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# **2010** Review Malta Firm

*Reviewing 2010, looking  
forward to 2011*

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PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 161,000 people in 154 countries in firms across PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

# 2010 Review Malta Firm

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“PricewaterhouseCoopers” or “PwC” refer to the Maltese firm of PricewaterhouseCoopers or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network.

PricewaterhouseCoopers International Limited is a UK membership-based company. Each of its members is a separate and independent legal entity.



# Introduction



**Kevin Valenzia**  
Territory Senior Partner

It gives me great pleasure to present our firm's review for the year ended on 31 December 2010.

This review incorporates our transparency report for 2010, as required by the EU Statutory Audit Directive. It also presents a broad review of our activities during the year, to enable a more complete and transparent portrayal of the policies, values and independence of our firm.

2010 has been a better year for many of our clients. It has as well been a year where we have seen continued growth in the financial services industry.

PwC performed well in this environment and recorded a 15% increase in fee income, which totalled €19 million in 2010.

The firm has grown rapidly since EU accession in 2004 and I believe that the prospects for our profession in the years ahead remain equally exciting.

Growth at this rate presents challenges. Foremost amongst these is the need to build and retain our human resources and in this respect we are no different

from our clients.

As this review explains, we have invested heavily in this area, and will continue to do so. We have widened our recruitment. We have listened closely to our clients' feedback on the issues that concern them most, such as cost reduction, process improvement, restructuring and tax complexity, and have enhanced our capabilities in these areas.

Across the range of our services, we have the skills required, and the commitment, to deliver a quality service that sets us apart.

Our success has been managed without losing sight of the fundamentals appertaining to the assurance service that helps define the PwC brand.

We take seriously our obligations towards investors, regulators and other stakeholders who place reliance on our assurance opinions. Our quality control and risk management processes, which are described in this review, have been strengthened, in line with enhanced procedures introduced within the PwC network as a whole.

Our continued growth reflects our ability to engage with clients. We place their needs at the forefront and deliver all services, including statutory ones, in a manner that seeks to enhance value. We are fortunate to number among our clients, in an assurance capacity or otherwise, a substantial proportion of the larger enterprises in Malta.

As the largest professional services firm in Malta, we are conscious as well of our wider professional and corporate social responsibilities.

During 2010, we have continued to contribute to, and enhance, Malta's status as a finance centre of repute.

We have maintained our contribution towards the continued development of our profession. Partners and staff from the firm lecture at University, and participate in the activities of the Malta Institute of Accountants and of the Accountancy Board.


As a firm, we engage in a continual dialogue with government, regulators and others on issues that are relevant to our clients and to our practice. One

of the topics currently being debated relates to the future of auditing, stimulated by the Green Paper issued by the European Commission, looking to take on board lessons learnt in the recent financial crisis. We welcome this debate, which we trust will lead to changes that enhance the scope of the statutory audit and lead to more disclosures on the key judgmental areas that often lie at the heart of the audit process.

There is in fact a lot of serious debate that goes into most audits that is invisible to shareholders. There is a need for more openness in this area, especially in the case of public interest entities, while striking a balance to guard against the unnecessary dissemination of commercially sensitive data.

Looking ahead, I am convinced that we are well placed to face the challenges that will undoubtedly arise during 2011 and beyond. As a firm, we do what is right, and encourage our people to express their opinion; while focusing on building long-term relationships with our clients.

My thanks go to them, and to all those who have contributed to make PwC Malta what it is today.

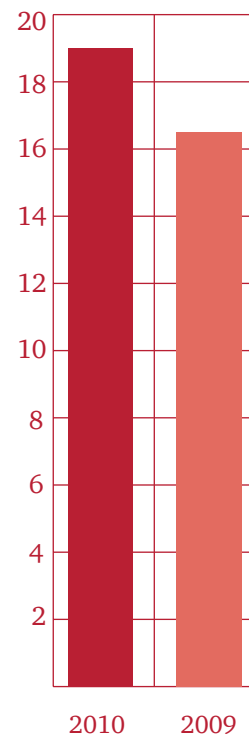


Kevin Valenzia  
Territory Senior Partner  
15 March 2011

# Highlights

- Fee income grew by 15% in calendar 2010 to €19.0 million (€16.5 million in 2009). The firm continued to win important new mandates across all its lines of service.
- International business, including asset management and other financial services companies and holding company and international structures, grew significantly during the year, reflecting Malta's growing stature as a financial services centre of repute.
- Overseas secondments amounted to 23,400 hours, a slight increase over the 22,000 hours recorded in 2009.
- In all, overseas work and international business (excluding foreign owned companies operating in the local market), accounted for 48% of the firm's income in 2010.
- Statutory audit fees, including fees derived from seconding assurance staff on overseas audits, amounted to €9.8 million, accounting for 51% of total billings.
- During 2010, the maximum fees we earned from any one client or client group amounted to 2.3% of the total billings of the firm.
- 57% of our advisory and tax fees in 2010 were earned from clients with whom we have no statutory audit relationship.
- The firm had an extended staff complement of 395 at 31 December 2010, drawn from various disciplines.
- PwC Academy was launched in 2010 to promote technical expertise and continuous professional development both for clients and staff.
- The aggregate full time staff attendance at training courses during 2010 totalled 32,000 hours, equivalent to circa 137 hours annual training per professional staff member.

**Total billings\***  
(expressed in €'million)



\*Billings include expenses charged





# Our Clients

Across much of our client base, 2010 was a year marked by cautious optimism and an improved economic environment.

As the summer months approached, it became clear that the outlook for tourism was promising. Operators in the sector had just emerged from the winter season with depleted reserves, following the downturn experienced the previous year. In the event, 2010 gave the industry a welcome reprieve.

In other areas, such as retail and import businesses, and in certain non-financial services, competitive pressures continued to intensify during the year. These trends look set to continue, and there is a pressing need for restructuring and consolidation in these areas.

The property market remained subdued in 2010. Export oriented manufacturing companies, on the other hand, enjoyed a more stable level of demand.

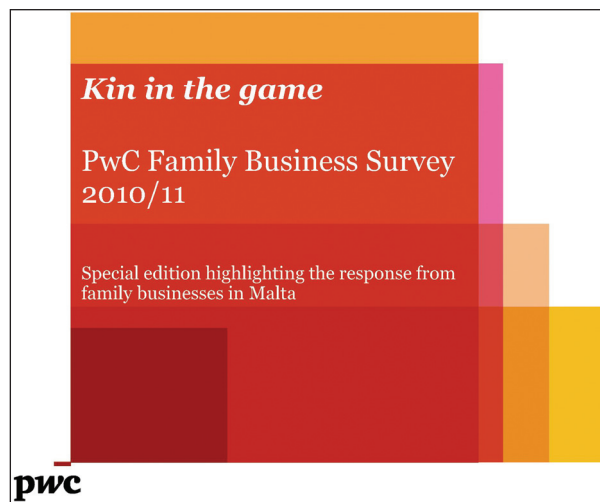
Growth was recorded in the financial services sector, where the firm dealt with a material increase in enquiries from international businesses. Funds and eBusiness led this improvement,

but an increase in registrations was noted across all spheres of activity.

A slight improvement was registered in 2010 in the level of staff secondments made to other PwC offices. Demand was stronger towards the end of the year, and the outlook for 2011 is promising.

The firm's income grew by 15% in this positive environment, reaching €19.0 million. Improvements were registered across all the firm's lines of service – assurance, advisory and tax.

The assurance practice also benefited from new statutory mandates won during the year, including two listed companies, GO plc and Lombard Bank plc. At 31 December 2010 the firm was the statutory auditor of 40% of the issuers with equity and/or bonds listed on the Malta Stock Exchange.



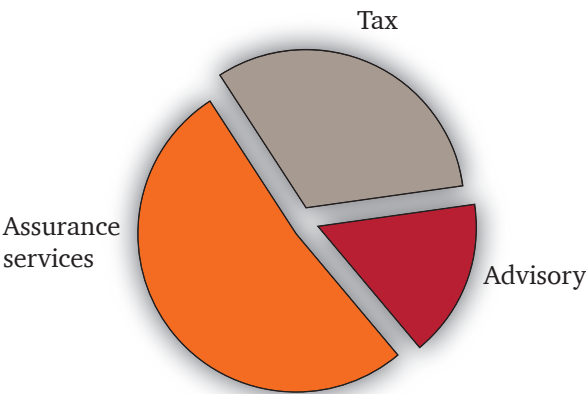
Family businesses remain the core component of the firm's local client base and were last year the subject of a periodic survey carried out by the firm. The results of the survey were published in late 2010 and were discussed with our clients at a seminar held in March 2011.

The range of services we provide

The size of our client base has enabled us to recruit and develop specialists across a varied spectrum of services in assurance, tax or advisory (deals and consulting).

Our strength often lies in the firm’s ability to combine these offerings to help meet a client’s particular needs. We offer a service, and not products, supported by our ability to field teams from across the different lines of service; and by our ability, where necessary, to leverage the experience and specialist skills available across the PwC network.

Many of our competitors in consulting cannot offer this combined approach. By the same token, our specialists also support our basic statutory audit service in areas such as taxation, valuations and impairment reviews, regulatory compliance and systems and process assurance.



Illustrating the spread of the services delivered to our clients in 2010

Assurance Services	Statutory audit, non-statutory assurance services, financial reporting, regulatory reporting, overseas secondments
Tax (including company administration)	Tax planning and advice, objections and litigation, tax compliance, international tax structures, transfer pricing, HR related services, wills, trusts and settlements, VAT services
Advisory services:	Company formation, regulatory support, company secretarial, payroll and accounting, operational in/outsourcing
Deals, Valuations, Strategy	Valuations, feasibility studies, strategy advice, deals, corporate finance, due diligence, bid support, privatisations, supporting public issues
Systems and Processes	Risk management, governance, process improvement, external certifications, IT effectiveness, systems and processes assurance, internal audit
Crisis Management	Debt and business restructuring, due diligence for banking institutions, cost reduction
Other	EU grants, cost benefit analyses, investigations

## Engaging with clients

We look to be proactive in identifying and addressing client needs; in listening to them; in sharing and collaborating with them; and in expressing our views openly and objectively, even when our message is not necessarily a popular one.

These objectives are captured in our PwC Experience programme, which seeks to optimise the manner in which our people interact both with clients and with their peers. The programme is fully embedded within the firm's processes, including all aspects of quality assurance, training, staff development planning and staff reviews.

PwC Experience is looking to differentiate the client's experience in working with our firm. Seeking feedback from clients is an essential part of this programme that we commenced in 2009 and have continued since. The response we are constantly receiving continues to be most helpful and constructive, and has helped us in the development of our services.

It is apparent from our surveys that clients keenly appreciate being kept adjourned on technical matters and on issues and trends that impact their particular industry, both locally and overseas.

We have expanded our client information activities in response to this demand. During 2010, a total of 43 client newsalerts and newsletters were issued by the firm, covering accounting, income tax, VAT, regulatory and industry specific topics. 2010 saw the launch of PwC Academy.

PwC Academy is a concept that PwC operates successfully across Europe and is aimed at the firm's clients, staff, alumni and all those who wish to keep up-to-date with current professional developments and modern practices.

The Academy is the platform through which PwC will channel its long-standing commitment towards promoting technical expertise and continuous professional development.

Drawing on the knowledge and experience of our firm, the Academy

fosters, internally and externally, our firm-wide culture of learning and development.

Both the firm's intensive internal training programmes, as well as all external training carried out by the firm, are now undertaken by PwC Academy.

The launch of PwC Academy in Malta has been an outstanding success. A total of 20 events were held between May and December 2010, catering for a total of 800 people. Courses are generally held at the firm's training centre in Qormi.



Clients attending a PwC Academy training event on internal auditing

## Independence considerations

Our client relationships are based on a mutual respect that recognises, inter alia, our reporting responsibilities; and the need to maintain our professional independence and objectivity.

The size of our client base is relevant to the stakeholders who rely on the assurance reports issued by this firm. Under Directive 2 issued in terms of the Accountancy Profession Act, a firm should ensure that the aggregate fee income it receives from any one client (or client group, as defined in the Directive) must not exceed 15% of total income in the case of public interest entities; or 20% of total income in other cases.

During 2010, the maximum fees we earned from any one client or client group amounted to 2.3% of the total billings of the firm.

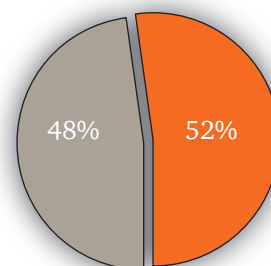
A list of the public interest entities (PIEs) currently audited by the firm is set out in the appendix to this report. This list includes listed companies, banks and insurance companies, which are defined as PIEs in terms of law, and for which additional independence requirements need to be met to safeguard the public interest.

The firm also audits a number of other entities that it considers of significance in the local community in view of the nature of their operations, their size, employment and/or their ownership. A number of the additional independence constraints applicable at law to PIEs, such as the periodic rotation of the audit engagement partner, are accordingly also applied by the firm to such clients.

The firm attaches importance to the maintenance of independence on audit engagements, and as discussed further on in this report this requires care when providing non-audit services to audit clients.

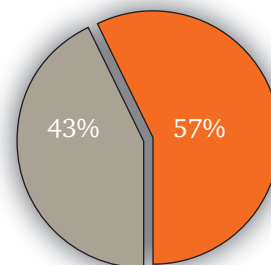
The majority of our tax and advisory clients have no audit relationship with the firm.

## Source of total billings



■ Clients based in Malta  
■ Clients operating overseas

## Source of tax and advisory billings



■ Non-audit clients  
■ Audit clients

## Managing potential conflicts of interest

The firm attaches great importance to confidentiality and to the management of potential conflicts of interest.

While very active in the corporate finance arena, the firm does not act as the originator of potential transactions, as this would entail having to choose between clients as to where to direct a business opportunity.

Conflicts of interest may arise on non-audit services, in particular when clients request assistance on purchase or sale transactions that may involve other clients in a counterparty or competitor capacity.

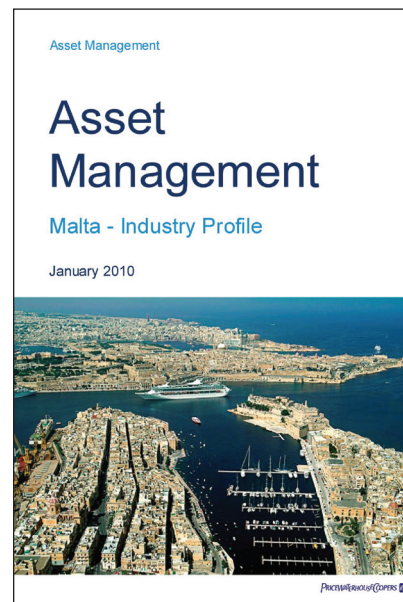
Generally speaking, depending on the nature of the bid and the role requested from us, our firm prefers to act for only one party in a competitive bidding situation. When approached by more than one company to assist on a particular transaction, and after ensuring, where applicable, that we are able to assist on the transaction concerned within the constraints of

audit independence rules, we act for the party who first approaches the firm.

In certain cases, it may be considered appropriate to assist more than one bidder. In such instances, all the clients concerned are advised that we would not be acting on an exclusive arrangement. The work concerned would in such cases be handled by teams working in a strictly segregated fashion. Such situations typically arise when the work requested from us is relatively limited, e.g., reporting on the proper technical preparation of the financial projections supporting a bid.

When we act for government as its advisor in a privatisation or in the formulation and award of a public sector contract, we recognise that in the interest of public transparency such work must always be conducted on an exclusivity basis. We would expect, as a matter of probability, that a proportion of the eventual bidders will be clients in one capacity or another of the firm or of other members of the PwC network. In all such cases, we decline from acting for any of these clients in relation to the bid concerned.

While recognising that contingent fees, properly disclosed, are an appropriate basis of doing business, local regulatory rules are very restrictive in this respect. Accordingly, the firm does not act for clients in purchase, sale or bid transactions on a contingent fee basis.



Our newsletters and PwC Academy activities are regularly supplemented by publications on topics relevant to clients and to overseas investors interested in what Malta has to offer.



# Our People

The quality of our people lies at the core of our ability to offer clients a distinctive service. Staff recruitment, development, and retention, are of central importance to the firm.

## Recruiting the best

We are one of the largest organisations recruiting from University, principally B. Acct (Hons) graduates.

Our firm has sought ways of differentiating what we offer to accountancy students at University. Our approach, *CareerDeal*, is a journey which we undertake together with students in the two years of their Bachelor of Accountancy (Hons) course.

*CareerDeal* provides students with a training programme which moves in parallel with their university studies, as well as work experience at different times of the year, including the winter period, when accounting firms are in their busiest season.

The firm currently has 102 students on *CareerDeal*. The programme is managed by our dedicated human resources group. It is also supported by all our managers, who play a key role across all the activities of the firm.

## Staff complement at 31 December 2010

Accountants	176
Other Professional staff	26
Staff pursuing professional studies	31
Non-qualified, including support staff	39
<b>Full time staff complement</b>	<b>272</b>
<i>CareerDeal</i> students	102
ACCA full time study programme	21
<b>Extended complement</b>	<b>395</b>





Our firm is always on the lookout for young, bright students, no matter the background of studies they come from. We have always recruited staff who are keen to work with us on a full time basis while studying for their ACA or ACCA qualifications. The majority of these staff already hold a tertiary level first degree.

There are moreover many students who opt for the ACCA qualification after they finish their 'A' Levels, or may opt to complete their ACCA after they finish a first degree at University, and who would prefer to study on a full time basis. PwC Academy's ACCA full-time study programme, a new scheme launched in 2010, aims to accelerate the learning curve of students and offers a fast track route into the profession.

PwC Academy provides students with dedicated classroom tuition to ensure that they are thoroughly prepared for the ACCA exams. This training programme is planned over approximately 2 years (5 examination sittings) and during this time the firm also offers a monthly study grant.

Although the programme is based on a full time study schedule, PwC provides students with the opportunity to experience work in the different lines of services through a job shadowing and rotation system.

Our recruitment is not limited to accountancy graduates and students. Our advisory and tax practices are increasingly reliant on the recruitment of non-accountants at all levels of the firm. Moreover, a number of our accountants in these two service lines hold post-graduate degrees in other disciplines such as taxation, financial services, IT and economics.

The continual growth of the firm has led us in 2010 to look overseas for additional qualified staff.

This overseas recruitment is an initiative that promises to enrich the firm with the injection of different experiences and cultures.

Together with our regular staff secondments to other PwC firms in other countries, it serves to emphasise the international dimension of the global network of which our firm forms a part.

Today, the firm has a total of 20 overseas staff within its ranks, drawn from Greece, Ireland, Pakistan, the Philippines, Germany, Spain and the United Kingdom.



**Daniela Cassar,**  
a lawyer by  
profession,  
completed a masters  
in international  
tax in London and  
joined our Tax  
department in 2010



**Angela Velasco**  
from the  
Philippines  
specialised in  
financial services  
before joining our  
Assurance group  
last November.



## Developing our staff

We ensure that our services are delivered to clients by individuals who have the right experience and are suitably qualified and trained.

The ongoing development of staff once they join the firm centres around a Personal Development and Coaching system, supported by a comprehensive and fully integrated training programme.

The system entails:

- Assigning a development coach to all staff within the firm
- Setting and agreeing personal development objectives
- Providing feedback after the performance of material assignments and at periodic intervals. This process entails formal manager and partner meetings with all staff, and serves as a determining factor in an individual's career progression
- Attendance at a series of courses throughout one's career with the firm. Courses may be technical in their content, or may deal with the

development of personal skills, the use of IT and the values of the firm – the PwC Experience.

This training ensures that our people are alert to regulatory changes, reinforces their awareness of key compliance matters and supports the wide range of industry expertise and specialist skills available across the firm.

Training courses are progressive in their design, with each year's courses building on the earlier training given to an individual.

Courses are generally held in our training centre in Qormi. Attendance at overseas courses and gatherings is however a regular event, especially on specialist topics.

The aggregate staff attendance at formal training courses during 2010 totalled over 32,000 hours, equivalent to more than three weeks' full time annual training per professional staff member.



The firm's annual PwC Experience prize was in 2010 awarded to Gillian Pullicino, an associate in the Advisory line of service. Attaining the behavioural characteristics of PwC Experience is embedded within the firm's procedures.

## Staff mobility

The global PwC staff mobility programme recognises that an opportunity to work overseas exposes an individual to experiences in new environments, working with different professionals. It also helps in building bridges between member firms, often establishing personal relationships that last throughout an individual's career with the firm.

The firm committed 32 staff members for a total of 23,400 hours to this programme in the course of 2010. Our people gained significant work experience abroad in Chicago, Houston, Jersey, Los Angeles, Miami, Pittsburgh, New York and Sydney.

This year our firm participated once again in the international student exchange programme. The Malta firm chose four best in class *CareerDeal* students who were given the unique opportunity to travel abroad for a 3-week internship; working with the PwC UK and US firms in London, Birmingham and Chicago.

In turn, 2 interns from PwC in London and Birmingham and 2 interns from PwC in Chicago joined our firm for 3 weeks in July.

## Women within the workplace

Females account for more than half the firm's total staff complement. The challenge for the firm is that of retaining their experience and of further enhancing their career once they assume family responsibilities. The firm encourages mothers to resume their careers when this is suitable for them, and facilitates this through career breaks and part time and/or flexitime working arrangements.

## Contributing to the PwC network

Our people's contribution to the PwC network goes beyond staff mobility and participation in overseas training courses:

- We attend and participate at all levels in various network meetings and gatherings that concern our operations. This entails regular

overseas travelling attending various leadership and service line meetings; and a number of technical, training, methodology and IT services meetings

- We make lecturers available for training courses outside Malta
- We host and help organise network courses and other meetings that are held in Malta
- Partners and managers from the firm participate annually in quality control reviews of other member firms
- We participate in cross border panels that are convened on a regular basis to assess and approve large proposals from a risk management perspective
- We contribute, both financially and in terms of making time available, in the development of the network's methodologies.

## Premises

The firm today operates from two offices, with tax and administration functions being based in Valletta while assurance and advisory services are based in Mill Street, Qormi, which offers better parking facilities and quick access to the arterial road network.

In coming weeks construction works will commence to expand our Qormi offices by 2,275sm, in addition to an adjacent multi-storey car park. The expanded office will help cater for the continued growth of the firm. It will provide, inter alia, additional office space for our staff; a new training centre to accommodate the planned growth of PwC Academy; enhanced facilities for working parents; and the full use of the building's footprint for the installation of photo-voltaic equipment.

## Corporate Social Responsibility

Our staff play a key role in motivating and supporting our commitment to Corporate Social Responsibility, and to our profession.

Our Corporate Social Responsibility Programme continues supporting initiatives and worthy causes through paid time off on voluntary work, donations and pro-bono professional services.

Various activities were carried out during the year including the ongoing partnership with Din l-Art Helwa where PwC partners and managers provided a thorough clean-up to Xlendi Tower in Gozo.

The firm continues to play an active role in supporting various professional bodies and the accountancy and law courses at University, through the provision of partners and managers who participate on the council of the Malta Institute of Accountants, the Institute of Financial Services Practitioners and the Accountancy Board, or as lecturers and tutors at University.



Managers and partners clearing debris from Xlendi Tower

In total, our CSR contributions during 2010 included:

- Expending €99,600 in time value on community services
- Undertaking pro-bono work with a time value of €78,800 on various charities and community organisations, such as the annual L-Istrina charity program
- Cash donations of €13,400 to various worthy causes including cash collected by staff during office social functions, which was in all cases, as a minimum, matched by an equivalent donation by the firm.

Green initiatives

The firm operates a Green Initiatives Committee composed of staff drawn from the different service lines, whose brief is to raise awareness on environmental issues amongst all staff and to improve the firm’s carbon footprint. This includes the development of educational material on sustainability issues that has been integrated within our training for new joiners.

The team’s efforts were last year focused on reducing the firm’s carbon footprint,

especially on the use of paper, the full implementation of waste separation for recycling and the introduction of quantitative measures that will permit the firm to better monitor progress in this area in coming years.

An encouraging and measurable success was attained on paper usage, where the use of double sided paper has also been extended to external reports issued by the firm. The firm reduced its printing paper consumption by 25% in 2010 in spite of the increase in activity recorded during the year.

Extracts from the PwC Malta staff survey conducted in May 2010

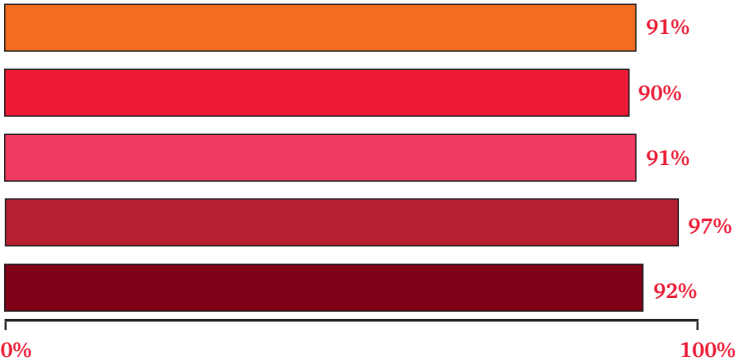
I trust the partner group of PwC Malta

Partners are accessible to staff at PwC

The learning and education I receive at PwC has adequately prepared me for the work I do

PwC Leadership is committed to providing high quality products and services to external clients

We respond quickly to client needs and issues



# Our Firm

## Legal structure and ownership

PricewaterhouseCoopers (PwC) is a civil partnership governed by Maltese law. The firm is owned by a group of 15 members, commonly referred to as partners or directors, all of whom are professionals active within the practice.

The firm is registered as an Audit Firm with the Accountancy Board in terms of the Accountancy Profession Act (the Act). Kevin Valenzia is the firm's Compliance Principal in terms of the Act.

The number of partners and directors of the firm who are Certified Public Accountants holding a practicing certificate in auditing, and the percentage of voting rights in the firm held by such partners and directors, are materially in excess of the thresholds established in article 10.4 of the Act.

## The PwC network

PwC is structured as a network of member firms, operating locally in countries around the world, connected through membership of PricewaterhouseCoopers International Limited (PwCIL).

This network structure provides PwC firms with the flexibility to operate simultaneously as local and global businesses, creating a platform on which member firms share knowledge, skills and resources and deliver services of consistently high quality to international and local clients.

PwC member firms are locally owned and managed, thereby fostering a deep understanding of local markets.

PwCIL is a UK membership-based company. PwCIL does not provide

services to clients. Its primary activities are to identify broad market opportunities and develop associated strategies; strengthen PwC's internal product, skill and knowledge networks; promote the PwC brand; and develop and work for the consistent application of common risk and quality standards by PwC's member firms, including compliance with independence policies.

Member firms are also part of regional clusters that promote cooperation and the application of common strategies, risk and quality standards.



### The partners and directors of the firm are its principles in terms of the Accountancy Profession Act

Back row left to right: Fabio Axisa, Simon Flynn, David Valenzia, Frederick Mifsud Bonnici, Joseph Muscat, Chris Galea, Joseph Camilleri, Lino Casapinta,  
Front row left to right: Lucienne Pace Ross, David Ferry, George Sammut, Kevin Valenzia, Romina Soler, Neville Gatt, John Zarb.

## Governance and management structure

The governing body of the firm is the partner and director group, which meets at regular intervals to discuss strategy and to monitor the firm's progress.

Service line issues are delegated to subsidiary boards comprised in the main, but not exclusively, of partners from the respective service line. Dedicated boards are also devoted to monitoring human resources, business development, training, risk management and IT support.

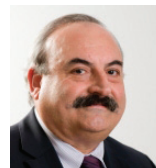


Kevin Valenzia addressing the firm's staff at the firm's annual conference. Kevin is the firm's Territory Senior Partner and heads its taxation and company administration practice.

A Council of partners and directors acts as a supervisory board principally to oversee partnership matters. The Council comprises Simon Flynn, Frederick Mifsud Bonnici, Kevin Valenzia and John Zarb.

The Council members, together with Joseph Camilleri and David Valenzia, all carry executive roles, reporting to the partner group as a whole.

Frederick Mifsud Bonnici  
heads the assurance  
practice



John Zarb  
heads the advisory  
practice and is the  
firm's finance partner



Joseph Camilleri  
an assurance partner,  
heads the firm's business  
development board



Simon Flynn,  
an assurance partner,  
heads quality assurance  
and risk management



David Valenzia,  
an assurance partner,  
heads the firm's human  
resources board





## Maintaining quality

Our approach to quality is supported by our Code of Conduct, which embodies our core values of excellence, teamwork and leadership.

The key elements enabling us to maintain our reputation for delivering consistently high quality services include the following:

**Quality people:** The quality of our work is determined largely by the quality of our people. Consequently, we aim to recruit, develop and retain the best and brightest. We employ rigorous procedures to ensure that our recruits are capable of performing to the high standards that we – and our clients – demand.

We have already explained, in this review, the procedures adopted regarding the recruitment and subsequent development and monitoring of staff.

**Our Code of Conduct:** This is embedded in our training. We also seek to combine broader management capabilities with the technical skills content of our training.

**Sustainable culture:** To ensure the continuing success of our business, we nurture a culture that supports and encourages all of our people to do the right thing, especially when they have to make tough decisions. PwC people have ready access to a wide array of network panels, both formal and informal, and technical, to help them reach the right solutions.

**Quality procedures:** PwC has a number of globally developed methodologies and work programmes for many of its services. These are designed to assist partners and staff in delivering work of the expected quality. Each client engagement partner is responsible for selecting partners and staff for an engagement who have the required professional competence and experience.

**External inspections:** Under procedures introduced in 2007, the Quality Assurance Oversight Committee of the Accountancy Board is responsible for undertaking an inspection of the audit quality of all registered auditors in Malta.

The first inspection of our firm was completed by the unit in 2008, with satisfactory results.

**Global network inspections:** The PwC network conducts an annual global programme of quality reviews intended to:

- Evaluate each member firm's performance of its overall quality and risk management responsibilities relative to PwC global policies and procedures and the performance of its partners and staff on selected individual engagements;
- Provide reasonable assurance that audit examinations are performed in accordance with generally accepted auditing standards, financial statements are prepared in conformity with generally accepted accounting principles and reports issued are appropriate in the circumstances; and that other Assurance services are performed to appropriate standards and documented in accordance with PwC policies and procedures;

- Identify the possible root causes of any failings where deficiencies are identified or where performance needs improvement;
- Identify and assess any factors that increase the member firm's risk;
- Ensure compliance with global assurance risk management policies and procedures;
- Provide constructive recommendations for correcting any deficiencies noted during the review.

Quality reviews are carried out on each PwC member firm, including the Malta firm, on an annual basis.

**Learning lessons:** Our reputation for quality is of paramount importance to us.

We are careful to ensure that we do not fall short of the standards we set ourselves. If at any time we feel this has happened, we seek to discuss and resolve the issues immediately and openly with the client. We also review the matter independently for lessons learned and communicate those lessons to the relevant part of our practice.

## Complying with regulation

Our regulatory and public interest responsibilities demand that we consistently deliver reliable and high quality work. Moreover, we are required to meet the expectations of the independent authorities that set and supervise our professional standards. Our regulatory compliance safeguards include the following:

**Regulatory developments:** We monitor developments in regulation that might require us to change our business model or our internal policies and procedures. We participate actively in the development of the regulatory agenda to ensure that the interests of all stakeholders are taken into account.

**Personal confirmations:** We obtain confirmations of regulatory and independence compliance from all our partners and staff when they join us and at least once a year after that. All partners and managers are required to record details of their investment portfolios on a database that highlights potential exceptions against a worldwide list of restricted investments.

Partners and staff are also required to confirm their independence in respect of audit clients to whom they provide services. Infringements of these rules can result in financial or other penalties for the partner or staff member concerned, while serious breaches can result in their leaving the firm. Each year, we conduct tests, on a sample basis, to confirm compliance by partners with personal independence regulations.

**Non-audit services and business relationships:** The lead audit engagement partner for each audit client is required to consider and pre-approve any non-audit services we provide to that client. This ensures that our independence and objectivity are not compromised. It is mandatory that all non-audit services to public interest audit clients go through our Authorisation For Services system, a shared system across the PwC global network. Business relationships between the firm and third parties are also reviewed to ensure they do not impair audit independence. Compliance with independence regulations is included within the annual quality assurance programmes referred to above.



With isolated exceptions in cases of inheritance, partners are prohibited from holding commercial interests outside the firm and from holding external directorships.

**Audit team rotation:** For all public interest entities, including listed companies, the audit engagement partner is rotated after seven years.

## Client acceptance and continuation

The firm operates procedures to assess the risks associated with new clients, including whether they meet the expected standards of integrity. As part of the annual audit cycle, we conduct risk reviews of all audit clients, and decline to continue to act for clients that, in our opinion, fall short of our standards.

## Monitoring

Regular reports, based on documented monitoring procedures, are submitted to the partner group by the partners responsible for risk management and for monitoring quality in terms of ISQC1, to ensure the proper operation of the procedures described above.

**The review of the systems of internal control has not identified any failings or weaknesses that have been determined to be significant and therefore no remedial actions are necessary.**

## Partner remuneration

Our partner remuneration system includes three core elements for which partners are rewarded: first, the role they are asked to play in the partnership; second, how well they carry out their responsibilities, with a particular emphasis on quality; and, third, how well the firm performs as a whole.

Within this framework, the determination of an individual partner's rewards hinges on a balanced scorecard evaluation against individual and team objectives.

Where financial performance is concerned, partners are rewarded on the basis of the performance of the firm as a whole, and not on the basis of the fee income generated by a particular service line or client.

# Appendix

## Public Interest Entities currently audited by the firm

The Accountancy Profession Act defines a Public Interest Entity (PIE) as an entity whose transferable securities are admitted to trading on a regulated market of any EU 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 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions, or an insurance undertaking within the meaning of Article 2(1) of Directive 91/674/EEC.

The PIEs currently audited by the firm include:

### LISTED EQUITY

GO plc  
Lombard Bank plc  
MaltaPost plc  
Middlesea Insurance plc  
Midi plc  
Plaza Centres plc  
Simonds Farsons Cisk plc  
Unibet plc

### LISTED BONDS

Dolmen Properties plc  
Gasam Finance Company plc  
Melita Capital plc  
Mizzi Organisation Finance plc  
Pavi Shopping Complex plc  
Tumas Investments plc

### LISTED FUNDS

Amalgamated Investments Sicav plc  
Global Funds Sicav plc  
La Valette Funds Sicav plc  
Vilhena Funds Sicav plc  
Wignacourt Funds Sicav plc  
Rohfund Global Funds Sicav plc

### CREDIT INSTITUTIONS

CommBank Europe Ltd  
IIG Bank (Malta) Ltd

### INSURANCE COMPANIES

AarhusKarlshamn Insurance Malta Ltd  
Arnold Clark Insurance (Malta) Ltd  
Arnold Clark Life Insurance (Malta) Ltd  
Atlas Insurance PCC Ltd  
Bastion Insurance Company Ltd  
Elmo Insurance Ltd

Ergon Insurance Ltd  
Falcon Insurance Ltd  
GasamMamo Insurance Ltd  
MSV Life plc  
One Insurance Ltd  
PSA Insurance Ltd  
PSA Life Insurance Company Ltd  
Rhenas Insurance Ltd  
Shield Insurance Company Ltd  
Taurus Insurance Ltd

Note: In addition to the above, in the course of 2010, the firm also audited the financial statements of AkBank T.A.S., Big Bon Finance plc, Fortis Bank Malta Limited and Lombard Funds Sicav plc.

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All persons appearing in this review are partners, managers or members of staff of PwC attending PwC events in 2010.

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