Zampa Debattista

Russell Bedford
taking you further

Entrust your reporting matters to us

IFRS & AUDIT Newsletter
Q2 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 55+ 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 financial reporting.

Following the completion of the Bachelor of Accountancy (Honours) Degree at the University of Malta, Kris gained considerable audit practice experience in a medium-sized audit and accountancy firm. He joined Zampa Debattista at the early stages of the firm, in 2014, initially focusing on the management of audit and assurance assignments of local and international clients, operating in various sectors, including wealth management, remote gaming, shipping, manufacturing and retail as well as pension funds. Over the years, his work experience evolved and also covered company valuations, management reporting, and advice assignments relating to the implementation of IFRS requirements, including those surrounding financial statement disclosures.

After serving within the senior management structures of Zampa Debattista, in 2021, Kris was appointed Partner to continue contributing towards the success of the profession and the firm. Kris is a representative on the MIA young members Group and is also a visiting lecturer of audit and assurance and financial reporting at various educational bodies in Malta.

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Tax Standard Amendment Clarifies Deferred Tax Recognition Requirement

According to IAS 12 'Income Taxes', in specified circumstances, companies are exempt from recognising deferred tax when they recognise an asset and a liability for the first time.

Situations where an entity recognises an asset and a liability include leases and decommissioning obligations.

A lease agreement (where the Company is a lessee and prepares financial statements under IFRS 16), requires the recognition of right-of-use asset and a lease liability. The lease liability is the present value of future cash flows representing obligations to the Company, whilst the right-of-use asset is the sum of the lease liability, any initial payments, initial direct costs and an estimate of direct costs to be incurred by the lessee in dismantling the asset. The right-of-use asset is debited and the lease liability is credited.

Similarly, a decommissioning obligation is capitalised, when an entity is, for instance, required to restore a site on which an item of property, plant and equipment is located. The property, plant and equipment is debited and the provision is credited.

Prior to this amendment, there was uncertainty about whether deferred tax was exempt for such situations.

The amendment now clarifies that the exemption does not apply. Therefore, companies are required to recognise deferred tax on these types of transactions.

The amendments kick in on 1 January 2023. However, earlier application is permitted.

LATEST: New Standard Proposed By IASB Has Cost-Cutting Potential

The IASB proposed a new IFRS Standard that would allow eligible subsidiaries to apply IFRS Standards with less onerous disclosure requirements than would normally apply.

This will ease financial reporting preparation for eligible subsidiaries, without hindering users' needs.

If this standard is confirmed to become effective, some subsidiaries will not be eligible to apply it. Locally, this would be the case for certain Public Interest Entities like financial institutions. Another condition for the subsidiary to make use of this relaxation would be that its parent prepares IFRS consolidated financial statements.

Currently, one can encounter a situation in which a parent prepares its financial statements under IFRS, whilst its subsidiary's accounting framework is GAPSME. In this case, if the parent company consolidates, the subsidiary will be required to convert its GAPSME figures to IFRS solely for consolidation purposes. The subsidiary's alternative, as things stand today, would be to prepare its financial statements under IFRS in order to avoid conversions. However, this also means that the subsidiary (a small or medium—sized entity) is incurring extra costs for IFRS disclosure requirements it would not be including under GAPSME.

The proposed amendment will encourage eligible subsidiaries to opt for IFRS straight away as an accounting framework, given the reduction in disclosure requisites. This will enable the eligible subsidiary to not need to convert figures at consolidation stage from one framework to another, since they will already be prepared under IFRS, in line with the parent.

Ultimately, this amendment will reduce costs incurred by subsidiaries, since costs of conversion, costs of disclosures and time will be saved.

The title of the exposure draft is 'Subsidiaries Without Public Accountability: Disclosures'. Comments need to be submitted by 31 January 2022.

Sustainability Reporting – A New, Parallel Era In The Making?

A consultation paper was published in 2020 whereby it was being asked, or considered:

- Whether there is the need for global sustainability standards
- Whether the IFRS Foundation should play a role in developing such standards
- What the scope of that role could be.

An exposure draft was published last April with a 29 July 2021 deadline for comment. The exposure draft proposes changes to the IFRS Foundation's Constitution to accommodate the creation of a new Board within its existing structure. This new Board would presumably be referred to as the International Sustainability Standards Board (ISSB).

The subsequent milestone of this strategy and governance project would be the feedback in relation to the exposure draft comments. Such feedback is expected to be provided during Q4 of 2021.

IASB Work Plan – A Snapshot

1. Research Projects

Research projects are meant to gather evidence about problems to be solved and assess whether there is a feasible solution. Current research projects at the date of writing, and the expected decision date in their respect (that is, whether they will be converted into a standard-setting project or not) include:

- Business Combinations Under Common Control (2021)
- Dynamic Risk Management (2022)
- Equity Method (N/A)
- Extractive Activities (2021)
- Goodwill and Impairment (2021)
- Pension Benefits that Depend on Asset Returns (2021)
- Post-implementation Review of IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements' and IFRS 12 'Disclosure Of Interest In Other Entities' (2022)
- Post-implementation Review of IFRS 9 'Financial Instruments' (2021)

2. Standard-Setting Projects

Once a problem and a feasible solution are identified, a standard-setting project can commence. This typically leads to a new standard or to an amendment to an existing standard. The standard-setting projects currently in place include the following:

- Rate-regulated activities
- Primary financial statements
- Management commentary
- Financial instruments with characteristics of equity
- Disclosure initiatives:
  - Targeted standards-level review of disclosures
  - Subsidiaries without public accountability

3. Maintenance Projects

Maintenance projects address application questions about IFRS standards. Maintenance projects currently existing in relation to currently effective standards are the following:

- Supplier finance arrangements
- Targeted improvements to provisions
- Lease liability in a sale and leaseback
- Lack of Exchangeability – Amendment to IAS 21 'The Effects Of Changes In Foreign Exchange Rates'
- Classification of Debt with Covenants as Current or Non-Current

NEW QUALITY MANAGEMENT IMPLEMENTATION GUIDES – "a commitment to quality"

On 14 June 2021, the International Auditing and Assurance Board ("the IAASB") issued two guides to assist stakeholders with implementing new or revised quality management standards. These are:

- First-time implementation guide for International Standard on Quality Management (ISQM) I, Quality Management for Firms that Perform Audits or Review of Financial Statements, or other Assurance or Related Services Engagements
- First-time implementation guide for ISQM 2, Engagement Quality Reviews.

In Q3 of 2021, the IAASB will be issuing an implementation guide for International Standard on Auditing 220 (Revised), Quality Management for an Audit of Financial Statements.

ISQM 1 is intended to assist firms in developing robust and effective systems of quality management. It is applicable to all firms that perform engagements under the IAASB's international standards. ISQM 1 replaces ISQC 1, Quality Control for Firms that perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements and is effective from 15 December 2022. The main changes are as follows:

- A more proactive and tailored approach to managing quality with particular focus on achieving quality objectives. Quality objectives are achieved through identifying risks to those objectives and addressing these risks.
- Enhanced requirements to improve firm governance and leadership.
- Improved requirements in relation to technology, networks, and the use of external service providers.
- New requirements addressing information and communication.
- Enhanced requirements vis-à-vis monitoring and remediation.

ISQM 2 is a new standard which sets out guidelines regarding the appointment and eligibility of the engagement quality reviewer. It also deals with the reviewer's responsibilities in relation to the performance and documentation of an engagement quality review. The requirements for engagement quality are currently included in the extant ISQC 1 and ISA 220. Having a separate standard on engagement quality has the benefit of emphasizing the importance of engagement quality review, differentiating between the role of the firm and the engagement quality reviewer and increasing the scalability of ISQM 1.

ISQM 2 is also effective from 15 December 2022 and is applicable to all engagements for which engagement quality review is carried out in accordance with ISQM 2.
It is recommended that all practitioners plan early for a proper and effective implementation of these new and improved standards as well as assessing potential impact on the firms' systems of quality management.

Source:
https://www.iaasb.org/news-events/2021-06/new-quality-management-implementation-guides-now-available

IAASB

STRENGTHENING AUDITOR INDEPENDENCE – 'setting the bar'

On 28 April 2021, the International Ethics Standards Board for Accountants ("IESBA") issued revisions to the International Code of Ethics for Professional Accounts ("the Code") pertaining to non-assurance services and fees.

Two areas that have the potential to influence auditor behaviour are non-assurance services provided to audit clients and fees. IESBA has taken serious steps to strengthen the provisions in the Code for non-assurance services and fees. The revised non-assurance provisions are meant to enhance the International Independence Standards by providing clarity on the circumstances in which firms may or may not provide non-assurance services to an audit or assurance client. The revisions to the fee-related provisions of the Code provide enhanced guidance vis-à-vis identification, evaluation and solution of threats to independence.

The new measures include:

- Prohibition from providing a non-assurance service that might create a self-review threat to an audit client that is a public interest entity ("PIE").
- More robust measures regulating the engagement between auditors and those charged with governance of PIEs about independence matters relating to non-assurance services and fees.
- Improved provisions to tackle excessive fee dependency on audit clients.
- Provision intended to provide public transparency about fees paid by audits clients that are PIEs
- Detailed guidance on auditors' threat assessments and actions in relation to non-assurance services and fees.

The revised non-assurance services and fee-related provisions are effective for audits of financial statements for periods beginning on or after December 15, 2022. Early adoption is permitted and encouraged.

Source:
https://www.ethicsboard.org/news-events/2021-04/global-ethics-board-takes-major-step-forward-strengthening-auditor-independence

https://www.ethicsboard.org/focus-areas/strengthening-international-independence-standards

DISCLAIMER

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