

*The Perception on
GAPSE of Maltese
sole practitioners:
A Study*

By

*Spiteri Cathriona
09BACC069*

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Abstract

“The Perception on GAPSE of Maltese Sole Practitioners: A Study”

Recently, a critical issue was about whether financial reporting standards should be equally applicable by all companies, irrespective of their size. Global standards are usually criticized, by small entities in particular, because they seem very costly and burdensome.

Thus, like what happened internationally in developing FRSSE and IFRS SME, the Accountancy Board and the MIA came up with GAPSE to replace IFRSs, given that the companies in question satisfy the eligibility criteria. However, this has mainly focused on reducing burdens from small entities without considering the effect and opinion of sole practitioners. This study's objective, being to analyse sole practitioners' perception towards GAPSE, which was approved by the Cabinet of Ministers on 2nd February 2009, was achieved through a survey questionnaire.

Generally, sole practitioners agreed with this development and believe that it will eventually reduce burdens for smaller entities. However, a significant part of practitioners are of the opinion that GAPSE will then impose burdens on auditors themselves. Their agreement with GAPSE was such that only few stated that most probably they will reject clients preparing GAPSE financial statements. In addition, a considerable number of sole practitioners stated that a similar development should happen with regards to auditing, in that a simplified auditing standard should be developed.

CATHRIONA SPITERI

APRIL 2009

Statement of Authenticity

I, the undersigned, hereby declare that I am the author of this dissertation on

*“The Perception on GAPSE of Maltese Sole Practitioners:
A Study”*

being presented in partial fulfillment of the requirements for the degree of Bachelor of Accountancy (Honours) at the University of Malta. I hereby confirm that this dissertation is an original and unpublished work, as a result of my own research. Thus, any conclusions reached are mine, unless otherwise stated.

CATHRIONA SPITERI

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Dedications

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List of Abbreviations

APB	Accounting Practices Board Limited
ASB	Accounting Standards Board
FRC	Financial Reporting Council
FRSs	Financial Reporting Standards
FRSSE	Financial Reporting Standards for Smaller Entities
GAAPs	Generally Accepted Accounting Principles
GAPSE	General Accounting Principles for Smaller Entities
ICAEW	Institute of Chartered Accountants of England and Wales
ICAI	Institute of Chartered Accountants in Ireland
IFRSs	International Financial Reporting Standards
IFRS SME	IFRSs tailored for SMEs (IASB's SME program)
MIA	Malta Institute of Accountants
PAB	Practice Advisory Board
POB	Professional Oversight Board
SMEs	Small and Medium Entities
SSAPs	Statement of Standard Accounting Practice
UITF	Urgent Issues Task Force

CHAPTER 1

INTRODUCTION

“We need to ensure that SMEs dedicate their energy to their business and not to worrying about IFRS which are aimed at international companies,...”

(Fenech, 2007)

1.0 Introduction

The accountancy profession is becoming increasingly important in today's dynamic environment, and in view of this, it comes to no surprise that financial reporting has been heavily affected.

“It is indeed an ever-changing accountancy world that we live in, both locally and of course globally.”

(Fenech, 2008)

As the Minister of Finance, the Economy and Investment stated in June 2008, in order to be competitive, Malta needs to grow in line with the worldwide economic growth. In fact, the development of General Accounting Principles for Smaller Entities (GAPSE), being part of the growth in Malta's accountancy profession, contributes towards our economic growth.

1.1 Background information

The aim of introducing GAPSE is “to establish a leaner financial reporting framework for small entities” (Fenech, 2007). Prior to GAPSE, Maltese companies had to comply with full IFRSs. However, such standards were being very costly, time consuming and burdensome for SMEs. Therefore, GAPSE has been one of the government commitments in fostering small entities. In addition, burdens seem to be imposed also on practitioners:

“The cost of preparing accounts is becoming more and more significant and is many times borne by the professional accountant who does not always manage to pass the cost for assisting in the preparation of accounts to a client who may not see much value in the level of detail his accounts have to show”

(Flynn, 2007)

Malta is not only small in size but is also characterized by a significant number of small entities. This highlights the importance to be given to SMEs in trying to reduce their regulations and cost burdens, thus enabling them to improve and combat the current increasing competition. GAPSE will enable SMEs to keep up with standards along with a more affordable service as well as enhancing public confidence in local financial reporting.

In developing GAPSE, the UK FRSSE as well as the IFRS for SMEs were consulted. Although the FRSSE proved to be relevant, it was decided to set up a set of locally accepted accounting principles, which later resulted in GAPSE. Adopting national GAAPs, rather than a globalised set of standards, may be a subject for great debate since comparability of SMEs worldwide will deteriorate. Nevertheless, GAPSE is expected to provide more relevant and understandable financial statements.

The President of the MIA, Flynn, in Ameen, (2007), outlined that GAPSE will not provide “a set of abridged or limited disclosure financial statements”. Instead it will give “an appropriate, but not excessive or over complicated level of information to their users”.

1.2 Objective of Dissertation

The aim of this study is to analyse whether GAPSE will render auditing an easier task for sole practitioners, or conversely whether GAPSE is regarded as an extra burden. Since auditors now have to face different clients, that is, clients who continue to abide by IFRSs and others who are going to opt for GAPSE, they will have to adapt to these changing circumstances in order to be competitive and serve clients as adequately as possible.

The introduction of GAPSE may thus entail additional training in order for sole practitioners to be more confident in applying the new financial reporting

standard. Besides all this, how are they going to manage their time between clients requiring the application of IFRSs and others who prefer GAPSE? Although all auditors, being a large firm or a sole practitioner, are merely in the same line regarding the application of GAPSE, sole practitioners tend to be more subjective to any burdens that the new financial reporting system may bring about.

Thus, this dissertation is targeted at analysing the multiplier effects on a sole practitioner to service clients who qualify for GAPSE. Hence, although GAPSE is deemed to be advantageous for SMEs, it is envisaged that sole practitioners will encounter other burdens. In view of this situation, what is the sole practitioners' perspective and how are they likely to respond to such situations? Will audit fees change as well? Although auditing GAPSE financial statements may require less work rather than financial statements prepared using full IFRSs, auditors may not be willing to lower their fees partly due to the fact that they require additional training, at least primarily. They will also have to face different clients.

In view of the development of GAPSE, which is applicable to financial periods ending on or after 1st January 2009, Malta is no longer a one-tier system in the accounting environment. Thus, such an environment is likely to experience a change from a one-tier system, relying only on IFRSs, to a two-tier system consisting of IFRSs as well as GAPSE. What are the likely effects of such a change? Will it eventually prove to be beneficial from a general perspective?

1.3 Limitations of Dissertation

The major limitation of this study is the lack of experience of the effects, advantages or disadvantages, if any, that GAPSE will have in the accounting environment. This is due to the fact that the GAPSE's effective date is for

periods beginning on or after 1st January 2008. Thus, this study can only be based on sole practitioners' expectations rather than what GAPSE will actually lead to since its effects are not yet practically known. However, sole practitioners will definitely be in the process of upgrading towards the new standard requirements. Another limitation is that this study would be exclusively based on declarations and opinions given by sole practitioners and therefore the conclusions would only be reliable to the extent that such declarations and opinions would be truthful.

1.4 Structure of Dissertation

This dissertation encompasses five chapters. **Chapter 1 - Introduction** provides an overview on the study, the objective and also certain limitations. **Chapter 2 - Literature Review**, describes the FRSSSE, on which GAPSE is modelled, as well as the auditors' perceptions towards the former. **Chapter 3 - Research Methodology** describes the technique which led to the results obtained in order to achieve the initial objectives of this dissertation. **Chapter 4 - Findings and Analysis** sets out the results achieved by the research as well as an interpretation of such responses. **Chapter 5 - Conclusions and Recommendations** puts forward any conclusions drawn out from the study. In addition, this chapter also presents suggestions which are worth further investigation.

CHAPTER 2

LITERATURE REVIEW

***“You have to provide an incredible amount of detail
to prove that you are satisfying the rules
and all this is a cost not only to the company
but also to the accounting firm”***

(Fenech, 2007)

2.0 Introduction

Accounting standards and requirements have increased drastically throughout the years, leading to several administrative as well as legislative burdens on small businesses. Various issues have been raised, ranging from whether accounting standards should be applied by small companies to an audit exemption threshold, because of the constant complaints by small companies regarding cost and inconvenience.

According to Wilson et al. (2007:14), there are different opinions regarding the application of accounting standards, in that some believe that accounting standards should be applied both by large and small companies in presenting a true and fair view; others state that there should be exemptions for small companies to prevent unnecessary burdens; and there is also the opinion that small businesses should have their own set of accounting standards.

2.1 General Accounting Principles for Smaller Entities

In May 2006, the Accountancy Board entrusted the Malta Institute of Accountants (MIA) to develop a simplified set of financial reporting standards for smaller entities. Previously, all companies in Malta had to abide by IFRSs, whether being a large or a small company, which according to Zammit Tabona (2007) in MIA (2008), this has been the case for the past twelve years. In fact, Malta was one of the primary adopters of IFRSs which “has given the profession an international dimension and a strong technical base” (Dingli, 2009:4).

Keeping in mind the currently ever-changing environment, IFRSs have been continually updated in order to be in line with these changes. This led to IFRSs being more demanding in terms of measurement, presentation and disclosure, thus being more costly and burdensome especially to small

entities. Thus, GAPSE was developed with the aim of releasing smaller entities from these burdens, as Fenech (2008) had stated,

“For small businesses, this would mean less bureaucracy, less costs and therefore further opportunities to grow and generate employment”.

(Fenech, 2008)

In developing GAPSE, three alternatives were considered. Primarily, the MIA considered updating the third and fourth schedule of the Companies' Act, converting them into a full financial reporting framework, but several limitations could not make this possible. The second alternative was the IFRSs for SMEs but these did not meet the intended simplifications. The third alternative was the FRSSE. From these alternatives, it was concluded that a local set of financial reporting standards should be developed, being modelled on the FRSSE but tailored on IFRSs.

GAPSE cannot be applied by companies which are listed on the stock exchange or by guarantors of the latter. Moreover, GAPSE is also not applicable by public companies and by entities which are licenced or authorized by the MFSA. In addition, companies which exceed any of the following criteria are not eligible to adopt GAPSE:

- Balance sheet total in excess of €17.5m
- Annual Total revenue in excess of €35m
- In each of the immediately preceding 2 years, average number of employees exceeding 250.

GAPSE, being described as a “robust, standalone set of accounting principles” (Dingli, 2009) is optional since the default in Malta will still remain IFRSs. The final draft of GAPSE was approved by the Cabinet of Ministers on 2nd February 2009.

2.2 Financial Reporting Standard for Smaller Entities

The Financial Reporting Standard for Smaller Entities (FRSSE) was issued on 6th November 1997 by the Accounting Standards Board (ASB). It contains requirements from other accounting standards (Statement of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs)) and Urgent Issues Task Force (UITF) Abstracts which should be applied by smaller entities choosing to adopt the FRSSE. Thus, as the FRSSE itself states, companies choosing to adopt the FRSSE are exempt from abiding by other accounting standards and UITF abstracts.

FRSSE, based on UK GAAPs, was developed with the main aim of reducing reporting burdens from small companies.

“An indirect policy implication of this was that small firms would be stimulated, for example, in terms of start-up rate, performance (including survival rate, and profitability, and growth) and contribution to employment and innovation within the economy.”

(Reid and Smith, 2008:1)

However, it is continually revised and updated to incorporate any new FRSs and any changes in existing accounting standards. The most recent update was issued by the ASB on 12th June 2008 which, apart from several alterations, included a significant change being that of increasing the qualification thresholds (Accountingweb, 2008). According to the ASB (2008), this threshold increase represents an excess of 20% over that for the FRSSE effective January 2007. FRSSE is not mandatory, that is, small entities still have the option to have their accounts prepared with either full accounting standards or with FRSSE. In addition, FRSSE cannot be applied for abridged accounts.

One of FRSSE's tactics to ease the burden on small companies is to reduce disclosure and presentation requirements, although the measurement bases are basically the same (apart from minor simplifications). However, having less disclosure requirements may be criticized to result in an inadequate explanation of an arrangement or transaction. Therefore, if the requirement of having a true and fair view seems to be impaired, disclosures should be expanded, even if this will lead again to full disclosures. In addition, despite attempts to reduce burdens and provide more relevant information, it was not always perceived as beneficial. In fact, it was commented that:

“the FRSSE is simply another standard to be learned, and applied, as appropriate.”

(Reid and Smith, 2008:10)

Reid and Smith (2008:26) revealed that those who opted for the FRSSE were more willing to learn and able to adapt to changing circumstances.

The ICAI (1997) declared that auditors are held responsible for the information presented, whether the FRSSE requires such information or whether any other relevant information is disclosed voluntarily. For instance, the FRSSE does not require that a cash flow statement be presented. This is criticized by some commentators in the discussion paper regarding the review of FRSSE since the cash flow statement, despite being useful, is deemed “underrated” and thus some believe that it should be mandatory (Giglio and Mahoney, 2002:51).

However, this does not mean that the cash flow statement cannot be included in the financial statements, as, it may be comprised voluntarily. In fact, although not compulsory, the cash flow statement using the indirect method is encouraged. This is not the case for Malta since a cash flow statement is required by taxation authorities. In the development of GAPSE, a cash flow statement is compulsory, using either direct or indirect method.

Where guidance is available in other pronouncements, the ICAI (1997) stated that auditors are expected to follow such pronouncements subject to necessary modifications, if any. In addition,

“Where other pronouncements do not address the matter in question, auditors will need to use their judgement in deciding whether the accounting treatment adopted by the entity gives a true and fair view.”

(ICAI, 1997)

The ICAI (1997) continued that when a particular transaction or event is present, and the latter is not addressed by FRSSE, reference should be made to other adequate standards and UITF abstracts.

In financial reporting, the overriding requirement is always that of achieving a true and fair view, regardless of which accounting principles are followed. Thus, whether abiding by the FRSSE or full accounting standards, this is more based on judgement and not merely adherence to rules. Therefore, the preparer needs to analyse the substance of the transaction or event. In such cases, the FRSSE also requires that “adequate explanation should be given in the notes to the accounts” (ICAI, 1997).

However, in a research conducted by Fearnley and Hines (2007:402), one regulator stated that as FRSSE keeps same measurement principles whilst reducing disclosures, it still is not meeting small companies’ needs since measurement principles are getting more technical and slightly impractical. Another regulator stated that FRSSE leads to deterioration in the quality of information provided by small companies such that at a certain point, such information becomes useless. Another opinion was that FRSSE has actually saved only little preparation time but was suitable for those not wishing to disclose much information.

But FRSSE does not seem to reduce burdens to accountants and auditors. In fact,

“practitioners with even one medium-sized or large client will now need to keep up with two sets of standards, not one”

(Murphy and Page (1998:64) in (Reid and Smith (2008:8))

This point was also highlighted in the “Review of the FRSSE” published by the MIA in that it was argued that:

“The credibility of the accounting profession has been damaged by its members producing sets of accounts using inconsistent accounting rules for different sizes of the company.”

(Giglio and Mahoney, 2002:4)

2.3 IASB's SME Project

The IASB has also embarked on its own project with regards to accounting standards tailored for the needs of small entities. This is the IFRS SME which was issued in February 2007 as a standalone document representing only 15% of full IFRSs. The IASB's project for SMEs, like FRSSE, differs from full IFRSs in that it encompasses simplified recognition and measurement criteria as well as disclosure requirements. Like IFRSs, the aim would be that of providing general purpose financial statements giving a true and fair view. However, this may not be considered as a FRSSE replacement due to the fact that it is based on IFRSs and may thus be deemed as more complex, since originally, IFRSs were aimed at global listed companies.

As confirmed by Fearnley and Hines (2007:396), the IASB defines an SME as “an entity that does not have public accountability” despite having external users of financial statements. Thus, this definition seems to differ from that of FRSSE which is based on size. The IASB (2006) in Fearnley and Hines

(2007:396) declared that application of such standard depends on national jurisdictions. Some of the concerns of the IASB in their development of SME standards were that it could result in a multiple adaptation of IFRSs and the fact that it could deteriorate comparability across different countries.

IFRS SME, later renamed as IFRS PEs (Private Entities), was developed with the aim of easy transition to full IFRSs for companies aiming at expanding and/or for those choosing to switch to full IFRSs.

2.4 Financial Reporting in the European Union

Having a two or three tier system of accounting standards may be criticized since it impairs harmonization. There are significant differences among European countries arising from:

“a variety of legal and tax systems, the perceived objectives of financial reporting and the significance of different sources of finance.”

(Wilson et al., 2007:55)

Thus, the European Union implemented directives to achieve harmonization, whereby the Fourth Directive aims for harmonization with respect to formats, valuation and disclosures and the Seventh Directive dealt with the preparation of consolidated accounts. Although such directives have improved financial statements' quality and comparability, harmonization in recognition and measurement has not been fulfilled.

2.5 Is an SME audit worthwhile?

According to the ACCA (no date:4), an audit is deemed to provide both direct and indirect costs and benefits. The direct costs usually consist of the audit fee charged by the auditor whereas the indirect costs refer to the time the

audit client has to devote to the auditor. On the other hand, direct benefits are attributable to the audit process itself whereas indirect benefits are those which are unquantifiable such as better financial discipline and assurance.

2.5.1 Costs vs Benefits

In aiming to release burdens from small entities, by reducing legal and accounting requirements, is also the issue of whether small entities should be exempted from a statutory audit. There have been several studies which revealed that the external audit has several benefits as well as drawbacks. But in trying to conclude whether an audit exemption should be in place, it is important to assess both costs and benefits both to a small company and also to the public interest. In fact,

“...there are no obvious direct or indirect costs attributable to the audit, but there are substantial benefits, including the cost saving of not having to pay for an alternative form of assurance and avoidance of the risks which exist when there is no external check on an entity’s activities.”

(ACCA, no date:4)

Where there is an audit exemption in place, and companies are eligible to be exempt, directors may still opt for a voluntary audit. Such a decision should not be based on costs alone, but the analysis should constitute a comparison of the costs and benefits arising from an audit of financial statements. This is not the case where governments are dealing with the issue of whether to include an audit exemption threshold in their jurisdiction, since as Collis, Jarvis and Skerratt (no date:3) commented, governments are merely concerned with the willingness to minimise cost burdens to small entities.

In this view, the ACCA (no date:3) declared that there are several other costs higher than the audit fees being faced by small companies, for instance, the costs involved for acting as tax collectors. Moreover, the ACCA (no date:1)

revealed that issues of whether to opt for an audit must not be based on financial and quantitative factors alone, but it involves dealing with the costs and benefits, thus adopting a qualitative perspective.

“The key question is not whether an audit is desirable and/or valuable for companies, and smaller companies in particular, but whether the balance of costs and benefits supports a mandatory requirement for an external audit for companies of a certain size.”

(DTI in ACCA, no date:1)

The DTI in ACCA (no date:2) believes that reliability of financial statements increases with an audit and so will the audit's value to users. The response from ACCA (no date:2) was that there should be control to ensure that the information given to interested parties is reliable.

Therefore, even though a company may be classified as an audit exempt company, the latter may still opt for a voluntary audit because of the benefits it is deemed to provide. Collis, Jarvis and Skerratt (no date:9) identified that according to literature, an audit was aimed at indicating an efficient running of a company (Page, 1984), good practice involving some form of discipline, as a matter of continuity with past practice and also since it may be advisable by the company's accountant (Pratten, 1998). However, unlike the current perception, management's opinion of audit was not given much prominence.

2.5.2 Factors determining an audit decision

2.5.2.1 Education

A study conducted by Collis, Jarvis, and Skerratt (no date:17) revealed that directors' education plays an important role in choosing to conduct a voluntary audit. This is because if directors perceive sufficient benefits in having their financial statements audited, then they tend to opt for an audit

even if their company is entitled for an audit exemption. In such a case, audit costs like the audit fee and the time devoted would be acceptable by directors so as to preserve important relationships with third parties. These researchers also stated that if directors have a sufficient level of education, they may demand an audit since it serves as a check on the company's internal controls, thereby reducing inherent and control risk, as well as a means to improve the quality of information in financial statements. Thus, one must say that it is crucial for directors to understand the value that an audit will contribute to a company.

2.5.2.2 *Size of the company*

There are various views regarding whether the size of the company is relevant to the decision of whether to have an audit and also to the audit cost involved. Chan, Ezzamel and Gwilliam (1993), in Collis, Jarvis and Skerratt, (no date:14), stated that there are several other factors which determine the audit cost rather than just size. Other researchers like Ettredge et al. (1994), in Collis, Jarvis and Skerratt (no date:14), commented that the complexity of operations, such as the amount of different business segments or the ratio of stocks and debtors to total assets, do have an influence.

Collis, Jarvis and Skerratt (no date:18) stated that the demand for audit arises mostly from large companies, since small companies are usually owner-managed and thus embody a higher level of trust. They state that audit's demand is also a factor of growth strategies since companies intending to increase in size prefer to have audited accounts as it increases checking and enhances reliability of financial statements. According to these researchers, from the three size criteria, being balance sheet total, the number of employees and turnover, the latter is the most indicative of the costs and benefits of auditing. The DTI (1999b:8), in Collis, Jarvis and

Skerratt (no date:9), confirmed that “costs of the audit are proportionately greater the smaller the company”.

2.5.2.3 *Audit fee*

The audit fee and its size relative to the size of the company is also an important determinant. In this regard, there is the drawback that although financial statements are the responsibility of directors, small companies’ directors tend to lack the appropriate skills and thus preparation of accounts will be held as the auditor’s responsibility. However, the fee charged both for accounts’ preparation and for audit will be recorded as an audit fee, which as a result, tend to be inflated and thus audit is deemed as costly.

Certain interested parties are of the opinion that the audit fee is an additional cost with little benefits:

“for many owners of micro companies, the statutory audit fee is an additional cost which appears to bring little benefit, either to themselves or others, and which bites into small profits and scarce management time”

((Freedman and Goodwin, 1993:127) in Collis, Jarvis and Skerratt (no date:6))

2.5.3 *Benefits arising from an audit*

2.5.3.1 *External Assurance*

According to the past president of the ICAI, Greely (2006), statutory audit regulations are primarily focused on listed companies in order to serve as a form of external assurance in aiding shareholders to assess managers’ performance because managers, being the directors, may not necessarily be the owners or shareholders. However, it is common in small entities that managers are the owners themselves, and in such a case, they are highly

knowledgeable of what is happening in the company. Greely continued that the drawback of having mandatory audit is that if a country has low audit exemption thresholds or even no thresholds at all, this brings about a negative impact on small entities which will then have to face the increased burdens.

“Recent regulatory initiatives, while affecting all companies, have undoubtedly had a disproportionate impact on SMEs.”

(Greely, 2006)

However, shareholders are not the only interested party which will benefit from an audit since reliability is enhanced for all users of financial statements, especially banks and lenders.

2.5.3.2 *Cost Saving*

Having no external scrutiny of financial statements increases substantially the risks to be faced by the company. Thus, if a company does not have an audit, it may need to employ other procedures which provide adequate checks on the company's control. And as the ACCA (no date:6) commented, such alternative assurance procedures opted for by the company or even by interested parties may be much more expensive to conduct, with no direct or indirect benefits, unlike external audit. Furthermore, if the company demands an external audit after several years of exempting from it, the former would most probably be more costly.

2.5.3.3 *Agency relationships*

Agency relationships are usually referred to when a company is not managed by the same parties that control it. This is not the usual case with small companies which are normally owner-managed, meaning that who owns it actually exercises control. In this case, owner-managers usually consider an

audit as having no value at all, and which will thus result in increasing costs alone. But in large companies, shareholders / owners may not necessarily be the managers, and thus, audited accounts serve as a good means through which shareholders (principals) assess that their assets are being well managed by directors (agents).

However, the agency relationship can also be discussed from the point of view of the relationship between a company and its lenders. This has been remarked by various researchers like Collis, Jarvis and Skerratt (no date:8) as well as by the ACCA (no date:2). The latter continues that in owner-managed companies, an audit of financial statements fulfill “an additional public interest role” since external scrutiny motivate directors to carry out their duties. Also, if lenders are provided with audited accounts, they will be more willing to lend and this is one of the reasons why companies choose to maintain voluntary audit.

2.5.3.4 *Internal disputes*

Although, up till now the arguments have merely focused on the distinction between small and large entities, Freedman and Goodwin (1993), in Collis, Jarvis and Skerratt (no date:7), argued that shareholders may not call for an audit solely according to the company’s size. This is due to the fact that, provided that disputes exist among them, an audit serves as a form of protection. In fact, as Power (1997) stated:

“Information asymmetry may also be present amongst internal shareholders if they lack the necessary skills to interpret financial information.”

(Power (1997) in Collis, Jarvis and Skerratt (no date:7))

2.5.3.5 *Financial Management issues*

“External audit reinforces sound financial management and corporate governance”.

(ACCA, no date:1)

This was stated by the ACCA in their response to the DTI consultation paper regarding the future of the audit threshold. There may be companies which try to benefit from the audit exemption since they base their decisions solely on cost factors. Thus, this contributes to the point that small entities’ lack of financial management actually is the reason which leads them to failure.

An audit enables a check on the internal controls within a company aimed at reducing risks of material misstatements in financial statements whether due to fraud or error. In small entities, such internal controls may be poor and as a result, the risk of material misstatements and adequate controls to detect it may be high. This does not mean that an audit provides any professional help in the management and organization of a company, but at least it enables auditors to emphasise any deficiencies in controls. (ACCA, no date:3)

2.5.3.6 *Distribution of audited accounts to third parties*

Audited accounts can be distributed to banks and/or other lenders which may serve to increase confidence in the company for borrowing purposes and for investors to invest in the company. In fact, it may be the case that at a particular debt level, the bank requires external audit. However, such audit demands may not be led solely by current borrowing levels but also by planned debt, if any.

2.5.3.7 *Fraud within and on companies is deterred*

Due to external scrutiny of financial statements, audited accounts would reduce management fraud since the likelihood of its discovery will be increased. Thus, the management or those charged with governance will be more aware of the consequences arising if they were involved in any fraudulent act, provided such act would be discovered. Thus, apart from protecting shareholders, this will also result into some form of security for employees “where managers might be tempted to misappropriate payroll deductions” (ACCA, no date:6).

2.5.4 *Audit Exemption in Malta*

The Maltese Companies’ Act 1995 provides for an audit exemption:

“Private companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- balance sheet total: twenty thousand liri;
- turnover: forty thousand liri;
- average number of employees during the accounting period: two;

shall be exempted from the provisions of Chapter IX of Part V and from the requirement imposed by article 179...”

(Companies’ Act 1995, Article 185(1)(b))

However, as Scicluna (2004) in Vella (2006) has stated, despite that an audit exemption is in place, companies are still obliged to have an audit of their financial statements since an audit is required by the Inland Revenue Department. Thus, one can conclude that there is a bit of inconsistency in this regard, since although an audit exemption exists in Malta, this still cannot be availed of.

2.6 Attempts & developments to reduce SME burdens

Developing a set of financial reporting regulations which meets the need of both large multinational companies as well as small entities is difficult, if not impossible since burdens on small companies cannot be completely eliminated. In a standard setting environment, most probably, the assumption is that accounting standards aimed at listed companies are appropriate for smaller entities but with reduced disclosures. But the complexity of worldwide business is making the attempt, to have a global set of standards applicable for international large and small entities, almost impossible.

Collis, Jarvis and Skerratt (no date:21) outlined the main challenges that regulators face in designing an accounting standard specifically for small entities. The framework should be applicable by all companies over extensive periods and in different times and circumstances. Regulators should also bear in mind that certain burdens may arise, and also the fact that, apart from the companies' directors, there is also the public interest.

It is actually the ever-increasing complexity of IFRSs that has complicated the situation and imposing complex reporting requirements for small entities may not actually result in accurate reporting. In fact, Fearnley and Hines (2007:398) said that the UK Government's Better Regulation Task Force (2003) has outlined five principles regarding small entities' regulation being, proportionality, accountability, consistency, transparency and targeting. This is evidenced also in UK's company law and regulations which adopt the "think small first" and "proportionality" principles.

Although previously SMEs and relevant measures have not been given much attention, these are now part of government's priorities worldwide. As stated by Greely (2006), there has been a "corporate impropriety" being led by increases in regulations and legal obligations which obviously have had a

negative impact in the business sector, particularly regarding small companies. Moreover, the European Charter for Small Enterprises (Greely, 2006) confirmed that small enterprises are the businesses which suffer most from bureaucracy and changes in the business environment.

Despite attempts to create one set of globally applicable accounting standards, some practitioners were still of the opinion that the best way was to have a three-tier system by having full IFRSs for listed companies, large private and medium sized companies abiding by the IFRS and small companies opting for FRSSE. However, there is also the view that the three-tier reporting system, comprising IFRSs, FRSs, and the FRSSE will eventually be replaced by a two-tier system consisting only of IFRSs and IFRS SME (Accountingweb, 2008). But most probably, although it might be the case that in the future all small entities will adopt the IFRS SME, SME convergence may not happen as soon as that for larger entities.

2.7 *Auditing and Sole practitioners*

Certain people believe that large audit firms are more reliable and this may even exert influence over the audit fee to be charged (Practice Advisory Board (PAB) of ICAEW, no date:4). In fact, as the Director of the Professional Oversight Board (POB) of the FRC suggested, “small firms need to consolidate to arrest a decline in audit quality” (PAB, no date:1). However, Enron is a case in point contradicting the illustration that large audit firms are more reliable because Enron used to be audited by a Big Five audit firm which eventually collapsed (L.F.I.G., 2003:7).

The independence issue is crucial in the auditing environment, whether being a large audit firm or a sole practitioner. But it may be the case that independence exerts a greater influence on a sole practitioner, due to the non-existence of different partners. Thus, as a study by the PAB (no date:1)

revealed, sole practitioners may have to decide a particular business line in which to work.

A major drawback which contributes to the value of audit being underestimated is the fact that audited financial statements are not used by management in their daily decision-making processes (PAB, no date:3). Therefore, it is advisable to demonstrate the value of auditing to the audit client. According to the PAB (no date:3), sole practitioners may suffer if they desire to employ experienced staff. Although auditing may not be deemed so profitable, it may eventually lead to other, more profitable opportunities:

“Although being relatively unattractive and unprofitable as a ‘stand alone’ activity, audit work was perceived to be a necessary service used to access more profitable work.”

(PAB, no date:2)

CHAPTER 3

RESEARCH METHODOLOGY

***“There’s no such thing as qualitative data.
Everything is either 1 or 0”***

(Fred Kerlinger, in Neill, J. (2007))

3.0 Introduction

As outlined in Chapter 1, this chapter is focuses on describing the process which led to the final conclusions of this study, thereby meeting the dissertation's objectives. This study was aimed at analyzing the effect of GAPSE on Maltese sole practitioners. Thus, there were two main stages involved, the first one being that of researching through available literature for any knowledgeable effects of the FRSSE, which is the standard on which GAPSE was developed, but mainly keeping an auditing perspective. The second stage consisted of building up a questionnaire to be distributed to sole practitioners so as to enable the drawing up of conclusions for this study.

3.1 Preliminary Information

The initial process consisted of an extensive research about the literature available on this study's subject area. The majority of research was conducted through internet, mainly from articles written by the media, by accounting researchers and also by accounting bodies. There were also few researches from relevant books. However, the latter was limited due to the fact that this is a current development, and so, it is more likely that adequate research will be found from commentaries in articles or studies on a particular subject area. This research process was not only adequate for enhancing personal knowledge but it served as the foundation on which the questionnaire was constructed.

3.2 Type of Research

The purpose of this study was a generalization of the findings to assess the overall impact of GAPSE on local sole practitioners. Thus, having this aim in mind, the quantitative research approach would suffice. It was decided to

conduct the research through a questionnaire since it enables the study of a larger population, unlike the interview which would render this impossible due to the latter being excessively time consuming. This type of research involved analyzing numerical data from survey responses unlike the qualitative research which would involve a more in depth study. According to Neill, J. (2007), quantitative research is “more efficient” and is “able to test hypotheses”. However, its main drawback is that it may omit related detail.

3.3 Designing the Questionnaire

This study was conducted by means of a self-completion questionnaire, which as the name implies, respondents were required to read and answer the questions on their own. So, a crucial point was to design questions that would be easy to understand and answer. In fact, the questionnaire was based solely on close-ended questions, which were kept as short as possible, to avoid having the reader being tired and discouraged from responding.

According to Bryman and Bell (2007:241), the self-completed questionnaire is adequate since it is cheap and quick to administer, the respondent is not affected by the interviewer’s effects, and it can be answered at a convenient time for the respondent.

However, it carries certain disadvantages as well. Bryman and Bell (2007:242) stated that in using self-completed questionnaires, respondents would not be able to neither ask questions in case of misunderstanding, nor can they elaborate on any answer. Moreover, the number of questions that can be asked would be limited since if the questionnaire appears long, the respondent would be demotivated. But above all, the major disadvantage of a questionnaire is the low response rate (Bryman and Bell, 2007:243). If

respondents and refusals differ in their characteristics, this would make the sample biased. However, this is one of the limitations of this study.

As soon as the questionnaire was finalized, a pilot study was conducted in order to identify any deficiencies and areas for improvement. However, no recommendations were forthcoming and so the questionnaire was then distributed to all those identified in the population.

3.4 Determining the Population

As the study targets sole practitioners, deciding on the total population required the use of the MIA's directory. This involved extracting only sole practitioners from the list. However, there were certain grey areas such as for those practitioners who had nothing disclosed as their position held. Thus, further analysis was required to determine their adequateness to participate in this study. An Excel sheet was then drawn up, indicating relevant details. Since these questionnaires were to be sent by email, those practitioners with no email address available in the directory were contacted. However, the latter process identified some practitioners who either refused or were unable to participate in the study.

This process enabled the calculation of the total population which amounted to 132 sole practitioners, and due to the high probability of a low response rate, the total population was used rather than selecting only a representative sample.

3.5 Data Collection

As previously mentioned, a major drawback of the questionnaire is the low response rate. As Bryman and Bell (2007:244) mentioned, there are various attempts to combat such a problem. An essential element is to provide

participants with a covering letter, assuming the credibility of the study, and for this dissertation, the one issued by the University of Malta was used. This process of increasing the response rate is fundamental since if respondents only amount to a minimum fraction of the population, there may be the risk that the conclusions drawn might not be so generalisable and representative.

3.6 Response Rates

The questionnaire was initially sent in November 2008. Then, every fortnight, another e-mail was sent to non-respondents as a reminder, re-indicating the purpose of the study. In addition, sole practitioners were also contacted by phone to encourage their participation. The latter process resulted in 2% requesting that an interview would be conducted so that questions could be discussed in more depth.

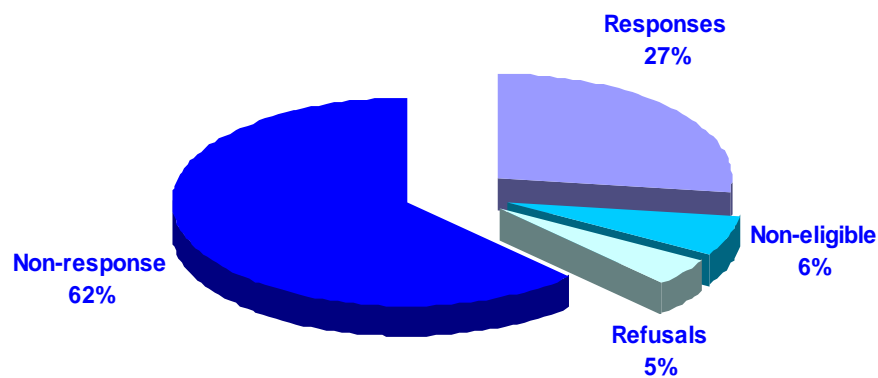


Figure 3.1: Response rates

The total response rate of 27% is based on the initial total population of 132 participants. However, if both the non-eligible and refusals had to be eliminated from the total population, the response rate rises to 31%.

Refusals, amounting to 5%, arose due to reasons such as unwillingness to respond mainly due to work overload. Moreover, from the initial contacts to gather email addresses, 6% were retired or employed, thus not being eligible to participate. This constitutes another limitation to the study due to the fact that the MIA directory, being the source from which the population was identified, was not up-to-date.

3.7 Statistics employed

The data elicited from the questionnaires was used to make inferences about the population of sole practitioners. Inferences were conducted by either computing confidence intervals or by conducting hypothesis tests.

The **Confidence Interval** provides a range of values where a population proportion lies. The formula used to determine the Confidence Interval is:

$$\bar{p} \pm z\sigma_{\bar{p}}$$

\bar{p} is the known sample proportion and p is the unknown population proportion

$z = 1.96$ using a 95% degree of confidence

$$\sigma_{\bar{p}} = \sqrt{\frac{p(1-p)(N-n)}{n(N-1)}} \text{ is the standard error.}$$

N is the population size and n is the sample size.

The **Chi-Square Test** is used to test for associations between 2 categorical variables. The hypotheses used in conducting the Chi-Square test are the following:

H_0 : There is no association between the two categorical variables

H_1 : There is a significant association between the two categorical variables.

The p -value is the criterion to determine whether to accept H_0 or H_1 . If the p -value exceeds the 0.05 or (5%) level of significance, H_0 is accepted. Otherwise, H_1 is accepted.

CHAPTER 4

FINDINGS AND ANALYSIS

***“GAPSE is an accounting, not an audit tool,
and its application will have no bearing whatsoever
on the requirement for a company’s financial
statements to be audited”***

(Finance Ministry, 2009)

4.0 Introduction

This chapter is aimed at discussing the results obtained from the questionnaire in order to find out the sole practitioner's perspective towards GAPSE. The first section will describe the respondents' characteristics, whereas the following sections will discuss more technical results aimed at the dissertation's objectives.

A sample of the questionnaire distributed to sole practitioners can be found in Appendix 1 whereas a summary of the results obtained from the whole questionnaire is outlined in Appendix 2. With regards to further analysis to this chapter, reference is made to Appendix 3. Off-shelf software, namely Microsoft Excel and SPSS program were utilized to conduct the analysis.

4.1 Respondents' Characteristics

As depicted in Figure 4.1, the majority of respondents being 55% are aged between 41 and 55 years, 39% are aged between 25 and 40 years whereas only 6% are aged more than 55. Moreover, from the total amount of respondents, 86% were males whilst only 14% represented females.

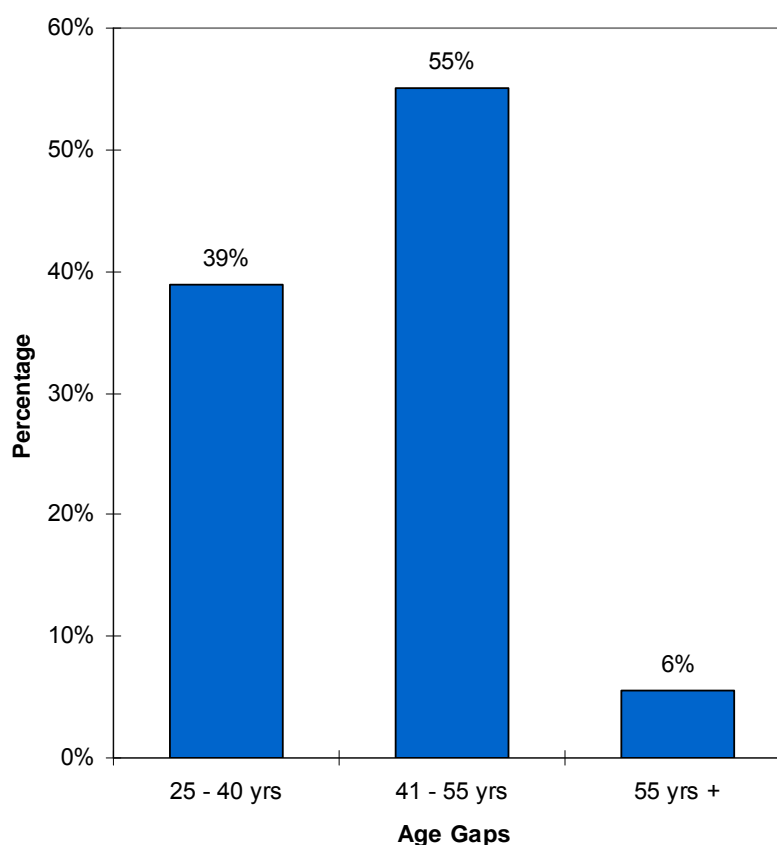


Figure 4.1: Age Distribution of Respondents

Respondents were also asked to outline the type of qualification which they had obtained. This analysis indicated that 53% of respondents had qualified through a university-based course and 47% through a professional body¹.

An analysis was also conducted with respect to the length of service that sole practitioners had been providing in the accountancy profession, since this may not necessarily reflect the age of the participant in question. Thus, this will enable a better reflection of the relevant experience a sole practitioner has.

¹ Vide Appendix 3.1

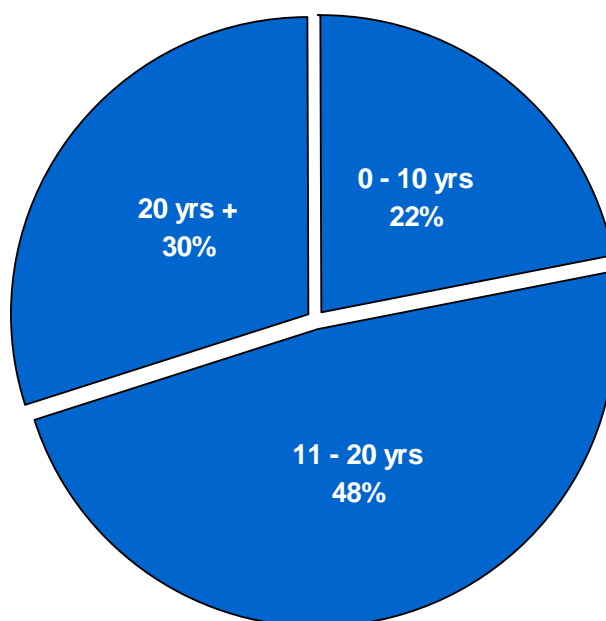


Figure 4.2: Career - Length of Service

Figure 4.2 above depicts that the majority amounts to the category of between 11 to 20 years, whereas the minimal percentage was that of up to 10 years².

4.2 Sole Practitioner's opinion of GAPSE's content

Both when contacting sole practitioners, and through their replies by email, several participants claimed that they were not yet so knowledgeable about GAPSE while some even refused to respond. However, others were willing to get to know even the results of this dissertation, showing their eagerness towards the current developments in the Maltese accountancy profession.

In fact, as Table 4.1 below shows, the majority of respondents favoured GAPSE and believed that it is adequate and necessary.

² Vide Appendix 3.2

Do you think that GAPSE is adequate in terms of:				
	Agree	Confidence Interval	Disagree	Confidence Interval
Representing a good quality standalone financial reporting standard	89%	89% ± 8.8%	11%	11% ± 8.8%
Reducing burdens for SMEs	86%	86% ± 9.7%	14%	14% ± 9.7%
Size criteria to enable eligibility to opt for it	86%	86% ± 9.7%	14%	14% ± 9.7%

Table 4.1: Analysing GAPSE's adequacy

Table 4.1 shows that despite a few that disagreed, the majority were of the opinion that GAPSE is a suitable standalone standard, that its objective of reducing burdens will actually be achieved and also that the size criteria used to enable eligibility are appropriate. But regarding the latter statement, 14% believed that other criteria rather than size should be used. This was also discussed in Chapter 2, mentioning the fact that an SME in development of IFRS SME is described as an entity with no public accountability, unlike that of FRSSE, which is also based on size.

Another question was specifically directed at analyzing the views about the GAPSE's content. As can be seen Table 4.2, the majority of practitioners support the existing simplifications but a slightly higher percentage, being 89%, claimed that further simplifications may be included. Thus, it may be concluded that despite the fact that burdens are decreased, there may be room for further reduction. During one of the interviews, a sole practitioner stated that, it is not the actual content in GAPSE which should be changed, but rather the presentation of financial statements (layout) for smaller entities.

In your opinion, is the existing content in GAPSE appropriate in terms of:				
	Agree	Confidence Interval	Disagree	Confidence Interval
Existing simplifications	86%	86% ± 9.7%	14%	14% ± 9.7%
Further simplifications that may be included	89%	89% ± 8.8%	11%	11% ± 8.8%
Matters which are not relevant but still used	83%	83% ± 10.5%	17%	17% ± 10.5%
Matters which are not included in GAPSE but which you consider relevant	81%	81% ± 11%	19%	19% ± 11%

Table 4.2: Analysing GAPSE's content

Regarding any other irrelevant matters, 83% of practitioners are of the opinion that there are still ones which are included and this continues to support the argument that further simplifications may be needed. In addition, there are 81% who believe that certain relevant matters are omitted from GAPSE.

Despite the above results, as shown in Appendix 2, 72% of the participants (with a confidence interval of 72% ± 12.6%) agreed with the fact that the same technical words as those in IFRSs were used. This may help to keep accounting standards more in line with each other, thus enhancing comparability. However, 28% believed that reduced burden through GAPSE should also include technical simplifications so as to be more understandable by small entity owners and users. Besides, an interviewed sole practitioner stated that it would be a difficult task to change the wording from those of IFRSs. He claimed that unlike sole practitioners, the Big Four firms would be highly specialized and would thus have a specific department being held responsible for technical matters.

When GAPSE financial statements are prepared, the audit work should obviously differ. Table 4.3 below indicates the sole practitioners' expectations towards auditing GAPSE financial statements. Regarding the first two statements, it seems that opinions are more or less balanced.

From a sole practitioner perspective, do you think that GAPSE will:				
	Agree	Confidence Interval	Disagree	Confidence Interval
Increase burden due to a 2-tier financial reporting system, being IFRSs and GAPSE	44%	44% ± 13.9%	56%	56% ± 13.9%
Result in inefficiencies (eg. more planning time may be required)	50%	50% ± 14%	50%	50% ± 14%
Necessitate a reduction in audit fee due to lesser work (eg. reduced disclosures)	19%	19% ± 11%	81%	81% ± 11%

Table 4.3: Analysing GAPSE's impact on audit work

44% believe that despite decreasing burdens for small entities, GAPSE will impose a burden on auditors themselves, since they will now have to face two different types of clients, some having IFRSs and others GAPSE financial statements.

However, during an interview, a sole practitioner claimed that since the latter is client focused rather than service focused like the Big Four firms, an audit for a small company is not to be deemed as very burdensome. This is due to the fact that although the auditor would still be required to express an opinion on the financial statements, the audit work involved would not be so detailed as for a large audit client.

Using the Chi Square test, an association was proved to be present between the types of qualification that sole practitioners had together with the first statement in Table 4.3. This relationship is evident from the p-value being 0.028 in Table 4.5 which is less than the 0.05 level of significance.

From a sole practitioner perspective, do you think that GAPSE will increase burden due to a 2-tier financial reporting system, being IFRSs and GAPSE?					
			Agree	Disagree	Total
Type of Qualification	University based course	Count	6	15	21
		Percentage	28.6%	71.4%	100.0%
	Professional Body	Count	12	7	19
		Percentage	63.2%	36.8%	100.0%
Total		Count	18	22	40
		Percentage	45.0%	55.0%	100.0%

Table 4.4: Association between qualification and GAPSE's opinion

Chi-Square Tests			
	Value	Df	p-value
Pearson Chi-Square	4.821	1	.028

Table 4.5: Chi Square test for Table 4.4

It is evident from Table 4.4 and Figure 4.3 that 71.4% of sole practitioners qualified from university are of the opinion that GAPSE will not increase burden unlike those qualified from a professional body, where 63.2% consider GAPSE as being burdensome.

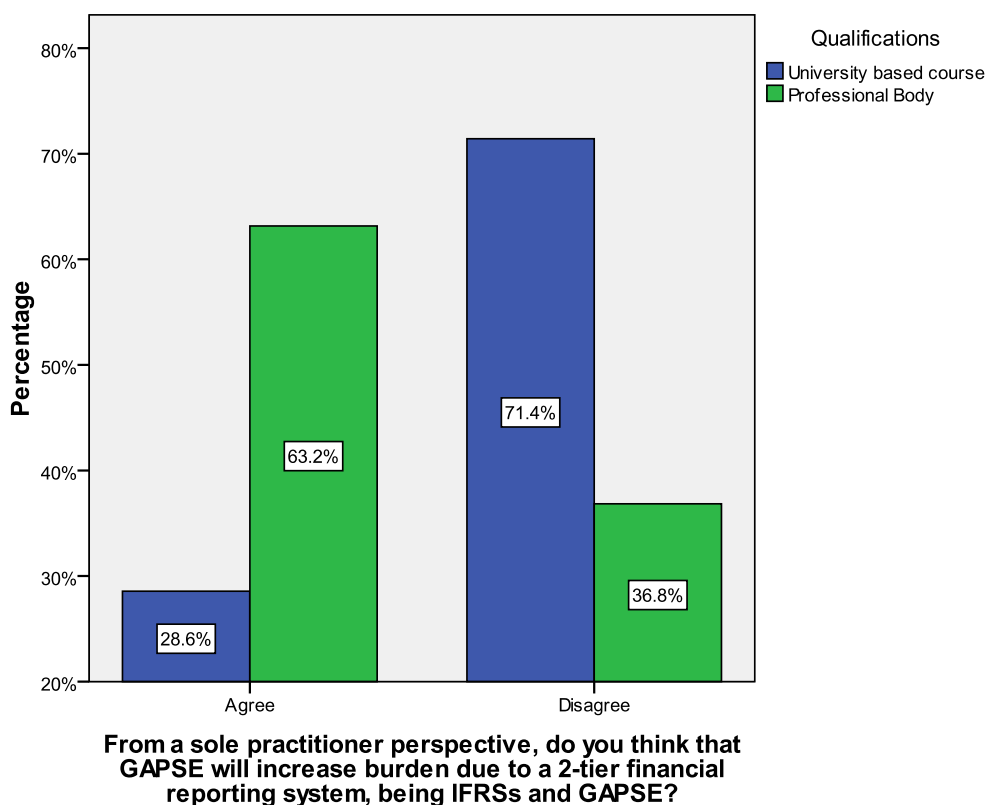


Figure 4.3: Association between qualification and GAPSE's opinion

However, with respect to the second statement illustrated in Table 4.3, 50% agree that the development of GAPSE will result in inefficiencies on behalf of sole practitioners. This is because GAPSE is a new financial reporting standard, and until it integrates into practice, auditors may consider it necessary to devote some of their time in increased audit planning. However, the other 50% disagree with this statement, since as GAPSE contains less requirements than IFRSs, even reduced disclosures, this will result in a reduced audit requirement and time.

With respect to audit fees, Table 4.3 shows that only 19% believed that a reduction in audit fees will be required, supporting the view that auditors consider an audit as being only marginally profitable. Thus, although clients may consider the audit fee as costly, it is in fact not due to the amount of audit work involved. The interviews outlined that currently, in auditing IFRS based financial statements, the audit fee is many times not even enough to

cover all the audit work involved. Hence, if audit work is reduced due to the introduction of GAPSE, the audit fee should be kept constant, and at least, it would be adequate for the lesser audit work involved.

It is evident from Table 4.6 and Figure 4.4 below that a large proportion (approximately 80%) of all sole practitioners disagree with the assertion that GAPSE will necessitate a reduction in audit fee due to lesser work.

From a sole practitioner perspective, do you think that GAPSE will necessitate a reduction in audit fee due to lesser work (eg. reduced disclosures)?					
			Agree	Disagree	Total
Length of Service	0-10 years	Count	1	7	8
		Percentage	12.5%	87.5%	100.0%
	11-20 years	Count	3	14	17
		Percentage	17.6%	82.4%	100.0%
	More than 20 years	Count	3	8	11
		Percentage	27.3%	72.7%	100.0%
Total		Count	7	29	36
		Percentage	19.4%	80.6%	100.0%

Table 4.6: Association between length of service and audit fees

The proportion of sole practitioners with less than 10 years of service, who disagree with the assertion, is approximately 15% greater than the proportion of sole practitioners with more than 20 years of service. It seems that there is a tendency that the longer that sole practitioners have been providing service, the more their agreement with the statement that GAPSE would require a reduction in audit fee.

Chi-Square Tests			
	Value	Df	p-value
Pearson Chi-Square	.712	2	.701

Table 4.7: Chi Square test for Table 4.6

However, this difference in proportions is not significant since the p -value (0.701) in Table 4.6 exceeds the 0.05 level of significance.

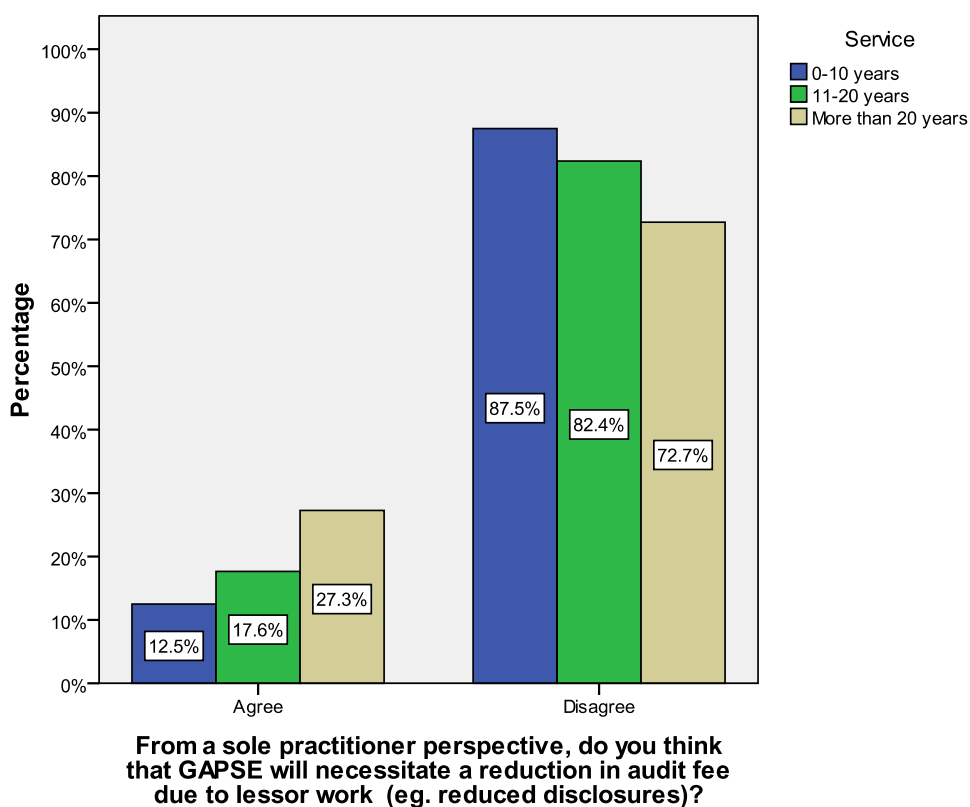


Figure 4.4: Association between length of service and audit fees

However, despite few disagreements with GAPSE, 94% (having a confidence interval of $94\% \pm 6.7\%$) of the practitioners surveyed still concluded that most probably they will accept audit clients preparing GAPSE financial statements. This is illustrated in Table 4.8.

Do you think that most probably you will accept / reject an audit client preparing GAPSE financial statements?					
			Accept	Reject	Total
Length of Service	0-10 years	Count	8	0	8
		Percentage	100.0%	.0%	100.0%
	11-20 years	Count	16	1	17
		Percentage	94.1%	5.9%	100.0%
	More than 20 years	Count	10	1	11
		Percentage	90.9%	9.1%	100.0%
Total		Count	34	2	36
		Percentage	94.4%	5.6%	100.0%

Table 4.8: Association between length of service and acceptance of GAPSE's clients

Sole practitioners with length of service of less than 10 years will all accept GAPSE clients, thus having approximately 10% more favouring GAPSE than those who have been in service for more than 20 years.

Chi-Square Tests			
	Value	df	ρ -value
Pearson Chi-Square	.736	2	.692

Table 4.9: Chi Square test for Table 4.8

However, the Chi Square test in Table 4.9 reveals that this difference is not significant since as outlined in the hypothesis testing in Chapter 3, when the level of significance exceeds 0.05, it means that there is no specific relationship. In this case, the ρ -value indicates 0.692, implying that there is practically no relationship between acceptance or rejection with the number of years for which sole practitioners have been offering accounting services.

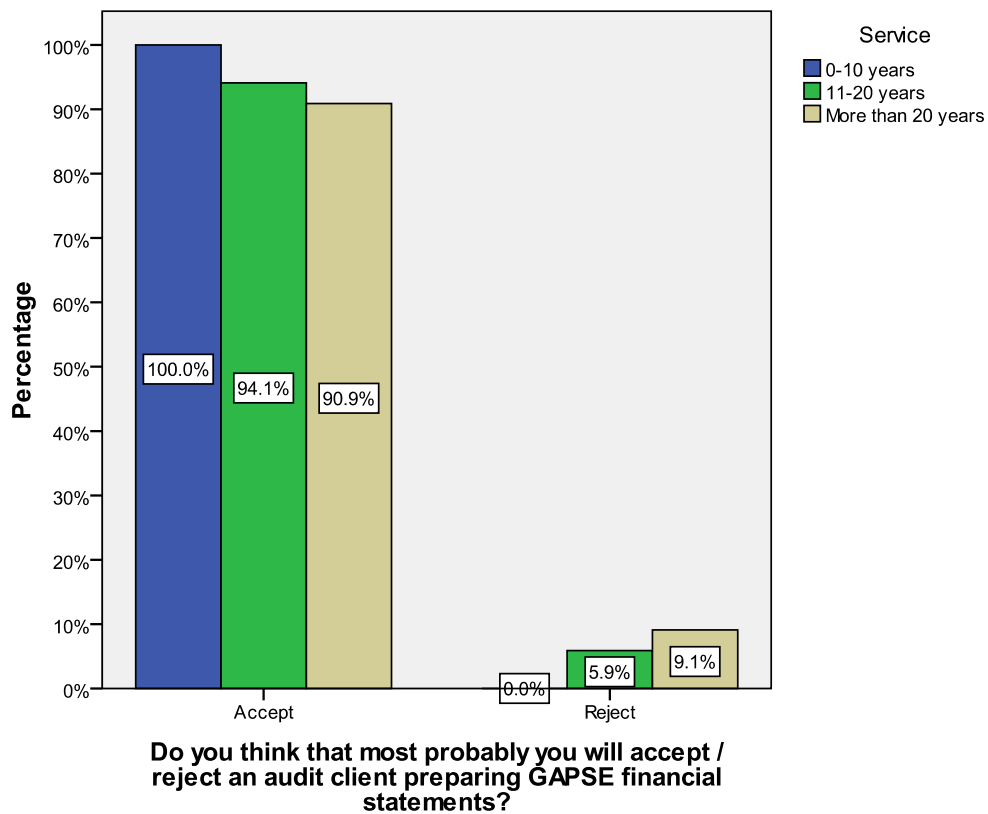


Figure 4.5: Association between length of service and acceptance of GAPSE clients

4.3 Sole Practitioner's perception of an audit exemption in Malta

As discussed in Chapter 2, in Malta, there is legally an audit exemption. However, for tax purposes, companies are still required to have an audit of financial statements.

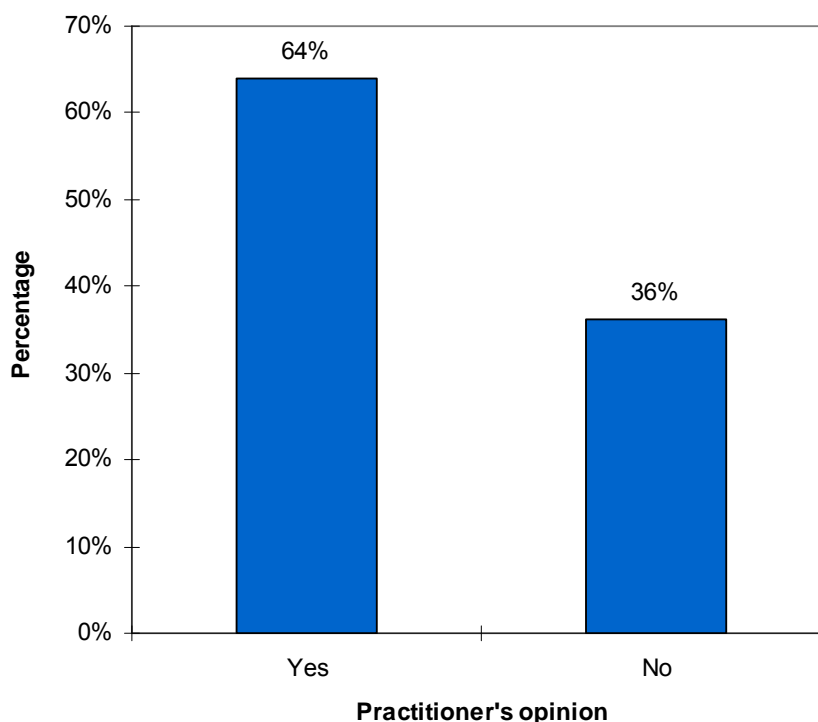


Figure 4.6: Sole practitioner's perspective of Maltese audit exemption

As depicted in Figure 4.3, 64% (with a confidence interval of $64\% \pm 13.4\%$) of Maltese sole practitioners believe that an audit exemption should be in place. Thus, in the Maltese scenario, this means that it should be enacted since legally, it is actually present. However, it is also important to note that a considerable percentage, amounting to 36% are against audit exemption and this is due to the fact that as discussed in Chapter 2, an audit is deemed to have several advantages. Thus, those surveyed and favouring an audit exemption, cannot completely eliminate those against it.

An interview conducted revealed that an audit exemption should not be in place due to the fact that it acts as a safeguard for third parties. It helps the auditor to strike a balance, by protecting stakeholders. This applies for the case of limited liability companies.

In addition, it may be argued that an audit exemption serves as a safety net for auditors since it may protect the auditor from certain risks that an audit may involve, such as the inherent audit risk meaning the risk that an auditor might express an inappropriate opinion.

In your opinion, would an audit exemption serve as a safety net for auditors themselves in that:				
	Agree	Confidence Interval	Disagree	Confidence Interval
In owner managed companies, it is difficult to test whether the necessary controls are overridden	61%	61% ± 13.6%	39%	39% ± 13.6%
Despite a statutory audit, banks and/or lenders may still be unsatisfied since audits would only be satisfying statutory requirements rather than as a form of reliance and protection	44%	44% ± 13.9%	56%	56% ± 13.9%

Table 4.10: Audit exemption as a safety net

The fact that a company may be owner managed might imply that controls are easily overridden. When surveyed, 61% of sole practitioners believed that an audit exemption would protect auditors in this respect. When interviewing a sole practitioner, he stated that an audit exemption would not serve as a safety net because an auditor is limited in the testing he can conduct. For instance, if in an owner-managed company a transaction is omitted, most probably the auditor would not be able to notice such an omission by testing but from analytical reviews. Merely, an audit exemption would be capable of solving a problem whilst creating another, in the sense that testing would still be conducted with respect to balances such as creditors and debtors. Thus, an audit opinion would still be provided on certain factors.

With regards to the second statement, 56% of sole practitioners believed that an audit would not only be favoured for satisfying statutory requirements but it will actually serve as a protection and reliance on a company's financial information. During the interview, the sole practitioner claimed that an audit is

necessary for banks, the latter operating in a regulated industry. Usually, banks create benchmarks in order to assess which clients to accept. Thus, an audit would be adequate and required by banks and not just to satisfy statutory requirements. Although an audit exemption may be in place, it may be the case that banks would still demand / require that a company's financial statements be audited.

As an alternative to an audit exemption, or rather a modification to it in the Maltese scenario so as to make such exemption active, there may be the development of a simplified auditing standard like what happened in accounting. Whereas in accounting GAPSE was developed as a simplification to the current burdensome IFRSs, another standard would be issued being based on the International Standards on Auditing (ISAs).

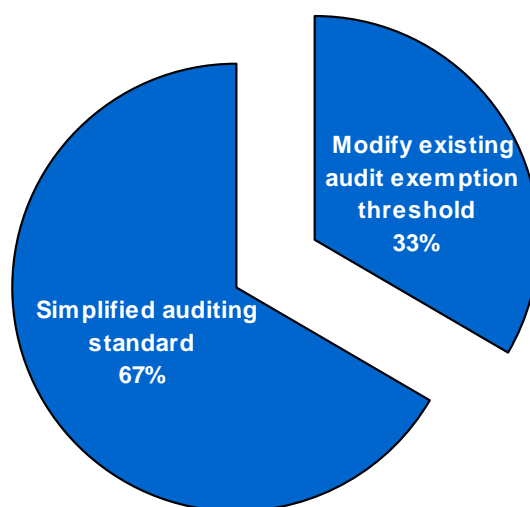


Figure 4.7: Modification in audit exemption vs Simplified auditing standard

It seems similar to what happened in Malta with regards to financial reporting, that is, 67% of Maltese sole practitioners (with a confidence interval of $67\% \pm 13.2\%$) seem to favour a simplified auditing standard rather than a modification in the existing audit exemption threshold. This may be deemed to support the fact that an audit actually provides a considerable number of

benefits, primarily a form of assurance that the information provided by financial statements is reliable.

4.4 Perception of an audit by Maltese sole practitioners

Auditors, being the providers of assurance services to their clients, may have differing views regarding the service they actually provide. This is due to the fact that in auditing, auditors should abide by ISAs and thus, although they might not be in favour of certain principles, they are still liable to conduct any requirement imposed by such auditing standards.

What is your opinion regarding the following statements about an audit?				
	Agree	Confidence Interval	Disagree	Confidence Interval
Provides a check on internal controls of a company	75%	75% ± 12.2%	25%	25% ± 12.2%
Shifts responsibility from auditors to directors	28%	28% ± 12.6%	72%	72% ± 12.6%
Helps protect against fraud	58%	58% ± 13.9%	42%	42% ± 13.9%
Improves the quality of information	92%	92% ± 7.6%	8%	8% ± 7.6%
Improves the credibility of information	97%	97% ± 4.8%	3%	3% ± 4.8%
Shows compliance with legislation	92%	92% ± 7.6%	8%	8% ± 7.6%
The cost of an audit is worth its benefits	72%	72% ± 12.6%	28%	28% ± 12.6%

Table 4.11: Sole practitioner's opinion regarding audit as an assurance service

Theoretically, an audit is deemed to provide a check on internal controls of a company. In Malta, 75% of the sole practitioners support this statement. In addition, only 28% believe that an audit tend to partially shift auditors' responsibilities towards directors. In practice, both directors' and auditors' responsibilities would be agreed upon in the Engagement Letter so as to clarify certain matters which may be misunderstood.

Although fraud detection and prevention may be seen as the auditor's responsibility by the general public, one should keep in mind that this is one of the directors' responsibilities through the development and maintenance of adequate internal controls. This is commonly referred to as the Expectations' Gap. An auditor will then only be expected to check upon these controls, whether they were adequate in the circumstances and also whether they had been operative throughout the relevant period. Thus, the survey revealed that only 58% believe that an audit would help to protect against fraud.

With regards to the improvement in the quality and credibility of information provided by an audit, there seems to be the majority in favour of these statements, being 92% and 97% respectively, as shown in Table 4.11 above. Likewise is the case for the statement that an audit shows compliance with legislation, which statement seems to be backed up by 92% practitioners.

With regards to assertion in Table 4.12 below, the majority of sole practitioners agree that an audit improves the quality of information contained in the financial statements. It seems that the more the number of years that sole practitioners have been in business, the less they favour this statement.

What is your opinion regarding the following statement about an audit?: Improves the quality of information					
			Agree	Disagree	Total
Length of Service	0-10 years	Count	8	0	8
		Percentage	100.0%	.0%	100.0%
	11-20 years	Count	16	1	17
		Percentage	94.1%	5.9%	100.0%
	More than 20 years	Count	9	2	11
		Percentage	81.8%	18.2%	100.0%
Total		Count	33	3	36
		Percentage	91.7%	8.3%	100.0%

Table 4.12: Association between audit's opinion and length of service

However, although percentages indicate this conclusion, the Chi Square test does not confirm that an association between these 2 variables actually exists as the p-value of 0.323 in Table 4.13 exceeds the required level of significance of 0.05.

Chi-Square Tests			
	Value	Df	P-value
Pearson Chi-Square	2.258	2	.323

Table 4.13: Chi Square test for Table 4.12

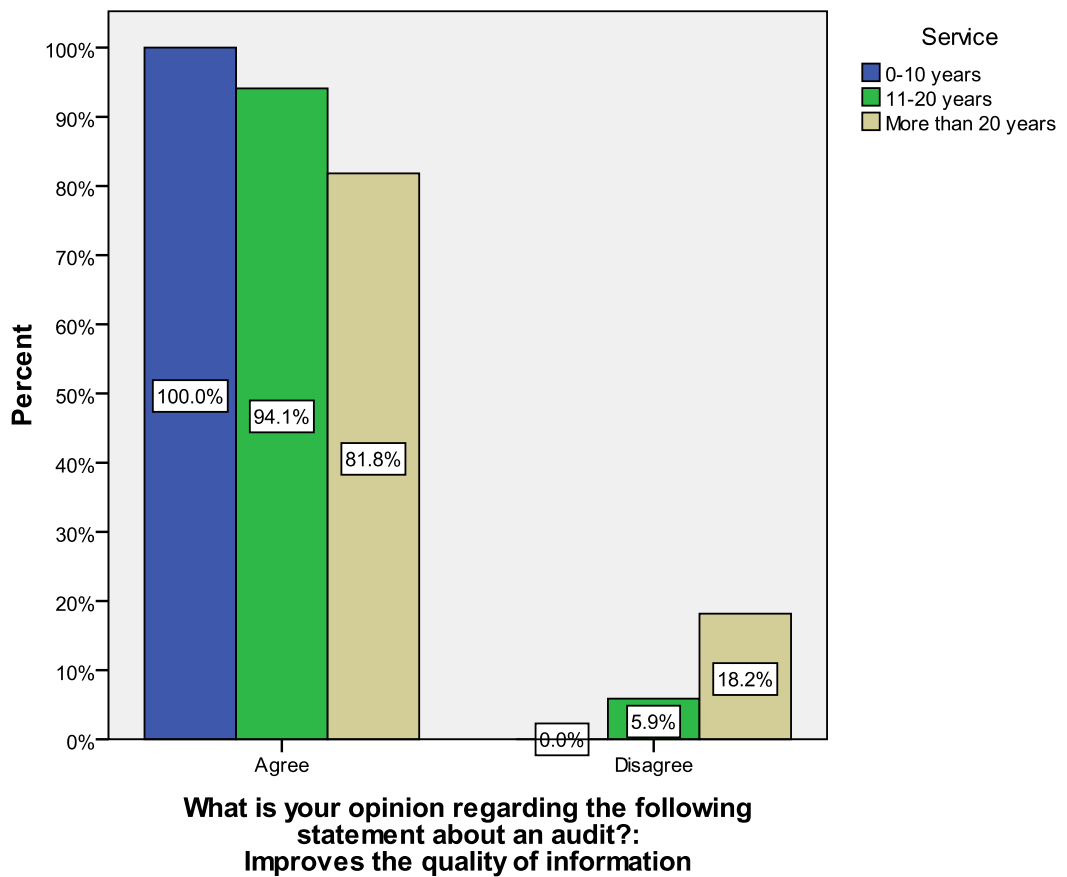


Figure 4.8: Association between audit's opinion and length of service

As outlined in Chapter 2, audit clients, small entities in particular, may consider the audit fee as an unnecessary cost. On the other hand, auditors many times argue that an audit involves much more work than what audit

clients actually pay. When sole practitioners were asked about this inconsistency, Table 4.11 depicts that 72% seem to agree that the cost of an audit is actually worth the benefits it will ultimately provide.

In this circumstance, the interviewee claimed that many companies do not consider that an audit is needed and thus, if an audit exemption is in place, they would be probably take advantage of it. He declared that nowadays, for small companies, an audit is simply a compilation of information rather than an audit as such because of the low fees involved. There is always the problem of documentation which is very time consuming. An auditor should document all the work that he has done with regards to the audit of financial statements. Therefore, if the excessive audit work is not going to be reflected in the audit fees which the audit client will eventually pay to the auditor, the auditor would have no alternative apart from the option to reduce audit work. An auditor will never conduct any work for which no audit fees will be received.

The time spent by auditors is considered costly relative to the client's perception of an audit. This argument continues to support the above statement and was analysed by a question particularly aimed at determining whether sole practitioners consider an audit as being only marginally profitable when compared against the risks that auditors face in conducting an audit. The response of sole practitioners towards this question is given by Figure 4.9 below.

Is an audit only marginally profitable?

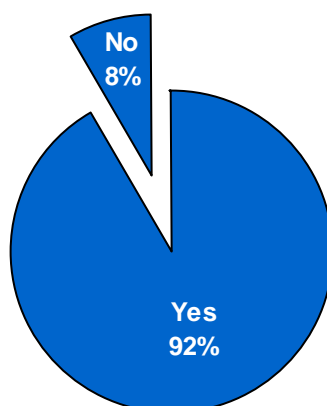


Figure 4.9: Audit's profitability

Figure 4.9 shows that 92% of sole practitioners (with a confidence interval of $92\% \pm 7.6\%$) believe that an audit is actually only marginally profitable.

As a conclusion to this questionnaire, considering the ever-increasing regulation requirements which seem to impose burdens on auditors, especially sole practitioners, the latter were asked to identify whether they consider the future possibility to join other auditors so as to enable subdivision of audit clients requiring different audits.

Do you consider the future possibility to join other auditors to enable subdivision of audit clients requiring different audits?					
			Yes	No	Total
Type of Qualification	University based course	Count	7	14	21
		Percentage	33.3%	66.7%	100.0%
	Professional Body	Count	13	6	19
		Percentage	68.4%	31.6%	100.0%
Total		Count	20	20	40
		Percentage	50.0%	50.0%	100.0%

Table 4.14: Association between the future possibility to join other auditors and type of qualification

It is evident from Table 4.14 that sole practitioners qualified through a professional body amounting to 68.4% agree with the above assertion whereas university graduates, being 66.7% are against.

Chi-Square Tests			
	Value	df	p-value
Pearson Chi-Square	4.912	1	.027

Table 4.15: Chi Square test for Table 4.14

Thus, there seems to be a relationship, proved even by means of the Chi Square test since the p-value being 0.027 is less than the 0.05 level of significance. Hence, the above association can be generalized because it is not attributed to chance. This is also diagrammatically depicted in Figure 4.10 below.

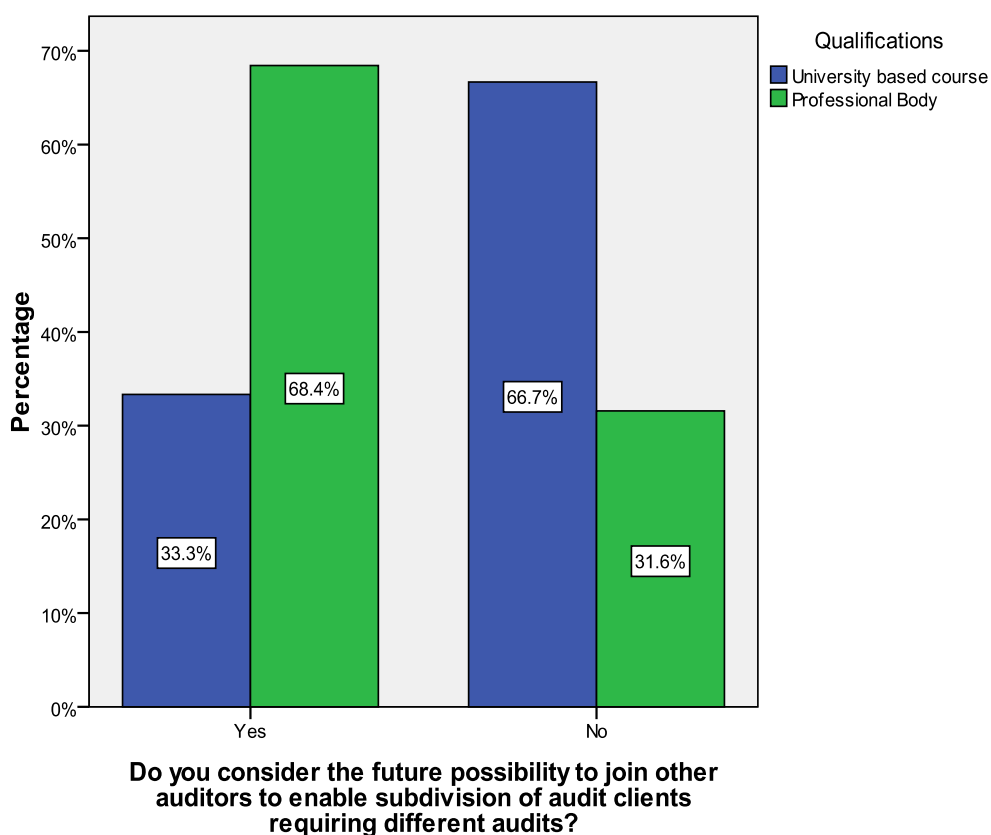


Figure 4.10: Association between the future possibility to join other auditors and type of qualification

As an alternative, sole practitioners were asked to give their opinion with regards to the future possibility to subcontract some of their audit work.

Do you consider the future possibility to subcontract certain audit work?					
			Yes	No	Total
Length of Service	0-10 years	Count	4	4	8
		Percentage	50.0%	50.0%	100.0%
	11-20 years	Count	9	8	17
		Percentage	52.9%	47.1%	100.0%
	More than 20 years	Count	9	2	11
		Percentage	81.8%	18.2%	100.0%
Total		Count	22	14	36
		Percentage	61.1%	38.9%	100.0%

Table 4.16: Association between subcontracting and length of service

Although the proportions differ from the sole practitioners' opinion with regards to the future possibility to join other auditors, in this case, the majority still favour subcontracting. This would mean a decline in the number of sole practitioners. The majority of those who favour subcontracting are sole practitioners with length of service of more than 20 years. The opinions of sole practitioners with less than 20 years experience are more or less balanced.

Chi-Square Tests			
	Value	Df	p-value
Pearson Chi-Square	2.878	2	.237

Table 4.17: Chi Square test for Table 4.16

In this case, the Chi square test does not seem to imply that there is a particular relationship between the length of service and the possibility of subcontracting since the p-value being 0.237 exceeds the 0.05 level of significance.

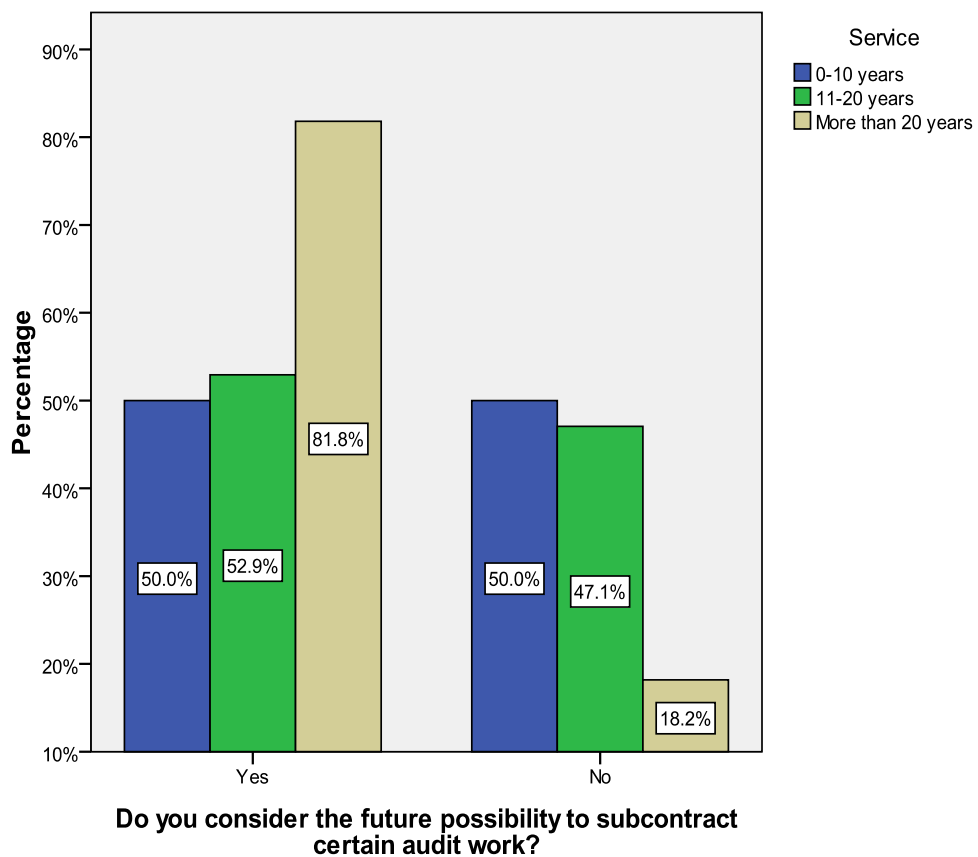


Figure 4.11: Association between subcontracting and length of service

However, as shown in Figure 4.11, sole practitioners with more than 20 years experience are more likely to favour subcontracting.

It is important to note that when the p -value exceeds the 0.05 level of significance by a large margin, that is, when the p -value is very close to 1, it can be deduced that there is no association between the two categorical variables. However, when the p -value exceeds 0.05 by a small amount, this implies that there is a certain amount of association between the two categorical variables, which however, cannot be generalized because the sample size is not large enough to do so. If the sample size had to be increased, it is very likely that the association would turn out to be significant.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

“This relaxation of accounting principles does not mean a lowering of the overall accounting standards. To the contrary, it seeks to give users of financial statements of SMEs more relevant accounting information.”

(Fenech, 2007)

5.0 Introduction

This chapter will initially present a summary of the Maltese situation with regards to SMEs, financial reporting and auditing. It will then provide some concluding remarks with respect to the findings of this study. Such remarks will be followed by various recommendations, which give room to further studies, in order to get to know more about the Maltese accountancy profession, hence highlighting any areas for improvement.

5.1 Summary

Small companies are generally known to suffer the burdens of laws and regulations, the latter being applicable to all companies, irrespective of their size. This general application is aimed at enhancing comparability due to the consistency of standards. However, the situation is changing because such regulations are increasingly being complicated, thus, continuing to increase the burdens faced by small entities.

Governments and accountancy bodies are considering the need to release small entities from these imposed burdens to encourage innovation and growth even on a smaller scale. Therefore, like foreign companies, where new standards are being developed solely aimed for small entities, the same happened in Malta. GAPSE was aimed at simplifying financial reporting for small companies, the latter constituting quite a good number of local businesses.

However, putting a side the small entities' effect, GAPSE will surely have an impact on auditors as well, particularly sole practitioners which are unable to make a subdivision of their work. Hence, this study was aimed at analyzing sole practitioners' opinion on this recent, locally developed standard.

5.2 Conclusions

Although few of the sole practitioners stated that they are not yet so knowledgeable about GAPSE, and thus refused to participate in this study, those who expressed their views, in general, favoured GAPSE and confirmed that most probably, they would accept clients preparing GAPSE financial statements. But, the majority of respondents believed that simpler technical words should have been used.

With regards to modifying the audit exemption threshold in Malta, the majority of sole practitioners claimed that it would be better to have a simplified auditing standard, like what is in fact happening in financial reporting. This supports what Vella (2006;54-55) stated in that an audit exemption in Malta would be an irrelevant issue, since an auditor is usually employed for accounts' preparation, who will then issue a report on the work that the auditor himself would have conducted. However, this should never happen in the light of the provisions of the Eighth Directive.

Despite certain criticisms, respondents still claimed that small companies should continue to have audited financial statements due to the benefits it provides. However, from the sole practitioners' side, an audit is still marginally profitable. With regards to subcontracting or joint auditors, sole practitioners favouring such ideas exceed others who do not.

5.3 Recommendations

As few sole practitioners claimed that they are not quite knowledgeable about GAPSE, in my opinion, they should be motivated to attend seminars or training courses in this regard, or be provided with relevant material. Despite being a small island, the accountancy profession is everyday flourishing and developing local standards should not be set aside by practitioners but

should be given high prominence and appreciation. Moreover, the MIA should incorporate ways in which to encourage practitioners as well as users of financial statements to contribute and collaborate by putting forward their views for any areas of improvement.

5.4 Areas for further research

As mentioned in Chapter 4, sole practitioners' opinion with respect to the statement that an audit improves the quality of information, it seems that the more career years they have, the less they favour this statement. It was also mentioned that certain relationships were not proved by the Chi Square test because of the low response rate. Therefore, there is room for another study, taking a qualitative stance, about this statement to analyse whether this relationship actually exists and if so, the reasons why auditors support less this idea as their experience increases.

In addition, since certain sole practitioners requested an interview, it would be a good idea that a qualitative study would be conducted on the same theme. This is also supported by the fact that along with their answered questionnaire, certain sole practitioners commented that have they had the opportunity to do so, they would prefer to state "it depends" on certain answers and express their comments. However, since this study was quantitative, it was not possible to ascertain the personal perceptions of the auditors surveyed.

5.5 Concluding remarks

As previously outlined, GAPSE is deemed to be beneficial and so it is favoured by the majority of sole practitioners. Likewise should happen in the audit area, in that rather than having an audit exemption, locally simplified auditing standards for SMEs would be developed.

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APPENDICES

APPENDIX 1:

Questionnaire

The Perception on GAPSE of Maltese sole practitioners: A Study	
Age	25 - 40 yrs <input type="button" value="v"/>
Career - Length of Service	0 - 10 yrs <input type="button" value="v"/>
Gender	Female <input type="button" value="v"/>
Type of Qualification	University based Course <input type="button" value="v"/>
Question 1	Do you think that GAPSE is adequate in terms of:
	representing a good quality standalone financial reporting standard <input type="button" value="Agree"/> <input type="button" value="v"/>
	reducing burdens for SMEs <input type="button" value="Agree"/> <input type="button" value="v"/>
	size criteria to enable eligibility to opt for it <input type="button" value="Agree"/> <input type="button" value="v"/>
Question 2	In your opinion, is the existing content in GAPSE appropriate in terms of:
	existing simplifications <input type="button" value="Agree"/> <input type="button" value="v"/>
	further simplifications that may be included <input type="button" value="Agree"/> <input type="button" value="v"/>
	matters which are not relevant but still used <input type="button" value="Agree"/> <input type="button" value="v"/>
	matters which are not included in GAPSE but which you consider relevant <input type="button" value="Agree"/> <input type="button" value="v"/>
Question 3	In your opinion, should GAPSE have been constructed using simpler rather than same technical terms as IFRSs?
	<input type="button" value="Yes"/> <input type="button" value="v"/>
Question 4	From a sole practitioner perspective, do you think that GAPSE will:
	increase burden due to a two-tier financial reporting system being, IFRSs and GAPSE? <input type="button" value="Agree"/> <input type="button" value="v"/>
	result in inefficiencies (eg. more planning time may be required) <input type="button" value="Agree"/> <input type="button" value="v"/>
	necessitate a reduction in audit fee due to lesser work (eg. reduced disclosures) <input type="button" value="Agree"/> <input type="button" value="v"/>
Question 5	Do you think that, most probably, you will:
	<input type="button" value="accept"/> <input type="button" value="v"/>
	an audit client preparing GAPSE financial statements?

Question 6	After all these accounting changes and the development of GAPSE, do you consider that it is time to have an audit exemption in Malta?	<input type="text" value="Yes"/>
Question 7	In your opinion, would an audit exemption serve as a safety net for auditors themselves in that: in owner-managed companies, it is difficult to test whether the necessary controls are not over-ridden despite a statutory audit, banks and/or lenders may still be unsatisfied since audits would only be satisfying statutory requirements rather than as a form of reliance and protection	<input type="text" value="Agree"/> <input type="text" value="Agree"/>
Question 8	In the Maltese scenario, which one of the following would you consider the most appropriate?	<input type="text" value="Modify existing audit exemption threshold"/>
Question 9	What is your opinion regarding the following statements about an audit?	
	Provides a check on internal controls of a company	<input type="text" value="Agree"/>
	Shifts responsibility from auditors to directors	<input type="text" value="Agree"/>
	Helps protect against fraud	<input type="text" value="Agree"/>
	Improves the quality of information	<input type="text" value="Agree"/>
	Improves the credibility of information	<input type="text" value="Agree"/>
	Shows compliance with legislation	<input type="text" value="Agree"/>
	The cost of audit is worth its benefits	<input type="text" value="Agree"/>
Question 10	The time spent by auditors is considered costly relative to the client's perception of audit. In view of this, do you think that when compared against the risks imposed on auditors, audit will be deemed only marginally profitable?	<input type="text" value="Yes"/>
Question 11	Do you consider the future possibility to:	
	join other auditors to enable subdivision of audit clients requiring different audits	<input type="text" value="Yes"/>
	subcontracting certain audit work	<input type="text" value="Yes"/>

APPENDIX 2:

*Questionnaire with
Percentage Results*

Respondents' characteristics:

Age			
	Frequency	Percentage	Cumulative Percentage
25 yrs – 40 yrs	14	39%	39%
41 yrs – 55 yrs	20	56%	95%
More than 55 yrs	2	5%	100%
Total	36	100%	

Gender			
	Frequency	Percentage	Cumulative Percentage
Female	5	14%	14%
Male	31	86%	100%
Total	36	100%	

Career – Length of Service			
	Frequency	Percentage	Cumulative Percentage
0 yrs – 10 yrs	8	22%	22%
11 yrs – 20 yrs	17	48%	70%
21 yrs – 30 yrs	8	22%	92%
More than 30 yrs	3	8%	100%
Total	36	100%	

Type of Qualification			
	Frequency	Percentage	Cumulative Percentage
University based course	17	47%	47%
Professional Body	15	42%	89%
Combination of both	4	11%	100%
Total	36	100%	

Question 1:

Do you think that GAPSE is adequate in terms of:				
	Agree (Frequency)	Agree (%)	Disagree (Frequency)	Disagree (%)
Representing a good quality standalone financial reporting standard	32	89%	4	11%
Reducing burdens for SMEs	31	86%	5	14%
Size criteria to enable eligibility to opt for it	31	86%	5	14%

Question 2:

In your opinion, is the existing content in GAPSE appropriate in terms of:				
	Agree (Frequency)	Agree (%)	Disagree (Frequency)	Disagree (%)
Existing simplifications	31	86%	5	14%
Further simplifications that may be included	32	89%	4	11%
Matters which are not relevant but still used	30	83%	6	17%
Matters which are not included in GAPSE but which you consider relevant	29	81%	7	19%

Question 3:

In your opinion, should GAPSE have been developed using simpler wording than those in IFRSs?			
	Frequency	Percentage	Cumulative Percentage
Yes	26	72%	72%
No	10	28%	100%
Total	36	100%	

Question 4:

From a sole practitioner perspective, do you think that GAPSE will:				
	Agree (Frequency)	Agree (%)	Disagree (Frequency)	Disagree (%)
Increase burden due to a 2-tier financial reporting system, being IFRSs and GAPSE	16	44%	20	56%
Result in inefficiencies (eg. more planning time may be required)	18	50%	18	50%
Necessitate a reduction in audit fee due to lesser work (eg. reduced disclosures)	7	19%	29	81%

Question 5:

Do you think that most probably you will:			
	Frequency	Percentage	Cumulative Percentage
Accept	34	94%	94%
Reject	2	6%	100%
an audit client preparing GAPSE financial statements?			

Question 6:

After all these accounting changes and the development of GAPSE, do you consider that it is time to have an audit exemption in Malta?			
	Frequency	Percentage	Cumulative Percentage
Yes	23	64%	64%
No	13	36%	100%
Total	36	100%	

Question 7:

In your opinion, would an audit exemption serve as a safety net for auditors themselves in that:				
	Agree (Frequency)	Agree (%)	Disagree (Frequency)	Disagree (%)
In owner managed companies, it is difficult to test whether the necessary controls are overridden	22	61%	14	39%
Despite a statutory audit, banks and/or lenders may still be unsatisfied since audits would only be satisfying statutory requirements rather than as a form of reliance and protection	16	44%	20	56%

Question 8:

In the Maltese scenario, which one of the following would you consider as being most appropriate?			
	Frequency	Percentage	Cumulative Percentage
Modify existing audit exemption threshold	12	33%	33%
Develop a simplified auditing standard	24	67%	100%
Total	36	100%	

Question 9:

What is your opinion regarding the following statements about an audit?				
	Agree (Frequency)	Agree (%)	Disagree (Frequency)	Disagree (%)
Provides a check on internal controls of a company	27	75%	9	25%
Shifts responsibility from auditors to directors	10	28%	26	72%
Helps protect against fraud	21	58%	15	42%
Improves the quality of information	33	92%	3	8%
Improves the credibility of information	35	97%	1	3%
Shows compliance with legislation	33	92%	3	8%
The cost of an audit is worth its benefits	26	72%	10	28%

Question 10:

The time spent by auditors is considered costly relative to the client's perception of audit. In view of this, do you think that when placed against the risks imposed on auditors, audit will be deemed only marginally profitable?			
	Frequency	Percentage	Cumulative Percentage
Yes	33	92%	92%
No	3	8%	100%
Total	36	100%	

Question 11:

Do you consider the future possibility to:				
	Yes (Frequency)	Yes (%)	No (Frequency)	No (%)
Join other auditors to enable subdivision of audit clients requiring different audits	19	53%	17	47%
Subcontracting certain audit work	22	61%	14	39%

APPENDIX 3:

Respondents'

Characteristics'

Analysis

A3.0 Introduction

As previously mentioned in Chapter 3, during this study several limitations were encountered. Another limitation not mentioned beforehand is that when the initial questionnaire was being set up, respondents' characteristics were unknown. Age gaps, length of service and types of qualification were set in a way so as to try to clearly distinguish several groups, aimed for better analysis.

However, when the analysis was being conducted, the initial unknown variables posed difficulty in considering the fact that the response rate was not so high. This issue arose due to the fact that the intention was to use the Pearson's Chi Square test in order to outline certain associations between variables, and thus, categories with relatively few percentages were going to mislead results and generalizations. Therefore, as described in the sections below, certain adjustments had to be performed.

A3.1 Type of Qualification

Appendix 1 shows that respondents had to choose between 3 modes of qualification, being through a university based course, through a professional body or else by means of both. The results, both before and after the required amendments, provided the following results as shown in Table A3.1.1 below.

Type of Qualification				
	Before amendment		After Amendment	
	Frequency	Percentage	Frequency	Percentage
University based course	17	47%	21	53%
Professional Body	15	42%	19	47%
Combination of both	4	11%	-	-
Total	36	100%	40	100%

Table A3.1.1: Type of Qualification

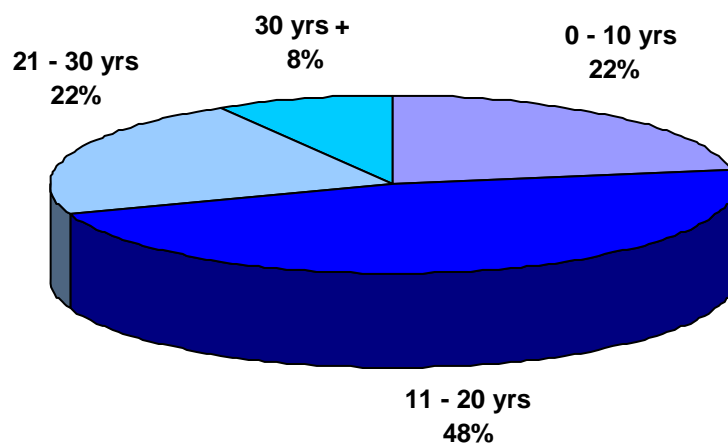
The above table depicts the data both in frequency and in percentage with respect to the type of qualification respondents had. The total response in frequency amounted to 36 sole practitioners, of which 4 respondents were qualified both through a university based course and also through a professional body.

The class of respondents having a combination of both represented only 4 out of 36. Such low frequency and thus percentage posed difficulty in using the Chi Square test. However, this problem was resolved by combining results. If these 4 respondents had a qualification in both, it can equally be said that such 4 can be added to both university based's frequency as well as to professional body's frequency. Thus, the frequency of respondents qualified through university rises from 17 to 21, whereas that of professional body rises from 15 to 19.

If one had to eliminate these 4 respondents, the total respondents would fall to 32 sole practitioners. Adding them back to both types would require an increase of 8. This is mainly the reason which led to the increase in the amount of respondents from 36 to 40 sole practitioners.

This explanation is important as the data with regards to the qualification in the SPSS had to be stacked and so the tables produced will outline that the number of respondents is 40 rather than the initial 36. This stacked data also led to a difference in the percentages shown.

A3.2 Length of Service

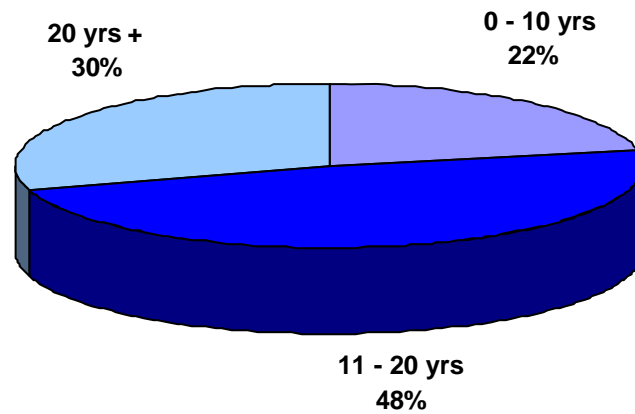


**Figure A3.1.1: Career – Length of Service
(service gaps as per questionnaire)**

As depicted in the questionnaire in Appendix 1 and in Figure A3.1.1 above, initially, the respondents' length of service was set at four different gaps. The percentage of respondents in each service gap after results were analysed are outlined the above diagram.

As the response rate was not too high, it resulted in only 8% who has been providing service for more than 30 years. This means that there were only 3 participants out of 36 for the latter category. Thus, for the purpose of using Pearson's Chi Square test, the last two service gaps had to be combined to enable association between variables, if any. Therefore, the length of service

gaps were thus reduced to 3, leading to the results as shown in Figure A3.2.2 below.



**Figure A3.2.2: Career – Length of Service
(service gaps for analysis)**

Therefore, although in Chapter 4 it was stated that the minimal category was that of sole practitioners with less than 10 years experience as shown in the above diagram, actually, the minimal percentage was that for length of service beyond 30 years. This latter statement is depicted in Figure A3.2.1

APPENDIX 4:

Representation

Letter

L-UNIVERSITÀ TA' MALTA
Msida - Malta
DIPARTIMENT TA' L-ACCOUNTANCY



UNIVERSITY OF MALTA
Msida - Malta
DEPARTMENT OF ACCOUNTANCY

28th October 2008

Dear Madam/Sir,

Ms Cathriona Spiteri is a Bachelor of Accountancy (Hons) student reading through the last year of her course. As part of her academic studies and assessment, she is preparing a dissertation concerning 'The Perception on GAPSE of Maltese Sole Practitioners: A Study'.

As part of her dissertation project, she is required to carry out a number of questionnaires and this is the purpose of this letter. You are kindly being asked to help Ms Spiteri and provide her with any information that you can offer.

The Faculty of Economics, Management and Accountancy of the University of Malta would be very pleased with your collaboration. All information will be treated with the strictest confidentiality.

Yours sincerely,

Mr Ivan Grixiti
Dissertation Supervisor