the firm while continuing to set the standard of excellence for our profession. Significant progress shows in our quality journey that is underpinned by our robust System of Quality Management, which is subject to rigorous monitoring.

The culture at BDO Malta ensures that a professional and qualitative service is always provided to all clients. The firm continually strives to achieve high quality standards in the services provided. In achieving this it is the firm's policy:

- ▶ To ensure quality in all assignments performed;
- ▶ To ensure that commercial considerations never override the quality of performance;
- ▶ To ensure that sufficient resources are devoted to the development and support of the firm's quality control policies and procedures; and
- ▶ To ensure that all audit work is controlled and signed off by the partners.

The firm's quality system management is designed to provide reasonable assurance that the firm, its partners and staff comply with professional standards and regulatory and legal requirements, that work is performed to a consistently high standard and that reports issued by the firm are appropriate.

A new BDO Global ISQM Platform was launched to facilitate and enhance the design and maintenance of our SoQM and support integrated SoQM monitoring. This Platform allows us to efficiently manage data and enables identification of business processes and responses where enhancements can be made, and allows for reporting of significant changes or findings, if any, in the design or operation of our SoQM.

BDO Global monitoring team performs a continuous review to evaluate whether the firm's SoQM has been appropriately designed and is operating effectively.



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Commitment to quality and continuous improvement (cont.)

Driven by the Firm's International Core Values and by continuously fostering an attitude of continuous improvement we take the following actions to drive quality:

- ▶ **Maintaining leadership emphasis on quality**
Quality is a standing agenda item during leadership meetings. In addition to quality guidelines, quality-focused actions and behaviour are discussed.
- ▶ **Investing in quality**
Systemic quality is embedded through sustained investment in people, processes, and technology.
- ▶ **Going beyond the rules**
Quality is driven as a cultural value: apart from leadership emphasis, there is a focus on message credibility, peer involvement and employee ownership of all types of quality issues.
- ▶ **A quality mentality**
A mentality of 'we are all in this together': the organisation, our people, our clients, and communities is created across the firm. The goal is a win-win for everyone.
- ▶ **Being clear and transparent**
Information accessibility is at the heart of what we do. Making sure we are clear in what we do, and how we do it. We all do the right things the right way.
- ▶ **Continued improvement**
Measures of quality are monitored and processes for continuous improvement are operational.

Recent inspection results

Inspection results impact quality outcome in Quality Management. We value the feedback received through the inspection process and utilize it to continually improve the quality of our audits.

The most recent BDO Global inspection report is covering audits signed in 2022/2023, which includes the review of a PIE credit institution engagement. This report and the internal inspections' reports related to the review of 2024 audit engagements were concluded with positive results.

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Risk & Quality Management

BDO Malta delivers high-quality services in furtherance of BDO Network WHY: **People Helping People**.

BDO Malta is subject to the obligations set out in the BDO Regulations and are required to abide by their global policies, procedures, methodologies and tools.

We underpin quality by mandating use of the BDO Independence Manual, which sets out our Code of Conduct and ethical requirements, and the BDO International Risk Management Manual, which provides instruction on the necessary design and implementation of risk management and quality control systems.

This is to support our firm's compliance with relevant domestic and international standards, such as the IESBA Code and the quality control standards of the IAASB. The public interest services in Audit & Assurance are supported by additional audit, risk and quality manuals.

The Global Risk & Compliance team, supported by the International Risk Management Committee and the Ethics & Independence Steering Group (and their sub-committees) is responsible for developing and issuing risk management policies which are subject to monitoring. Additional global network policies and procedures were issued for digital assets business, anti-bribery and corruption and politically exposed persons.

Prevention of Money Laundering & Funding of Terrorism

The firm prioritises implementing Anti-Money Laundering (AML) and Counter-Financing of Terrorism (CFT) measures as part of acceptance and continuance processes. Internal policies outline risk tolerance and controls to identify and mitigate risks. Partners, directors, and the Money Laundering Reporting Officer (MLRO) are committed to safeguarding against money laundering and terrorism financing risks. The internal compliance department conducts customer file reviews to assess risks and implement necessary safeguards prior to acceptance / re-acceptance.

All firm Employees undergo annual mandatory AML/ CFT training, affirm their familiarity with the established procedures, confirm their adherence to these protocols, and acknowledge the identity of the Firm's MLRO.

Regional Quality Directors

BDO's ongoing mission is to drive quality throughout the organisation, with efforts spearheaded by the Regional Quality Directors of each region (Americas, Asia-Pacific and EMEA).

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Ensuring Compliance Objectivity & Independence

BDO Malta maintains compliance with independence standards specific to engagements. Compliance is maintained by adapting the framework set out in the BDO Global Independence Policy which encapsulates the IESBA Code of Ethics and The Code of Ethics requirements.

The firm also adopts independence requirements as stipulated in The Code of Ethics for Warrant Holders issued under the Accountancy Profession Act (Cap 281) and Accountancy Profession Regulations 1986 (as amended), without reducing the requirements set out in the IESBA code of ethics.

The firm's adherence to this global policy extends to encompassing engagements under ISQM1.

The firm considers several critical independence factors that are considered in the audit process, in order to safeguard objectivity and professional judgement. Ensuring that the audit process remains unbiased and free from influences that may compromise professional judgement, the following measures are taken into account:

1. Financial, Employment, and Business Relationships
2. Pre-Approval and Permissibility of Services
3. Rotation Requirements
4. Fee Arrangements
5. Partner Remuneration
6. Ethics and Independence training and declarations

Independence Policies & Technical Manual

The firm's Independence Policy, which aligns with the BDO Global Independence Programme, aids the firm and its employees in understanding and adhering to independence requirements and good practice. The policy, developed with a focus on clarity and applicability, addresses challenges and opportunities arising from external professional standards and emerging independence rules.

The Policy encompasses critical areas impacting independence, including engagement acceptance and continuance, as well as engagement performance.

The firm also maintains a database of all serviced restricted entities on the Entity Management System (EMS), including listed companies and other public interest entities.

Entity Management System - Project COI 2

In a move towards fortifying commitment to independence, BDO Global launched the COI 2 Project in 2023 and currently in the implementation stage. This initiative stands as a testament to BDO's dedication to continuous improvement, with the primary goal of enhancing our ability to identify, assess, and address threats to independence and potential conflict matters in a timely and efficient manner.

This project's assisted automation ensures accuracy, responsiveness, and increased efficiency in conflict of interest (COI) and independence checking processes. This, in turn, allows BDO professionals to concentrate on what they do best – providing exceptional service to clients while upholding the highest standards of independence.

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The Firm's System of Quality Management (SoQM)

BDO Malta has established and maintains a system of quality management ('SoQM') that complies with International Standard on Quality Management 1 ('ISQM 1') and achieves the objectives that:

- ▶ The Firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and Engagement reports issued by the Firm or engagement partners are appropriate in the circumstances.
- ▶ Further details about how the firm's SoQM supports the consistent performance of quality engagements are available in the firm's latest Transparency Report (<https://www.bdo.com.mt/en-gb/about/transparency-reports>).

Evaluating the SoQM

The Firm's annual evaluation of the SoQM considers information gathered about the design, implementation, and operation of the system of quality management from monitoring activities performed over the period up to the evaluation date. The monitoring activities include testing the operating effectiveness of responses, reviewing findings from internal and external inspections of engagements, and considering other relevant information obtained about the SoQM.

The Firm uses professional judgment to evaluate the results of these monitoring activities to determine whether findings, individually or in aggregate, are assessed to be deficiencies in the SoQM. For all deficiencies identified, the root cause is investigated and the severity and pervasiveness of the deficiency on the SoQM, individually and in aggregate with other identified deficiencies, is evaluated.

Statement on the Firm's evaluation of the SoQM

We conducted our evaluation in accordance with ISQM 1 and concluded that the firm's SoQM provides the firm with reasonable assurance that the objectives of the SoQM are being achieved as of 30 September 2024.

Reasonable assurance is obtained when the SoQM reduces to an acceptably low level the risk that the objectives of the SoQM are not achieved. Reasonable assurance is not an absolute level of assurance, because there are inherent limitations of a SoQM.

For any identified deficiencies, the Firm designs and implements remedial actions to address identified deficiencies that are responsive to the results of the root cause analysis and remedial progress is monitored.



Audit quality behaviours and monitoring activities

We continue to emphasise to our professionals, at all levels, proven behaviours that drive audit quality:



Seek appropriate level of audit, accounting and industry knowledge and experience.



Perform robust risk assessment and link to focus areas of audit execution.



Demonstrate professional skepticism and apply professional judgment.



Align appropriate audit resources with significant identified risks.



Apply appropriate level of supervision and review in alignment with perceived risk.



Exhibit appropriate audit mindset.



Be independent in both fact and appearance.



Conduct work ethically and morally.



Gather appropriate and reliable audit evidence.



Remain current on emerging areas of risk and opportunity.



Comply with laws and regulations.



Be a mentor and a coach.



Project manage the necessary sequencing and timing of audit work.



Comply with professional standards and firm guidance.



Evaluate and challenge assumptions, estimates and assessments.



Use firm templates, practice aids and tools to document work and conclusions reached.



Continually assess resource management and deployment.



Evidence appropriate review controls and control design.



Sufficiently leverage capacity and resource allocation.



Embrace emerging technology, data analytics and automation.



Integrate information systems, valuation and tax professionals.



Appropriately consult on audit, accounting and reporting matters.



Provide timely feedback and audit insights.



Communicate and address audit issues as soon as they arise.

BDO Malta Audit Quality 2024 highlights



Approach to Audit Quality

The latest Audit & Assurance Culture of Quality survey showed the 97% of survey respondents agreed or strongly agreed that:

- ▶ The firm is committed to demonstrating ethical behaviours
- ▶ They are satisfied with the work environment at the firm
- ▶ Differences of opinion can be brought forward, discussed and resolved in an inclusive, respectful manner

and 94% of survey respondents agreed or strongly agreed that:

- ▶ They are empowered to use my own professional judgment to make decisions about the conduct of an engagement
- ▶ They understand what is expected of me with respect to quality on an engagement
- ▶ It is clear to them that quality is valued in our organisation
- ▶ They are personally responsible for the delivery of quality on an engagement
- ▶ The leaders of the firm demonstrate a commitment to performing high quality work through their actions
- ▶ They have sufficient intellectual resources to perform their work to a high standard
- ▶ They feel secure in their job
- ▶ We celebrate each other's promotions and successes
- ▶ We continuously improve our workflow
- ▶ We approach changes with a "can-do" attitude

Client-facing staffing leverage ratios

1 to 1.25

Audit Principal to Team Leader

1 to 5.75

Audit Principal to Staff

1 to 3.60

Team Leader to Staff

Gender split ratio

67%

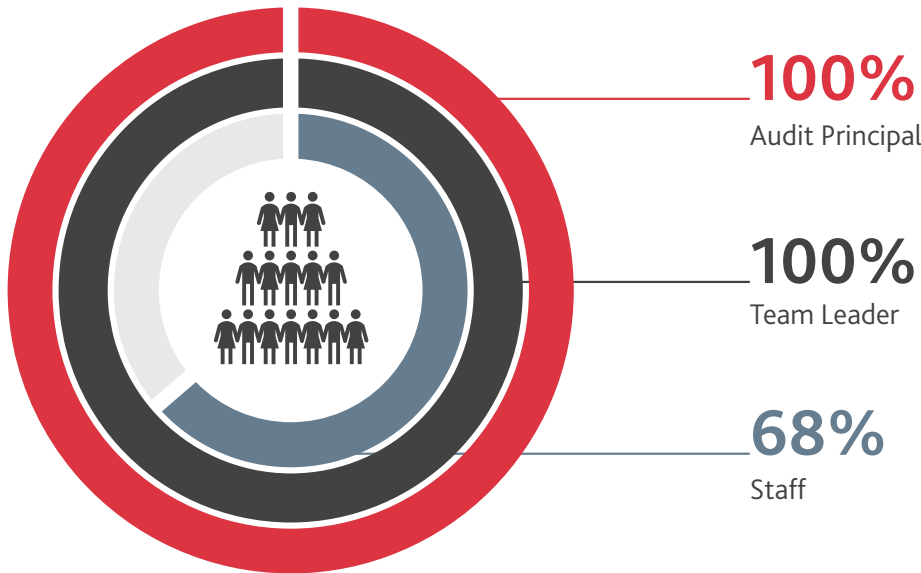
Men



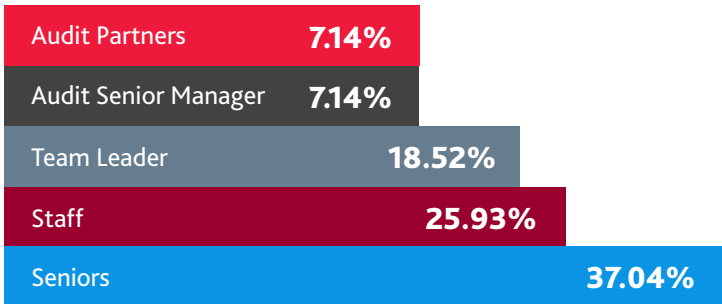
33%

Women

Average retention rates



Audit team members by level



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Leadership responsibilities for quality within the firm

Quality management is dependent upon an organisational structure which is inherently sound, and which clearly defines the responsibilities of the various levels of management. Our culture of quality is built on the commitment to integrity and ethical behaviour. The partner in ultimately charge of compliance and ethics is Mark Attard.

The tone at the top that supports this commitment through communications, learning and performance management process.

Team members are further encouraged to provide continuous feedback through the established channels suited to their needs including confidential Speaking-up and Whistleblower hotlines.

The partners have ultimate responsibility in respect of audit quality within the firm. Any changes in the firm's audit procedures can only be made after authorisation has been given by one of the partners.

The partners are responsible for:

- ▶ Developing assurance methodology and guidance to ensure compliance with auditing standards;
- ▶ Maintaining the firm's technical manuals and communicating developments to the firm's partners and staff;
- ▶ Helping maintain the firm's assurance practice at the highest standards prevailing in the profession, including the supervision of the firm's auditing work;
- ▶ Consulting with local office partners and other professionals seeking technical advice; and
- ▶ Overseeing the firm's technical continuing professional education programmes.

BDO Malta's ongoing mission is to drive quality throughout the firm. The evaluation of a firm's performance also involves the review of a sample of assurance engagements. Other monitoring procedures are implemented and performed at firm level by responsible person(s) on a periodic and continuous basis. These procedures are focused on compliance with professional standards and incremental BDO standards.

The CEO and the Engagement Partners meet regularly to decide on our overall audit strategy and the programming of our audit tasks.

Operation objectives relate to:

- ▶ Client acceptance and retention
- ▶ Resourcing and development of our people
- ▶ Interaction with our clients
- ▶ Quality of work performed

Professional objectives focus on having the right capabilities and on using these capabilities to meet our own standards and the professional requirements.

Our aim is to direct resources and activities to achieve the highest level of quality outcome on delivering our audits.

Our results from the latest Audit & Assurance Culture of Quality survey showed 93% of survey respondents agreed or strongly agreed that the leaders of the firm demonstrate a commitment to performing high quality work through their actions.

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Recognition of quality

Personnel are constantly reminded of relevant ethical requirements and the importance of exchanging information within their engagement teams and within the firm on any matters that impact quality.

The importance of quality is communicated through all levels, in all aspects of the firm.

In 2023, the firm introduced the annual quality achievement award. Partners were assigned the responsibility of soliciting nominations from Team leaders for an individual who has demonstrated and embodied the company's values and dedication to quality.

The recipient of this Audit Quality Award is revealed at an annual ceremony, followed by department-wide celebration.

Celebrations

- ▶ On Auditor Proud Day we thank our auditors for their hard work, dedication and continuous commitment to excellence.
- ▶ In 2025, one of our dedicated employees from the audit department won the Audit Quality Excellence Award which recognises consistent attention to detail, professional scepticism, accuracy, and efficiency in audit work.

Their commitment to upholding the highest standards contributes to the overall success of the audit department.

Operationally structured to ensure quality

The deployment of resources on our engagement teams is important to the execution of a high-quality audit. The engagement team's composition varies depending on the size, nature, and complexity of the engagements. The Audit Partner has leadership responsibilities for the engagement and the engagement team. The partner is heavily involved in our audit engagements which ensures a higher level of support, and quality assurance throughout our engagements. The engagement team typically includes one or

more of the following professionals: Senior Audit Manager, Audit Manager, Assistant Audit Manager, Senior or Semi-senior Auditor, Audit staff, and relevant internal specialists.

During 2024, we hired 30% of our professional team and promoted 33% of our audit professionals.

Our commitment to talent experience and retention has a direct and tangible impact on audit quality.

The high retention rates allow our firm to build its organisational culture, improve employee morale, develop talent pipelines, and create effective teams.

Continuous learning is a fundamental aspect of our culture. Learning can occur through on-the-job supervision, review, and training programs.

BDO Malta has made substantial investments in talent and learning strategies as all team members are required to complete at least 10 hours of continuing professional education (CPE) each year through internal or external courses or e-learning. On an annual basis warrant holders must obtain a minimum

of 25 hours of structured CPE, 10 of which must be related to core competences, as well as 15 hours of unstructured CPE.

We take measures to reinforce the importance of learning to an individual's professional development, including providing our audit professionals with sufficient time and cash incentive to complete training courses specifically targeted to their role and experience level.

Our learning curriculum contains a leadership development programme for mid-level managers, equipping them with the skills to deliver strategic projects and lead teams.

A middle management development course was also delivered to help mid-level leaders at the firm build the skills needed not only to succeed, but to thrive.

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Audit quality perspective

Certain actions were designed to address previously identified quality management issues. They were implemented to enhance firm-level audit quality matters:

- ▶ Resource management
- ▶ Development and improvement of procedures
- ▶ Continuous encouragement of personnel to share information across the firm.

We believe an effective System of Quality Management is crucial for the consistent performance of high-quality audits, and we continue to make significant investments in the people, processes, and technologies that underlie BDO Malta's System of Quality Management.



Audit & Assurance: a Global Approach

BDO Malta is a member firm of BDO's extensive global organisation. The strength of our network is based on our professionals providing exceptional client service of the highest quality.

In a rapidly evolving business and regulatory environment, the right guidance is more important than ever.

BDO's Assurance professionals draw on deep industry experience and global resources to help clients to navigate change, bolster investor confidence, and strengthen the value of their businesses.

With BDO's audit team, you can be confident in the knowledge that your business is compliant with all the relevant rules and regulations, because we are leaders in the field of business assurance.

Whether you're an owner managed business or a multinational listed entity navigating these challenges, BDO can provide you with the services you seek. We are able to deliver high-quality audits to a wide range of organisations as we draw upon decades of experience in the field as well as the continuous professional development of our staff.

BDO INTERNATIONAL

€14^{billion} Revenues

41%
Accounting
& Auditing

23%
Tax

37%
Advisory
& BSO

Total Personnel 119,611 166
countries & territories

1,800 offices

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