

AUDITOR'S REPORT AND ITS SIGNIFICANCE TO FINANCIAL REPORTING

An exposition for preparers of financial statements



GENERAL

This newsletter aims to assist preparers of financial statements develop adequate understanding of the significance of audit reports and opinion; the types of audit reports and opinions, and events that may warrant each type of report and opinions on a company's audited financial statement.

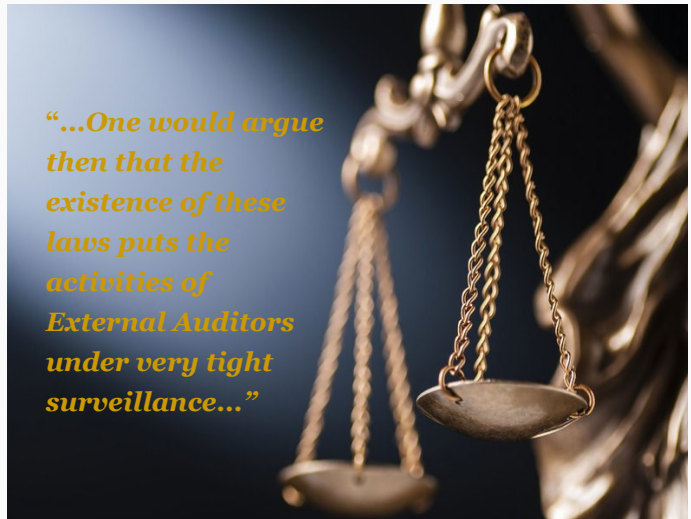
This article is particularly important giving the increased demand by The Financial Reporting Council (FRCN) on auditors in ensuring strict compliance to the requirements of the International standards on Auditing, and the just implemented Audit Regulations, 2020.

External Auditors are guided by rules, laws, standards or regulations of different statutory bodies within and outside. These include amongst others:

- * The Central Bank of Nigeria
- * The Companies and Allied Matters Act, 2020
- * The Investment Securities Act
- * The International Standards on Auditing
- * The Financial Reporting Council Act

- * Audit Regulations
- * Nigerian Corporate Codes of Governance etc.

One would argue then that the existence of these laws puts the activities of External Auditors under very tight surveillance. This is nevertheless expected giving the roles External Auditors play –an impartial, unbiased independent examiner of financial reports .



Types and Forms of Audit Opinion and Report

Audit report and opinion could take any of the following forms:

a) **Unmodified audit report with an unmodified opinion**

When an auditor issues an unmodified audit report with an unmodified opinion, this means the auditor is of the opinion that a company's financial statement have been prepared, in all material respect, in accordance with applicable financial reporting framework (CAMA, IFRS, FRCN Act etc.)

By implication, an unmodified audit report with an unmodified opinion also means that:

- * A company has adequately disclosed all significant accounting policies in line with relevant IFRSs.
- * The accounting policies selected are consistently ap-

plied and appropriate.

- * Accounting estimates and assumptions made by management are reasonable. Example of accounting estimates would typically include: Depreciation methods and asset useful life, allowance for doubtful debt, warranty etc.
- * Financial information as presented is relevant, reliable, comparable, and understandable.

b) **Modified report with an unmodified opinion**

There are other circumstances where auditors issue a modified report but gives an unmodified opinion.

This is the case where although the financial statement shows a true and fair view of a company's financial position and performance, but there are other areas of the report requiring the attention of users of financial statements.

Events such as these are typically reported under the following sections in the Auditor's report:

◆ **Material Uncertainty Related to Going Concern**

This section is included in the auditor's report when there is a material uncertainty regarding the going concern status which the Directors have adequately disclosed in the financial statements. The auditor uses this section to draw attention of the user to the client's disclosure on going concern.

◆ **Emphasis of matter**

An Emphasis of Matter paragraph is used to refer to a matter that has been appropriately presented or disclosed in the financial statements by the Directors. The Auditor's judgement is that these matters are of such fundamental importance to the users' understanding of the financial statements. Examples of events that are typically reported under this section would include:

1. An uncertainty relating to the future outcome of exceptional litigation or regulatory action.

2. A significant subsequent event occurs between the date of the financial statements and the date of auditor's report.
3. Early application of a new accounting standard.
4. Major catastrophes that have had a significant effect on the entity's financial position.
5. Where the financial statements have been prepared on a basis other than the going concern basis.
6. The corresponding figures have been restated.
7. The financial statements have been recalled and reissued or when the auditor provides an amended auditor's report.

◆ **Other Matters**

Other Matter paragraph is included in the auditor's report if the auditor considers it necessary to communicate to the users regarding matters other than those presented or disclosed in the financial statements that, in the auditor's judgement, are relevant to understanding the audit, the auditor's responsibilities, or the auditor's report.

This section is typically used to capture the following information:

1. To communicate that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

2. When law, regulation or generally accepted practices requires or permits the auditor to provide further explanation of their responsibilities.
3. To explain why the auditor has not resigned, when a pervasive inability to obtain sufficient appropriate evidence is imposed by management (e.g. denying the auditor access to books and records) but the auditor is unable to withdraw from the engagement due to legal restrictions.
4. To communicate audit planning and scoping matters where laws or regulations require.

c) Modified report with a modified opinion

An Auditor issues a modified report with a modified

Where the part of financial statement considered to be materially misstated is not significant enough to affect their decisions, then such matter may be isolated while the remainder of the financial statements may be relied upon.

◆ **Adverse Opinion**

An auditor gives an adverse opinion on a company's financial statement where misstatement is material and pervasive.

A matter is considered 'pervasive' if, in the auditor's judgement:

- * The effects are not confined to specific elements, accounts or items in the financial statements if so confined, represent or could represent a substantial

sents a substantial proportion of the assets or profits e.g. would change a profit to a loss.

d) Disclaimer of Opinion

A disclaimer of opinion is issued when the auditor has not obtained sufficient appropriate evidence and the effects of any possible misstatements could be pervasive. The auditor does not express an opinion on the financial statements in this situation.

Examples include:

opinion where the financial statements is not free from material misstatements or insufficient audit evidences have not been obtained by the Auditor.

A modified report with a modified opinion may take two forms namely:

* **Qualified Opinion**

An Auditor would give a qualified opinion where he is of the opinion that a misstatement is material but not pervasive. "Not pervasive" in this sense implies that the matter is material to an area of financial statements but does not affect all other areas of the financial statements.

User's acceptance of a qualified audit report would be a function of what they consider to be risk.

proportion of the financial statements, or

- * In relation to disclosures, are fundamental to users' understanding of the financial statements
- * A pervasive matter must be fundamental to the financial statements, therefore, rendering them unreliable as a whole.

1. The following events amongst others are reasons an adverse opinion may be given on a financial statement:
2. Preparation of the financial statements on the wrong basis.
3. Non-consolidation of a material subsidiary
4. Material misstatement of a balance which repre-

1. Failure by the client to keep adequate accounting records.
2. Refusal by the directors to provide written representation.
3. Failure by the client to provide evidence over a single balance which represents a substantial proportion of the assets or profits or over multiple balances in the financial statements.



...Our commitment to our clients, innovation and industry leadership is demonstrated through our continued investment in the way we work. We believe that providing timely information and insightful perspective is a vital part of serving our clients, this is why our clients in diverse sectors trust our value adding insights.

Our vision

To establish ourselves as one of the top ten firms of choice in Nigeria by 2022 in terms of revenue size.

Our mission

To make world-class, professional and personalized services affordable to our esteemed clients by investing in technology, technical know-how and staff welfare.

Our core values

◆ Professionalism ◆ Accuracy ◆ Service ◆ Team work ◆ Innovation

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