

DIRECTIVE ON THE APPLICATION OF IAS 29: Financial Reporting in Hyperinflationary Economies - 2024

1. INTRODUCTION

The Institute of Chartered Accountants in Malawi (ICAM), in exercise of its powers under Section 42(1); and in pursuit of its objectives under Section 40(a), (b), (d), (n) and (r) as well as in exercise of its functions under Section 41(a), (b) and (d) of the **Public Accountants and Auditors Act, 2013**, hereby issues this Directive to guide its members and stakeholders on the application of International Accounting Standard (IAS) 29, Financial Reporting in Hyperinflationary Economies, in Malawi for the December 2024 reporting period.

This Directive responds to recent publications by the international accounting firms including the Big 4, which have designated Malawi as a hyperinflationary economy. Consequently, these firms recommended the application of IAS 29 to financial statements for the period ending December 2024. These publications rely on the report by the International Practices Task force (IPTF), comprising six international accounting firms; with reference to the International Monetary Fund (IMF) October 2024 World Economic Outlook, which classifies Malawi as a hyperinflationary economy for 2024. The International Practices Task Force (IPTF) is a task force of the Securities and Exchange Commission (SEC) Regulations Committee.

ICAM clarifies that these publications and their associated recommendations do **not** represent the official position of the Institute of Chartered Accountants in Malawi.

ICAM assessed the Malawi economy in terms of IAS 29 and issued guidance papers in August 2024 and October 2024 wherein **the Institute concluded that Malawi is not in a hyperinflationary economic state, which remains the official position up to now.** The Institute advises that according to the latest available economic data, inflation had eased down to 27% as at 30 November 2024; a trend which is expected to continue in the near term. In addition, the three-year cumulative inflation for Malawi had declined from 116% as at the date of the last review on 30 September 2024 to 112.7% as at 30 November 2024.

2. PURPOSE OF THE DIRECTIVE

The directive aims to:

- Guide accountants in practice to reference this ICAM Directive in their opinions and financial statements, ensuring compliance with the Directive (see Appendix 1).
- Assist preparers of financial statements in including relevant information regarding the ICAM Directive on IAS 29 in the notes to the financial statements (Appendix 2).
- Provide direction to subsidiaries of foreign entities in Malawi where IAS 29 is applied at the consolidation level.
- Clarify the treatment for entities operating with functional currencies not subject to hyperinflation.
- Remind members to comply with Section 5 of the Companies Act, Act No. 15 of 2013 in Malawi, which requires companies to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) or IFRS for SMEs.

3. SCOPE OF THE DIRECTIVE

This Directive applies to:

- Accountants, auditors, and other financial statement preparers in compliance with the Companies Act 2013.
- All entities incorporated in Malawi that prepare financial statements and apply the International Financial Reporting Standards.
- All foreign entities with subsidiaries in Malawi with legal obligations including listing requirements by the Malawi Stock Exchange, to publish consolidated financial statements or other information incorporating accounting information for local subsidiaries in Malawi prepared in accordance with IFRS Accounting Standards.
- Multinational entities listed on the Malawi Stock Exchange with subsidiaries in Malawi are required to publish their consolidated financial statements in compliance with listing requirements in Malawi including other similar updates. Publication of such information should not include hyperinflation adjustments, if any, or references to hyperinflation to the extent such information is in respect of a subsidiary in Malawi that has complied with this Directive.

4. FUNCTIONAL CURRENCIES NOT THE SUBJECT OF HYPERINFLATION

Entities reporting with functional currencies not the subject of hyperinflation are not affected by IAS 29 and, therefore not within the scope of this Directive.

APPENDIX 1

Independent auditor's report to the shareholders of XYZ Company Limited

Opinion

We have audited the financial statements of XYZ Limited set out on pages XX to YY which comprise the statement of financial position as at 31 December 2024 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of XYZ Limited as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, **IAS 29 Directive as issued by the Institute of Chartered Accountants in Malawi (ICAM)** and the requirements of the Companies Act, 2013.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Malawi.

We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information on pages XX to YY which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, **IAS 29 Directive as issued by the Institute of Chartered Accountants in Malawi (ICAM)** and in the manner required by the Companies Act, 2013; and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the entity to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Name of firm
Name of accountant in practice
Registered Practicing Accountant
DATE xxx

APPENDIX 2

ACCOUNTING FRAMEWORK

The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), **the IAS 29 Directive issued by the Institute of Chartered Accountants in Malawi (ICAM)** and in Compliance with the Companies Act, 2013.

CONCLUSION

All accountants in practice and accountants in business **are hereby directed not to apply IAS 29** to the financial statements for the reporting period ending 31 December 2024. Non-compliance with this Directive will attract appropriate sanctions

ISSUED BY COUNCIL OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI.



CA. Daniel Jere
ICAM President
27 December 2024