

Entrust your reporting matters to us



IFRS & AUDIT Newsletter

Q3 2022

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***

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ISA 315 (Revised 2019) 'Identifying and Assessing the Risks of Material Misstatement'

On 27 July 2022 the International Auditing and Assurance Standards Board (IAASB) released its First-Time Implementation Guide for ISA 315 (Revised 2019) 'Identifying and Assessing the Risks of Material Misstatement'.

The guide focuses on the changes that were made to ISA 315 and how ISA 315 should be applied.

Similarly to ISA 315 (Revised) 'Identifying and Assessment of Material Misstatement through Understanding the Entity and Its Environment', ISA 315 (Revised 2019) 'Identifying and Assessing the Risks of Material Misstatement', covers the auditors' procedures to:

1. Understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, to be able to identify and assess risks of material misstatement;
2. Identify risks of material misstatement; and
3. Assess risks of material misstatement.

ISA 315 (Revised) 'Identifying and Assessment of Material Misstatement through Understanding the Entity and Its Environment' was revised due to the below reasons:

1. Inconsistency existed in the nature and number of significant risks identified in practice;
2. Obtaining an understanding of the system of internal control was difficult to apply in practice.
3. Information Technology (IT) risks were not sufficiently addressed in the standard; and
4. Challenges of applying the standard when auditing small- and medium-sized entities (SMEs).

The ISA has been revised to include a more robust and consistent risk identification and assessment process. The revised ISA requires an enhanced risk assessment process, intended to support more focused responses to the auditors' risk assessment in accordance with ISA 330 'The Auditors' Responses to Assessed Risks'.

ISA 315 (Revised 2019) is effective for audits of financial statements for periods beginning on or after 15 December 2021.

Reference:

<https://www.iaasb.org/publications/isa-315-revised-2019-identifying-and-assessing-risks-material-misstatement>



Auditing Going Concern Matters in the Auditors' Report

The International Auditing and Assurance Standards Board (IAASB) released a publication to address some of the common questions in relation to the use of and the interrelationship of Material Uncertainty Related to Going Concern and Key Audit Matters sections, and Emphasis of Matter paragraphs, in the auditor's report prepared in accordance with International Standards on Auditing (ISAs).

Reference:

<https://www.iasplus.com/en-ca/publications/other/reporting-going-concern-matters-in-the-auditor2019s-report>

Audit Committee Resource

The Public Company Accounting Oversight Board (PCAOB) published a document to serve as reference for auditors, audit committee members, investors, and other stakeholders.

This document includes questions that the audit committees of public companies might want to consider as part of their ongoing engagement and discussion with their auditors. These questions include questions in relation to how the auditors are responding to the financial reporting and audit risks posed by the current economic environment.

These questions are in relation to:

1. Fraud and Other Risks;
2. Initial Public Offerings and Mergers & Acquisitions;
3. Audit Execution;
4. How Firms Comply with Auditor Independence Requirements;
5. Firms' Quality Control Systems; and
6. Technology – Auditing Digital Assets, Responding to Cyber Threats; and Use of Data and Technology in Audit.

Reference:

<https://www.iasplus.com/en-ca/publications/other/spotlight-audit-committee-resource>

Auditing with Inflation on the Rise

As a result of the COVID-19 pandemic, the conflict between Ukraine and Russia and other minor matters that have taken place over the recent years, Europe is experiencing high levels of inflation. As part of the audit process, auditors need to understand the impacts of this inflation. The following are the key areas of the audit that will be affected:

Planning

At the planning stage of our audits, inflation should be considered within the auditors' risk assessment procedures. This assessment will vary from one entity to the other, and should also be re-assessed both throughout the audit, and at the completion of the audit. Auditors should consider the impact on the entity's business model, for example in relation to interest rates and foreign exchange rates.

As part of the risk assessment under ISA 315 'Identifying and Assessing the Risks of Material Misstatement', auditors need to understand the entity's system of internal controls. This will enable the auditors to be in a position to determine if the entity's system of internal controls is expected to anticipate changes in inflation.

Fraud

The risk of fraud increases during periods with high inflation, as there may be greater pressure to commit financial reporting fraud for personal gains to meet targets or bonus thresholds. A high staff turnover might weaken the entity's system of internal controls which makes it more difficult to identify fraud.

Impairment

Auditors need to do a detailed impairment assessment using the most up to date financial information. Such an assessment involves a lot of judgements and estimates.

Going Concern

Whilst performing the going concern assessment, both at the planning and completion stage, auditors need to take into consideration inflation.

Inflation is likely to increase the entity's expenses and this might lead to reduced profitability. Moreover, if the entity's major suppliers went out of business, the entity would need to find other suppliers, if possible. If the entity is not able to replace such suppliers, the entity might need to change its business model.

Disclosures

Auditors need to assess the impact of inflation on the financial statements disclosures. Inflation might impact the subsequent events disclosure, going concern disclosures, sensitivity analysis, and so on.

Representations

Auditors must obtain written representations from Management that may support any other audit evidence obtained. It is important to highlight that representations on their own do not provide sufficient appropriate audit evidence.

Reference:

<https://www.icaew.com/insights/viewpoints-on-the-news/2022/jul-2022/auditing-with-inflation-on-the-rise>

Accountancy Profession's Commitment to Fighting Corruption and Economic Crime

On 6 September 2022 the International Federation of Accountants (IFAC) issued its action plan to strengthen the accountancy profession's role in a powerful anti-corruption ecosystem.

The action plan for fighting corruption and economic crime sets out more than 30 specific actions for IFAC and the accountancy profession related to education, evidence-based policy, global standards, partnership, and thought leadership.

Refer to the below link for the action plan:

<https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/ifacs-action-plan-fighting-corruption-and-economic-crime>

Reference:

<https://www.ifac.org/news-events/2022-09/ifac-elevates-accountancy-profession-s-commitment-fighting-corruption-and-economic-crime>

Environmental, Social and Governance Reporting

The International Federation of Accountants (IFAC), American Institute of CPAs (AICPA) and Chartered Institute of Management Accountants (CIMA) performed a Global Study related to Sustainability Data in 2020 and from the findings of this study it can be noted that:

1. The number of global companies obtaining independent assurance on their Environmental, Social and Governance (ESG) Reporting increased from 51% in 2019 to 58% in 2020;
2. 82% of the assurance engagements were mostly limited in scope;
3. 61% of ESG assurance services were performed by professional accounting firms, with substantial variation in practice within different jurisdictions;
4. 70% of global companies that engaged a professional accounting firm to perform the ESG assurance engagement chose the firm that audits their financial statements;
5. 92% of global companies provided some ESG data to their investors, either through integrated, annual or standalone reports; and
6. The use of the Sustainability Accounting Standards Board (SASB) standards more than doubled in 2020. An analysis with respect to 2021 is expected to be released at a later date.

IFAC's CEO Kevin Dancey stated that:

"...our research tells us that 80% of companies are using multiple frameworks or standards, which results in data that is not consistent, comparable or decision-useful for investors, stakeholders or society at large. Sustainability reporting and assurance will only reach its full potential when it is based on a harmonised global system led by the International Sustainability Standards Board's comprehensive baseline of disclosure."

65 companies, investors, and professional accounting firms from across the world endorsed a statement demanding a global standard for reporting sustainability-related information. The endorsed statement was developed by:

1. The World Business Council for Sustainable Development (WBCSD);
2. The Principles for Responsible Investment (PRI); and
3. The International Federation of Accountants (IFAC).

In the endorsed statement, major parties, such as the International Sustainability Standards Board (ISSB), the US Securities Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG) are encouraged to continue to work closely together, as the current draft standards are not technically compatible in terms of concepts, terminologies and metrics.

A globally consistent, comparable, reliable, and assurable corporate reporting system is crucial in providing all stakeholders with a clear and accurate picture of an entity's ability to create sustainable value over time. Nonetheless, local jurisdictions can add their own interoperable reporting requirements.

References:

<https://www.ifac.org/news-events/2022-08/more-companies-obtaining-independent-assurance-sustainability-data-according-global-study-ifac-aicpa>

<https://www.ifac.org/news-events/2022-08/companies-investors-and-professional-accountants-add-their-voices-call-global-alignment-between>



“Paving the way to ESG – a practical eye opener” – Event Organised by the Malta Institute of Accountants

The Malta Institute of Accountants (MIA) has been providing detailed feedback to the European Financial Reporting Advisory Group on the first draft set of European Sustainability Reporting Standards. Furthermore, the MIA organised an event on 19 September 2022, “Paving the way to ESG – a practical eye opener”, to go through the significant points of ESG Reporting. Accountants were encouraged to clarify the costs associated with ESG implementation and highlight the benefits.

The event included panel discussions and breakout tables which addressed practical and regulatory elements emerging from upcoming ESG requirements, including new standards developed by the relevant European bodies.

Zampa Debattista participated in this event and Mr Neville Saliba, Accounting Senior at Zampa Debattista and Member of the Malta Institute of Accountants’ Young Members Focus Group, was one of the panel speakers. Mr Neville Saliba emphasised the increasing importance of ESG matters in today’s scenario. His contribution focused on the EU’s advancements from a legislative perspective, which are hereby summarised:

- The Taxonomy Regulation (2020/852) creates an EU wide classification system for sustainable activities through the establishment of six main environmental objectives;
- The Sustainable Finance Disclosure Regulation (2019/2088) aims to improve transparency in sustainable investment opportunities through strengthened disclosure obligations for a broad range of financial market participants, financial advisors and financial products; and
- The proposed Corporate Sustainability Reporting Directive seeks to improve entities’ accountability and transparency when reporting their own impact on the environment and people. This proposed Directive requires entities to obtain limited assurance on their ESG reporting.

Whilst elements of the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation are already in force, mandatory application of the Corporate Sustainability Reporting Directive’s requirements is set to take a stepped approach from 2024 onwards.

Following up on these developments, Zampa Debattista will be releasing a series of technical articles to delve deeper into the subject area.

Reference:

https://www.miamalta.org/news/mia-news/12933521?fbclid=IwAR1Dj33vO13R-hAjulsmxtse3m12ltzrO2nc9Zggw3qz5A8Bf32sn_2-P7s



The Malta Institute of Accountants Launches the Second Edition of #AccountsForYou Awareness Campaign

On 23 September 2022, The Malta Institute of Accountants (MIA) launched the second edition of the #AccountsForYou Awareness Campaign.

The purpose of this campaign is to encourage young students to discover more about the exciting and varied career opportunities that this profession provides. It will also address the need for wider financial literacy starting at a young age, a key tool in the development of the citizens of tomorrow.

The campaign will be targeted towards students in Year 8 and Year 11 in state, church, and independent schools, as well as post-secondary institutions.

The campaign will feature live sessions in schools, supported through a digital campaign on the social media platforms.

Reference:

<https://www.miamalta.org/news/mia-news/12930144>



Minor Amendment To IFRS 16 'Leases'

In September, the IASB issued amendments to IFRS 16. The amendments specifically relate to how a company accounts for a sale and leaseback after the date of the transaction.

In a sale and leaseback transaction, a company sells an asset to a new owner, and then leases it back from that owner for a period of time.

Whilst IFRS 16 caters for the accounting for sale and leaseback at the date of the transaction, not the same can be said for the accounting requirements after that date for the lease liability.

Following this amendment, IFRS 16 specifies that upon a sale and leaseback transaction, the seller-lessee does not recognise a gain or loss relating to the right of use that it retains.

Without these amendments, there could have been a situation where the seller-lessee recognises a gain or loss relating to a 'right of use retained', deriving solely from an event like a remeasurement.

The amendments can be early adopted and are effective for annual reporting periods beginning on or after 1st January 2024.

Reference:

<https://www.ifrs.org/news-and-events/news/2022/09/iasb-issues-narrow-scope-amendments-to-requirements-for-sale-and-leaseback-transactions/>



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.