

**AN EVALUATION OF  
TRANSPARENCY REPORT  
DISCLOSURES BY MALTESE  
AUDIT FIRMS**

by

Francesca Grech

A dissertation submitted in partial fulfilment of the requirements for  
the award of the Master in Accountancy degree in the Department of  
Accountancy at the Faculty of Economics, Management and  
Accountancy at the University of Malta

May 2023



L-Università  
ta' Malta

## **University of Malta Library – Electronic Thesis & Dissertations (ETD) Repository**

The copyright of this thesis/dissertation belongs to the author. The author's rights in respect of this work are as defined by the Copyright Act (Chapter 415) of the Laws of Malta or as modified by any successive legislation.

Users may access this full-text thesis/dissertation and can make use of the information contained in accordance with the Copyright Act provided that the author must be properly acknowledged. Further distribution or reproduction in any format is prohibited without the prior permission of the copyright holder.



L-Università  
ta' Malta

FACULTY/INSTITUTE/CENTRE/SCHOOL FEMA

## DECLARATIONS BY POSTGRADUATE STUDENTS

### (a) Authenticity of Dissertation

I hereby declare that I am the legitimate author of this Dissertation and that it is my original work.

No portion of this work has been submitted in support of an application for another degree or qualification of this or any other university or institution of higher education.

I hold the University of Malta harmless against any third party claims with regard to copyright violation, breach of confidentiality, defamation and any other third party right infringement.

### (b) Research Code of Practice and Ethics Review Procedures

I declare that I have abided by the University's Research Ethics Review Procedures. Research Ethics & Data Protection form code FEMA-2022-00440.

As a Master's student, as per Regulation 77 of the General Regulations for University Postgraduate Awards 2021, I accept that should my dissertation be awarded a Grade A, it will be made publicly available on the University of Malta Institutional Repository.

## **Abstract**

### **An Evaluation of Transparency Report Disclosures by Maltese Audit Firms**

**PURPOSE:** The shortcomings in the audit market brought about by the Global Financial Crisis highlighted the need for regulators to intervene by increasing transparency in the audit market. In particular, the EU Audit Reform introduced additional requirements to Transparency Reports. Thus, this study aims to assess how Transparency Reports by Maltese audit firms carrying out the statutory audit of public interest entities comply with the applicable regulatory requirements. Additionally, this study seeks to understand whether users and preparers have different perceptions on the usefulness of Transparency Reports in general, or on certain sections in particular, as well as to understand their process of preparation.

**DESIGN:** In order to satisfy all the research objectives of the study, a qualitative approach was adopted in two stages. A content analysis of thirteen Transparency Reports issued by Maltese audit firms was first conducted. Secondly, a total of seventeen semi-structured interviews were carried out with representatives of audit firms and public interest entities.

**FINDINGS:** No substantial differences were highlighted between the contents of different Transparency Reports in Malta. A discrepancy between disclosures highly favoured by the users and those highly detailed in these reports was however identified. Additionally, despite acknowledging their importance, users hardly make use of Transparency Reports, neither for audit firm selection purposes, nor as a general reference point. Furthermore, in the course of preparation, Maltese audit firms refer to a template provided by their global network and are disincentivised to work on making the report more attractive to its potential users. On the other hand, users and preparers have a different judgement on voluntary disclosures, and on whether the use of Transparency Reports as marketing tools is capable of enhancing transparency.

**CONCLUSIONS:** This study concluded that Maltese audit firms over rely on templates provided by their global network as strong similarities between the contents in their Transparency Reports was noted. Thus, given that no substantial differences were highlighted, Transparency Reports in Malta are unsuccessful in increasing audit competition and since their target audience does not mainly consist of public interest entity representatives, their relevance is minimal.

**VALUE:** This study contributes to the lack of local literature whilst providing insight to preparers of Transparency Reports on their target audience and their users' preferences. In this regard, a number of recommendations have been presented.

**KEYWORDS:** Transparency Report, Transparency, Audit Firms, Public Interest Entities

*To my late  
grandparents Emanuel,  
Andrew and María*

## **Acknowledgments**

I wish to take the opportunity to acknowledge all those who have helped and supported me throughout the course of this study, by writing this special note of thanks.

Firstly, I would especially like to express my sincere gratitude towards my dissertation supervisor, Dr Norbert Tabone B. Accty. (Hons), F.C.C.A., F.I.A., Ph.D. (Lough.), C.P.A., for his continuous and invaluable guidance, expertise, dedication and words of encouragement throughout the entire process of this dissertation.

I would also like to thank Professor Peter J. Baldacchino Ph.D. (Lough.), M.Phil. (Lough.), F.C.C.A., F.I.A., C.P.A., for encouraging me to pursue such research topic, and for guiding me during the initial stages of this dissertation.

Acknowledgement also goes to all companies and audit firms who contributed their time, years of knowledge, individual experiences and insights, by accepting to be interviewed. Without their contribution, the completion of this dissertation wouldn't have been successful.

Finally, the most profound appreciation goes out to my parents, Sandra and Sandro and my sister Miraye, for their endless love and dedication throughout this whole academic journey, particularly during the process of writing this dissertation. My deepest appreciation extends to my boyfriend Jake for his unwavering support and patience. A word of thanks also goes out to my close friends, for whom I will forever be grateful.

# **Table of Contents**

Abstract .....	i
Dedication.....	ii
Acknowledgments .....	iii
Table of Contents.....	iv
List of Figures.....	viii
List of Tables .....	ix
List of Abbreviations.....	x
<b>Chapter 1: Introduction .....</b>	<b>1</b>
1.1 Introduction.....	2
1.2 Background to the Study.....	2
1.2.1 The Concept of Transparency in AFs .....	3
1.2.2 The European Union Statutory Audit Legislation.....	4
1.2.3 The Definition of a PIE.....	5
1.3 Rationale for the Study.....	6
1.4 Objectives of the Study .....	7
1.5 Scope and Limitations.....	8
1.6 Overview of the Study .....	8
<b>Chapter 2: Literature Review .....</b>	<b>10</b>
2.1 Introduction.....	11
2.2 The Annual TR .....	13
2.2.1 The Publication of TRs in Malta .....	13
2.2.2 The Requirements of an Audit TR.....	14
2.2.3 Analysing the TR Requirements post the Audit Reform.....	14
2.3 The Importance of Transparent Reporting in Capital Markets.....	16
2.3.1 Audit Market Competition .....	17
2.3.2 Auditor Independence .....	18
2.3.3 Investor Confidence.....	18
2.4 Preparing a TR as a Network Firm Member.....	19
2.4.1 Cross-national Practice Variations between Members of AF Networks.....	19
2.4.2 Factors affecting the Quality of a TR .....	20

2.5	Voluntary TR Disclosures.....	21
2.6	Practitioners' Perspective on Increased Transparency.....	23
2.7	Maintaining Quality and Effectiveness in TRs.....	24
2.8	Local Scenario.....	25
2.9	Conclusion.....	26
<b>Chapter 3: Research Methodology .....</b>		<b>27</b>
3.1	Introduction.....	28
3.2	Preliminary Research.....	30
3.3	Research Method.....	30
3.4	Research Tool.....	31
3.4.1	Stage 1 – Content Analysis.....	31
3.4.2	Stage 2 – Semi-structured Interviews.....	32
3.4.2.1	Pilot Study.....	33
3.4.2.2	Interview Schedules.....	33
3.5	Research Participants.....	35
3.6	Ethical Considerations.....	37
3.7	Data Collection.....	37
3.8	Data Analysis.....	38
3.9	Research Limitations.....	38
3.10	Conclusion.....	39
<b>Chapter 4: Content Analysis of Secondary Data .....</b>		<b>40</b>
4.1	Introduction.....	41
4.2	Accessibility.....	43
4.3	Mandatory Disclosures.....	44
4.3.1	The Legal Structure and Ownership of the AF.....	44
4.3.2	The Network and the Legal and Structural Arrangements in the Network.....	44
4.3.3	The AF's Governance Structure.....	45
4.3.4	The Internal Quality Control System.....	45
4.3.5	Quality Assurance.....	45
4.3.6	List of Audited PIEs.....	46
4.3.7	Independence Practices and Compliance.....	46
4.3.8	Continuing Professional Education.....	46
4.3.9	Basis of Partner Remuneration Structure.....	47

4.3.10	Mandatory Audit Partner Rotation .....	47
4.3.11	AF Fees and Total Turnover.....	48
4.4	Voluntary Disclosures.....	48
4.5	The Marketing Element.....	50
4.6	User-friendliness and Comparability .....	50
4.7	Conclusion .....	52
<b>Chapter 5:</b>	<b>Interview Findings .....</b>	<b>53</b>
5.1	Introduction .....	54
5.2	General Understanding of TRs .....	55
5.3	Preparing the TR .....	56
5.4	The Disclosure Requirements of the TR .....	58
5.4.1	The New Disclosure Requirements .....	59
5.4.2	Additional Mandatory Disclosures.....	61
5.4.3	Voluntary Disclosures.....	62
5.5	Comparing the General Perceptions of AFRs and PIERs .....	63
5.6	Possible Recommendations for Improving the TRs and their Contents .....	66
5.7	Conclusion .....	67
<b>Chapter 6:</b>	<b>Discussion of Findings .....</b>	<b>68</b>
6.1	Introduction .....	69
6.2	How do Maltese AFs comply with the Requirements of the Regulation and the Accountancy Profession Act? .....	71
6.2.1	Are TR disclosures regarded differently by AFRs and PIERs?.....	71
6.2.2	Is there a Consensus on Voluntary Disclosures?.....	73
6.2.3	TR Disclosure Additions post the GFC – A Story of Success or a Flash in the Pan? .....	74
6.3	Understanding the Perspectives of AFRs and PIERs on TRs.....	75
6.3.1	The Ultimate Conundrum - Are TRs in Malta Effective? .....	76
6.3.2	A Cost-benefit Analysis Approach – Is the TR Cumbersome or Convenient? .....	78
6.4	Differences in the Preparation Process of TRs .....	79
6.4.1	A Neo-Institutional Theory or a Variation of Practice? .....	79
6.5	Differences in the Approach to Presentation of TRs .....	80
6.5.1	Is the TR an Effective Marketing Tool capable of Enhancing Transparency?.....	80

6.5.2	How are Presentation Differences Reflected in the Extent of Transparency?.....	81
6.6	Conclusion.....	82
<b>Chapter 7: Summary, Conclusions and Recommendations .....</b>		<b>83</b>
7.1	Introduction.....	84
7.2	Summary .....	84
7.3	Conclusion.....	86
7.4	Limitations.....	87
7.5	Recommendations .....	87
7.6	Areas for Further Research .....	89
7.7	Concluding Remarks.....	90
<b>References .....</b>		<b>R-1</b>
	General .....	R-2
	Regulatory.....	R-12
<b>Appendices .....</b>		<b>A-1</b>
	Appendix 1.1 - The Requirements of an Audit TR.....	A1.1-1
	Appendix 2.1 - Covering Email sent to AFRs .....	A2.1-1
	Appendix 2.2 - Covering Email sent to PIERs .....	A2.2-1
	Appendix 2.3 - Interview Schedules.....	A2.3-1
	Appendix 2.4 - Interview Schedule for AFRs .....	A2.4-1
	Appendix 2.5 - Interview Schedule for PIERs.....	A2.5-1

## **List of Figures**

Figure 1.1: Overview of Chapter 1 .....	2
Figure 1.2: Dissertation Overview .....	9
Figure 2.1: Overview of Chapter 2 .....	12
Figure 2.2: A Breakdown of PIEs by Category .....	13
Figure 3.1: Overview of Chapter 3 .....	29
Figure 4.1: Overview of Chapter 4 .....	42
Figure 5.1: Overview of Chapter 5 .....	54
Figure 6.1: Overview of Chapter 6 .....	70
Figure 7.1: Overview of Chapter 7 .....	84

## **List of Tables**

Table 2.1: The New Requirements for the Auditor’s TR .....	15
Table 3.1: Structure of the Content Analysis .....	32
Table 3.2: Structure of Interview Schedule 1 .....	34
Table 3.3: Structure of Interview Schedule 2 .....	34
Table 3.4: Interview Schedules 1 and 2 - Likert Scale Categories .....	35
Table 3.5: Breakdown of Interviews Conducted with AFRs.....	36
Table 3.6: Breakdown of Interviews Conducted with PIERs .....	36
Table 4.1: The Proportion of PIEs Audited by Maltese AFs and the Length of TRs under Review.....	51
Table 5.1: The Importance of Each Disclosure Requirement (AFRs’ and PIERs’ perspective) .....	59
Table 5.2: New Disclosure Requirements .....	60
Table 5.3: Suggested Mandatory Disclosures .....	62
Table 5.4: Likelihood of AFRs and PIERs to use the TR .....	63
Table 5.5: Comparing the Different Perceptions of AFRs and PIERs .....	65

## **List of Abbreviations**

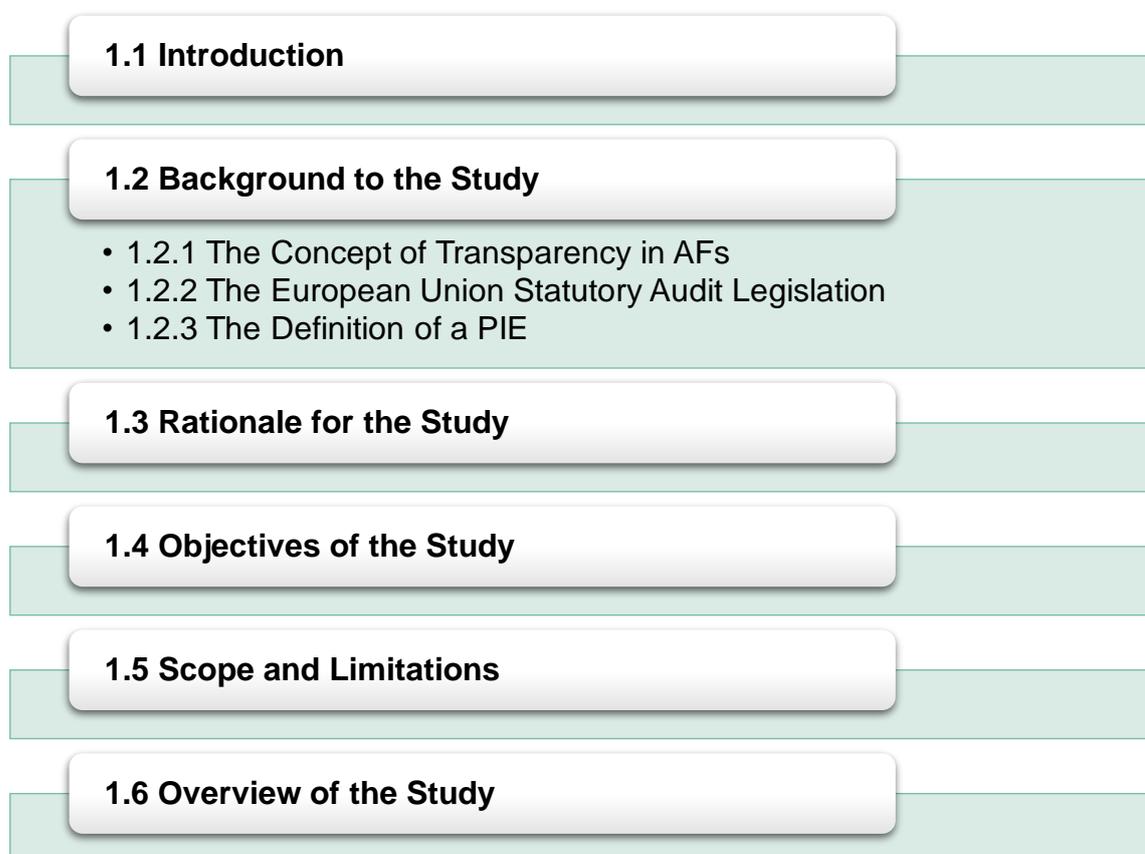
<b>AB</b>	Accountancy Board
<b>AF/s</b>	Audit Firm/s
<b>AFR/s</b>	Audit Firm Representative/s
<b>CG</b>	Corporate Governance
<b>CPE</b>	Continuing Professional Education
<b>CSR</b>	Corporate Social Responsibility
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>GFC</b>	Global Financial Crisis
<b>IAASB</b>	International Auditing and Assurance Standards Board
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IOSCO</b>	International Organization of Securities Commissions
<b>MAFR</b>	Mandatory Audit Firm Rotation
<b>MAPR</b>	Mandatory Audit Partner Rotation
<b>NAS/s</b>	Non-Audit Service/s
<b>NCA</b>	National Competent Authority
<b>PIEs</b>	Public Interest Entities
<b>PIER/s</b>	Public Interest Entity Representative/s
<b>QAR/s</b>	Quality Assurance Review/s
<b>SEC</b>	Securities and Exchange Commission
<b>TR/s</b>	Transparency Report/s

# *Chapter 1: Introduction*

---

## 1.1 Introduction

This chapter is an introductory chapter which presents the foundations of this dissertation. Section 1.2 provides the background to the study and includes fundamental definitions used in this research. Section 1.3 justifies the need for this study. The objectives of the research are defined in Section 1.4, whilst the study's scope and limitations are included in Section 1.5. Section 1.6 concludes this chapter by setting out the outline of the dissertation. The structure of this chapter is illustrated in Figure 1.1 below.



*Figure 1.1: Overview of Chapter 1*

## 1.2 Background to the Study

Ensuring the reliability of a set of financial statements and providing credibility to their users is a prominent role of auditing (La Rosa, Caserio et al. 2019).

Additionally, an auditor's independent opinion of whether the financial statements give a true and fair view of the financial position of an entity is crucial in assisting investors to make rational decisions (Bolkestein 2003, Shahzad, Pouw et al. 2018). Thus, through trustworthy audit firm (AF) reporting, a better understanding of the firm conducting the audit is considered to be essential in order to ensure the "well-functioning" (Deumes, Schelleman et al. 2012, p. 1) of the capital market.

### 1.2.1 The Concept of Transparency in AFs

Over the years, the concept of transparency has progressively gained attention and a number of definitions of the term have been put forward by many professionals and researchers. Fombrun and Rindova (2000) explain how transparency is used as a tool to mitigate distressed relationships between stakeholders and an organisation since it is believed to prevent and repair trust issues. Other researchers described transparency as a type of behaviour which, through open disclosures of the company's true thoughts and feelings, promotes trust (Bushman, Piotroski et al. 2004, Walumbwa, Luthans et al. 2011).

As stated by La Rosa, Caserio et al. (2019), financial market development depends on the corporate transparency level, and consequently, all key players in the financial market, including AFs, are expected to make public any information which is potentially able to boost market confidence. Therefore, the need for transparency through mandatory financial and non-financial reporting should not solely exist in the field of corporate listed entities but should also be extended to AFs intervening indirectly in the global economy (Chersan, Danileț 2019).

Arguably, transparency today "*is not a luxury, but it is now a fundamental requirement of the system of governance*" (Borgia 2005, p. 21). This highlights the importance and relevance of the publication of Transparency Reports (TRs)

by a category of AFs, whose aim is to disclose appropriate internal information to the general public (Independent Regulatory Board for Auditors 2018).

### 1.2.2 The European Union Statutory Audit Legislation

Concerns brought about by “*high-profile corporate collapses, such as Enron and WorldCom*” (Pflugrath, Martinov-Bennie et al. 2007, p. 566), which triggered the 2008 global financial crisis (GFC), have put the auditing profession in the spotlight and created more pressure on regulators to intervene (Zorio-Grima, Carmona 2019). Auditors were accused for not raising alarm when ‘too-big-to-fail’ companies were facing financial distress, due to their deteriorating financial position, and for failing to apply the relevant accounting standards (Woods, Humphrey et al. 2009).

In 2008, Malta first mandated the release and preparation of TRs by the transposition of the Eighth Company Law Directive, also referred to as Directive 2006/43/EC, into Maltese law, specifically in Article 18 of the Accountancy Profession Act (1979). This introduction to the local legislation required AFs and audit practitioners of Public Interest Entities (PIEs) in Malta, to publish on their website an annual TR (Caruana 2010).

This requirement was later substituted by Act XXXVI.2016.14 enacted by the Parliament of Malta, which amended the Accountancy Profession Act (1979), and which was implemented following Directive 2014/56/EU<sup>1</sup> and the introduction of Regulation 537/2014/EU<sup>2</sup>, as a response to develop the profession of the auditor within society into more of a regulatory profession (Čular, Maretić 2015, Woudenberg, van der Hel - van Dijk et al. 2021). The Directive and the Regulation together form the new European Union (EU) Statutory Audit Legislation which became effective on 17<sup>th</sup> June 2016.

---

<sup>1</sup> Hereinafter referred to as “the Directive”

<sup>2</sup> Hereinafter referred to as “the Regulation”

The distinguishing feature between the two is the fact that the Directive governs the requirements of all statutory audits whilst the Regulation includes further requirements which are only applicable to the statutory audits of PIEs, such as the requirement for TRs (European Commission [EC] n.d., KPMG 2020). Thus, the new developments introduced by this so-called 'Audit Reform' were some of the EC's action plans post the GFC, comprising specific requirements and additions to TRs, intended to re-gain the trust of the general public, re-establish shareholders' confidence, whilst improving the quality and integrity of the statutory audit (Johl, Muttakin et al. 2021, Mocanu, Ionescu 2020, O'Halloran 2016, Wyman 2004).

### 1.2.3 The Definition of a PIE

Given that PIEs are considered to be more economically important and have higher visibility, it is imperative to understand the definition of the term since stricter requirements are applicable to their statutory audit (EC 2006). The definition of a PIE is reproduced below.

- a. *“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;*
- b. *credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive;*
- c. *insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC; or*
- d. *entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees”.*

(EC 2014b, pp. 7-8, EC 2013, pp. 8-9)

### 1.3 Rationale for the Study

The aim of this study is to evaluate how through disclosures included in TRs, AFs are enhancing their transparency, audit quality and governance, whilst increasing confidence in the market, as a result (Smith, Marx 2021). In theory, such disclosures would be fundamental to promote competition in the audit market and thus, this study will seek to conclude whether, and to what extent, post the transposition of the EU Statutory Audit Legislation into Maltese Law, PIE representatives (PIERs) in Malta truly consider these disclosure requirements to be useful in their decision-making process, and how this is perceived by AF representatives (AFRs), which are on the other side of the spectrum (EC 2017).

To date, the only Maltese study which contributes to research on this topic was carried out by Caruana (2010). This study examined TR disclosure requirements of the Eighth Company Law Directive, duly focusing on the perspective of banks, stockbrokers, and the Maltese regulator, on the reports' usefulness and user-friendliness. This study will therefore be the first to compare the perspective of AFRs with PIERs on TRs in a small island-state such as Malta. It is also the first study that examines the requirements of the EU Statutory Audit Legislation into Maltese Law. Thus, this gap in literature would be addressed by evaluating the content and analysing the process by which TRs in Malta are prepared and presented.

Research on transparency in corporate governance (CG) reporting by listed companies in their annual reports is commonly carried out, particularly in the local scenario, yet research on transparency reporting by AFs is limited. Vassallo (2006) studied the applicability of the proposed provisions of CG to Maltese listed companies. In their study, Baldacchino, Duca et al. (2020) examined whether lack of CG transparency is a common attribute in small, listed entities in Malta. Moreover, in her study, Gatt (2021) examined the role of the external auditor in CG of Maltese listed entities. This further substantiates how such a study will

contribute to the local literature available, and also provide regulators and practitioners in this field with appropriate empirical evidence on disclosures of governance practices in AFs.

The contribution of this study to society is further accentuated by the substantial increase in the number of PIEs in Malta since the last study by Caruana (2010). In 2009, there were only seventy-three PIEs whereas according to the Accountancy Board (AB) (2021) Annual Report, as of 31<sup>st</sup> December 2021, the number of PIEs totalled one hundred fifty-two. This further emphasises on the relevance and importance of such study, especially within the context of a small island-state.

## **1.4 Objectives of the Study**

This research study will have the following overarching objectives:

1. To assess how TRs issued by Maltese AFs comply with the applicable regulatory requirements, and to evaluate the perceptions of AFRs and PIERs on TR disclosures.
2. To understand the perspectives of AFRs and PIERs on whether TRs are successful in providing better information to stakeholders, in increasing investors' confidence, and in assisting audit clients when selecting a new AF.
3. To analyse the differences in the preparation process of TRs, and approach to presentation that various AFs have taken, and how this is reflected in the extent of transparency provided.

## 1.5 Scope and Limitations

This research is subject to some inherent limitations. Firstly, the cut-off date is 8<sup>th</sup> May 2023 and thus, data included is only limited up to that date. Moreover, in providing a background to the research and presenting its results and outcomes, the researcher was restricted by the acceptable word limit.

Moreover, this study will solely focus on the requirement of the publishing of a TR by AFs of PIEs, brought about by the Audit Reform. It will therefore not analyse other elements introduced by the same Legislation, such as mandatory AF rotation (MAFR) and the regulation on the provision/non-provision of non-audit services (NASs).

## 1.6 Overview of the Study

**Chapter 1** provides an understanding of the research topic by defining the main concepts of AF reporting and providing reasons for the relevance of this study. This chapter also outlines the objectives of the research, whilst taking into consideration some limitations which the researcher may encounter.

**Chapter 2** delves into more detail of the subject matter, whilst providing the reader with sufficient information, based on local and foreign literature, to further support the understanding of the research objectives.

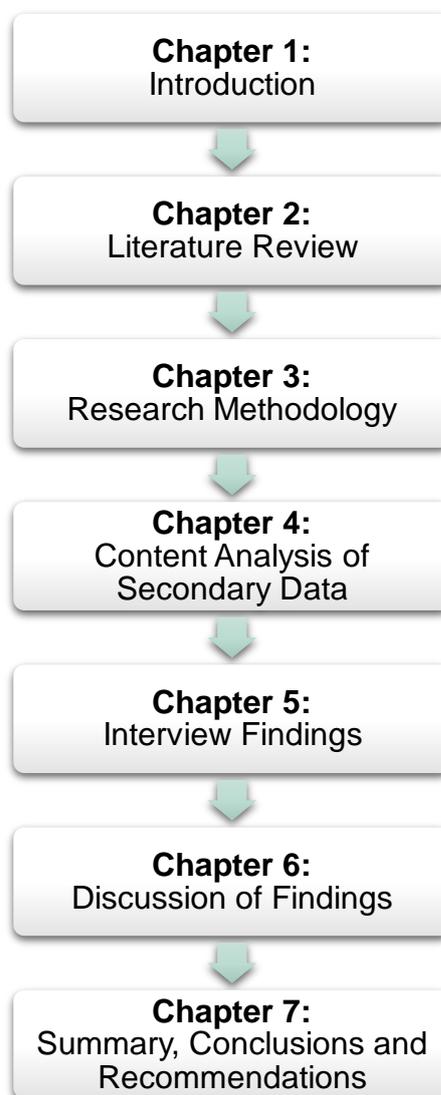
**Chapter 3** presents the methodology used in the data collection process. Apart from justifying the choice of methodology for the research, this chapter also explains in detail the different stages involved in the collection of primary data.

**Chapter 4** offers a qualitative analysis of the content of a number of TRs published by a portion of Maltese AFs during a particular year.

The research findings ascertained from the semi-structured interviews conducted are then presented in **Chapter 5**, whilst a discussion of the findings is presented in **Chapter 6**.

**Chapter 7** concludes the study by summarising its main findings, outlining relevant concluding remarks, and suggesting a number of areas for further research.

An outline of the study is presented in Figure 1.2 below.



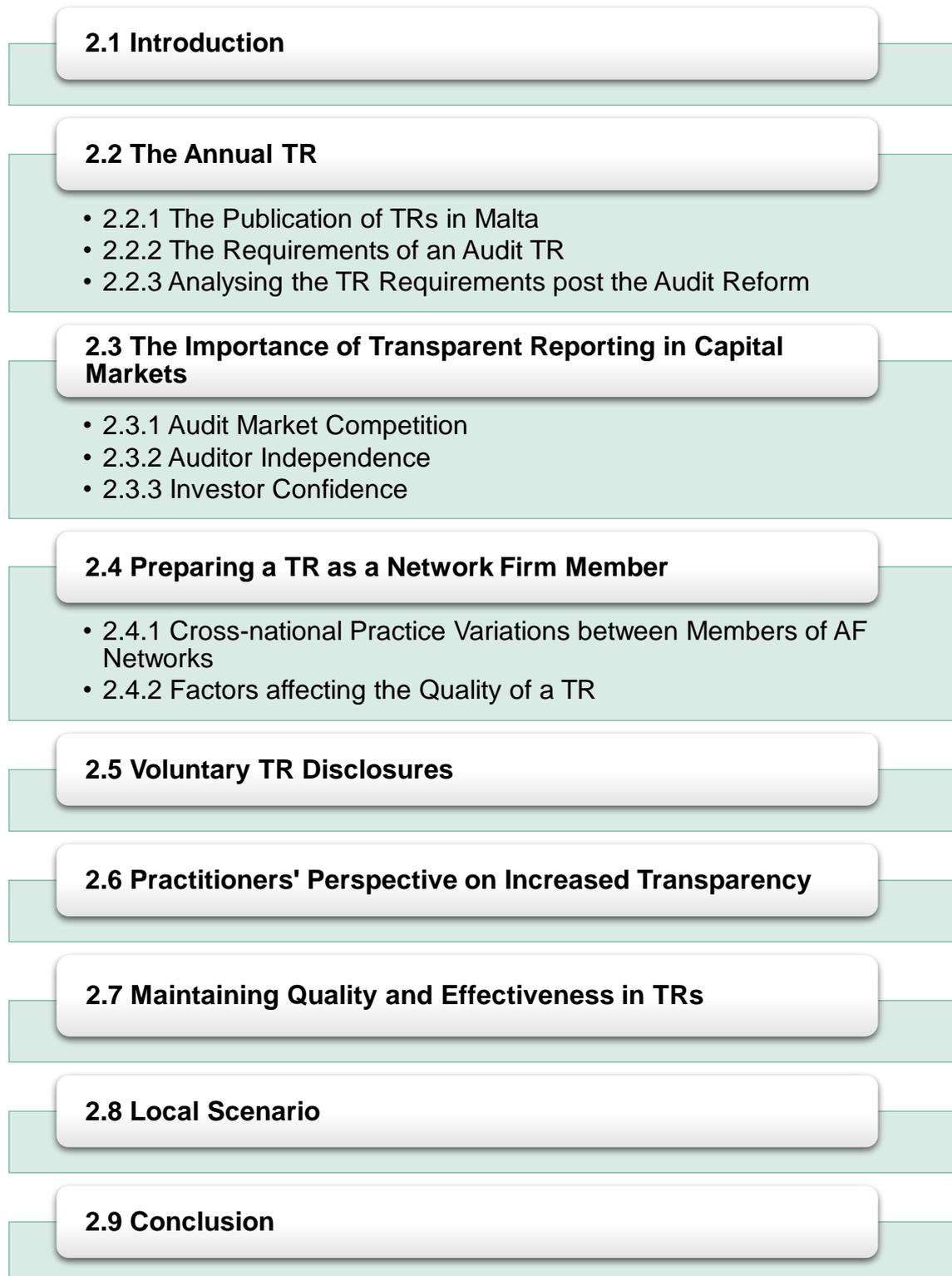
*Figure 1.2: Dissertation Overview*

## *Chapter 2: Literature Review*

---

## **2.1 Introduction**

This chapter comprehensively evaluates existing local and foreign literature in relation to the publication of TRs. Section 2.2 delves into the contents of the TR. Sections 2.3 and 2.4 respectively evaluate the relevance and preparation of such report. Section 2.5 addresses the discretionary element of a TR, whilst Section 2.6 sets out the practitioners' perspective of the TR. Section 2.7 delves into the quality assurance aspect in a TR, followed by Section 2.8 which by evaluating relevant Maltese studies, addresses the gap in local literature. Lastly, Section 2.9 concludes the chapter. The structure of this chapter is illustrated in Figure 2.1 overleaf.



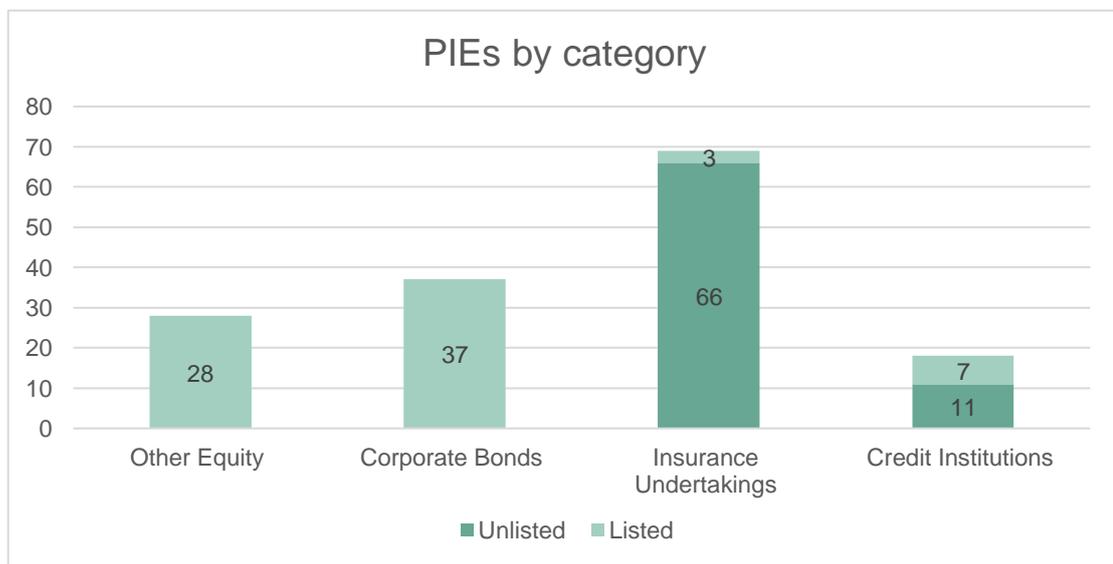
*Figure 2.1: Overview of Chapter 2*

## 2.2 The Annual TR

Improving audit quality and emphasising on the importance of being independent, is what regulators, ever since, have strived to achieve (Shahzad, Pouw et al. 2018). Standard setters and regulators argue that in order to reduce information asymmetry between market participants and AFs, whilst maintaining the stability of capital markets and offering an audit service of high quality, greater transparency of the internal governance structure of the AF is required (Deumes, Schelleman et al. 2012, Smith, Marx 2021). This is supported by the publication of a TR.

### 2.2.1 The Publication of TRs in Malta

The AB is the National Competent Authority (NCA) in Malta responsible for audit oversight. In its Annual Report for the year ended 31<sup>st</sup> December 2021, the AB quoted one hundred fifty-two entities which fall under the definition of a PIE<sup>3</sup>. Figure 2.2 below, illustrates the distribution of listed and unlisted PIEs into different sectors.



*Figure 2.2: A Breakdown of PIEs by Category*  
 Source: Adapted from the Annual Report of the AB (2021, p. 14)

<sup>3</sup> Vide Section 1.2.3

Until 2021, the number of AFs in Malta providing statutory audit services to PIEs amounted to fourteen, being a mixture of Big-Four firms, mid-tier firms and small firms (AB 2021). Furthermore, Table 4.1 illustrates the distribution of PIE statutory audits in Malta across the fourteen AFs providing such services.

### 2.2.2 The Requirements of an Audit TR

AFs who carry out the audit of PIEs are required to publish a TR, signed by the firm's compliance principal, not longer than four months after the end of their financial year. This report must be made available on the auditor's website for not less than five years from the day it is first published (EC 2014a). The TR disclosure requirements mandated by Article 13 of the Regulation are contained in Appendix 1.1.

### 2.2.3 Analysing the TR Requirements post the Audit Reform

Table 2.2 summarises the new requirements of the Regulation, in addition to the existing requirements of Directive 2006/43/EC for the auditor's TR.

<b>Article 40 of Directive 2006/43/EC</b>	<b>Article 13 of Regulation 537/2014/EU</b>
TRs must be published on the website of the AF at least three months post each financial year.	TRs must be published on the website of the AF at least four months post each financial year.
No information with respect to the minimum duration a TR must be kept available on the website of the AF.	The TR must remain available on the AF's website for a minimum of five years.
No information with respect to amending the TR after publication on the website.	After the TR is compiled and published, if necessary, the AF is allowed to amend, in which case, both the original version and the amended version must be kept available on the website, with notifications of its uploading and updating being made to the competent authorities.
If a member of a network, the AF shall only describe the network and the legal structural arrangements in such network.	If a member of a network, the AF shall include, apart from the description as in Directive 2006/43/EC, <ul style="list-style-type: none"> <li>○ Each statutory auditor's name (if he/she operates as a sole practitioner) or the name of each AF, including the country in which they operate or the registered office, central administration, or principal place of business.</li> <li>○ The total turnover received from the statutory audit of annual and consolidated financial statements.</li> </ul>
No information with respect to partner and key audit staff rotation to be provided in the TR.	The AF shall describe its policy regarding partners and key audit staff rotation in line with article 17(7) of the same Regulation.

*Table 2.1: The New Requirements for the Auditor's TR*  
Source: Adapted from Directive 2006/43/EC (EC 2006) and Regulation 537/2014/EU (EC 2014a)

## 2.3 The Importance of Transparent Reporting in Capital Markets

Post the GFC, a number of shortcomings in the audit market were identified (Shahzad, Pouw et al. 2018). The market was dominated by the Big-Four AFRs, and there was therefore a lack of choice, due to their high concentration (Malis, Brosovic 2015). The GFC shocked investors, made them lose trust in the work of the auditor, and consequently, lose their confidence in financial markets, resulting in a situation where auditors were

*“being blamed for losses suffered by investors, employees, creditors, and customers. Enormous class actions are [were] being brought against the auditors for alleged negligence or even dishonesty”* (Clulow 2002, p. 3).

In order to address issues of audit market competition<sup>4</sup>, auditor independence<sup>5</sup> and investor confidence<sup>6</sup>, law makers and regulators in the EU were pressured to act by reforming the audit profession through MAFR, prohibition of certain NASs and additional requirements for the preparation of TRs (Kend, Basioudis 2018).

There are many benefits which transpire from TRs, especially when taking the perspective of capital markets (Deumes, Schelleman et al. 2012, Fu, Carson et al. 2015, Kend, Basioudis 2018). Moreover, information provided via this form of reporting is capable of aligning the knowledge of AFRs on their own policies and procedures of independence, with the knowledge of PIERs on what they perceive the independence of the auditors to be (Pott, Mock et al. 2008).

---

<sup>4</sup> Vide Section 2.3.1

<sup>5</sup> Vide Section 2.3.2

<sup>6</sup> Vide Section 2.3.3

### 2.3.1 Audit Market Competition

In its Audit Quality Framework, the International Auditing and Assurance Standards Board (IAASB) (2014) explains how making information publicly available in TRs assists stakeholders in the process of a new AF selection and helps AFs distinguish themselves from other firms. Thus, a TR can be used to increase competition within the audit market, whilst providing an incentive to AFs to meet the commitments disclosed (International Organization of Securities Commissions [IOSCO] 2009, Juhl, Muttakin et al. 2021). Competition is restricted when there is high concentration of Big-Four firms in the market, particularly due to their favourable reputation (Quick, Schenk et al. 2018). Consequently, by increasing disclosures on an AF's internal governance, the market share held by Big-Four firms should decrease (Ballas, Fafaliou 2008).

By measuring the post Audit Reform increase in the number of PIEs audited by non-Big-Four firms, in their study on the usefulness of TRs, La Rosa, Caserio et al. (2019) studied whether due to the new disclosure requirements, AF competition has increased. This study did not find enough evidence to conclude that there is a positive relationship between audit market competition and the extent of transparency disclosed and thus, concluded that AF switches still remained unpopular (La Rosa, Caserio et al. 2019).

Moreover, TRs can be utilised by AFs as marketing tools since research suggested that such reports contain commercial and/or marketing-like information (Oh, Dowling 2014 cited in Zorio-Grima, Carmona 2019). Audit managers will be able to reflect on their current policies which impact audit quality whilst differentiating and comparing with their competitors, which in turn, promotes competition (Girdhar, Jeppesen 2018). Nevertheless, audit clients and potential investors will benefit from comparable internal information on all AFs which will assist them in making rational choices when selecting their auditor (Pott, Mock et al. 2008).

### 2.3.2 Auditor Independence

It is of utmost importance that auditor independence is adequately reflected and described in TRs as

*“both actual and perceived auditor independence are critical elements in the maintenance of public confidence in the auditing profession”* (Pany, Reckers 1980, pp. 50-51).

Only when investors believe that auditors act independently of their audit client during the course of their work, will confidence start to exist (Financial Reporting Council 2015).

By requiring AFs to disclose details on the remuneration of their partners in the TR, for instance, regulators and investors will adequately address auditor independence concerns (Pott, Mock et al. 2008). Not disclosing the components of such partner remuneration is a threat to auditor independence, particularly if partners are incentivised by the higher profitability attributed to selling NASs (Tepalagul, Lin 2015). Thus, the allocation of revenues related to audit and NASs must be made clear, so that users are provided with relevant information which keeps them from questioning the independence of the AF (Girdhar, Jeppesen 2018).

### 2.3.3 Investor Confidence

Confidence is one of the most vital ingredients for investors to be able to trust financial statements, and it is this same ingredient which drives the wheels of capital markets (KPMG 2018). Being entrusted by law to carry out the statutory audit of PIEs, AFs perform a public-interest function to enhance the investor's degree of confidence on a set of financial statements (EC 2014a). According to Pott, Mock et al. (2008), the provision of reliable and reasonable information to investors in TRs increases opportunities for investment in the global capital markets, due to the positive effect on economic performance.

Indeed, two ways of boosting the confidence of investors post the GFC were through Mandatory Audit Partner Rotation (MAPR) and MAFR, and in this respect, a TR is required to include a description of the AF's policy regarding partners and key audit staff rotation (KPMG 2020). Notwithstanding, in their study, Zorio-Grima and Carmona (2019) state how the promotion of high-quality audits in a TR is expected to benefit investors by increasing their trust in a set of audited financial statements.

## 2.4 Preparing a TR as a Network Firm Member

Some AFs, particularly Big-Four firms, form part of a network and as they describe themselves as "*one-firm-worldwide*" (Arnold, Bernardi et al. 2009, p. 59), they are expected to produce TRs which are cross-nationally consistent. However, even though cross-national firms are organised in networks which are highly integrated, dissimilarity in transparent reporting is still expected as these firms tend to locally adapt the content of TRs (Lenz, James 2007).

### 2.4.1 Cross-national Practice Variations between Members of AF Networks

The extent of control exercised by the global AF network on its member firms and the needs of the national institutional environment where the member firms operate, were the two areas identified by Girdhar and Jeppesen (2018) as the main influences on the content of TRs. From a Neo-institutional Theory perspective, TRs of AFs within a network are expected to have homogenous content as they conform to the same set of beliefs imposed on them by the institutional environment (DiMaggio, Powell 1983, Shong, Yap et al. 2015). Conversely, the Practice Variation Theory advocates that the content of TRs of member firms in a multi-institutional network varies, and tends to respond to transparency reporting differently, due to the distinctive transposition process of the Directive in every regulatory regime (Greenwood, Raynard et al. 2011, Kraatz, Block 2008, Malhotra, Morris et al. 2006, Zorio-Grima, Carmona 2019).

According to Chersan and Danileț (2019), given that in the EU the publication of TRs had become mandatory, with their content being standardised and enforced by law, by looking at a sample of TRs issued in the same jurisdiction, slight differences were identified. Furthermore, Kraatz and Block (2008) argue that since AFs operate in a multitude of institutional environments, all with their own legislations, variations in the language, wording, and structure, rather than the contents of TRs, are more likely. Thus, different TR practices along members of such networks are noted when these individual members will seek to adapt to the national institutional environment (Girdhar, Jeppesen 2018).

Nevertheless, in their aim to understand the determinants of the content of TRs of Big-Four firms in three countries in the EU, Girdhar and Jeppesen (2018) found that given that most firms in the United Kingdom use a template to which they insert their own information, if a PIER had to use the report to pick a firm to do their audit, all firms will appear the same, since differences in the content are very difficult to pinpoint. Notwithstanding, taking the advantage of centralisation and using the same template is said to be more efficient and less costly for the preparers (Zorio-Grima, Carmona 2019).

#### 2.4.2 Factors affecting the Quality of a TR

In its final report on the transparency of AFs that audit public companies, IOSCO (2015) presented five characteristics which it deemed fundamental for every TR to have, and which factors distinguish a high-quality report from the other. Thus, when preparing a TR, an auditor must seek to publish material which is in ample detail, clear and useful to its user, based on facts, without the intention of marketing, avoids standard language, is correct, communicates both input and output measures of the AF, and sufficiently explains the limitations of such measures (IOSCO 2015). In the local study carried out by Caruana (2010), the level of user-friendliness of each TR disclosure was investigated, and it was determined that the list of PIEs for which an audit had been carried out was the most highly rated.

## 2.5 Voluntary TR Disclosures

Although the EU was one of the first jurisdictions to mandate TRs, such requirements left AFs with substantial reporting choices (Deumes, Schelleman et al. 2012). The discretionary nature of TRs arises from the fact that the requirements of the Regulation are reasonably broad and only prescribe minimum content. Thus, when preparing this report to be addressed to the market, auditors discretionally select what to disclose and how, depending on the extent and level of detail they desire (Girdhar, Jeppesen 2018).

The absence of instructions on the wording of TRs has led some AFs to issue reports which do not provide thorough descriptions of the internal governance structure (Fu, Carson et al. 2015). Such reports are colloquially referred to as “*boilerplate reports*”, due to their lack of incremental substance to their users (Fu, Carson et al. 2015, p. 900).

Indeed, Deumes, Schelleman et al. (2012) studied whether the variation in the detail included in TRs due to this allowed discretion, enabled a differentiation of audit quality between AFs. For this study, a TR disclosure score was used, with the highest scores being given to firms in countries whose disclosure guidelines are the most far-reaching. This study concluded that to meet the goal of increasing investor confidence, every jurisdiction must work towards providing exhaustive disclosure requirements.

Nevertheless, besides having the freedom to include their desired level of detail in a TR, some AFs also take the initiative of including additional information, which goes beyond the legal requirements, and nowadays, many published reports are a hybrid of voluntary and mandatory disclosures (Fu, Carson et al. 2015). The Financial Reporting Council (2015, p. 2) in the United Kingdom, stated that

*“we do not wish to discourage firms from developing innovative formats for their transparency reports in the future. As long as the report captures all relevant requirements, firms should not feel obliged to follow a set template”.*

A study on the usefulness of TRs in Europe by La Rosa, Caserio et al. (2019) reveals that when compared to mandatory disclosures, voluntary disclosures tend to have a weaker impact on investor confidence and are somewhat less useful to decision-making. Additionally, mandatory disclosures possess a greater potential to decrease information asymmetries on capital markets, and thus, the cost of capital (La Rosa, Caserio et al. 2019).

Conversely, it is suggested by Čular (2017) that voluntary elements in TRs are very effective and greater commitment by AFs to increase the amount of such information must be exhibited, especially when the cost-benefit analysis is positive. Given that one of the main uses of a TR is to market the quality of services offered by particular AFs, many Big-Four firms, in particular, are more likely to enhance their disclosures by also including some additional non-mandatory items. When compared to mid-tier firms and small firms, these firms audit a substantial number of clients and thus, benefits will definitely outweigh the costs, as the costs to compile such report are spread over more clients (Fu, Carson et al. 2015).

Furthermore, voluntary disclosures on continuing professional education (CPE) hours, diversity, work-life balance and remuneration policies can be useful in attracting employees to the firm or preventing others from leaving the audit profession (Gertsson, Sylvander et al. 2017).

## 2.6 Practitioners' Perspective on Increased Transparency

A significant group of users of TRs are typically practicing accountants who can be viewed as the representatives of their clients (PIERs). On the other hand, the preparers of TRs are the AFs who are directly affected by the requirements of the Regulation (AFRs). Thus, although the term 'practitioners' encompasses both the users and the preparers of TRs, the assessment of the two takes a different course, due to the distinctive roles they have in the financial market (Pott, Mock et al. 2008). Nevertheless, according to the same researchers, AFRs and PIERs do not assess the effectiveness of TRs differently, but there are certain elements which are perceived by the users to be more important than by the preparers of the reports.

Similar to the range of users pointed out by Pott, Mock et al. (2008), Zorio-Grima and Carmona (2019) identify investors and prospective employees, alongside management and audit committees, as being the most prominent users of TRs. Nevertheless, Girdhar and Jeppesen (2018) concluded that overall, TRs are mainly read by regulators and competing AFs. This, in turn, highlights that readership of the report is limited and that knowingly, preparers are disincentivised to invest their resources into an activity towards which stakeholders do not show any interest. Nevertheless, Zorio-Grima and Carmona (2019, p. 980), although highlighting that this report can be useful to a number of users, suggested that if a TR is solely used for commercial purposes, then it can be considered as

*“just a bureaucratic imposition from regulators who need to be seen to be responding to the Global Financial Crisis, and that TRs are generally not widely read or taken terribly seriously”.*

Indeed, preparing a TR is costly and thus, the benefits of greater transparency must be outweighed by the costs involved in the process (United Kingdom Department of Trade and Industry 2005). This cost-benefit analysis depends on

the size and characteristics of the AF, as costs of disclosure tend to be higher for AFs which are smaller in size (Deumes, Schelleman et al. 2012). However, Maijoor and Vanstraelen (2012) suggest that preparers of TRs do not attach a value to them and thus, do not consider whether the benefits will be outweighed by the costs, especially given that their preparation is mandatory. Alternatively, PIERs benefit by receiving information which is free, and which will help them give better advice to those charged with governance (Pott, Mock et al. 2008).

Arguably, although efficiencies in the audit process are led by better-informed clients, one must keep in mind that apart from the financial cost of producing TRs, AFs also bear the cost of publishing very sensitive details such as client fee information, which many a times is partly safeguarded by adjusting the level of detail disclosed in this regard (Chaney, Jeter et al. 1997, Pott, Mock et al. 2008).

## **2.7 Maintaining Quality and Effectiveness in TRs**

The financial scandals of the early 2000s and the negative impact they had on capital markets, shed light not only on the role of auditors, but also on the audit oversight system (Humphrey, Loft et al. 2009). Fuelled by the need to reform, EU member states were required by the Directive to form a NCA which would be in charge of the supervision and regulation of statutory auditors (Girdhar, Jeppesen 2018, Mocanu, Ionescu 2020). Indeed, the NCA in Malta conducts quality assurance reviews (QARs) of AFs that carry out the statutory audit of PIEs, and these AFs are then required to disclose in their TR when the last review of the firm was carried out (EC 2014a).

Furthermore, Deumes, Schelleman et al. (2012) argued that when disclosures contained in TRs are not monitored, there are greater chances of them being misleading and unreliable. Nevertheless, an oversight body is said to be more open and transparent if it makes publicly available its QAR findings, which in turn encourages AFs themselves to disclose such outcomes in their own TRs (Girdhar, Jeppesen 2018). Particularly in countries where disclosing QAR

findings is mandated, a TR might indirectly serve as a marketing instrument since preparers will be more motivated to publish a high-quality TR (Girdhar, Jeppesen 2018, La Rosa, Caserio et al. 2019, Seal 2006).

Nonetheless, in countries where such inspection findings are not disclosed, because they are not mandated, transparency is purely expressed as conforming with the minimum legal requirements. In their study, Girdhar and Jeppesen (2018) found that firms who are not required by law to publish such inspection findings, do not have interactions with the regulator with regards to the TR, unless they are not in compliance with the legislation or if the report is not satisfactory and in line with the regulator's expectations.

## **2.8 Local Scenario**

As stated by the AB (2017) in their 2016 Annual Report, despite the ripple-effect of the GFC on all sectors of the economy worldwide, whilst some local sectors might have been affected more than others, as a small-island state, Malta must consider itself privileged due to the minimal level of distress experienced, particularly when compared to its neighbouring countries.

La Rosa, Caserio et al. (2019) stated that where audit quality is already high, then it is unlikely that investors will derive benefits from new mandated information, and vice versa. Thus, if Malta had to look at whether it should mandate additional disclosures with respect to transparency reporting, the effectiveness of these new disclosures also depends on its level of audit quality. However, prior research in Malta by Mangion, Tabone et al. (2021) identified that the incidence of reduced audit quality practices in Malta had increased over the years, albeit that in general, audit quality was still being highly prioritised in AFs who value their reputation.

Indeed, TRs are prepared by the statutory auditors of PIEs and one of the requirements is to include information on the revenue derived from their audits,

in order to enhance the degree of investor confidence and improve the quality of the audit (Chersan, Danileț, 2019). However, in a study on the economic dependence of Maltese auditors on PIEs, Galea (2018) identified that the disclosure of their financial relationship with such audit clients was not perceived by Maltese auditors to be vital for their independence.

Transparency reporting by AFs in Malta is not extensively researched as in other countries and the only local study specifically available on this subject matter was undertaken by Caruana (2010). Caruana (2010) concluded that in general, the participants, being banks, stockholders and regulators were indeed aware of the TR, but did not widely use it in practice as they considered the report to add no reliability on audited financial information. This research study will therefore address the research gap relating to the implications that TRs have on PIERs and AFRs, in the light of the different perceptions of the group of participants involved in Caruana's (2010) study.

Also within the local context, Baldacchino, Duca et al. (2020) conducted similar research on transparency of Maltese listed entities and concluded that in general, several entities do not strongly practice corporate transparency, possibly due to the lack of regulatory enforcement. Nonetheless, this research will address this gap in literature i.e., whether the auditors in question comply with the Regulation and the Accountancy Profession Act (1979).

## **2.9 Conclusion**

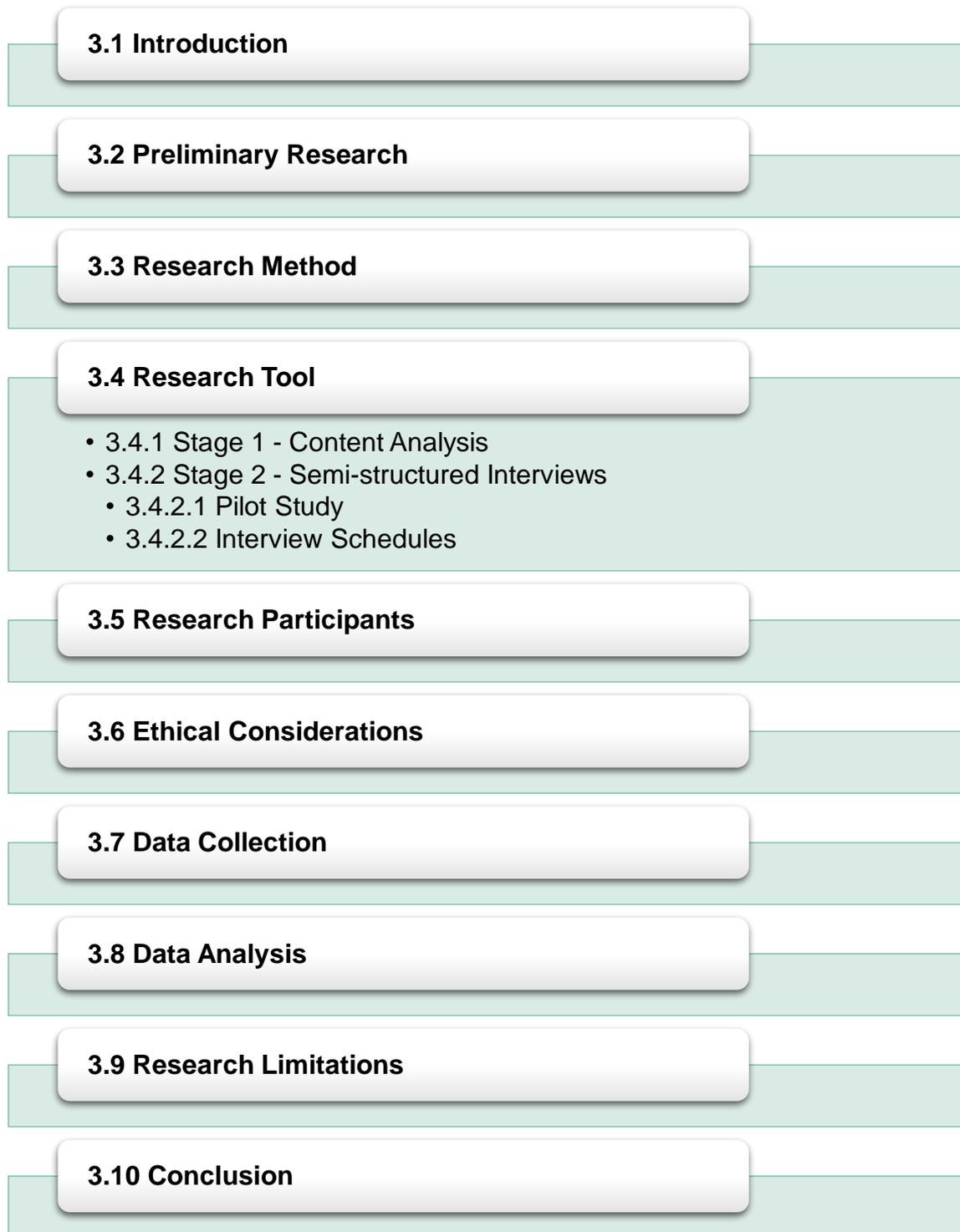
This chapter has provided an overview of existing literature on TRs, the latest Regulation governing this report, and its various uses. The next chapter shall explain the Research Methodology chosen to attain the objectives of this research.

*Chapter 3: Research  
Methodology*

---

### **3.1 Introduction**

This chapter delineates the research methodology adopted to achieve the objectives of this study. Section 3.2 provides an insight into the preliminary research undertaken, whereas Sections 3.3 and 3.4 respectively justify the chosen research design and the research tool used in this study. Section 3.5 describes the research participants and how these were selected, whilst Section 3.6 explores the ethical considerations of the study. Sections 3.7 and 3.8 explain the data collection and data analysis, respectively. Subsequently, Section 3.9 delves into the limitations of the research. Lastly, Section 3.10 concludes the chapter. The structure of this chapter is illustrated in Figure 3.1 overleaf.



*Figure 3.1: Overview of Chapter 3*

## 3.2 Preliminary Research

At the beginning of the study, by thoroughly evaluating existing literature, secondary data was gathered, and knowledge on the field of study was principally obtained. Analysing secondary data entails inspecting data, which, for another primary purpose, was previously collected by other researchers (Johnston 2014). The main sources of literature used consisted of peer-reviewed journals, reports, books, past dissertations and academic papers. Applicable EU Regulations, local legislations and publicly available TRs were probed into.

## 3.3 Research Method

The research method was determined after the objectives of this study were formulated and after the most representative research paradigm was chosen (Creswell 2014). A paradigm consists of principles which, for a particular study, guide what should be studied, aid the interpretation of the study's results and suggests the methodology to be undertaken to understand and address problems (Kuhn 1970). Burrell and Morgan (1979) developed the multiple paradigm model, which presented four main research paradigms being the functionalist, interpretive, radical humanist and radical structuralist paradigms.

For the conduct of this study, the research paradigm which best addresses the research questions posed is the interpretive paradigm, which lies on the subjectivist and regulatory conceptual dimensions. Given that an interpretive paradigm sees the world from the eyes of the interviewees, it enables the researcher to better relate with them, thus gaining more in-depth knowledge and understanding of the topic (Saunders, Lewis et al. 2019, Strauss, Corbin 1998).

Bryman and Bell (2011) present us with three research design approaches being qualitative, quantitative, and mixed. A qualitative approach "*embodies a view of social reality as a constantly shifting emergent property of individuals' creation*" (Bryman, Bell 2011, p. 27). Conversely, a quantitative approach adopts a

functionalist and deductive style, whereby theory guides the research objectives and sets out the hypotheses from which variables are derived (Bryman, Bell 2011, Patton 1990). Thus, the fundamental difference between the two lies in the use of words and the development of open-ended questions in interviews, for a qualitative approach, rather than the use of numbers and the development of closed-ended questions in questionnaires, for a quantitative approach (Creswell 2014). When neither qualitative nor quantitative approaches sufficiently address the objectives of the research individually, a mixed methodology is said to better represent the phenomenon under observation (Johnson, Onwuegbuzie et al. 2007, Östlund, Kidd et al. 2011, Tashakkori, Teddlie 1998).

This research starts with an analysis of the content of TRs, followed by interviews. In this manner, theory is inductively developed since *“in an inductive inference, known premises are used to generate untested conclusions”* (Saunders, Lewis et al. 2019, p. 155). Thus, given that the inductive approach works better with smaller samples, a qualitative approach will be adopted (Chisnall 2005). Nonetheless, the suitability of the chosen approach to fulfil the objectives of this study is justified through the consistency with the role of theory in this dissertation, and the notional role of theory in a qualitative approach (Horton, Macve et al. 2004, Nykiel 2007).

### **3.4 Research Tool**

In an effort to address all the research objectives, this study was carried out in two stages.

#### **3.4.1 Stage 1 – Content Analysis**

In the initial stages of this study, besides reviewing the literature, the researcher analysed in detail, the contents of various TRs. Vourvachis and Woodward (2015) describe a content analysis as a process which a researcher undergoes to analyse data in relation to a particular context.

Nevertheless, despite significantly contributing to the richness of the research findings and objectives, this research tool has a number of inherent limitations. Bryman (2001) explained how the quality of the research conducted, ultimately depends on the quality of the documents under scrutiny. Moreover, apart from being time-consuming, a content analysis on its own cannot answer the ‘why’ questions, and for this reason, collecting primary data was also necessary (Bryman 2001). Table 3.1 sets out the sections of the content analysis in Chapter 4, and how each section is correspondingly linked to a research objective of the study.

<b>Section</b>	<b>Section Heading</b>	<b>Research Objective</b>
<b>4.2</b>	Accessibility	3
<b>4.3</b>	Mandatory Disclosures	1
<b>4.4</b>	Voluntary Disclosures	1
<b>4.5</b>	The Marketing Element	3
<b>4.6</b>	User-friendliness and Comparability	3

*Table 3.1: Structure of the Content Analysis*

### 3.4.2 Stage 2 – Semi-structured Interviews

The second stage of this study entailed the collection of primary data through discussion type, semi-structured interviews with various participants<sup>7</sup> in order to gain an insight and understanding of whether AFRs and PIERs have different perceptions on the usefulness of TRs in general, or on certain sections in particular, as well as to understand the preparation process of TRs, undertaken by different AFs.

As defined by Kahn and Cannell (1958), the interview is a valuable act of reciprocal communication between the interviewer and the respondent, whereby their opinions, attitudes, beliefs, and behaviours are interacted. A semi-structured

---

<sup>7</sup> Vide Section 3.5

interview includes pre-arranged questions which are either open-ended in such a way that through probing, other questions may develop during the conversation, or close-ended questions, followed up by 'why' questions (Adams 2015, DiCicco-Bloom, Crabtree 2006). Thus, a semi-structured approach to the interview gives control to the researcher over the line of questioning by offering an element of flexibility in changing the sequence, omitting, or spontaneously adding questions during its course (Creswell 2014, Fylan 2005, Saunders, Lewis et al. 2019, Tod 2006).

Notwithstanding, conducting such research is time-consuming as it involves lots of preparation before the interview and after, in order to transcribe and analyse the data (Adams 2015). Moreover, considerable knowledge and skill is required by the interviewer conducting the interviews (Ryan, Coughlan et al. 2009).

#### 3.4.2.1 Pilot Study

According to Ismail, Kinchin et al. (2018), a pilot study is conducted before embarking on the full-scale study, in order to help the researcher envision how the primary data collection process is likely to work. Should any deficiencies in the research instrument be identified, immediate remediation actions could be taken (Janghorban, Roudsari et al. 2014a). In order to obtain feedback on the viability of the questions and interview schedules, the researcher carried out one pilot interview whereby the appropriateness and clarity of the questions was assessed and suggestions for improvement were duly taken on board.

#### 3.4.2.2 Interview Schedules

When starting to formulate the interview questions, the researcher took into consideration the achievement of the study's research objectives. Subsequently, the questions were designed based on the literature reviewed in Chapter 2 and the content analysis of documentary secondary data in Chapter 4. Furthermore,

as suggested by Bryman and Bell (2011), particular attention was also given to the wording of the questions, as well as to the type of language used.

An interview schedule outlines the structure of the interview and the sequencing of the interview questions (Polit, Hungler 1995). In order to highlight the differences in the participants' perceptions, two separate interview schedules<sup>8</sup> were drawn up, comprising a mix of open-ended and closed-ended, Likert scale type of questions. Tables 3.2 and 3.3 set out the sections of both interview schedules, and how each section is correspondingly linked to a research objective of the study. Table 3.4 further explains the Likert scale categories found in each interview schedule.

<b>Section</b>	<b>Section Heading</b>	<b>Question No.</b>	<b>Research Objective</b>
<b>A</b>	General Questions	1-2	-
<b>B</b>	The Requirements of the TR	3-7	1
<b>C</b>	The AFR's Perspective on the Usefulness of the TR	8-14	2
<b>D</b>	The AFR's Presumed Perspective of the PIER on the Usefulness of the TR	15-16	2
<b>E</b>	Preparing the TR	17-24	3
<b>F</b>	Areas for Improvement and Concluding Remarks	25-27	-

*Table 3.2: Structure of Interview Schedule 1*

<b>Section</b>	<b>Section Heading</b>	<b>Question No.</b>	<b>Research Objective</b>
<b>A</b>	General Questions	1-5	-
<b>B</b>	The Requirements of the TR	6-9	1
<b>C</b>	The PIER's Perspective on the Usefulness of the TR	10-15	2
<b>D</b>	Concluding Remarks	16-18	-

*Table 3.3: Structure of Interview Schedule 2*

<sup>8</sup> Vide Appendix 2.4 and 2.5

<b>Interview Schedule 1</b>	<b>Interview Schedule 2</b>	<b>Likert Scale Categories</b>
<b>Question No.</b>	<b>Question No.</b>	
3a-3k	6a-6k	'1' represents 'not at all important' and '5' represents 'very important'.
4a-4b	7a-7b	'1' represents the 'least influential' and '5' represents the 'most influential'.
8-13	10-15	'1' represents 'strongly disagree' and '5' represents 'strongly agree'.
15	18	'1' represents 'very unlikely' and '5' represents 'very likely'.

Table 3.4: Interview Schedules 1 and 2 - Likert Scale Categories

### 3.5 Research Participants

When deciding which interviewees are the best suited candidates to answer the questions prepared, the researcher took into consideration the objectives of this research, and a purposeful, non-probability sampling strategy was used. This strategy entails the researcher to rely on his own judgement in selecting knowledgeable and experienced participants who, in turn, are willing and available to participate (Bernard 2002, Creswell, Piano Clark 2011, Spradley 1979). Undeniably, forming a representative sample based on the participants' characteristics would affect the accuracy of the collected data, and thus, this was done with caution (Martinez-Mesa, Gonzalez-Chica et al. 2016).

The target population for this dissertation is composed of two main groups. The first group of participants consists of AFRs who are appointed with the role of carrying out the statutory audit of PIEs and/or are involved in the preparation of a TR. AFs required to prepare a TR were identified from the list contained in Section 4.6. The second group of participants consists of PIERs, closely linked to the audit process and to the auditor-client relationship. PIEs were randomly selected from the list of PIEs included in a particular section in the TRs<sup>9</sup>.

<sup>9</sup> Vide Section 4.3.6

Data saturation occurs once no new insights or properties are revealed when additional interviews are undertaken (Charmaz 2006, Marshall, Cardon et al. 2013, Morse 1995). Thus, the number of interviewees selected was not predetermined and data saturation was deemed to have been achieved after nine interviews with AFRs and eight interviews with PIERs. At this point, the researcher comprehended that no new themes were being discovered from additional interviews. Thus, a total of seventeen semi-structured interviews were held. The interviewees are listed in Tables 3.5 and 3.6, and the order of listing is not reflective of the order in which the interviews were carried out.

Interviewee	Interview Schedule 1	Position within the Organisation
AFR1	AFRs	Managing Partner
AFR2		Managing Partner
AFR3		Partner
AFR4		Partner
AFR5		Partner
AFR6		Partner
AFR7		Partner
AFR8		Senior Manager
AFR9		Risk and Compliance Manager

*Table 3.5: Breakdown of Interviews Conducted with AFRs*

Interviewee	Interview Schedule 2	Position within the Organisation
PIER1	PIERs	Finance Manager
PIER2		Finance Manager
PIER3		Finance Manager
PIER4		Head of Internal Audit
PIER5		Chairman of Audit Committee
PIER6		Chairman of Audit Committee
PIER7		Chief Executive Officer
PIER8		Chief Financial Officer

*Table 3.6: Breakdown of Interviews Conducted with PIERs*

### 3.6 Ethical Considerations

In compliance with the University of Malta's ethical procedures, in October 2022, an application was submitted to its Faculty Research Ethics Committee, together with the required documents. A fundamental consideration when carrying out an interview is to protect the rights of the participants as "*the issues of informed consent, anonymity and confidentiality are of paramount importance*" (Ryan, Coughlan et al. 2009, p. 312). Thus, apart from signing a consent form, in the introductory email and right before the interview commenced, all participants were reminded that data collected from the interview would be treated in a confidential manner and that it would only be accessible by the researcher and the dissertation supervisor.

### 3.7 Data Collection

After securing ethical clearance, the researcher started the interview process by inviting interviewees forming part of the target population described in Section 3.5, via email, to participate in an interview. Emails were mainly sent to the entity's/firm's general email address or to their human resources department. A copy of both emails is found in Appendices 2.1 and 2.2. Attached to the emails were the letter of invitation and a copy of the interview schedule.

Once a representative was identified, contact was directly made, and a date, time and location for the interview were agreed upon. Eleven interviews were conducted online, via Zoom, Microsoft Teams, or Google Meet, whilst seven interviews were held in person, at the interviewee's offices. Neither of the participants objected to having the interview audio-recorded and all of the interviews were carried out in English, this in order to prevent misinterpretation and misunderstanding, whilst facilitating the transcription process. The semi-structured interviews were completed over a time frame of eight weeks, starting on 15<sup>th</sup> November 2022, each lasting between twenty to forty-five minutes.

### **3.8 Data Analysis**

The data analysis for this dissertation is divided into two stages, the content analysis of secondary data in Chapter 4 and the analysis of interview findings in Chapter 5.

Firstly, in order to ease inter-audit firm comparison, TRs of different AFs were downloaded from the firms' websites and individually analysed. Based on the requirements of the Regulation, common themes were designed, as illustrated in Figure 4.1. The researcher simultaneously recorded TR disclosures against the selected themes, with codes assigned to any similarities and distinctive elements identified, which codes were later grouped accordingly.

Secondly, qualitative data obtained from interviews was rigorously and systematically analysed and interpreted, depending on the chosen approach and focus of the study (Lathlean 2006). Following the process of transcribing all interviews, a thematic analysis approach was adopted, and common themes directly linking the findings to the objectives of this research study were again identified, as illustrated in Figure 5.1. Common attributes were highlighted as belonging to a particular code, which helped the researcher understand the phenomena and pinpoint the differences in interview responses between the different interviewees and the different interview schedules (Rapley 2020). Furthermore, in order to analyse Likert scale ratings, Microsoft Excel was used to derive the mean and standard deviation.

### **3.9 Research Limitations**

The first limitation of this study is that both AFRs and PIERs, were constrained by work pressures, particularly due to the fact that interviews were conducted close to the financial year-end of most PIEs and probably during the preliminary stages of the audit, in the case of AFs.

Additionally, despite the researcher having made all efforts to ensure clear delivery of questions during the interview, an element of misunderstanding and subjectivity in the participants' responses is inevitable. Moreover, the majority of the interviewees opted for an online interview. Online interviews are said to be easily interrupted in the event of an unstable internet connection and/or if conducted in a disruptive environment (Deakin, Wakefield 2014, Hamilton, Bowers 2006). Furthermore, when compared to face-to-face interviews, absenteeism and rescheduling tend to be on the high side (Janghorban, Roudsari et al. 2014b).

### **3.10 Conclusion**

This chapter sought to explain the research methodology chosen for this study. In the next two chapters, the content analysis of TRs and the research findings derived from the data collection process, thoroughly described in Chapter 3, will be presented.

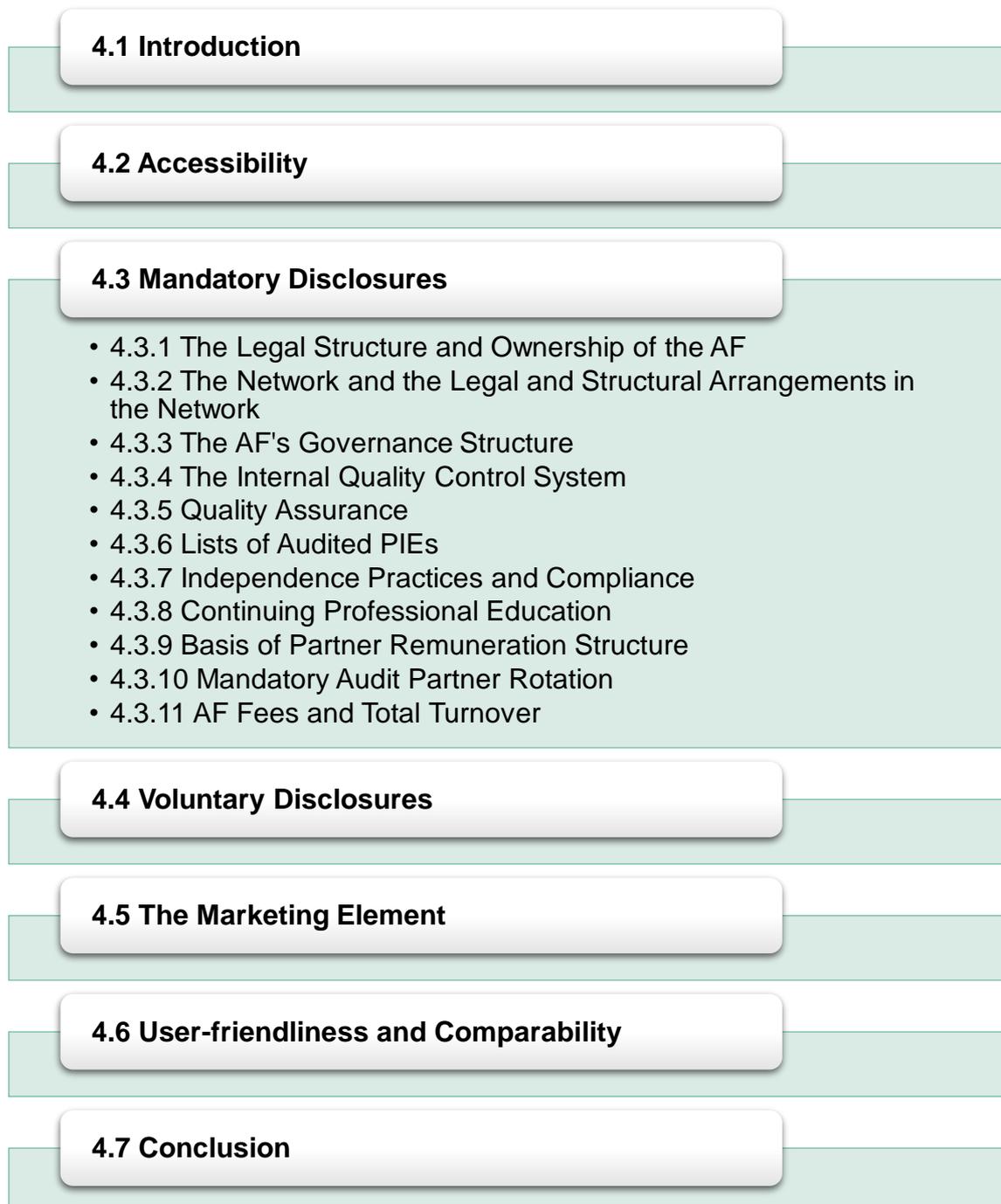
*Chapter 4: Content Analysis of  
Secondary Data*

---

## 4.1 Introduction

This chapter presents an analysis of the content of thirteen TRs, published in the year 2021, and prepared by the AFs outlined in Table 2.1. At the time when data was being collected, not all 2022 TRs were available, and in order to achieve comparability, the researcher opted to analyse the 2021 reports.

Section 4.2 compares the level of accessibility of the TRs. Sections 4.3 and 4.4 respectively explore how the mandatory disclosures of the TR were presented by different AFs and the inclusion/non-inclusion of voluntary disclosures. Section 4.5 probes into the marketing elements, whereas Section 4.6 examines the level of user-friendliness. Lastly, Section 4.7 concludes the chapter. The structure of this chapter is illustrated in Figure 4.1 overleaf.



*Figure 4.1: Overview of Chapter 4*

## 4.2 Accessibility

TRs must be published on the website of the eligible AF within four months from the end of each financial year and such reports, must be kept available for a minimum of five years.

Many TRs were found under the 'About' tab in each of the AFs' websites. KPMG's, RSM's, BDO's and PKF's reports for all the years were accessible from the same webpage or through a link on this page. Despite Grant Thornton's latest report also being found in the 'About' section, prior year reports were found in a separate 'Resources' section. Whilst PwC's latest report was easy to locate on their website, also in the 'About' section, prior years' TRs had to be located by means of an internet search. Both Mazars' and EY's reports were located on their homepage, whereby prior years' reports of the former were located using the search function inbuilt in their website and links to the latter's prior year reports were found right next to their latest report. VCA also showcased their latest TR on their homepage, but published prior years' under the 'About' tab.

Other AFs (KSi and HLB CA Falzon) opted to showcase their TRs in other sections, such as 'Publications' and 'Insights'. On the other hand, Deloitte's TRs were found under the tab 'Articles', located using the search facility on their website, where both the latest and previous years' reports could be accessed. TACS, on the other hand, only had one published TR on their website, given that 2021 was their first year auditing a PIE.

Hence, where applicable, reports for the last five years were always available, and although TRs of all AFs could be accessed, the extent of importance given by the different AFs towards their placement on the website varied, as they were prominent in some cases, and less prominent in others.

## 4.3 Mandatory Disclosures

All reports produced by the thirteen AFs were found to contain all the disclosures mandated by the Regulation and in Malta, the Accountancy Profession Act (1979). It was however noted that the extent of the level of detail varied between one firm and another.

### 4.3.1 The Legal Structure and Ownership of the AF

All AFs (13/13) provided a description of their legal structure and ownership in their TRs. Disclosures included a description of how the firm is registered as an AF with the AB in terms of the Accountancy Profession Act (1979) and the license it holds to practice as an AF. Furthermore, disclosures included information on whether the firm is a civil partnership or a limited liability company, when it was founded, its registered address, the main services it provides, whether it provides services to clients through other related companies, the name and/or number of partners and how the voting rights are held and exercised during partners' meetings.

### 4.3.2 The Network and the Legal and Structural Arrangements in the Network

The majority of AFs in Malta eligible to publish a TR (10/13) form part of a global network of professional firms, providing both audit services and NASs. All AFs forming part of a network (10/10) provided a description of the network and the legal and structural arrangements in the network, as per this disclosure requirement. Moreover, many AFs except for one (9/10), disclosed the size of the network in terms of the number of countries in which members of the network have their registered office, the total number of member firms or offices and/or the total number of employees.

With regards to their global revenue, half of the network AFs (5/10) reported only turnover from the statutory audit of annual and consolidated financial statements. Nevertheless, some AFs (3/10) disclosed their global revenue and included the percentage derived from audit and assurance, whilst others (2/10) did not provide any percentage for the users to identify which revenue originates from audit and assurance services.

#### 4.3.3 The AF's Governance Structure

All AFs (13/13) provided a thorough description of their governance structure by describing the composition of key management, the responsibilities of this governing body and how decisions are made. A few AFs (4/13) also disclosed, in the same section, who their Compliance Principal is, and that his/her responsibility is that of ensuring compliance with the provisions of the Accountancy Profession Act (1979), and its regulations and directives.

#### 4.3.4 The Internal Quality Control System

Whilst all AFs (13/13) provided a description of their internal quality control system, some firms provided highly detailed disclosures, some of which even made reference to ISQM-1. Thus, the extent and quality of information provided in this section varies considerably across the different TRs. Nevertheless, the majority of TRs (8/13) also included a statement on the operating effectiveness of such quality controls by the firms' management, corroborating their satisfaction with the operation of the internal quality control system.

#### 4.3.5 Quality Assurance

An indication of when the last QAR was carried out, was disclosed by all AFs (13/13) in their TR. Nonetheless, although inspection findings are never published, EY and HLB CA Falzon disclosed how the firm will benefit from the feedback

received from the QAR and how they will evaluate, communicate, improve audit quality, and remedy deficiencies, if identified.

#### 4.3.6 List of Audited PIEs

All the TRs (13/13) included a list of PIEs for which a statutory audit was carried out by the respective AF during the preceding financial year. Audited PIEs disclosed by KPMG, PwC and Deloitte were categorised into five categories being 'listed equities', 'listed corporate bonds', 'listed funds', 'credit institutions' and 'insurance companies'. On the other hand, Mazars only made a distinction between entities that are EU-incorporated, and which issued securities that were accepted for trading on a market that is not regulated in the EU, and entities that are not. PwC also made this distinction. The remaining AFs opted not to categorise their PIE clients.

#### 4.3.7 Independence Practices and Compliance

Whilst information concerning all firms' (13/13) independence practices and procedures was provided, the quality of the information disclosed, again varied significantly. The majority of AFs (9/13) mentioned that their independence policies are based on the International Ethics Standards Board for Accountants (IESBA) Code of Ethics in terms of the Accountancy Profession Act (1979) and/or the Independence Standards of the US Securities and Exchange Commission (SEC). Once again, all firms (13/13) confirmed that an internal review of independence compliance is conducted, mainly to assess the firm's compliance with independence matters, with some firms even stating when the last review was carried out.

#### 4.3.8 Continuing Professional Education

Disclosure regarding the CPE policy directed towards the firm's audit personnel is found in every TR (13/13), with variations noted in the disclosure or non-

disclosure of the time allocated by each firm towards the professional education requirements of every warrant holder. All AFs (13/13), irrespective of their size, recognise that in order to maintain high standards and quality, professional development through in-house training and/or external seminars, on-the-job training and mentoring, are crucial.

The majority of AFs (10/13) disclosed technical information on CPE-hour requirements in line with Directive 1, issued in terms of the Accountancy Profession Act (1979). On the other hand, BDO, TACS, and PwC did not refer to Directive 1, with the latter specifying the number of hours of training attended by its partners and staff, during the preceding year.

#### 4.3.9 Basis of Partner Remuneration Structure

All AFs (13/13) disclosed information on partner remuneration in their TRs, with more than half of the AFs (7/13) disclosing this as a distinct section. Moreover, nearly all AFs (11/13) disclosed the list of partners. Furthermore, the two remaining AFs, Deloitte and EY (2/13) opted to disclose a list of directors with specific reference to those directors authorised to sign audit reports, in the case of the former, whilst the latter firm opted to not disclose any lists at all, in this particular section of the TR.

All AFs describe the process for determining partner remuneration by explaining the pre-determined, fixed salary element and/or profit share, usually based on the equity partners' interest in the firm. Besides, some AFs (4/13) further stated that the fees generated by a particular service or group of services, or by a particular client or group of clients, are not determinants of partners' remuneration.

#### 4.3.10 Mandatory Audit Partner Rotation

All AFs (13/13) disclosed information on MAPR whilst KPMG and EY also disclosed information on MAFR. All firms except for one (12/13) disclosed adherence to the

rotation requirements of the independence rules published by the IESBA Code of Ethics, Directive 2 of the Malta Code of Ethics and/or US SEC. Grant Thornton also distinguished MAPR in the case of entities other than PIEs. TACS, having only one partner, disclosed its policy on senior audit staff rotation and how the firm will refrain from carrying out the statutory audit of a PIE when it is no longer in a position to independently do so.

#### 4.3.11 AF Fees and Total Turnover

Nearly all AFs except for one (12/13) provided a breakdown of their revenues into the categories required by Article 13.2 (k)(i)-(iv) of the EU Audit Regulation<sup>10</sup>. Moreover, apart from the revenue breakdown as required by this Article, HLB CA Falzon and BDO provided a breakdown of their turnover in accordance with their main business lines. TACS, on the other hand, disclosed that its total revenue wholly consists of revenue from the statutory audit of the annual and consolidated financial statements of the only PIE it audits. Moreover, although the majority of AFs did not disclose revenue of their prior year, Mazars and RSM included prior year figures, which were also categorised into the aforementioned four categories.

## 4.4 Voluntary Disclosures

Apart from the supplementary information contained in the 'Introduction', the majority of AFs (12/13) included voluntary disclosures at least once in their TR. It was noted that some AFs, particularly, but not limited to Big-Four firms, are more inclined to include a substantial number of voluntary disclosures, given that they audit a larger proportion of PIE clients.

Firstly, many AFs (9/13) provided an insight on their firm-wide culture, purpose and brand identity by disclosing information on their vision, mission and core values,

---

<sup>10</sup> Vide Appendix 1.1

accomplishments throughout the year and news announcements. Another voluntary disclosure, included as a distinct section in the TRs of KPMG, PwC and EY relates to the firm's commitment towards diversity and inclusion. BDO and RSM also mentioned this, but in less detail, with the latter also referring to family-friendly measures, such as remote working. Furthermore, the diversity of skills and capabilities projected in their recruitment strategy is referred to in the TRs of KPMG, PwC, RSM, BDO and VCA.

Moreover, all the Big-Four firms together with HLB CA Falzon, Mazars, and others who have mentioned this but in less detail, included sections on the impact of COVID-19 on the firm, how the firm responded to challenges and how it remained committed to audit quality. KPMG, EY, PwC and Mazars also emphasised the importance of effective communication throughout the whole organisation and with the key stakeholders, through efficient leadership and an appropriate tone at the top. Additionally, all the Big-Four firms, together with BDO, Mazars and Grant Thornton explained the performance of their audit engagements by referring to digital technology, innovative software and audit delivery platforms, with Deloitte and EY also disclosing information on ESG reporting.

Lastly, although not necessarily a disclosure demonstrating transparency in the audit market, KSi, Mazars, RSM, BDO and PKF disclosed information on their programme of Corporate Social Responsibility (CSR) initiatives, the role of the firm in the community and how the firm supported various charities throughout the year. The same AFs, except for one, included separate sections on their efforts in developing their workforce's talents through staff events and team building activities.

It was however noted that KPMG and PwC, besides including voluntary disclosures in their TR, have chosen to also prepare an Annual Review. In this report, AFs publish additional disclosures which are not found in their TRs, including information on CSR, their workforce, corporate highlights, news and

updates, senior appointments and contact information of all the partners and directors.

## **4.5 The Marketing Element**

An element of marketing in the TRs of Big-Four AFs was evident as they make more use of images, graphs, infographics, and interactive data to enhance their design and content, and are more aesthetically pleasing. Smaller AFs, characterised by the smaller proportion of PIEs audited, and by their fewer resources, published less detailed and less graphic TRs. In fact, in Table 4.1 overleaf, a directly proportional relationship was noted between the extent of the marketing element and the proportion of PIEs audited by each AF.

Nevertheless, despite significant efforts being made to publish an eye-catching TR, particularly by Big-Four firms, in order to build a connection with their target audience, such reports are hardly promoted on the homepage of the AFs' websites, as seen in Section 4.2, or showcased on their social media platforms.

## **4.6 User-friendliness and Comparability**

The TR is a report intended for a wide range of users, be it stockbrokers, banks, audit committees, regulators, audit clients and prospective audit clients. Thus, a good feature of a TR is that it must be factual, straightforward and easily understandable by all its users.

The number of pages in each TR alongside the proportion of PIEs audited by each AF are depicted in Table 4.1. Mazars' TR was the lengthiest as it included substantial information on the network as a whole. On the other hand, the longest report from all Big-Four Firms is that of PwC with fifty-five pages and this is in line with the firm auditing the largest proportion of PIEs in Malta. On average, TRs published by Big-Four Firms were forty-two pages long whereas those published by mid-tier and small firms were on average twenty-eight pages long.

AF	AF Classification	Number of Pages	Proportion of PIEs Audited (%)
<b>PwC</b>	Big-Four Firms (72%)	55	40
<b>EY</b>		34	15
<b>Deloitte</b>		35	10
<b>KPMG</b>		44	7
<b>Grant Thornton</b>	Mid-tier and Small Firms (28%)	20	10
<b>Mazars</b>		76	6
<b>BDO</b>		37	3
<b>PKF</b>		42	3
<b>Baker Tilly</b>		-	1
<b>HLB CA Falzon</b>		26	1
<b>KSi</b>		15	1
<b>RSM</b>		22	1
<b>TACS</b>		5	1
<b>VCA</b>		13	1
			<b>100%</b>

*Table 4.1: The Proportion of PIEs Audited by Maltese AFs and the Length of TRs under Review*

*Source: Adapted from the Annual Report of the AB (2021, pp. 14-15)*

Moreover, despite there being guidance from the Regulation on the content to be disclosed, many firms, although still abiding by the disclosure requirements, opted to be creative with the headings of the mandated sections, thus restricting inter-audit firm comparability.

Nevertheless, although all TRs were organised and well-structured, it was noted that many times, it was not clear as to when and where a particular section starts and ends, and which section falls under which disclosure requirement. Moreover, some TRs made use of small size headings and subheadings which were not very distinctive from the body of text, making it more challenging for users to follow, whilst impinging on the report's user-friendliness.

## **4.7 Conclusion**

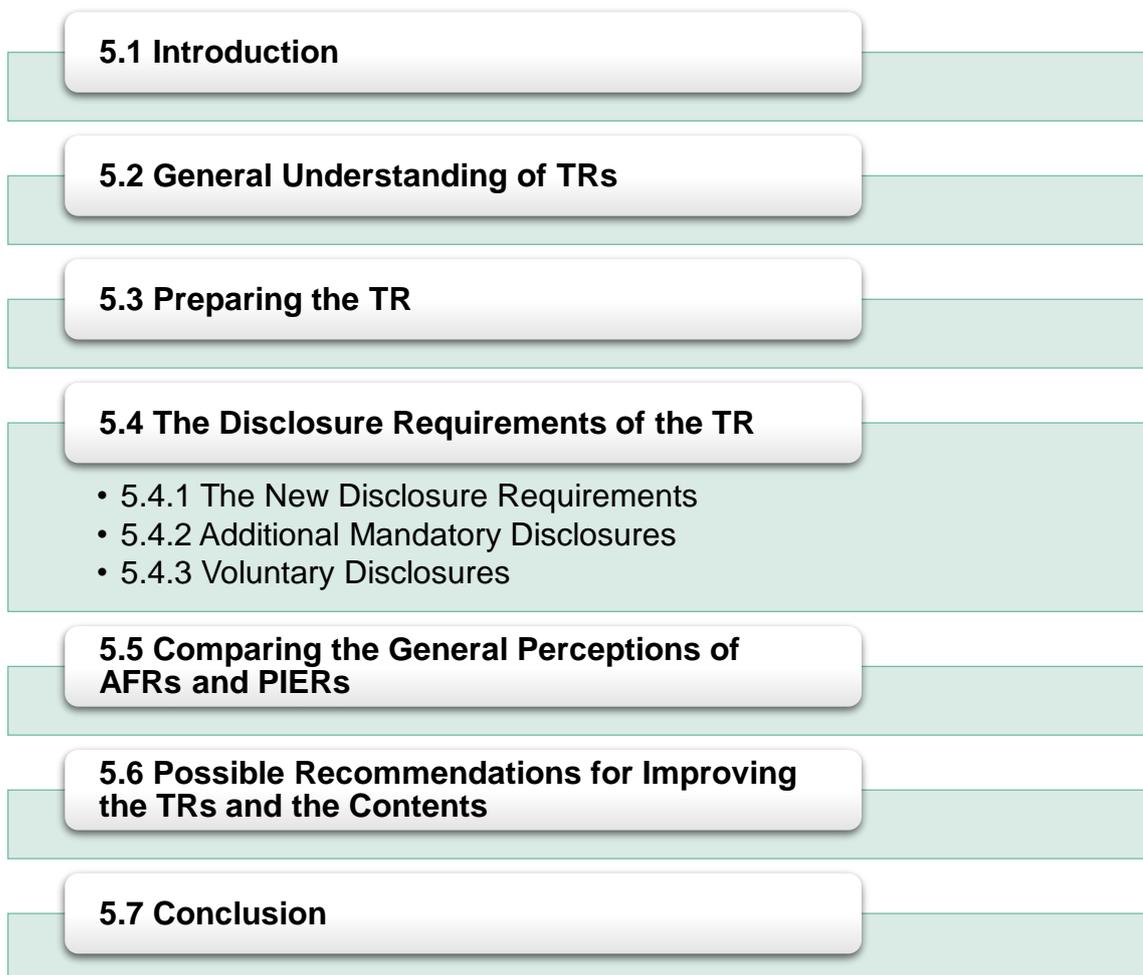
This chapter presented a thorough evaluation of the content of thirteen TRs issued by AFs in Malta, in light of the objectives of this study. The next chapter will present the findings of the seventeen interviews conducted with AFRs and PIERs, further contributing to the achievement of the research study's objectives.

## *Chapter 5: Interview Findings*

---

## 5.1 Introduction

This chapter analyses the research findings obtained from the seventeen semi-structured interviews. As depicted in Figure 5.1 below, Section 5.2 focuses on the general understanding of TRs, whereas Section 5.3 delves into the preparation process of such reports. Section 5.4 deals with the requirements of and additions to the TR, followed by Section 5.5 which compares the general perceptions of AFRs and PIERs, with respect to the relevance of TRs. Subsequently, Section 5.6 focuses on recommendations for improvement and lastly, Section 5.7 concludes the chapter.



*Figure 5.1: Overview of Chapter 5*

## 5.2 General Understanding of TRs

As an introduction, both AFRs and PIERs were asked<sup>11</sup> to describe a TR and how in their opinion, this report promotes AF independence and audit quality. All interviewees (9/9A, 8/8P) demonstrated a clear understanding of the “*quantitative and qualitative aspects*” (AFR7) of the report by describing it as a “*snapshot*” (AFR7) of what the firm did throughout the year and as laying “*your soul bare in front of the receiving public*” (AFR1). AFR9, in particular, stated that the role of the TR across the market, apart from giving a “*detailed insight*” of the structure of the particular firm, is to ultimately promote cross-market assurance that as an industry, AFs are transparent and

*“are working hard to uphold compliance to legislations, in some cases, also leading the way to amendments to legalisation”.*

Nevertheless, despite AFR3 specifically emphasising that all the mandated disclosures do promote audit quality, AFR6 argued that the transparency message in a TR is portrayed by the firm acting ready to publish its internal information for everyone to assess, rather than by actually presenting its quality and independence features in detail.

Furthermore, PIERs were asked<sup>12</sup> about their awareness of the requirement for AFs carrying out their statutory audit to issue an annual TR on their website. The majority of PIERs (7/8P) were aware, although half of them (4/8P) asserted non-familiarity with its “*fine details*” (PIER7). Furthermore, PIER8 expressed concern for the report’s lack of publicity and lack of reference during the “*normal conversation*” that the Company would hold with the AF.

Both AFRs and PIERs were then asked<sup>13</sup> whether they use the TR in the course of their work. Less than half of the AFRs (4/9A) claimed that they do refer their

---

<sup>11</sup> Vide Qn.2 in Appendix 2.4 and Qn.4 in Appendix 2.5.

<sup>12</sup> Vide Qn.3 in Appendix 2.5.

<sup>13</sup> Vide Qn.14 in Appendix 2.4 and Qn.5 in Appendix 2.5.

present or potential clients, particularly international clients, to their own TR, especially when issuing the next year's report. Others (3/9A) claimed that they do not, because after all, the report is publicly available, whilst the remaining AFRs (2/9A) argued that they occasionally do. Controversially, despite the fact that some AFRs (4/9A) claimed that they refer clients to their TRs, all PIERs (8/8P) admitted that they have never come across this report in the course of their work. PIER1 claimed that reviewing the report is not part of their usual procedures, especially due to the fact that they have a "*long-term relationship*" with their present auditor.

### 5.3 Preparing the TR

In Section E of the first interview schedule<sup>14</sup>, AFRs, being on the preparers' side of the TR, were asked a number of questions on the process of the report's compilation. Firstly, respondents were asked<sup>15</sup> how many people were involved and what their role within the firm was. Two AFRs (2/9A) could not quantify a number, but responses from the other interviewees (7/9A) ranged between four to fifteen staff members.

AFRs were then asked<sup>16</sup> to describe the starting point and the preparation process of this report. Most AFRs (6/9A) explicitly stated that they followed a "*standardised approach in order to have alignment of territories*" (AFR9). They were provided with a template from the network, which was then adjusted to the local environment by considering whether there have been any regulatory changes. Others (3/9A) stated that they followed the prior year report and updated the different sections, as necessary. The general consensus was that the marketing team collates messages from different departments, the risk management team provides the statistical information, and after the final draft is approved by the network, the marketing team finalises the design aspect, formats the report and prepares it for printing and publishing.

---

<sup>14</sup> Vide Appendix 2.4

<sup>15</sup> Vide Qn.17 in Appendix 2.4

<sup>16</sup> Vide Qn.18 in Appendix 2.4

On the other hand, AFRs whose firm followed prior year reports (3/9A), more or less carried out the same procedures by looking at previous disclosures and brainstorm on additional disclosures, after which, different action points are allocated to their respective departments. Similarly, the marketing team worked on the “*looks and feel*” (AFR6) of the report, after a number of iterations until everything was “*fine-tuned and correct*” (AFR6).

The last step before a TR is authorised for issue is getting the TR checked and reviewed. As pointed out by all AFRs (9/9A) when asked<sup>17</sup> about this, there are different levels of reviews across the firm, with the managing partner ultimately giving the final go ahead for publishing. Another question<sup>18</sup> was related to the preparation duration of the TR. All AFRs (9/9A) provided an indication of the process’ length, ranging between one month and three months.

When questioned<sup>19</sup> on whether they considered any disclosure requirements to be confidential and sensitive, all respondents (9/9A) unambiguously claimed that the current requirements do not make them feel uncomfortable, at neither point in the process. AFR5 straightforwardly replied that “*what has to be disclosed is disclosed, regardless of whether they are confidential or not*”. Moreover, when asked<sup>20</sup> about any challenges faced when preparing the TR, the majority of respondents (6/9A) stated that they have now become “*accustomed*” (AFR2) to the process, especially given that it is “*quite repetitive*” (AFR1). However, the other respondents (3/9A) revealed challenges relating to getting every department’s input together on a timely manner, fitting the preparation of the report into their tight work schedule as well as keeping in line with the regulation whilst not publishing confidential information.

---

<sup>17</sup> Vide Qn.22 in Appendix 2.4

<sup>18</sup> Vide Qn.19 in Appendix 2.4

<sup>19</sup> Vide Qn.20 in Appendix 2.4

<sup>20</sup> Vide Qn.21 in Appendix 2.4

## 5.4 The Disclosure Requirements of the TR

In Section B of both interview schedules, interviewees were asked<sup>21</sup> to rate each disclosure found in the annual TR, as mandated by the Regulation<sup>22</sup>. Table 5.1 illustrates these findings.

On average, disclosures were classified by both AFRs and PIERs as either 'Important' or 'Highly Important'. Some AFRs (5/9A) claimed that the way a TR is structured, "*makes sense*" (AFR2) because all of the disclosures are "*fundamental*" (AFR3) and "*highly geared towards independence*" (AFR8). Disclosures on quality assurance and AF fees and total turnover were attributed the highest importance by AFRs ( $\bar{x}=4.778$ ,  $\bar{x}=4.778$ ). This outcome partly coincides with the response gathered from PIERs as the disclosure on AF fees and total turnover was also regarded by many (6/8P) as highly important, along with the internal quality control system of the firm ( $\bar{x}=4.75$ ,  $\bar{x}=4.75$ ).

---

<sup>21</sup> Vide Qn.3 in Appendix 2.4 and Qn.6 in Appendix 2.5

<sup>22</sup> Vide Appendix 1.1

	<b>No. of Interviewees = 9 AFRs</b>		<b>No. of Interviewees = 8 PIERs</b>	
	<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>	<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>
a. The Legal Structure and Ownership of the AF.	<b>4.556</b>	<b>0.685</b>	<b>4</b>	<b>0.866</b>
b. The Network and the Legal and Structural Arrangements in the Network.	<b>4.556</b>	<b>0.448</b>	<b>4.125</b>	<b>0.622</b>
c. The AF's Governance Structure.	<b>4.222</b>	<b>0.539</b>	<b>4.375</b>	<b>0.498</b>
d. The Internal Quality Control System.	<b>4.556</b>	<b>0.448</b>	<b>4.75</b>	<b>0.433</b>
e. When the last QAR was carried out <sup>23</sup> .	<b>4.778</b>	<b>0.416</b>	<b>4.375</b>	<b>0.484</b>
f. List of Audited PIEs.	<b>4.222</b>	<b>0.639</b>	<b>4.25</b>	<b>0.545</b>
g. Independence Practices and Compliance.	<b>4.667</b>	<b>0.471</b>	<b>4.5</b>	<b>0.468</b>
h. Continuing Professional Education.	<b>4.444</b>	<b>0.487</b>	<b>4.375</b>	<b>0.512</b>
i. Basis of Partner Remuneration Structure.	<b>4</b>	<b>0.577</b>	<b>4.125</b>	<b>0.541</b>
j. Mandatory Audit Partner Rotation.	<b>4.667</b>	<b>0.369</b>	<b>4.375</b>	<b>0.484</b>
k. AF Fees and Total Turnover.	<b>4.778</b>	<b>0.416</b>	<b>4.750</b>	<b>0.433</b>
<i>Scale from 1 (Not at all Important) to 5 (High Importance)</i>				

*Table 5.1: The Importance of Each Disclosure Requirement (AFRs' and PIERs' perspective)*

#### 5.4.1 The New Disclosure Requirements

When asked<sup>24</sup> to rate whether they consider the new requirements<sup>25</sup> to have an influence on the shortcomings brought about by the GFC, AFRs and PIERs had different opinions, highlighted in Table 5.2 overleaf.

<sup>23</sup> Including a statement on the operating effectiveness of such quality controls.

<sup>24</sup> Vide Qn.4 in Appendix 2.4 and Qn.7 in Appendix 2.5

<sup>25</sup> Vide Section 2.2.3

	<b>No. of Interviewees = 8 AFRs</b>		<b>No. of Interviewees = 8 PIERs</b>	
	<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>	<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>
a. If the AF is a member of a network, the details of each AF in the network and the total turnover received from the statutory audit of financial statements.	<b>3.5</b>	<b>0.829</b>	<b>3</b>	<b>0.5</b>
b. Description of the AF's policy regarding partners and key audit staff rotation.	<b>3.5</b>	<b>0.829</b>	<b>3.125</b>	<b>0.536</b>
<i>Scale from 1 (Not at all Influential) to 5 (High Influence)</i>				

Table 5.2: New Disclosure Requirements

As may be seen, AFRs considered both disclosures as influential ( $\bar{x}=3.5$ ,  $\bar{x}=3.5$ ) on audit market competition, auditor independence and investor confidence, however remarking that although the two are good additions, their inclusion has an “indirect impact” (AFR4), and that on their own, they can never be a response to the GFC. AFR9, in particular, added that apart from additional disclosures, there needs to be additional controls as disclosures make a firm open to public scrutiny, which to a certain extent, do “force a firm to try to comply”. Nevertheless, AFRs in disagreement (2/8A) argued that additional disclosures make the profession more “bureaucratic” (AFR1) without adding to the quality of the audit. In this respect, AFR5 stated that

*“I don’t think it makes any difference to anybody what the total revenue of one of the firms in the EU is ... in my opinion I can’t see how anybody pays any attention to it ... there were ten things, and they added an eleventh one”.*

On the other hand, PIERs were neutral ( $\bar{x}=3$ ,  $\bar{x}=3.125$ ) on whether both disclosures were influential on audit market competition and investor confidence, similarly arguing that disclosures are not a “silver bullet” (PIER5) to the GFC and that this “trust-rebuilding exercise” (PIER8) cannot be solely carried out by adding more

disclosures. The majority of PIERs (5/8P) claimed that the additional disclosures did not address this particular concern, and having them disclosed was not a “*fool-proof system*” (PIER7) to prevent another crisis from happening.

Additionally, when asked<sup>26</sup> whether these additional disclosures were effective enough to improve the overall quality of TRs and to enhance trust in the auditor-client relationship, some AFRs (3/9A) and one PIER (1/8P) agreed that they were successful in improving the overall quality of the TR, while conversely claiming that trust is built through “*quality engagements and the ethical values of people in the profession*” (AFR3), and is not solely a matter of what is included in any TR.

#### 5.4.2 Additional Mandatory Disclosures

When questioned<sup>27</sup> whether there were any additional disclosures which they think should be made mandatory, a substantial number of AFRs (7/9A) pointed out that as is, the TR is “*quite exhaustive*” (AFR9), although they did not exclude further introductions in the future, should the need arise. As depicted in Table 5.3 overleaf, the remaining portion of AFRs (2/9A) and a number of PIERs (7/8P) suggested some areas, which in their opinion should be elaborated on, in the TR.

---

<sup>26</sup> Vide Qn.5 in Appendix 2.4 and Qn.8 in Appendix 2.5

<sup>27</sup> Vide Qn.5(i) in Appendix 2.4 and Qn.8(i) in Appendix 2.5

Interviewee	Suggested Mandatory Disclosures
AFR2	More information on the size of the firm, expressed in terms of headcount.
AFR6/PIER2/PIER5	Information on the outcomes of the QARs carried out by the regulatory authorities, particularly if a firm/network has been penalised.
PIER1	More information on the scope of the auditor and how the AF aims to achieve this scope.
PIER3	More information on the rotation of partners and the rotation of the AF.
PIER4	More information on the assessment carried out before every permissible NAS and the prohibition of certain NASs.
PIER5	More information on professional competence with respect to the level of staff assigned to the audit, and the experience that each member of staff has.
PIER7	Statement on the partners' personal declaration of non-conflict of interest.
PIER8	More emphasis placed on the audit process of listed companies.

Table 5.3: Suggested Mandatory Disclosures

### 5.4.3 Voluntary Disclosures

Participants were then asked<sup>28</sup> what their opinion was on the inclusion of voluntary disclosures in a TR. A substantial number of AFRs (5/9A) and one PIER (1/8A) stated that they agree and support discretionary disclosures, as long as these are aligned with the TR's objectives. AFR9 highlighted that voluntary disclosures "*work in our [their] advantage*" as they highlight the firm's efforts to keep transparency at its "*forefront*". Moreover, AFR4 remarked that users of TRs go beyond PIE-clients but extend to regulators, employees and non-PIE clients who would also be "*keen to get some more detailed insight on the firm*". He claimed that

<sup>28</sup> Vide Qn.6 in Appendix 2.4 and Qn.9 in Appendix 2.5

*“we see the TR as an opportunity for us to communicate to the market who we are, what we do and how we actually operate ... so, the more disclosures we include, the better we cater our extended target audience”.*

Conversely, arguments against voluntary disclosures, put forward by some AFRs and the majority of PIERs (4/9A, 7/8P), included that the TR should not be mixed up with an Annual Review and that not abiding solely to the requirements would encourage a firm to *“overly promote itself”* (AFR8). Additionally, PIER6 argued that, in their proposals, AFs already give full information about their operations in detail, suggesting that in a TR, a lot of information is repeated.

## 5.5 Comparing the General Perceptions of AFRs and PIERs

When enquiring<sup>29</sup> about how likely they thought a PIER referred to a TR when considering a change in its audit service provider, AFRs considered this as unlikely ( $\bar{x}=2.111$ ), as illustrated in Table 5.4 below.

<b>No. of Interviewees = 9 AFRs</b>		<b>No. of Interviewees = 8 PIERs</b>	
<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>	<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>
<b>2.111</b>	<b>0.890</b>	<b>3.875</b>	<b>0.692</b>
<i>Scale from 1 (Very Unlikely) to 5 (Very Likely)</i>			

Table 5.4: Likeliness of AFRs and PIERs to use the TR

The majority of AFRs (6/9A) claimed that in their years of experience, clients never mentioned the TR or gave feedback on its contents, even less so were they attracted to the firm because of the report’s contents, implying its *“demotivational aspect”* (AFR6). Nevertheless, AFR2 hinted that the TR has more meaning overseas, *“is not for local consumption”*, and that for some of the disclosures, *“the perspective is not local”*. In consonance with what AFR2 stated, AFR6 highlighted

<sup>29</sup> Vide Qn.15 in Appendix 2.4

that given the small size of our country, “*the client base at large works much more on trust and people they know*” rather than through a TR, amongst other aspects such as AF fees, which also tend to be a distinguishing factor.

Conversely, as illustrated in Table 5.4, when PIERs themselves were asked the same question<sup>30</sup>, they considered it likely ( $\bar{x}=3.875$ ) to make use of a TR to aid their decision-making process, although commenting how the decision will not be solely based on the TR but “*will ultimately be based on the actual proposal*” (PIER1). Also in line with the feedback from AFRs, PIER2 affirmed that they tend to go for the “*lowest priced option*” or depending on “*bias*” which they might have against some firms, due to past issues and events.

Furthermore, in Section C of both interview schedules, AFRs and PIERs were presented with the same statements, to which they had to state their level of agreement. The aim of the statements was to explore the respondents’ opinions on the use of TRs in AF differentiation and competition<sup>31</sup>, the marketing element in a TR<sup>32</sup> and other aspects of transparency<sup>33</sup>. By analysing this section’s findings presented in Table 5.5 overleaf, no significant differences in the responses of the two groups was noted since all the statements, except for those in questions ten/twelve, resulted in an almost-consensus between the two groups of participants.

---

<sup>30</sup> Vide Qn.18 in Appendix 2.5

<sup>31</sup> Vide Qns.8-9 in Appendix 2.4 and Qn.10-11 in Appendix 2.5

<sup>32</sup> Vide Qns.10 in Appendix 2.4 and Qn.12 in Appendix 2.5

<sup>33</sup> Vide Qns.11-13 in Appendix 2.4 and Qn.13-15 in Appendix 2.5

		<b>No. of Interviewees = 9 AFRs</b>		<b>No. of Interviewees = 8 PIERs</b>	
<b>Question no.</b>		<b>Mean (<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>	<b>Mean(<math>\bar{x}</math>)</b>	<b>Std. Deviation</b>
8/10	TRs are capable of aligning the knowledge of auditors and investors on policies and procedures of auditor independence.	<b>4</b>	<b>0.577</b>	<b>3.75</b>	<b>0.492</b>
9/11	Disclosures on internal governance in a TR can be used to increase competition within the audit market.	<b>3.556</b>	<b>0.860</b>	<b>3.75</b>	<b>0.650</b>
10/12	TRs are often utilised by AFs as marketing tools, as rather than providing unbiased and substantive content, they tend to provide biased or marketing information.	<b>2.444</b>	<b>0.733</b>	<b>4</b>	<b>0.5</b>
11/13	TRs will benefit audit clients from comparable internal information on all AFs which will assist them in making rational choices when selecting their auditor.	<b>3.556</b>	<b>0.584</b>	<b>3.5</b>	<b>0.433</b>
12/14	Disclosing descriptive information on the basis of partner remuneration and revenue derived from NASs adequately helps in promoting auditor independence.	<b>3.889</b>	<b>0.645</b>	<b>4</b>	<b>0.5</b>
13/15	Disclosing information on the AF's policy regarding partners and key audit staff rotation in TRs boosts the confidence of investors.	<b>4.222</b>	<b>0.479</b>	<b>3.75</b>	<b>0.234</b>
<i>Scale from 1 (Strongly Disagree) to 5 (Strongly Agree)</i>					

Table 5.5: Comparing the Different Perceptions of AFRs and PIERs

## 5.6 Possible Recommendations for Improving the TRs and their Contents

When asked<sup>34</sup> whether they believed an update to the section of TR requirements in the last Regulation is required, all AFRs (9/9A) argued that the current requirements are “sufficient” (AFR8) but emphasised on ensuring consistent application across the profession and more guidance to ensure that the objectives are consistently met. This could be achieved through ongoing evaluation on the adequacy and relevance of disclosures, whilst “reassessing and revising” (AFR4), if needs be.

In Section F of the interview schedule, AFRs were first asked<sup>35</sup> whether they thought enough knowledge exists on what a TR is. All respondents (9/9A) agreed that more can be done to ensure that both the audit staff and other market participants, become more aware of this information and its usefulness. However, one AFR (1/9A) remarked that this is dependent on the industry as the audit committee and others charged with governance are the ones most knowledgeable, but “the more you trickle down, the less knowledge there is” (AFR9). Nevertheless, a substantial number of users from the general public “do not really understand its contents” (AFR1). Another respondent pointed out that because the report is so regulatory, in his opinion,

*“it is not set at a level that will assist an audit committee, and if they had to use it, they would take a long time to break it up into different pieces and look for different sections ... I do not think that anybody does that”* (AFR5).

Further to this question, however, when asked<sup>36</sup> how the AF can make its TR stand out from others in order to attract PIEs to choose their AF over another, AFR3 stated that a TR has to simply be “factual”. AFR5 argued that a TR “is not prepared to attract PIEs” and that an audit is not said to be an audit of high quality

---

<sup>34</sup> Vide Qn.7 in Appendix 2.4

<sup>35</sup> Vide Qn.25 in Appendix 2.4

<sup>36</sup> Vide Qn.26 in Appendix 2.4

because it is stated in a TR but rather by “*word of mouth*”, whilst AFR6 claimed that the firm can improve on aspects such as presentation, in order to be more innovative and attractive.

Lastly, when asked<sup>37</sup> whether they considered the publication of the TR as being an additional regulatory burden, most AFRs (6/9A) stated that the costs of compiling the report do not outweigh the benefits, although emphasising that currently, benefits are not being maximised and that they would like to see more reference being made to such report. Conversely, the remaining AFRs (2/9A) stated that as there are “*barely any users*” (AFR6) to such report, its preparation is an additional burden on the firm as they would prefer to dedicate more time on the client engagement itself, in order to deliver the highest-quality audit.

## 5.7 Conclusion

This chapter presented the findings of the seventeen interviews carried out with AFRs and PIERs. The next chapter will present a discussion on the study’s key research findings.

---

<sup>37</sup> Vide Qn.27 in Appendix 2.4

*Chapter 6: Discussion of  
Findings*

---

## **6.1 Introduction**

In light of the various literature sources explored in Chapter 2, this chapter presents a discussion of the research findings gathered from the content analysis and interviews, in order to address all the research objectives outlined in Section 1.4. Firstly, Section 6.2 discusses Objective 1 of the study. Subsequently, Section 6.3 discusses Objective 2, followed by Sections 6.4 and 6.5 which address Objective 3. Finally, Section 6.6 concludes the chapter. The outline of this chapter is illustrated in Figure 6.1 overleaf.

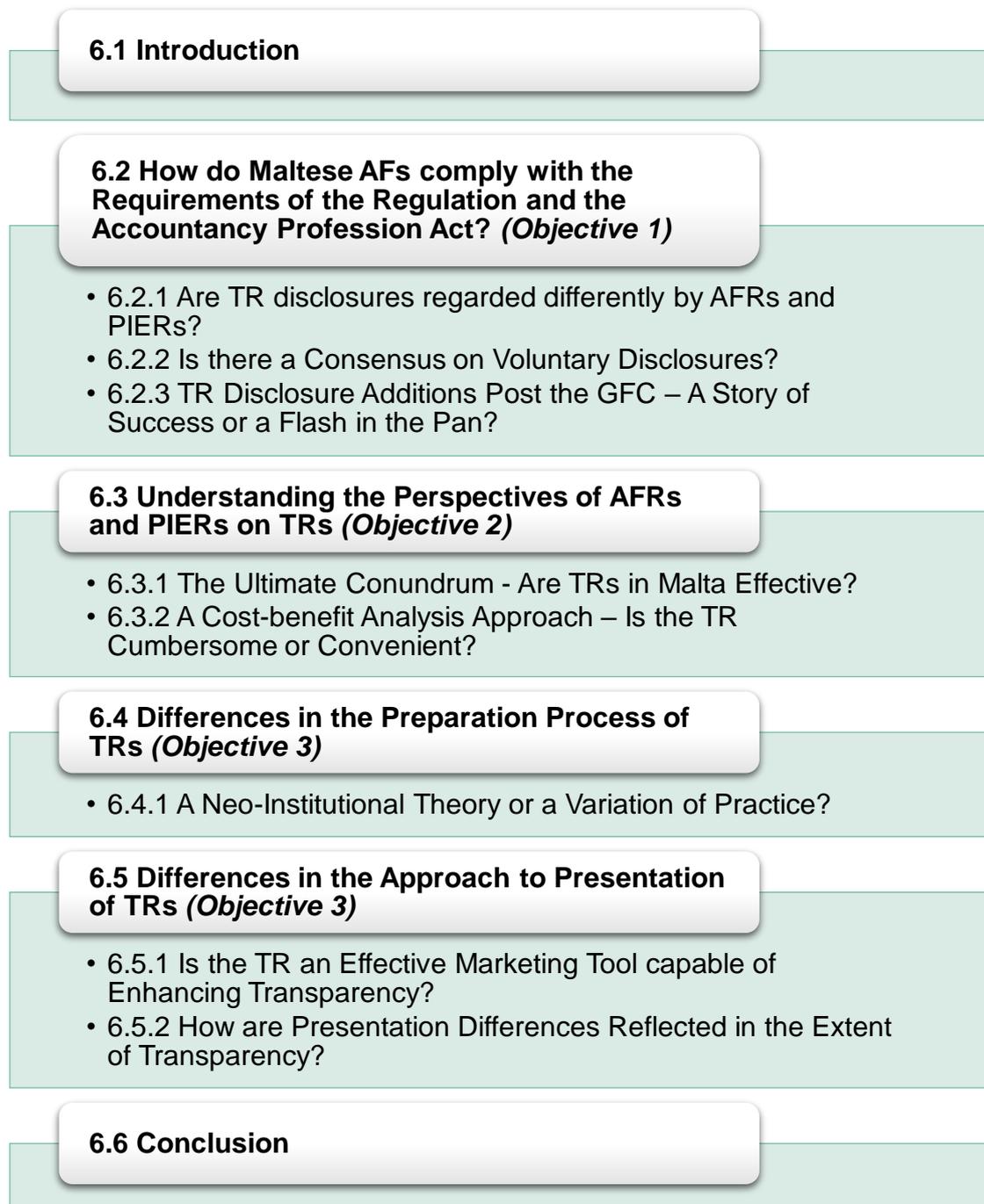


Figure 6.1: Overview of Chapter 6

## **6.2 How do Maltese AFs comply with the Requirements of the Regulation and the Accountancy Profession Act?**

Given that disclosures are imposed on PIE auditors by the Regulation, from the content analysis<sup>38</sup>, it was concluded that each TR contained all the mandated disclosures<sup>39</sup>. Consequently, there were found to be no substantial differences in the content of TRs analysed in this study, but rather differences in the level of detail disclosed, possibly due to the discretionary nature of the Regulation's disclosure requirements. This is in line with the content analysis of TRs from AFs in three other European countries, carried out by Chersan and Danileț (2019). However, one must keep in mind that as will also be discussed later on in this chapter, even though the Regulation does not specify the required level of detail for each TR disclosure, it is this same level of detail which distinguishes a high-quality report from another.

From the content analysis<sup>40</sup>, it is noted that disclosures on the AF's quality control system, as well as those on the firm's independence practices are found to mostly contain differentiating elements with respect to their level of detail. As these disclosures perfectly work hand-in-hand, through more extensive detail, AFs regard them as the fulcrum of their TRs. This possibly illustrates an AF's level of commitment in fulfilling the objectives of the TR, since independence is one of the core issues the report is mostly intended to address.

### **6.2.1 Are TR disclosures regarded differently by AFRs and PIERs?**

The discussion during the interviews<sup>41</sup> focused on the degree of importance attributed to each disclosure requirement, duly identifying the two disclosures with the highest rating, from each group of participants. Indeed, this study's

---

<sup>38</sup> Vide Section 4.3

<sup>39</sup> Vide Appendix 1.1

<sup>40</sup> Vide Sections 4.3.4 and 4.3.7

<sup>41</sup> Vide Section 5.4

findings are in line with the study carried out by Pott, Mock et al. (2008) as the areas attributed with the highest importance by AFRs and PIERs mainly coincide with the areas identified by the said researchers.

Disclosures of when the last QAR was carried out and of AF fees and total turnover were most highly rated by AFRs. Nevertheless, this is not in line with the discussion in Section 6.2 since other prominent disclosures were highlighted from the content analysis. One possible reason for this could be that although the Regulation gives a certain element of freedom to the TR's preparers, because they are bound to follow a template when preparing their TR, they might still be constrained in writing freely, not by the Regulation, but by the network of AFs they form part of.

On the other hand, disclosures on the internal quality control system and also AF fees and total turnover were attributed the highest rating by PIERs. Nevertheless, although AF fees and total turnover were regarded as highly important by both users and preparers, some presentation deficiencies were still highlighted in TRs analysed in the content analysis, particularly in terms of how the revenue is broken down. Hence, if due to these deficiencies PIERs do not find all the information they expect, then the report would not be considered of substance by many, whilst overly elaborated areas which they do not prioritise, might be considered as unusable.

Notwithstanding this, the fact that all other disclosures were attributed a relatively high rating, both by AFRs and PIERs, might suggest an indifferent approach amongst interviewees, as TRs are perceived as simply disclosing what is mandated. Given that these disclosures were meticulously selected by EU authorities, then they are undoubtedly there for a specific reason, and perhaps it is not up to anyone to discuss their level of importance.

### 6.2.2 Is there a Consensus on Voluntary Disclosures?

The study's findings<sup>42</sup> suggest that AFRs and PIERs have a contrasting opinion on the inclusion of voluntary disclosures in a TR. Indeed, the majority of PIERs expressed some of their concerns, particularly that the TR might become too long. Consequently, as will also be discussed in Section 6.5.2, less straightforward TRs might lessen their extent of comparability. As a matter of fact, prior literature by La Rosa, Caserio et al. (2019) also discusses the lack of usefulness of voluntary disclosures, when compared to mandatory ones.

A different view was however given by the majority of AFRs who supported voluntary disclosures. One possible explanation for this could be that the majority of preparers might consider their inclusion as heightening the comprehensiveness of the contents of TRs. Corroborating to this discussion is the content analysis<sup>43</sup> which confirms that the majority of AFs make use of voluntary disclosures, at least once. This in turn corresponds with what is suggested by Čular (2017) with regards to these disclosures' efficacy. Probably due to the larger proportion of PIE-clients audited by Big-Four firms, and the larger resources they own, the extent of voluntary disclosures in their TRs was found to be greater, corresponding to what is postulated and discussed by Fu, Carson et al. (2015) on non-mandatory disclosures by Big-Four firms vis-à-vis mid-tier and small firms.

Moreover, from the content analysis, it was found that insights on firm-wide culture, remote working, innovative technology and CSR initiatives were the most common areas disclosed. These areas were probably included with the intention of attracting new employees to the AF, as also suggested by AFR<sup>44</sup> and in line with Gertsson, Sylvander et al. (2017), who indicated how such disclosures make the TR useful to potential employees.

---

<sup>42</sup> Vide Section 5.4.3

<sup>43</sup> Vide Section 4.4

<sup>44</sup> Vide Section 5.4.3

Therefore, the indications are that Maltese AFRs and PIERs cannot unanimously agree on the inclusion of voluntary disclosures and that a good solution would be to, as suggested by some AFRs themselves, publish any 'extra' information in a separate Annual Review<sup>45</sup> document. This would keep the TR as concise as possible, without restricting the opportunity, highly favoured by many preparers, to also disclose information on the previously mentioned insights.

### 6.2.3 TR Disclosure Additions post the GFC – A Story of Success or a Flash in the Pan?

Although findings<sup>46</sup> show that AFRs and PIERs consider the latest additions to TR disclosures<sup>47</sup> as being influential and neutral in addressing the shortcomings of the GFC, respectively, the overall view is that additional disclosures are not value-adding. AFRs value the latest additions more highly than PIERs which implies that although the latter recognise the importance of greater transparency, it takes more than disclosures to make them comfortable on audited financial information. This goes completely contrary to what various researchers (e.g., Deumes, Schelleman et al. 2012, Johl, Muttakin et al. 2021, Kend and Basioudis 2018, Mocanu and Ionescu 2020, O'Halloran 2016, Smith and Marx 2021) have contended on the TR's ability to aid an AF re-gain the trust of the general public.

By looking at the previous discussion in Section 6.2.2, it can be argued that although further additional disclosures and voluntary disclosures are both forms of additions to the TR, the former and the latter are perceived differently, both by the users, and by the preparers of TRs. AFRs emphasised<sup>48</sup> on the exhaustiveness of the current disclosures, inclusive of the two additions post the GFC, whilst the majority of them supported voluntary disclosures. Comparably, PIERs suggested further areas for elaboration with respect to mandatory

---

<sup>45</sup> Vide Section 4.4

<sup>46</sup> Vide Section 5.4.1

<sup>47</sup> Vide Section 2.2.3

<sup>48</sup> Vide Section 5.4.2

disclosures<sup>49</sup>, but the majority of them were against voluntary disclosures as they feared AFs overly promoting themselves. One possible explanation for this could be that AFRs are open to more disclosures, as long as these are not imposed upon them, but done voluntarily, whereas PIERs are keener on additional disclosures which are mandated, since this might facilitate the achievement of greater uniformity and consistency between different AFs. Thus, although in the eyes of the users, additional disclosures post the GFC are not intrinsically influential, if AFs are to resort to more disclosures, PIERs would prefer to have these disclosures mandated, rather than done voluntarily.

### **6.3 Understanding the Perspectives of AFRs and PIERs on TRs**

All respondents demonstrated a clear understanding of the concept of TRs<sup>50</sup> and in turn, PIERs were aware of AFs being required to issue a TR on their website. At the same time, even though in the findings<sup>51</sup>, all TR disclosure requirements were regarded as 'Highly Important' or 'Important' by both groups of participants, PIERs confess that they have never been referred to such report and neither do they use it in the course of their work. This led to an interesting discussion with some PIERs which revealed how they consider it counter-productive to constantly change AFs. It therefore becomes even less relevant for PIERs to review the TRs of other firms because if they are content with the service they are being provided with, they might not really consider changing the AF in the near future, unless the legally set period of time elapses. This suggests that locally, the report is hardly used in practice, in agreement with Caruana (2010).

Contrastingly, in line with the views put forward by Pott, Mock et al. (2008) on the TR's ability in assisting audit clients to behave rationally with respect to AF selection, this study shows<sup>52</sup> that both AFRs and PIERs agree with the statement.

---

<sup>49</sup> Vide Table 5.3

<sup>50</sup> Vide Section 5.2

<sup>51</sup> Vide Section 5.4

<sup>52</sup> Vide Table 5.5 Qn.11/13

Also, in accordance with the literature<sup>53</sup>, supporting disclosures on partner remuneration, revenue derived from NASs and MAFR, vis-à-vis better promotion of auditor independence and investor confidence, Maltese AFRs and PIERs are in agreement<sup>54</sup>. Hence, from all these findings, it can be concluded that PIERs acknowledge the importance of the TR, but still refrain from referring to it in real life, for various reasons, some of which will be outlined in Section 6.5.2. Possibly, decisions concerning AF selection will be based on a more personalised audit proposal or on internally generated checklists, based on AF qualities PIEs desire most. On the other hand, despite being aware of this problem, AFRs remain reluctant to advertise the report as they might not consider it as a tool which can be used to attract PIEs<sup>55</sup>.

### 6.3.1 The Ultimate Conundrum - Are TRs in Malta Effective?

Although findings<sup>56</sup> show that AFRs would like to see more reference being made to their TR, they are disinclined to improve the report to attract more clients to their firm, even though they know that as things stand, PIERs are unlikely to refer to the TR. This further suggests that the TR's audience does not mainly consist of PIERs, as advocated by Zorio-Grima and Carmona (2019) and Pott, Mock et al. (2008), but of regulators and competing AFs, as suggested by Girdhar and Jeppesen (2018).

Nonetheless, it can be argued that AFRs are indifferent to the report's audience as they know that in a small-island state such as Malta, where AF selection is based on past experiences, networking, audit fees, word-of-mouth and reputation, TRs do not have much relevance. This might hinder the several benefits of a TR highlighted by Deumes, Schelleman et al. (2012), Fu, Carson et al. (2015) and Kend and Basioudis (2018), which cannot be reaped in Malta as

---

<sup>53</sup> Vide Section 2.3.2 and 2.3.3

<sup>54</sup> Vide Table 5.5 Qns. 12/14 and 13/15

<sup>55</sup> Vide Section 5.6

<sup>56</sup> Vide Section 5.6

much as they can in larger jurisdictions. Thus, contrary to foreign literature<sup>57</sup>, findings revealed that in Malta, the relevance of a TR, particularly in increasing competition by diluting the market share held by Big-Four firms as more AFs embark on transparency reporting, is minimised.

Also impinging on the demotivational effect on its preparers are the findings<sup>58</sup> that probably, one of the factors constraining the use of the TR is that as pointed out by AFRs, the knowledge of PIERs on the contents disclosed is limited. Arguably, this might tarnish an AF's motivation in the preparation process. Had knowledge not been so limited, both AFRs and PIERs agreed<sup>59</sup> on the capability of the report to align the knowledge of the two parties on an AF's policies and procedures of independence. However, in line with the previous discussion, given that this study suggests that the primary users of TRs in Malta are regulators and competing AFs, rather than PIERs, then the problem with the comprehensibility of TR disclosures is ironed out, as both regulators and competing AFs have the necessary expertise to interpret the information disclosed.

Nonetheless, even though presently, Maltese PIERs do not value TRs, despite them being highly informative, easily accessible, and free of charge, the sample of PIERs interviewed<sup>60</sup> are likely to make use of the report in the future. A possible explanation for this might be that the discussion held with the researcher made them become more familiar with the TR's contents.

In summary, it can be confirmed that earlier findings by various researchers do not apply in the local scenario, as evidently, no added reliability is found to be placed on audited financial information, both since the inception of TRs in Malta, in line with Caruana (2010), and post the Audit Reform. Yet, on another note, in an approach to address the deficiencies in the audit market, it can be argued that

---

<sup>57</sup> Vide Section 2.3.1

<sup>58</sup> Vide Section 5.6

<sup>59</sup> Vide Table 5.5 Qn.8/10

<sup>60</sup> Vide Section 5.5

the reports are a convenient method through which the EU can exercise power on its member states' AFs and vice versa, as every NCA appears to the EU as exercising an efficient oversight function over such AFs. This might imply that after all, whether or not these reports are being used by the public is irrelevant, as long as stakeholders know that the reports are there, and they are convinced that general concerns on independence and audit quality are levelled, even though they would not be mostly interested in how this is achieved.

### 6.3.2 A Cost-benefit Analysis Approach – Is the TR Cumbersome or Convenient?

The majority of AFRs feel<sup>61</sup> that the benefits of publishing a TR outweigh the costs, in line with what some authors (e.g., Deumes, Schelleman et al. 2012, Fu, Carson et al. 2015, United Kingdom Department of Trade and Industry 2005) have stated. Therefore, these findings may suggest that although, as previously discussed, benefits of publishing a TR in Malta are not apparent, AFs still recognise the importance of publishing such report, as the majority did not consider it as cumbersome, probably due to it being purely an imposed regulatory requirement.

Moreover, one must also keep in mind that a proportion of AFRs interviewed represented a mid-tier or a small AF and even if they incur higher costs in the course of preparing a TR, on the whole, such firms also did not consider its publication as burdensome. Having said that, had the report not been mandatory, preparers might easily become discouraged to invest additional time and money, especially knowing about its lack of relevance in Malta. So, even though the majority of interviewees do not have an objection to publish, if they had the opportunity to circumvent, most of them would, as they themselves claimed that benefits are currently *“not being maximised”*.

---

<sup>61</sup> Vide Section 5.6

## 6.4 Differences in the Preparation Process of TRs

Interview findings<sup>62</sup> also focused on the number of people involved in the preparation of the TR. The wide-ranging responses provided by AFRs are based on the fact that the size and resources vary across the different AFs, therefore impacting on the length and extent of detail dedicated to the formulation of the TR. Nevertheless, despite the limited resources available for some AFs, all firms still have, in their own way, a system for reviewing the finalised product and making sure that the final TR is of an adequate standard.

### 6.4.1 A Neo-Institutional Theory or a Variation of Practice?

Various researchers (e.g., Arnold, Bernardi et al. 2009, Girdhar and Jeppesen 2018, Shong, Yap et al. 2015) expect consistency between TRs of AFs forming part of a worldwide network. Thus, given that the differentiating factor in the preparation process of TRs by different AFs is their involvement/non-involvement in a network of AFs, no major differences in the preparation process are expected.

This was in fact confirmed in the findings<sup>63</sup> as all AFs forming part of a network refer to a pre-set template or to the prior year TR, which would have been adapted to the needs of the local environment, as suggested by Lenz and James (2007). This implies that TRs in Malta neither fully conform to what is postulated in the literature<sup>64</sup> on Neo-institutional Theory, nor to the Practice Variation Theory as local regulatory requirements are still taken into consideration when drafting the report, whilst an element of homogeneity between the contents of TRs of network member AFs is still expected, as firms follow a template.

---

<sup>62</sup> Vide Section 5.3

<sup>63</sup> Vide Section 5.3

<sup>64</sup> Vide Section 2.4.1

## 6.5 Differences in the Approach to Presentation of TRs

In agreement with Kraatz and Block (2008) no substantial differences in the content were noted, but differences in the extent of detail and the use of language between one firm and another were obvious. Evidently, in their study to analyse the effect of variation in detail on audit quality differentiation, Deumes, Schelleman et al. (2012) found that more elaborated disclosures are efficacious.

Moreover, both AFRs and PIERs agree<sup>65</sup>, that through internal governance disclosures, competition within the audit market can be increased. However, this is not what happens in practice as from the content analysis<sup>66</sup>, it can be argued that contrary to the literature<sup>67</sup> on the TR's effectiveness with respect to AF differentiation, given that no significant differences were found between the contents of the sample of Maltese TRs analysed, differentiation is not yet achieved. It can therefore be concluded that in actual fact, TR disclosures are not successful enough in increasing competition within the local audit market. This goes in line with the concern of various authors and researchers<sup>68</sup> that the TR might develop into a "*boilerplate report*".

### 6.5.1 Is the TR an Effective Marketing Tool capable of Enhancing Transparency?

Oh and Dowling (2014 cited in Zorio-Grima and Carmona 2019) contended on the expedient element of TRs being utilised as marketing tools. Yet, AFRs and PIERs have a different judgement<sup>69</sup> on whether this is capable of enhancing transparency. From the lens of the users, it can be concluded that a TR is not effusively perceived as a source of unbiased and substantive information, thus

---

<sup>65</sup> Vide Table 5.5 Qn.9/11

<sup>66</sup> Vide Section 4.3

<sup>67</sup> Vide Section 2.3.1

<sup>68</sup> Vide Section 2.5

<sup>69</sup> Vide Table 5.5 Qn.10/12

not an efficient way of enhancing transparency. Understandably, PIERs have their own doubts on the impartiality of the report, as they might think that AFs purposively include promotional material to attract more clients, which information could steer away the TR from its main objectives.

On the other hand, by disagreeing that due to the TR being utilised as a marketing tool, content is biased and insubstantial, AFRs' responses are aligned with one of the quality factors<sup>70</sup> described by IOSCO (2015). Therefore, AFs might value the requirement to prepare a TR as a marketing opportunity, rather than as an encumbrance and as such, various marketing elements were identified in the content analysis<sup>71</sup>, probably to get their clients' and prospective clients' attention, and to influence audit committees.

Thus, contrary to what PIERs think, preparers disagree that by having an intention of marketing, the quality, reliability and objectivity of a TR are hindered, possibly implying that a TR can be ethically used as a marketing tool. Nonetheless, it can be counterargued that given that AFs do not emphasise on promoting the report<sup>72</sup>, its exposure is restricted and even if this report had to be used for the purposes of marketing the firm, results will still not be successful, as audiences are limited and public interest is lacking.

### 6.5.2 How are Presentation Differences Reflected in the Extent of Transparency?

The user-friendliness and comparability elements of TRs were noted in the content analysis<sup>73</sup> whereby features such as the number of pages, uniformity of headings and structure were looked into. The main outcome of this section of the content analysis does not fully correspond with what is postulated in the literature as the remaining quality factors presented by IOSCO (2015), and which are

---

<sup>70</sup> Vide Section 2.4.2

<sup>71</sup> Vide Section 4.5

<sup>72</sup> Vide Section 4.5

<sup>73</sup> Vide Section 4.6

deemed to distinguish a high-quality report from the other, were not comprehensively found to be present.

Moreover, although from the content analysis<sup>74</sup> it was determined that all reports, both latest and prior years, were located on the respective websites, their prominence varied. Therefore, in line with previous discussion<sup>75</sup> it can be argued that deficiencies in presentation are possible reasons for the TR's lack of usefulness amongst PIERs. One reason might be the excessive length of a TR, making it more difficult to follow and discouraging readers from reading through its contents. Another limitation pertains to the report's user-friendliness as some difficulties were experienced in comparing the contents of different reports, particularly due to the lack of uniformity between sections of different TRs. This detail was similarly exposed in Caruana's (2010) local study whereby the level of user-friendliness of each TR disclosure was identified.

## 6.6 Conclusion

This chapter discussed the findings which emerged from the content analysis and interviews, in light of the three objectives of this study. The following chapter summarises the study, presents recommendations and a number of limitations of the study, as well as identifies areas for further research.

---

<sup>74</sup> Vide Section 4.2

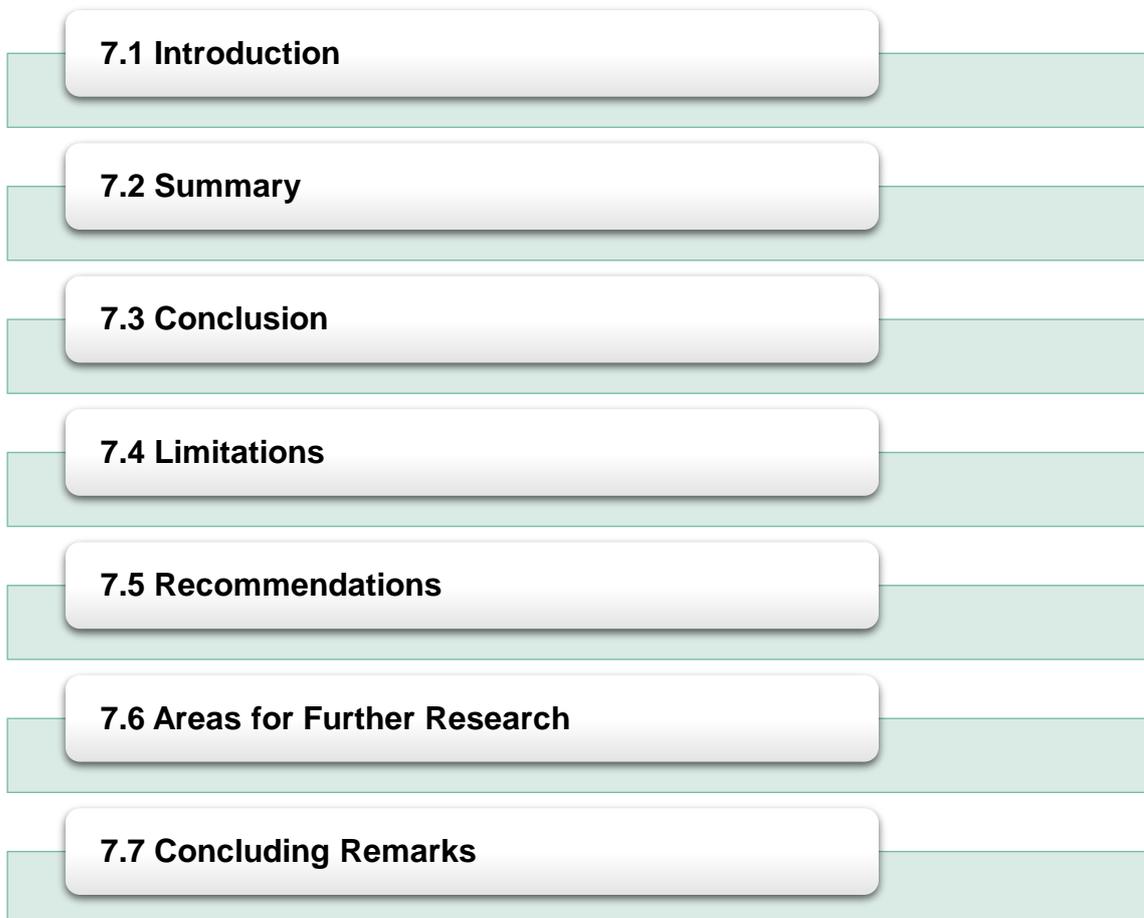
<sup>75</sup> Vide Section 6.3

*Chapter 7: Summary,  
Conclusions and  
Recommendations*

---

## 7.1 Introduction

This final chapter concludes the dissertation. As illustrated in Figure 7.1 below, Section 7.2 presents a summary of the study and research findings, whereas Section 7.3 outlines the key conclusions. A number of limitations and recommendations are outlined in Sections 7.4 and 7.5, respectively. Areas for further research are proposed in Section 7.6, whilst Section 7.7 wraps up the study with some concluding remarks.



*Figure 7.1: Overview of Chapter 7*

## 7.2 Summary

In order to satisfy all the research objectives of the study, a qualitative approach was adopted. Indeed, as the nature of the study was to evaluate TR disclosures, the research was carried out in two stages. Following the preliminary phase of

the research study, themes for carrying out the content analysis of thirteen local AFs were selected, as part of the first stage of the study. Secondly, interview questions were formulated, and seventeen semi-structured interviews with AFRs and PIERs were conducted. Lastly, the qualitative findings were compared to prior literature whereby differences and similarities between the two were analysed.

**Objective one** aimed to assess how TRs issued by Maltese AFs comply with the Regulation's requirements and to evaluate the perceptions of AFRs and PIERs on these requirements. The content analysis of TRs uncovered no substantial differences in their contents, as all the mandatory disclosures were duly disclosed. When compared with the prominent disclosures identified in the content analysis, it was found that different disclosures were attributed the highest ranking by PIERs. With respect to voluntary disclosures, AFRs and PIERs have a contrasting opinion on their inclusion in a TR since AFRs support them, whereas PIERs have raised their concerns. Likewise, the Audit Reform's latest additions were valued more highly by AFRs than by PIERs.

**Objective two** sought to understand the perspectives of AFRs and PIERs on the TR's effectiveness. The findings indicate that in practice, PIERs do not really make use of TRs, neither for AF selection purposes, nor as a general reference point, although they acknowledge their importance. AFRs, on the other hand, remain reluctant to work on publicising the report. Locally, PIERs have limited knowledge on the contents disclosed, yet AFRs still feel that the benefits of publishing a TR outweigh the costs.

Lastly, as part of **objective three**, this research found out the extent of transparency reflected in the approach taken by various AFs in preparing and presenting their TR. The findings indicate the preparation process duration and the number of people involved in the process, both of which are dependent on the size and resources of the firm, which factors reflect upon the length and extent of detail in a TR. An understanding of the preparation process, including the

report's final review, was also obtained, and similarities were noted between network member AFs. Findings in light of this research objective also focused on the level of accessibility, the user-friendliness of its disclosures and the marketing element, whereby it was established that AFRs and PIERs have a different judgement on whether the use of TRs as marketing tools is capable of enhancing transparency.

### **7.3 Conclusion**

This study concludes that at present, the TR does not live up to its users' expectations as there is a mismatch between what PIERs perceive to be mostly important, and what is actually given priority by the preparers. Despite being in compliance with Article 13 of the Regulation, a strong similarity between local TRs and a weak variability between their contents was noted. This led to the conclusion that AFs over rely on templates provided by their global network, where applicable, which templates are very similar to each other, yet local regulatory requirements are still duly taken into consideration.

There are various reasons as to why PIERs refrain from using the TR in their decision-making processes, some of which are related to the report's excessive length, the report's lack of user-friendliness and to the negative perceptions towards the report's marketing element. AFRs are conscious of this situation but they consider other tools as being more efficient in attracting clients. The status quo therefore prevails. In this regard, as the relevance and attractiveness of the TR in Malta is minimal and its value-added is insignificant, PIERs choose to base their AF selection decisions on past experiences, networking, audit fees, word-of-mouth and reputation. This also led to the conclusion that the main audience of TRs in Malta does not really consist of PIERs, but the users are mainly the regulators and AFs themselves, who would at times resort to analyse the TRs of their competitors.

## 7.4 Limitations

Efforts have been made to identify the most suitable interviewee to represent an AF or a PIE who is involved in the preparation of TRs, or is related closely to the audit process, respectively. However, given that the researcher took into consideration the views and opinions of one representative from each particular AF or PIE, there may be the need for more in-depth investigation by varying the participants, as slightly different opinions might have been obtained if representatives with other roles were to be included in the sample.

Furthermore, with respect to the content analysis, the findings presented were analysed on the basis of the judgement and opinion of the researcher. Therefore, due to its qualitative nature, to a certain extent, this analysis was susceptible to subjective interpretation.

## 7.5 Recommendations

The research study puts forward the following recommendations:

**i. An increase in education and awareness on TRs**

Given that the report is hardly used in practice and knowledge of PIERs on the detail disclosed is limited, the study recommends an increase in the awareness of TRs, particularly by means of reference during CPE courses. This might increase the likelihood of stakeholders, particularly audit committees, to resort to these reports when necessary. On the other hand, it is recommended that AFs notify all members of staff upon every issue of the TR so that client-facing auditors will be able to share with present and prospective audit clients.

**ii. Better guidance to the preparers and more emphasis on quality reviews by the AB**

As was highlighted by some interviewees in this study's findings, there feels the need for a more consistent application across the profession, in order to allow better comparability between different TRs. This could be achieved through guidance and ongoing assessments on the adequacy and relevance of disclosures, with feedback duly provided to AFs by the AB.

**iii. Publishing results from QARs**

Regulatory authorities should consider mandating the disclosures on QAR findings, as this would lead to greater clarity and transparency. Currently, only an indication of when the last QAR was carried out is disclosed, but the outcomes are not. Should this recommendation be taken into consideration, AF selections might no longer be solely based on reputation since smaller AFs with similarly favourable outcomes may become as attractive.

**iv. Finding a balance in the amount of voluntary disclosures disclosed**

As ultimately suggested by PIERs, attention must be given to the extent of voluntary disclosures in a TR. In order to keep it as concise as possible, whilst adhering to its ultimate objectives, AFs should resort to publishing a separate report containing such disclosures in the form of an Annual Review.

**v. Catering for the users' preferences**

Given that in this research study, TR disclosure requirements were duly ranked by PIERs, there is now an indication of the areas which are most likely to be looked into by the users. Therefore, it is recommended that more attention is given to the completeness and clarity of the indicated disclosures, rather than to what a template dictates, in order to make sure that the report is utilised to its fullest and becomes more decision-relevant.

## 7.6 Areas for Further Research

The study identified the following areas requiring further research:

**i. A study on the potential development of the Regulation**

A follow-up study after potential changes to the Regulation could be conducted in the future. Such a study would analyse whether these changes would affect the current perceptions of the TR and how users and preparers would possibly react to a further imposition on TR disclosure requirements.

**ii. Carrying out a similar study but with more focus on the regulatory aspect**

This research focused on the viewpoints of the users and preparers of TRs but excluded the perspective of the Quality Assurance Unit acting on behalf of the AB. By interviewing a member of the local oversight body, such a study would delve into the procedures in place to ensure that TRs are of the highest quality and whether disciplinary actions are taken against AFs which are found not abiding by the regulations.

**iii. A study which compares the content of TRs of Big-Four firms in Malta with others in different EU member states**

A similar content analysis would analyse the contents of TRs of Big-Four firms in different EU member states from a particular year, with the aim to identify cross-national consistencies/inconsistencies, and their main drivers. This study established that locally, network member AFs adapt the global template to local jurisdiction, but such a study will now confirm whether inconsistencies, if any, are inherent to the regulatory system or not, which information will duly benefit standard setters and regulators.

**iv. A trend analysis to analyse the evolvement of TR disclosures over a number of years**

A similar study analysing the content of TRs of a sample of Maltese AFs from along the years can be conducted. Such a study would delve into whether the extent of transparency varied and would compare the level of detail disclosed before the GFC and afterwards, following the transposition of the Regulation, this in order to supplement the results of this research study.

## **7.7 Concluding Remarks**

This study has presented a thorough evaluation of TRs in Malta and has shed light on their main users' and preparers' perceptions. Throughout this research study, AFRs and PIERs recognised the fundamental role of transparency in the audit market, yet to date, AFs in Malta still experience lack of motivation towards the report's preparation, as the wider public remains uninterested in such a costly and time-consuming exercise.

Consequentially, due to the absence of public interest shown in TRs, and their inexistent feature in adding reliability to audited financial information, the requirement for their publishing becomes questionable. Any effort to improve TRs in Malta is a double-edged sword as new introductions to Article 13 of the Regulation would enhance transparency on one hand, but would be perceived negatively by the users, due to their element of complexity, on the other hand. Notwithstanding, it is still imperative that locally, regulatory authorities work hard to uphold a change in the current perceptions towards TRs by instilling a culture of transparency, whilst recognising that as advocated by RSM Global (2020),

*“changes to audit are about transparency, and transparency presents opportunity”.*

# *References*

---

## General

ACCOUNTANCY BOARD, 2021, The Accountancy Board Annual Report 2021, [Homepage of the Accountancy Board], [Online]. Available: <https://accountancyboard.gov.mt/Library/Reports.aspx> [Sep 12, 2022].

ACCOUNTANCY BOARD, 2017, The Accountancy Board Annual Report 2016, [Homepage of the Accountancy Board], [Online]. Available: <https://accountancyboard.gov.mt/Library/Reports.aspx> [Oct 5, 2022].

ADAMS, W.C., 2015. Conducting Semi-structured Interviews. In: K. E. NEWCOMER, H. P. HATRY and J. S. Wholey, eds, *Handbook of Practical Program Evaluation*. 1st edn. San Francisco: Jossey-Bass, pp. 492-505.

ARNOLD, D.F., BERNARDI, R.A. and NEIDERMEYER, P.E., 2009. Do European auditors' decisions reflect harmony? The impact of country and culture. *International Journal of Disclosure and Governance*, 6(1), pp. 58-68. DOI: 10.1057/jdg.2008.14.

BALDACCHINO, P.J., DUCA, N., TABONE, N. and GRIMA, S., 2020. Corporate Governance Transparency in Small Listed Entities: The Case of Malta. *European Research Studies Journal*, 23(2), pp. 23-44. DOI: 10.35808/ersj/1578.

BALLAS, A. A. and FAFALIOU, I., 2008. Market Shares and Concentration in the EU Auditing Industry: The Effects of Andersen's Demise. *International advances in economic research*, 14(4), pp. 485-497. DOI: 10.1007/s11294-008-9167-6.

BERNARD, H.R., 2002. *Research methods in Anthropology: Qualitative and Quantitative Approaches*. 3rd edn. Walnut Creek, CA: Alta Mira Press.

BOLKESTEIN, F., 2003-last update, Auditor Liability: An EU Perspective. Address at Conference by Beachcroft Wansbroughs at The London Underwriting Centre, Speech/03/151, [Homepage of European Commission], [Online]. Available: <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/03/151&format=HTML&aged=1&language=EN&guiLanguage=en> [Mar 12, 2022].

- BORGIA, F., 2005. Corporate governance & transparency role of disclosure: how prevent new financial scandals and crimes? *American University Transnational Crime and Corruption Center School of International Service*, pp. 1-59.
- BRYMAN, A., 2001. *Social Research Methods*. 1st edn. New York: Oxford University Press.
- BRYMAN, A. and BELL, E., 2011. *Business Research Methods*. 3rd edn. New York: Oxford University Press.
- BURRELL, G. and MORGAN, G., 1979. *Sociological Paradigms and Organisational Analysis*. 1st edn. London: Heinemann.
- BUSHMAN, R.M., PIOTROSKI, J.D. and SMITH, A.J., 2004. What Determines Corporate Transparency? *Journal of Accounting Research*, 42(2), pp. 207–252. DOI: 10.1111/j.1475-679X.2004.00136.x.
- CARUANA, E., 2010. *The Audit Transparency Report as required by Maltese legislation: an analysis*. B.ACCTY. (HONS) Dissertation, Malta: University of Malta. Available:  
<https://www.um.edu.mt/library/oar/bitstream/123456789/2870/1/10BACC026.pdf>
- CHANEY P., K., JETER D., C. and SHAW P., E., 1997. Client-auditor Realignment and Restrictions on Auditor Solicitation. *The Accounting Review*, 72(3), pp. 433–453.
- CHARMAZ, K., 2006. *Constructing Grounded Theory*. 1st edn. Thousand Oaks, CA: SAGE Publications.
- CHERSAN, I. and DANILEȚ, M., 2019. A Content Analysis of Transparency Reports of Big Four in Europe. *European Union Financial Regulation and Administrative Area*, pp. 393-404.
- CHISNALL, P., 2005. *Marketing Research*. 7th edn. London: McGraw-Hill.
- CLULOW, J., 2002. Where were the auditors? *Accountancy SA*, pp. 3-5.

CRESWELL, J.W., 2014. *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. 4th edn. Thousand Oaks, CA: SAGE Publications.

CRESWELL, J.W. and PIANO CLARK, V.L., 2011. *Designing and Conducting Mixed Methods Research*. 2nd edn. Thousand Oaks, CA: SAGE Publications.

ČULAR, M., 2017. Transparency report delay and disclosure by Croatian audit firms. *Croatian Operational Research Review*, 8(1), pp. 299–316. DOI: 10.17535/corr.2017.0019.

ČULAR, M. and MARETIĆ, M., 2015. Transparency Of Audit Firms, Audit Committee Effectiveness, and Internal Audit Existence, as Mechanisms of Corporate Governance: The Case Study of Croatian Listed Companies. *The Eleventh International Conference: Challenges of Europe: Growth, competitiveness and inequality*, pp. 3-17.

DEAKIN, H. and WAKEFIELD, K., 2014. Skype interviewing: Reflections of two PhD researchers. *Qualitative Research*, 14(5), pp. 603-616. DOI: 10.1177/1468794113488126.

DEUMES, R.W.J., SCHELLEMAN, C.C.M., VANDERBAUWHEDE, H. and VANSTRAELEN, A., 2012. Audit Firm Governance: Do Transparency Reports Reveal Audit Quality? *Auditing: A Journal of Practice & Theory*, 31(4), pp. 193-214. DOI: 10.2308/ajpt-10301.

DICICCO-BLOOM, B. and CRABTREE, B.F., 2006. The qualitative research interview. *Medical Education*, 40(4), pp. 314-321. DOI: 10.1111/j.1365-2929.2006.02418.x.

DIMAGGIO, P.J. and POWELL, W.W., 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, 48(2), pp. 147-160. DOI: 10.2307/2095101.

EUROPEAN COMMISSION (EC), n.d., Auditing of companies' financial statements, [Homepage of European Commission], [Online]. Available: [https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/auditing-companies-financial-statements\\_en](https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/auditing-companies-financial-statements_en) [Sep 12, 2022].

FINANCIAL REPORTING COUNCIL, 2015, Transparency Reporting by Auditors of Public Interest Entities: Review of Mandatory Reports, [Online]. Available: <https://www.frc.org.uk/getattachment/48ba388f-4f6b-40d9-9323-e1683f1d0732/Transparency-reporting-review-of-mandatory-reports-2015.pdf> [Sep 1, 2022].

FOMBRUN, C. and RINDOVA, V., 2000. The road to transparency: Reputation management at Royal Dutch/Shell. In: M. SCHULTZ, M.J. HATCH, M.H. LARSEN, eds, *The expressive organization: Linking identity, reputation, and the corporate brand*. 1st edn. New York: Oxford University Press, pp. 7-96.

FU, Y., CARSON, E. and SIMNETT, R., 2015. Transparency report disclosure by Australian audit firms and opportunities for research. *Managerial Auditing Journal*, 30(8/9), pp. 870-910. DOI: 10.1108/MAJ-06-2015-1201.

FYLAN, F., 2005. Semi-structured Interviewing. In: J. MILES and P. GILBERT, eds, *A Handbook of Research Methods for Clinical and Health Psychology*. 1st edn. New York: Oxford University Press, pp. 65-78.

GALEA, J., 2018. *The economic dependence of Maltese auditors on PIEs: an analysis*. M.ACCTY. Dissertation, Malta: University of Malta. Available: <https://www.um.edu.mt/library/oar/bitstream/123456789/42780/4/18MACC056.pdf>

GATT, E., 2021. *The external auditor's role in the corporate governance of Maltese listed entities*. M.ACCTY. Dissertation, Malta: University of Malta. Available: <https://www.um.edu.mt/library/oar/handle/123456789/83446>

GERTSSON, N., SYLVANDER, J., BROBERG, P. and FRIBERG, J., 2017. Exploring audit assistants' decision to leave the audit profession. *Managerial Auditing Journal*, 32(9), pp. 879-898. DOI: 10.1108/MAJ-05-2016-1381.

GIRDHAR, S. and JEPPESEN, K.K., 2018. Practice variation in Big-4 transparency reports. *Accounting, Auditing & Accountability Journal*, 31(1), pp. 261-285. DOI: 10.1108/AAAJ-11-2015-2311.

GREENWOOD, R., RAYNARD, M., KODEIH, F., MICELOTTA, E.R. and LOUNSBURY, M., 2011. Institutional Complexity and Organizational Responses. *The Academy of Management Annals*, 5(1), pp. 317-371. DOI: 10.1080/19416520.2011.590299.

HAMILTON, R. J. and BOWERS, B. J., 2006. Internet Recruitment and E-mail Interviews in Qualitative Studies. *Qualitative Health Research*, 16(6), pp. 821-835. DOI: 10.1177/1049732306287599.

HORTON, J., MACVE, R. and STRUYVEN, G., 2004. Qualitative Research: Experiences in Using Semi-Structured Interviews. In: C. Humphrey, and B. Lee, eds, *The Real-Life Guide to Accounting Research: A Behind the Scenes View of Using Qualitative Research Methods*. 1st edn. Kidlington: Elsevier Ltd, pp. 339-357.

HUMPHREY, C., LOFT, A. and WOODS, M., 2009. The global audit profession and international financial architecture: Understanding regulatory relationships at a time of financial crisis. *Accounting, Organizations and Society*, 34(6), pp. 810-825. DOI: 10.1016/j.aos.2009.06.003.

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB), 2014, A Framework for Audit Quality, [Online]. Available: <https://www.iaasb.org/publications/framework-audit-quality-key-elements-create-environment-audit-quality-3> [Mar 12, 2022].

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO), 2015, Transparency of Firms that audit Public Companies, Consultation Report, [Online]. Available: <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD511.pdf> [Sep 12, 2022]

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO), 2009, Transparency of Firms that audit Public Companies, Consultation Report, [Online]. Available: [www.iosco.org/library/pubdocs/pdf/IOSCOPD302.pdf](http://www.iosco.org/library/pubdocs/pdf/IOSCOPD302.pdf) [Mar 12, 2022].

INDEPENDENT REGULATORY BOARD FOR AUDITORS (IRBA), 2018, Transparency reports will strengthen confidence in Audit Firms, [Online]. Available:

[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiBwTE8MP2AhWI\\_rsIHR1bBnsQFnoECAgQAQ&url=https%3A%2F%2Fwww.irba.co.za%2Fupload%2F28\\_%2520Transparency%2520reporting.docx&usg=AOvVaw3rBYIf98CQCikjWIY6oFei](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiBwTE8MP2AhWI_rsIHR1bBnsQFnoECAgQAQ&url=https%3A%2F%2Fwww.irba.co.za%2Fupload%2F28_%2520Transparency%2520reporting.docx&usg=AOvVaw3rBYIf98CQCikjWIY6oFei) [Mar 13, 2022].

ISMAIL, N., KINCHIN, G. and EDWARDS, J., 2018. Pilot Study, Does It Really Matter? Learning Lessons from Conducting a Pilot Study for a Qualitative PhD Thesis. *International Journal of Social Science Research*, 6(1), pp. 1-17. DOI: 10.5296/ijssr.v6i1.11720.

JANGHORBAN, R., ROUDSARI, R.L. and TAGHIPOUR, A., 2014a. Pilot Study in Qualitative Research: The Roles and Values. *Journal of Hayat*, 19(4), pp. 1-5.

JANGHORBAN, R., ROUDSARI, R.L. and TAGHIPOUR, A., 2014b. Skype interviewing: The new generation of online synchronous interview in qualitative research. *International Journal of Qualitative Studies on Health and Well-being*, 9(1), pp. 1-3. DOI: 10.3402/qhw.v9.24152.

JOHL, S.K., MUTTAKIN, M.B., MIHRET, D.G., CHEUNG, S. and GIOFFRE, N., 2021. Audit firm transparency disclosures and audit quality. *International journal of auditing*, 25(2), pp. 508–533. DOI: 10.1111/ijau.12230.

JOHNSON, R.B., ONWUEGBUZIE, A.J. and TURNER, L.A., 2007. Toward a Definition of Mixed Methods Research. *Journal of Mixed Methods Research*, 1(2), pp. 112-133. DOI: 10.1177/1558689806298224.

JOHNSTON, M.P., 2014. Secondary Data Analysis: A Method of Which the Time Has Come. *Qualitative and Quantitative Methods in Libraries*, 3(3), pp. 619-626.

KAHN, R. L., and CANNELL, C. F., 1958. The Dynamics of Interviewing; Theory, Technique, and Cases. *Social Service Review*, 32(1), pp. 76-77. DOI: 10.1086/640422.

KEND, M. and BASIOUDIS, I., 2018. Reforms to the Market for Audit and Assurance Services in the Period after the Global Financial Crisis: Evidence from the UK: Post-GFC Audit and Assurance Services Reforms in the UK. *Australian Accounting Review*, 28(4), pp. 589–597. DOI: 10.1111/auar.12211.

KPMG, 2020-last update, European Union Audit Legislation – Frequently Asked Questions for Discussion Purposes, [Homepage of KPMG], [Online]. Available: <https://assets.kpmg/content/dam/kpmg/xx/pdf/2017/07/shedding-light-on-eu-audit-legislation.pdf> [Sep 12, 2022].

KPMG, 2018-last update, The Importance of Confidence and Trust: Stakeholders Perspective, [Homepage of KPMG], [Online]. Available: <https://home.kpmg.com/xx/en/home/insights/2018/04/building-confidence-and-trust-in-capitalmarkets.html> [Sep 13, 2022].

KRAATZ, M.S. and BLOCK, E.S., 2008. Organizational Implications of Institutional Pluralism. In: R. GREENWOOD, C. OLIVER, K. SAHLIN-ANDERSSON and R. SUDDABY, eds, *The Handbook of Organizational Institutionalism*. 1st edn. Thousand Oaks, CA: SAGE Publications, pp. 243-275.

KUHN, T. S., 1970. *The Structure of Scientific Revolutions*. 2nd edn. Chicago: University of Chicago Press.

LA ROSA, F., CASERIO, C. and BERNINI, F., 2019. Corporate governance of audit firms: Assessing the usefulness of transparency reports in a Europe-wide analysis. *Corporate governance: an international review*, 27(1), pp. 14–32. DOI: 10.1111/corg.12235.

LATHLEAN, J., 2006. Qualitative Analysis. In: K. GERRISH and A. LACEY, eds, *The Research Process in Nursing*. 5th edn. Oxford: Blackwell Publishing, pp. 417-433.

LENZ, H. and JAMES, M.L., 2007. International Audit Firms as Strategic Networks - The Evolution of Global Professional Service Firms. In: G. CLIQUET, M. TUUNANEN, G. HENDRIKSE and J. WINDSPERGER, eds, *Economics and Management of Networks*. 1st edn. Heidelberg: Physica-Verlag, pp. 367-392.

- MAIJOOR, S.J. and VANSTRAELEN, A., 2012. Research Opportunities in Auditing in the EU, revisited. *Auditing: A Journal of Practice & Theory*, 31(1), pp. 115–126. DOI: 10.2308/ajpt-10209.
- MALHOTRA, N., MORRIS, T. and HININGS, C.B., 2006. Variation in Organizational Form among Professional Service Organizations. In: R. GREENWOOD and R. SUDDABY, eds, *Professional Service Firms (Research in the Sociology of Organizations, Vol. 24)*. 1st edn. Bingley: Emerald Group Publishing Limited, pp. 171-202.
- MALIS, S.S. and BROZOVIC, M., 2015. AUDIT MARKET CONCENTRATION – EVIDENCE FROM CROATIA. *Ekonomski vjesnik*, 28(2), pp. 339–356.
- MANGION, C., TABONE, N., BALDACCHINO P.J. and GRIMA S., 2021. Audit Quality and Resilience beyond the Role Stress Model: a Maltese Perspective. *International Journal of Finance, Insurance and Risk Management*, 11(3), pp. 37-56. DOI: 10.35808/ijfirm/264.
- MARSHALL, B., CARDON, P., PODDAR, A. and FONTENOT, R., 2013. Does Sample Size Matter in Qualitative Research?: A Review of Qualitative Interviews in is Research. *The Journal of Computer Information Systems*, 54(1), pp. 11–22. DOI: 10.1080/08874417.2013.11645667.
- MARTÍNEZ-MESA, J., GONZALEZ-CHICA, D. A., DUQUIA, R. P., BONAMIGO, R. R. and BASTOS, J. L., 2016. Sampling: how to select participants in my research study? *Anais Brasileiros de Dermatologia*, 91(3), pp. 326-330. DOI: 10.1590/abd1806-4841.20165254.
- MOCANU, M. and IONESCU, O.I., 2020. Interrelation of Capital Markets in the Context of Increased Audit Oversight in the European Union – Evidence on Third-Country Auditors. *Zagreb International Review of Economics & Business*, 23(1), pp. 71–80. DOI: 10.2478/zireb-2020-0005.
- MORSE, J. M., 1995. The Significance of Saturation. *Qualitative Health Research*, 5(2), pp. 147-149. DOI: 10.1177/104973239500500201.
- NYKIEL, R.A., 2007. *Handbook of Marketing Research Methodologies for Hospitality and Tourism*. 1st edn. New York: Routledge.

O'HALLORAN, N., 2016. EU Audit Reform. *Accountancy Ireland*, 38(6), pp. 31-33.

ÖSTLUND, U., KIDD, L., WENGSTRÖM, Y. and ROWA-DEWAR, N., 2011. Combining qualitative and quantitative research within mixed method research designs: A methodological review. *International Journal of Nursing Studies*, 48(3), pp. 369-383. DOI: 10.1016/j.ijnurstu.2010.10.005.

PANY, K. and RECKERS, P.M.J., 1980. The effects of gifts, discounts and client size on perceived auditor independence. *The Accounting Review*, 55(1), pp. 50-61.

PATTON, M.Q., 1990. *Qualitative Evaluation and Research Methods*. 2nd edn. Newbury Park: SAGE Publications.

PFLUGRATH, G., MARTINOV-BENNIE, N. and CHEN, L., 2007. The impact of codes of ethics and experience on auditor judgments. *Managerial Auditing Journal*, 22(6), pp. 566–589. DOI: 10.1108/02686900710759389.

POLIT, D.F. and HUNGLER B., 1995. *Nursing Research: Principles and Methods*. 5th edn. Philadelphia: Lippincott Williams and Wilkins.

POTT, C., MOCK, T.J. and WATRIN, C., 2008. The effect of a transparency report on auditor independence: practitioners' self-assessment. *Review of Managerial Science*, 2(2), pp. 111–127. DOI: 10.1007/s11846-008-0017-y.

QUICK, R., SCHENK, N., SCHMIDT, F. and TOWARA, T., 2018. The impact of corporate governance on auditor choice: evidence from Germany. *Journal of Management and Governance*, 22(2), pp. 251–283. DOI: 10.1007/s10997-017-9386-4.

RAPLEY, T., 2020. Some Pragmatics of Qualitative Data Analysis. In: D. SILVERMAN, ed, *Qualitative Research*. 5th edn. London: SAGE Publications, pp. 331-344.

RSM Global, 2020-last update, Finding opportunity in change [Homepage of RSM], [Online]. Available: <https://www.rsm.global/insights/finding-opportunity-change/changes-audit-are-about-transparency-and-transparency-presents> [Mar 29, 2023].

RYAN, F., COUGHLAN, M. and CRONIN, P., 2009. Interviewing in qualitative research: The one-to-one interview. *International Journal of Therapy and Rehabilitation*, 16(6), pp. 309-314. DOI: 10.12968/ijtr.2009.16.6.42433.

SAUNDERS, M.N.K, LEWIS, P., THORNHILL, A. and BRISTOW, A., 2019. *Research Methods for Business Students*. 8th edn. Harlow: Pearson Education Limited.

SEAL, W., 2006. Management accounting and corporate governance: An institutional interpretation of the agency problem. *Management Accounting Research*, 17(4), pp. 389–408. DOI: 10.1016/j.mar.2006.05.001.

SHAHZAD, K., POUW, T., RUBBANIY, G. and EL-TEMAMY, O., 2018. Audit quality during the global financial crisis: The investors' perspective. *Research in International Business and Finance*, 45, pp. 94–105. DOI: 10.1016/j.ribaf.2017.07.137.

SHONG, K. R., YAP, W. J. and JEONG J., 2015. ANCAAR Audit Quality Project Phase 2 – Auditor Transparency Reports. *Research School of Accounting & Business Information Systems*.

SMITH, R.J. and MARX, B., 2021. Transparency report disclosure practices of large- and medium-sized audit firms in South Africa. *Journal of Economic and Financial Sciences*, 14(1), pp. 1-14. DOI: 10.4102/jef.v14i1.662.

SPRADLEY, J.P., 1979. *The Ethnographic Interview*. 1st edn. New York: Holt, Rinehart and Winston Inc.

STRAUSS, A. and CORBIN, J., 1998. *Basics of Qualitative Research: Techniques and Procedures for Developing Grounded Theory*. 2nd edn. Thousand Oaks, CA: SAGE Publications.

TASHAKKORI, A. and TEDDLIE, C., 1998. *Mixed Methodology: Combining Qualitative and Quantitative Approaches (Vol. 46)*. 1st edn. Thousand Oaks, CA: SAGE Publications.

TEPALAGUL, N. and LIN, L., 2015. Auditor Independence and Audit Quality. A Literature Review. *Journal of Accounting, Auditing & Finance*, 30(1), pp. 101-121. DOI: 10.1177/0148558X14544505.

TOD, A., 2006. Interviewing. In: K. GERISH and A. LACEY, eds, *The Research Process in Nursing*. 5th edn. Oxford: Blackwell Publishing, pp. 337-352.

UNITED KINGDOM DEPARTMENT OF TRADE AND INDUSTRY, 2005-last update, UK Government Response to the Consultation Process and Updated Regulatory Impact Assessment, [Homepage of the UK Government], [Online]. Available at: <http://www.berr.gov.uk/files/file22807.pdf> [Sep 12, 2022].

VASSALLO, J., 2006. *The applicability of the newly proposed corporate governance provisions to Maltese listed companies*. B.ACCTY. (HONS) Dissertation, Malta: University of Malta. Available: <https://www.um.edu.mt/library/oar/handle/123456789/83>

VOURVACHIS, P. and WOODWARD, T., 2015. Content analysis in social and environmental reporting research: trends and challenges. *Journal of Applied Accounting Research*, 16(2), pp. 166-195. DOI: 10.1108/JAAR-04-2013-0027.

WALUMBWA, F.O., LUTHANS, F., AVEY, J.B. and OKE, A., 2011. Authentically leading groups: The mediating role of collective psychological capital and trust. *Journal of Organization Behaviour*, 32(1), pp. 4-24. DOI: 10.1002/job.653.

WOODS, M., HUMPHREY C., DOWD, K. and LIU, Y., 2009. Crunch time for bank audits? Questions of practice and the scope for dialogue. *Managerial Auditing Journal*, 24(2), pp. 114-134. DOI: 10.1108/02686900910924545.

WOUDENBERG, J., VAN DER HEL - VAN DIJK, L. and KAMERLING, R., 2021. Auditor's Reporting in the Dutch Market of Public Interest Entities: Exploring New Developments in a Diverse Market. *Accounting in Europe*, 18(2), pp. 249–273. DOI: 10.1080/17449480.2021.1912371.

WYMAN, P., 2004. Is Auditor Independence Really the Solution? *The CPA Journal (1975)*, 74(4), pp. 6-8.

ZORIO-GRIMA, A. and CARMONA, P., 2019. Narratives of the Big-4 transparency reports: country effects or firm strategy? *Managerial Auditing Journal*, 34(8), pp. 951-985. DOI: 10.1108/MAJ-09-2018-1994.

## Regulatory

*Accountancy Profession Act 1979* (c.281). Malta: Government of Malta.

EUROPEAN COMMISSION (EC), 2017, Report from the Commission to the Council, the European Central bank, the European Systemic Risk Board, and the European parliament on monitoring developments in the EU market for providing statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) 537/2014, [Online]. Available: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0464&from=EN> [Sep 14, 2022].

EUROPEAN COMMISSION (EC), 2014a, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC, [Online]. Available: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=en> [Mar 12, 2022].

EUROPEAN COMMISSION (EC), 2014b, Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, [Online]. Available: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0056> [Mar 15, 2022].

EUROPEAN COMMISSION (EC), 2013, Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC. [Online]. Available: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0034> [Feb 22, 2023].

EUROPEAN COMMISSION (EC), 2006, Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, [Online]. Available: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0043&from=EN> [Mar 12, 2022].



# *Appendices*

---

## Appendix 1.1 - The Requirements of an Audit TR

In Article 13.2 of the Regulation, entitled 'Transparency Report', disclosure of the following items in a TR is mandated:

- a. *"A description of the legal structure and ownership of the audit firm;*
- b. *Where the statutory auditor or the audit firm is a member of a network:*
  - i. *A description of the network and the legal and structural arrangements in the network.*
  - ii. *The name of each statutory auditor operating as a sole practitioner or audit firm that is a member of the network.*
  - iii. *The countries in which each statutory auditor operating as a sole practitioner or audit firm that is a member of the network is qualified as a statutory auditor or has his, her or its registered office, central administration, or principal place of business.*
  - iv. *The total turnover achieved by the statutory auditors operating as sole practitioners and audit firms that are members of the network, resulting from the statutory audit of annual and consolidated financial statements.*
- c. *A description of the governance structure of the audit firm;*
- d. *A description of the internal quality control system of the statutory auditor or of the audit firm and a statement by the administrative or management body on the effectiveness of its functioning;*
- e. *An indication of when the last quality assurance review referred to in Article 26 was carried out;*
- f. *A list of public-interest entities for which the statutory auditor or the audit firm carried out statutory audits during the preceding financial year;*
- g. *A statement concerning the statutory auditor's or the audit firm's independence practices which also confirms that an internal review of independence compliance has been conducted;*
- h. *A statement on the policy followed by the statutory auditor or the audit firm concerning the continuing education of statutory auditors referred to in Article 13 of Directive 2006/43/EC;*

- i. Information concerning the basis for the partners' remuneration in audit firms;*
- j. A description of the statutory auditor's or the audit firm's policy concerning the rotation of key audit partners and staff in accordance with Article 17(7);*
- k. Where not disclosed in its financial statements within the meaning of Article 4(2) of Directive 2013/34/EU, information about the total turnover of the statutory auditor or the audit firm, divided into the following categories:*
  - i. revenues from the statutory audit of annual and consolidated financial statements of public-interest entities and entities belonging to a group of undertakings whose parent undertaking is a public-interest entity;*
  - ii. revenues from the statutory audit of annual and consolidated financial statements of other entities;*
  - iii. revenues from permitted non-audit services to entities that are audited by the statutory auditor or the audit firm; and*
  - iv. revenues from non-audit services to other entities”.*

(EC 2014a, pp. 18-19)

## **Appendix 2.1 - Covering Email sent to AFRs**

*Dear Mr/Ms,*

*Trust this email finds you well.*

*By way of introduction, my name is Francesca Grech, and I am a Masters in Accountancy student at the University of Malta. As I am in my final year of studies, I am presently conducting a research study titled 'An Evaluation of Transparency Report Disclosures by Maltese Audit Firms', this being supervised by Dr Norbert Tabone.*

*My dissertation is on the area of external auditing and in order to collect primary data, I would need someone from the audit department, or someone who is closely involved in the preparation of the annual Transparency Report to participate in a semi-structured interview to contribute to the study, a better understanding of the approach the firm takes when preparing such report and what their perspective on the relevance of the report is. Moreover, this research seeks to understand the auditors' perspective on whether increased transparency is successful in providing better information to stakeholders, in increasing investors' confidence, and assisting audit clients in selecting a new audit firm.*

*The semi-structured interview with one individual will take between 30-45 minutes and can be held either online or in-person. Attached in this email please find an invitation letter signed by my supervisor, as well as a copy of the questions which we shall be going through during the interview. Should you wish to accept this invitation, I would then be able to provide you with a consent form to be signed prior to the interview.*

*Any data collected from this research will be used solely for purposes of this study and the data collected will be treated confidentially and will only be accessible by the researcher and her supervisor.*

*Your participation would be greatly appreciated and will be of invaluable assistance for my research. Please do not hesitate to contact me back, should you require further information from my end.*

*Thank you in advance and I look forward to hearing from you.*

*Kind regards,  
Francesca Grech*

## **Appendix 2.2 - Covering Email sent to PIERs**

*Dear Mr/Ms,*

*Trust this email finds you well.*

*By way of introduction, my name is Francesca Grech, and I am a Masters in Accountancy student at the University of Malta. As I am in my final year of studies, I am presently conducting a research study titled 'An Evaluation of Transparency Report Disclosures by Maltese Audit Firms', this being supervised by Dr Norbert Tabone.*

*Transparency Reports are prepared by the auditors of Public Interest Entities, are publicly available on the audit firm's website, and include information about the audit firm's governance, internal quality control system and information about its independence practices and compliance, amongst others. Given that this Company falls under the definition of an entity of public interest, your opinions and views on the relevance of the disclosures contained in such a Transparency Report would be vital to this study.*

*The semi-structured interview with one individual will take between 30-45 minutes and can be held either online or in-person. Such participation would contribute to the study, a better understanding of the perspective of the accounting practitioner on the effectiveness of such a report.*

*Attached in this email please find an invitation letter signed by my supervisor, as well as a copy of the questions which we shall be going through during the interview. Should you wish to accept this invitation, I would then be able to provide you with a consent form to be signed prior to the interview.*

*Any data collected from this research will be used solely for purposes of this study, the data collected will be treated confidentially and will only be accessible by the researcher and her supervisor.*

*Your participation would be greatly appreciated and will be of invaluable assistance for my research. Please do not hesitate to contact me back, should you require further information from my end.*

*Thank you in advance and I look forward to hearing from you.*

*Kind regards,  
Francesca Grech*

## **Appendix 2.3 - Interview Schedules**

Presented in the following Appendices are the two interview schedules used during the conduct of data collection for this dissertation; one used during the interviews with AFRs and the other used during the interviews with PIERs. Responses for each Likert scale question are also included in the schedule, marked in **bold** and *italics*.

## **Appendix 2.4 - Interview Schedule for AFRs**

### **Section A: General questions:**

1. Can you please introduce yourself by giving a brief introduction about your role within the audit firm and specifically, your role in the preparation of the TR?
2. In brief, how do you describe a TR, and based on your understanding, how does such report promote audit firm independence as well as audit quality?

### **Section B: The requirements of the TR:**

We will now go through a list consisting of the main disclosures which should be found in every TR, some of which have been newly introduced by the EU Statutory Audit Reform.

3. Based on your own judgement and opinion, how much importance do you attribute to the following disclosures? *Kindly rate from 1 to 5 (with 1 being not at all important and 5 being high importance).*

	<b>Number of Interviewees = 9</b>				
	<b>Not at all important</b>	<b>Low importance</b>	<b>Neutral</b>	<b>Important</b>	<b>High importance</b>
a. The Legal Structure and Ownership of the Audit Firm.	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>6</b>
b. The Network and the Legal and Structural Arrangements in the Network.	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>6</b>
c. The Audit Firm's Governance Structure.	<b>0</b>	<b>1</b>	<b>0</b>	<b>4</b>	<b>4</b>
d. The Internal Quality Control System ( <i>ISQC-1 now ISQM-1</i> ).	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>6</b>
e. When the last QAR was carried out ( <i>including a statement on the operating effectiveness of such quality controls</i> ).	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>
f. List of Audited PIEs.	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>6</b>
g. Independence Practices and Compliance.	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>6</b>
h. Continuing Professional Education.	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>5</b>
i. Basis of Partner Remuneration Structure.	<b>0</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>3</b>
j. Mandatory Audit Partner Rotation.	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>7</b>
k. Audit Firm Fees and Total Turnover.	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>

The 2014 EU Audit Reform, effective from June 2016, has introduced additional disclosures to the TR, being descriptions of the network in which an audit firm is a member, if applicable, and a description of the audit firm's policy regarding partners and key audit staff rotation. Such additions were mainly introduced to address a number of shortcomings post the global financial crisis.

4. To what extent do you consider the following new disclosures to address these shortcomings by influencing audit market competition and boosting investor confidence? *Kindly rate from 1 to 5 (with 1 being not at all influential and 5 being high influence).*

	<b>Number of Interviewees = 8*</b>				
	<b>Not a tall influential</b>	<b>Low influence</b>	<b>Neutral</b>	<b>Influential</b>	<b>High influence</b>
a. If the audit firm is a member of a network, the details of each audit firm in the network and the total turnover received from the statutory audit of annual and consolidated financial statements.	<b>2</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>2</b>
b. Description of the audit firm's policy regarding partners and key audit staff rotation.	<b>2</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>2</b>

***\*One AFR did not answer the above set of question as the audit firm he represented did not form part of a network of audit firms.***

5. Do you think that the above disclosures were effective enough to improve the overall quality of TRs and enhance trust in the auditor-client relationship?
  - i. If not, what other disclosures can you think of which should be made mandatory?
6. The Regulation gives freedom to the preparers of TRs to include their desired level of detail. In fact, some audit firms take the initiative to include additional information, which goes beyond the legal requirements. What is your opinion on the use of voluntary disclosures to make your TR more attractive on the market?
7. Overall, do you believe it is time for an update to the section of Transparency Report requirements in last Audit Regulation issued by the EU in 2014?

### **Section C: The AFR's perspective on the usefulness of the TR:**

There are many benefits which transpire from transparent reporting, especially when taking the perspective of capital markets. Can you specify the extent to which you agree to the following statements and the reason for your choice? *Kindly rate from 1 to 5 (with 1 being strongly disagree and 5 being strongly agree).*

	<i>Number of Interviewees = 9</i>				
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Undecided</b>	<b>Agree</b>	<b>Strongly agree</b>
8. TRs are capable of aligning the knowledge of auditors and investors on policies and procedures of auditor independence.	<b>0</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>3</b>
9. Disclosures on internal governance in a TR can be used to increase competition within the audit market.	<b>0</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>3</b>
10. TRs are often utilised by AFs as marketing tools, as rather than providing unbiased and substantive content, they tend to provide biased or marketing information.	<b>1</b>	<b>5</b>	<b>1</b>	<b>2</b>	<b>0</b>
11. TRs will benefit audit clients from comparable internal information on all AFs which will assist them in making rational choices when selecting their auditor.	<b>0</b>	<b>2</b>	<b>1</b>	<b>5</b>	<b>1</b>
12. Disclosing descriptive information on the basis of partner remuneration and revenue derived from NASs adequately helps in promoting auditor independence.	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>3</b>
13. Disclosing information on the AF's policy regarding partners and key audit staff rotation in TRs boosts the confidence of investors.	<b>0</b>	<b>0</b>	<b>1</b>	<b>5</b>	<b>3</b>

14. Internally, in the course of your work, how do you make use of TRs? For example, when preparing a client proposal, do you cross refer to your own document?

**Section D: The AFR’s presumed perspective of the PIER on the usefulness of the TR:**

15. An entity is considering a change in its audit service provider. On a scale of 1 to 5 how likely do you think it is for an accountant (or an individual closely related to the audit process) to refer to a TR when forming an opinion on which audit firm to choose and why? *Kindly rate from 1 to 5 (with 1 being very unlikely and 5 being very likely).*

<b>Number of Interviewees = 9</b>				
<b>Very unlikely</b>	<b>Unlikely</b>	<b>Neutral</b>	<b>Likely</b>	<b>Very likely</b>
<b>4</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>0</b>

16. As an accountant or an individual closely related to the audit process) forming part of a team to select an audit firm, what is the most useful aspect that you would look for/or would expect to find in such a TR?

**Section E: Preparing the TR:**

In this section of the interview, we will now assess the more technical part, which is the preparation and drawing up of the TR.

17. How many people are involved in the preparation of the TR and what is their level of authority/role within the firm?

18. What is the starting point, and can you describe the preparation process of this report?

19. Your firm is probably currently in the preparation phase of the TR for the year 2022. How long does it take to prepare such reports, and do you start preparing as soon as the financial year of the audit firm elapses?

20. In your opinion, are there any disclosures which you consider to be too confidential and sensitive, and which make you somewhat uncomfortable publishing in the TR?

21. What challenges do you face when preparing the TR? How do you manage to overcome the challenges faced in previous years?
22. How does the firm get the TR checked and reviewed before it is authorised for issue?
23. How do you interact with your regulator with respect to TRs?
24. In the Directive there is a requirement to include a section of when the last review of the firm was carried out. Nevertheless, the Directive does not mandate the auditors to disclose the outcome of these inspections. Why are inspection findings not disclosed in your TRs and do you think that disclosure of such is important and should be mandated?

**Section F: Areas for improvement and concluding remarks:**

25. Overall, do you think that enough knowledge exists on what a TR is?
  - i. If not, how can your firm market its TR to reach more potential clients?
26. In your opinion, how can the audit firm make a TR stand out from the TR of other firms to attract PIEs to choose one audit firm over the other?
27. Do you think that the message that your firm is trying to portray using the TR is being successfully passed on to the market participants or do you consider the publication of the TR as an additional regulatory burden? In other words, do the costs outweigh the benefits?

## **Appendix 2.5 - Interview Schedule for PIERs**

### **Section A: General Questions:**

1. Can you please introduce yourself by giving a brief introduction about your role within the Company and your experience in accountancy?
2. How does your role as an accountant (or as applicable) with the Company, influence decisions taken by those charged with governance, with respect to audit firm selection?
3. Are you aware of the requirement for audit firms that carry out the statutory audit of PIEs to issue an annual Transparency Report on their website?
4. In brief, how do you describe a Transparency Report, and based on your understanding, how does such report promote audit firm independence as well as audit quality?
5. Have you ever come across any Transparency Report in the course of your work?

### **Section B: The Requirements of the Transparency Report:**

We will now go through a list consisting of the main disclosures which should be found in every Transparency Report, some of which have been newly introduced by the EU Statutory Audit Reform.

6. Based on your own judgement and opinion, how much importance do you attribute to the following disclosures? *Kindly rate from 1 to 5 (with 1 being not at all important and 5 being highly important).*

	<b>Number of Interviewees = 8</b>				
	<b>Not at all important</b>	<b>Low importance</b>	<b>Neutral</b>	<b>Important</b>	<b>High importance</b>
a. The Legal Structure and Ownership of the Audit Firm.	<b>0</b>	<b>0</b>	<b>3</b>	<b>2</b>	<b>3</b>
b. The Network and the Legal and Structural Arrangements in the Network.	<b>0</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>4</b>
c. The Audit Firm's Governance Structure.	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>4</b>
d. The Internal Quality Control System ( <i>ISQC-1 now ISQM-1</i> ).	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>6</b>
e. When the last QAR was carried out ( <i>including a statement on the operating effectiveness of such quality controls</i> ).	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>3</b>
f. List of Audited PIEs.	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>4</b>
g. Independence Practices and Compliance.	<b>0</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>5</b>
h. Continuing Professional Education.	<b>0</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>5</b>
i. Basis of Partner Remuneration Structure.	<b>0</b>	<b>0</b>	<b>2</b>	<b>3</b>	<b>3</b>
j. Mandatory Audit Partner Rotation.	<b>0</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>3</b>
k. Audit Firm Fees and Total Turnover.	<b>0</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>6</b>

The 2014 EU Audit Reform, effective from June 2016, has introduced additional disclosures to the Transparency Report, being descriptions of the network in which an audit firm is a member, if applicable, and a description of the audit firm's policy regarding partners and key audit staff rotation. Such additions were mainly introduced to address a number of shortcomings post the global financial crisis.

7. To what extent do you consider the following new disclosures to address these shortcomings by influencing audit market competition and boosting investor confidence? *Kindly rate from 1 to 5 (with 1 being not at all influential and 5 being highly influential).*

	<b>Number of Interviewees = 8</b>				
	<b>Not a tall influential</b>	<b>Low influence</b>	<b>Neutral</b>	<b>Influential</b>	<b>High influence</b>
a. If the audit firm is a member of a network, the details of each audit firm in the network and the total turnover received from the statutory audit of annual and consolidated financial statements.	<b>1</b>	<b>0</b>	<b>5</b>	<b>2</b>	<b>0</b>
b. Description of the audit firm's policy regarding partners and key audit staff rotation.	<b>1</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>0</b>

8. Do you think that the above disclosures were effective enough to improve the overall quality of Transparency Reports and enhance trust in the auditor-client relationship?
- i. If not, what other disclosures can you think of which should be made mandatory?
9. The Regulation gives freedom to the preparers of Transparency Reports to include their desired level of detail. In fact, some audit firms take the initiative to include additional information, which goes beyond the legal requirements. Are there any particular disclosures, which were not mentioned above and which you believe, even if voluntarily included, would increase your likelihood of using the Transparency Report?

**Section C: The PIER's Perspective on the Usefulness of the Transparency Report:**

There are many benefits which transpire from transparent reporting, especially when taking the perspective of capital markets. Can you specify the extent to which you agree to the following statements and the reason for your choice? *Kindly rate from 1 to 5 (with 1 being strongly disagree and 5 being strongly agree).*

	<i>Number of Interviewees = 8</i>				
	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Undecided</b>	<b>Agree</b>	<b>Strongly agree</b>
10. TRs are capable of aligning the knowledge of auditors and investors on policies and procedures of auditor independence.	<b>1</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>1</b>
11. Disclosures on internal governance in a TR can be used to increase competition within the audit market.	<b>0</b>	<b>2</b>	<b>0</b>	<b>4</b>	<b>2</b>
12. TRs are often utilised by AFs as marketing tools, as rather than providing unbiased and substantive content, they tend to provide biased or marketing information.	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>2</b>
13. TRs will benefit audit clients from comparable internal information on all AFs which will assist them in making rational choices when selecting their auditor.	<b>0</b>	<b>2</b>	<b>0</b>	<b>6</b>	<b>0</b>
14. Disclosing descriptive information on the basis of partner remuneration and revenue derived from NASs adequately helps in promoting auditor independence.	<b>0</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>2</b>
15. Disclosing information on the AF's policy regarding partners and key audit staff rotation in TRs boosts the confidence of investors.	<b>0</b>	<b>1</b>	<b>0</b>	<b>7</b>	<b>0</b>

**Section D: Concluding remarks:**

16. Transparency Reports in Malta are monitored by the authority responsible for Audit Oversight, the Accountancy Board. Were you aware of such regulation, and do you think that the fact that a Transparency Report is regulated makes you place more reliance on the contents presented by its preparers?
17. What is the most useful aspect that you would look for/or would expect to find in such a Transparency Report?
18. When it comes to select a new audit firm (or recommend a new audit firm to those charged with governance), how likely are you make use of a Transparency Report to aid your decision-making process and why? Kindly rate from 1 to 5 (*with 1 being very unlikely and 5 being very likely*)

<b>Number of Interviewees = 8</b>				
<b>Very unlikely</b>	<b>Unlikely</b>	<b>Neutral</b>	<b>Likely</b>	<b>Very likely</b>
<b>0</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>