Zampa Debattista

Russell Bedford
taking you further

Entrust your reporting matters to us

IFRS & AUDIT Newsletter
Q1 2021

ABOUT US

Zampa Debattista was founded in 2014 by Matthew Zampa and John Debattista.

Before kicking off their own venture, the partners had accumulated over a decade of experience in accounting and assurance, developing a specialisation – respectively – in Indirect Taxation and Financial Reporting.

Since then, Zampa Debattista has grown to a 360-degree business advisory also covering areas such as Direct Taxation and Assurance.

In 2019, the company launched ZD Academy, an innovative platform offering highly technical courses for accountants and auditors.

Today, Zampa Debattista unites more than 45+ highly trained and dedicated professionals.

As a mid-size company, it offers a comprehensive range of services while maintaining its original, small firm's personal approach.

We aim to raise the profession with *Integrity, Honour* and *Passion*

THE PARTNERS

John Debattista
Founding Partner

John Debattista is a Certified Public Accountant and Registered Auditor. Prior to Zampa Debattista, John occupied the post of audit manager in a medium sized audit firm where he developed a specialisation in the financial services industry and remote gaming sector.

John is one of the founding partners at Zampa Debattista and heads the Assurance function of the office. He is the IFRS leader and acts as an advisor on highly technical IFRS issues. John lectured at the final stages of the ACCA, namely the Corporate Reporting paper. John also lectured the ACA course for the ICAEW, Institute Chartered of Accountants for England and Wales, namely the Corporate Reporting paper. John is also a speaker in various audit and accounting seminars delivered by a number of institutes in Malta. He also lectured the Diploma in IFRS provided by the Malta Institute of Accountants (DipIFR).

John has also worked abroad on a number of assignments which mainly relate to gaming and financial services

Matthew Zampa
Founding Partner

Matthew is a certified public accountant specialised in indirect taxation. He has been specializing in VAT since 2008 and has been involved in complex VAT assignments both within and outside of Malta.
Matthew, a member of the Malta Institute of Accountants, is also a part-time lecturer with the Malta Institute of Taxation.

Matthew Zampa is also the first Maltese to successfully complete the Expert in EU VAT degree. This coveted degree is administered and awarded by the VAT Forum, an international partnership of indirect tax specialists, founded in 1999.

Matthew forms part of Malta Institute of Accountants tax committee and is a member of the indirect taxation committee of the Malta Institute of Taxation.

Kris Bartolo
Partner

Kris is a Certified Public Accountant and Registered Auditor specialising in assurance services and international financial reporting standards.
Kris graduated from the University of Malta after completing the Bachelor of Accountancy (Honours) Degree. Following four years as an audit senior at a medium-sized audit and accountancy firm, Kris joined Zampa Debattista, a boutique accounting and assurance firm primarily focused on international business, managing the audit function.

Throughout his work experience he was exposed to assurance assignments on wealth management, pension funds, gaming companies, shipping, manufacturing and retail. In 2021, he was appointed a Partner at Zampa Debattista.

Kris also read for the Diploma in International Financial Reporting and is a lecturer of Corporate Reporting at the advance stages of the ACCA course.

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IFRS NEWS

Fiscal Unity Guidelines issued by Malta Institute of Accountants

In the recent months, the Malta Institute of Accountants have worked upon new comprehensive financial reporting guidelines supporting practitioners whose clients availed themselves of the recent Consolidated Group Rules, which are applicable from tax year of assessment 2020. These 'fiscal unity' rules enable eligible groups of companies to change their tax settlement practice.

For instance, rather than a subsidiary paying tax, and its parent company receiving a tax refund to which it is entitled to several months down the line, under this scheme the group submits consolidated financial statements and the parent company (principal taxpayer) pays 5%. This gives important cash flow benefits to the group.

These guidelines have been issued in April. More specifically, the guidelines include the recommended accounting for current and deferred tax at parent, subsidiary and consolidated level, as well as other important information in relation to a variety of scenarios and disclosure requirements.

Some of the salient guidelines related to financial reporting are the following:

- If the fiscal unit includes the same companies as the accounting group, there is no need to submit a separate set of financial statements for the purposes of the Consolidated Group Rules.
- On the other hand, a fiscal unit might exclude some of the companies that are found within the accounting group. In this case, special consolidated financial statements need to be prepared in order for a structure to avail itself of the benefit.
- The special consolidated financial statements largely follow the consolidation procedures that are necessary for an accounting group. Some differences are inevitable in the case of certain group entities which are not part of the fiscal unit. In the special consolidation, these may be presented on the balance sheet as 'investments in subsidiaries that are not members of the fiscal unit'.
- The tax rate applicable is one that reflects the effective tax rate that would have resulted from the declaration of a dividend and the subsequent refund due to the shareholder.
- Even though the parent company has the primary obligation to pay tax and recognise current tax, a subsidiary needs to recognise a current tax expense, based on the reasoning that each individual member of a fiscal unit has a notional taxable profit, which is the taxable profit which the entity would have registered had it not formed part of the fiscal unit. The contra entry to the current tax expense in the subsidiary's books is the current tax liability. Since this is not an obligation for the subsidiary (unless the parent defaults on tax), the current tax liability is derecognised, and the subsidiary recognises (as a credit), either a payable towards the parent or a shareholder's contribution (depending on whether the parent will claim repayment from the subsidiary).
- On the other hand, the parent will show a current tax liability in credit, representing what it needs to settle with the government. The contra entry will be either a receivable from the subsidiary, or an investment in subsidiary (mirroring the subsidiary's accounting).
- The decision on whether to create an intercompany balance or an investment by the parent in the subsidiary largely revolves around the type of agreement in place between the entities.

Change effective from 2021: 'COVID-19 related rent concessions' extension

The IASB had previously amended IFRS 16 'Leases' in order to provide relaxations in the accounting treatment of rent concessions happening as a result of COVID-19.

The general rule under the standard is that a change in the original lease terms consisting of a change in the payments requires a remeasurement of the lease liability.

The original amendment permitted preparers of entities that are lessees to book such changes to profit or loss, rather than to remeasure the lease liability, for those circumstances in which the change in rental payment is directly due to COVID-19, the reduction in lease payments affects only payments originally due on or before 30 June 2021, and no other terms and conditions in the lease term have changed.

This new amendment extends this exemption to COVID-19 related rent concessions happening up to 30 June 2022, in light of the fact that the pandemic is still at its height.

Change effective from 2023: 'Material' rather than 'Significant' accounting policies

A narrow scope amendment requires companies to disclose their 'material' accounting policy information rather than their 'significant' accounting policies.

But what constitutes 'material' accounting policy information? 'Material' accounting policy information is that information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. In the absence of a material accounting policy, users would not be able to understand other material information in the financial statements.

On the other hand, immaterial accounting policy information need not be disclosed. However, the disclosure of immaterial accounting policy information is permitted only if it does not obscure material accounting policy information.

The amendments (prospective) are effective from 1 January 2023, with early adoption permitted.

Change effective from 2023: 'Policies' versus 'Estimates'

Changes in accounting estimates are always applied prospectively. On the other hand, changes in accounting policies are almost always applied retrospectively.

A narrow scope amendment aids the distinction between changes in accounting estimates and changes in accounting policies. The amendment also aims to improve disclosures in terms of specificity.

Prior to the amendment, IAS 8 'Accounting Policies, Changes In Accounting Estimates and Errors' defines changes in accounting estimates. As a result of the amendment, it is 'accounting estimates' that are defined, rather than 'changes in accounting estimates'. Accounting estimates are defined as 'monetary amounts in financial statements that are subject to measurement uncertainty'.

Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves an element of uncertainty.

The IASB also highlighted that a change in accounting estimate deriving from new information is not an error, and the impact of a change in input or measurement technique used to develop an accounting estimate is a change in accounting estimate only if not resulting from the correction of prior period errors. A change in accounting estimate may impact current or future periods – this impact is reflected in profit or loss.

The amendments (prospective) are effective from 1 January 2023, with early adoption permitted.

IFRS NEWS

IASB Proposal: New standard to improve rate-regulated entities' reporting

The IASB is proposing a new accounting standard in relation to rate-regulated companies. Rate regulation is common in industries such as utilities. The regulation determines what a company can charge its customers for goods and services, and the period when the company can charge that amount. There is a timing issue which needs to be considered: sometimes the period of the supply differs from the period when the company can charge customers, creating a difference between the revenue, contract assets and contract liabilities figures, when compared to what the company is entitled to charge for supplies in that period.

The amended standard would require companies subject to rate regulation to give investors better information in relation to financial performance, and more specifically, these differences in timing. This requirement is not currently present. The proposed standard would introduce such requirement. Companies will be expected to report regulatory assets, liabilities, income and expenditure in the balance sheet and income statement. The new standard would replace IFRS 14 'Regulatory Deferral Accounts'.

The comments deadline is 30 July 2021.

IASB Proposal: New approach to improve 'Notes to the Financial Statements'

The IASB believes that there is improvement potential in the quality of notes to the financial statements being presented to users. Currently, notes to the financial statements include too little relevant information, too much irrelevant information and ineffective disclosures. More effective judgement will be required, but the proposed amendments will result in more useful information to users of financial statements.

The IASB is using the areas of fair value measurement and employee benefits to test this innovative approach. As a result, some new disclosure requirements are being proposed specifically in the areas of fair value measurement and employee benefits, and comments can be provided by stakeholders by 21 October 2021.

AUDIT NEWS

IESBA's and IFAC's Partnership in delivering ethics and independence resource

In November 2019, IFAC launched its series 'Exploring the IESBA Code' in collaboration with the staff of the International Ethics Standards Board of Accountants (IESBA). The series highlights important topics and concepts in the 'International Code of Ethics for Professional Accountants', whereby each instalment summarizes important aspects of the Code together with guidance on how to read and apply its authoritative text.

In February 2021, the final instalment was released. This instalment highlights the nature and the structure of the code by covering several topics, such as: the conceptual framework, the fundamental principles, auditor independence, inducements and non-compliance with laws and regulations (NOCLAR).

Both the IESBA Chairman, Dr. Stavros Thomadakis and the CEO of IFAC, Kevin Dancey, commented on the success of this initiative. They believe that making use of this new tool will result in valuable aspects to the accountancy profession. Members, national standard setters, and professional accountancy organizations are all encouraged to utilise this new resource to create awareness of the Code.

IAASB issues support material to help auditors address risk of overreliance on technology

The IAASB's Technology Working Group has officially published support material that seeks to help mitigate practicing auditors' tendency of overreliance on technology. Such a publication is intended to serve as complimentary reading material to the ISAs and is by no means to be considered their substitute or replacement.

https://www.iaasb.org/publications/addressing-risk-overreliance-technology-arising-use-automated-tools-and-techniques-and-information

New article by IAASB chair: Assurance standards keeping pace on non-financial reporting

As an effective action towards the achievement of technical excellence in the field of assurance for non-financial reporting and high-quality engagements, the IAASB has approved to move forward with the Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting (EER) Assurance Engagements. In lieu of such a decision, the Chair of the IAASB has proceeded to publish an article aimed at assisting all stakeholders to grasp a better understanding of the Guidance's role as a supporting feature of ISAE 3000 prior to its official publication in April 2021.

https://www.iaasb.org/news-events/2021-03/assurance-standards-keeping-pace-non-financial-reporting

Exposure Draft On Revised Audit Management Standards

The IAASB has issued an exposure draft aligning the existing standards with the new and revised 3 quality management standards released on 17th December 2020 and which will become effective on 15th December 2022. Public comments on this exposure draft are being requested and should be made by 14th May 2021 via the IAASB website.

The Exposure Draft highlights the proposed changes and how these will modify the existing IAASB standards to conform with the aspects introduced by the new quality management approach. The importance of firm-level quality management to consistent quality engagements is emphasised through these amendments and it is ensured that IAASB's international standards will continue to be applied as intended.

Broad Stakeholder Participation In IESBA Consultation On Public Interest Entity Definition

The International Ethics Standards Board for Accountants (IESBA) has issued an Exposure Draft to widen the definition of a public interest entity (PIE) to include more categories of entities based on the level of public interest in their financial condition. The Exposure Draft also redefines the PIE category "listed entity" and substitutes the said term with "public traded entity".
The IAASB welcomes this Exposure Draft and as expressed by IAASB Chair Tom Seidensetein: "The IAASB closely coordinated with IESBA on this project, recognizing that public interest entities play crucial roles in global markets. Convergence between audit and ethics standards on terms and concepts is in the public interest and is a leading priority". "The IAASB has reflected on the possible implications for its Standards and urges all IAASB stakeholders to participate in the consultation because of the possible future implications for IAASB Standards".

IAASB identified the following aspects of the IESBA proposals as having potential implications for the IAASB Standards:

- The introduction of an overarching objective for additional requirements to enhance confidence in the audit of the financial statements of PIEs.
- The broadening of the definition of PIE to include additional categories of entities and applying an approach whereby the categories are specified at a high level and expecting regulators, national standard setters or other relevant local bodies to refine these high-level categories so that the right entities in the local context are captured.
- Replacing the term "listed entity" with the term "publicly traded entity" and redefining that PIE category. In this regard, the Explanatory Memorandum explains the use of "listed entity" in IAASB Standards and the outcome of the IAASB's preliminary deliberations in relation to the possible review of the use of "listed entity" and PIE in the IAASB Standards.
- Introducing a new requirement in the IESBA Code for firms to publicly disclose if an audit client was treated as a PIE. The Explanatory Memorandum provides information regarding the IAASB's preliminary consideration of options in pursuing the possibility of transparency through the auditor's report.

All stakeholders are being encouraged by the IAASB to participate in the public consultation on this Exposure Draft.

DISCLAIMER

While every effort was made to ensure that the contents of this newsletter are accurate and reflect the current position at law and in practice, we do not accept any responsibility for any damage which may result from a change in the law or from a different interpretation or application of the local law by the authorities or the local courts.

The information contained in the newsletter is intended to serve solely as a guidance and any contents of a legal nature therein do not constitute or are to be interpreted as legal advice. Consulting your tax practitioner is recommended in case you wish to take any decision connected to contents of this newsletter.