Audit Opinions Rollover

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Introduction

Since 2009, Zimbabwe has been characterized by series of critical events and monetary policy pronouncements (i.e. the Monetary policy statements and the Statutory Instruments (SIs)) that significantly affected the functional currency of entities operating in this country. As a result, various entities with financial years ending after 31 October 2018 were significantly affected by the afore-mentioned currency interventions. Some of these entities received modified audit opinions ranging from qualifications, adverse opinion, and disclaimer.

Now that the 2018 reporting period was concluded, the question boggling most entities is what their audit opinions for financial periods beginning 1 January 2019 would look like. This question emanates on whether the audit opinions from the 2018 report period will have an impact on the 2019 financial year audit opinions.

If so, how will they be able to get the clean audit opinion. To answer this question entities might have we have decided to delve into the following inter alia matters:

a. Type of the opinion issued.
b. Impact of issues raised.
c. Ability to correct the issued raised.

Causes of audit opinion modifications from Currency Reforms

From the various changes that occurred because of currency reforms two issues have emerged to be the main contributors of modified audit opinions in the 2018 reporting period, namely:

a. date of change of the functional currency and
b. the exchange rate or the translation rate.

Now that we have identified the main causes of the audit opinion's modification entities can assess their ability to correct the issues raised.

2018 (Prior) reporting period opinion

First and foremost, an entity would need to consider the type of the opinion it obtained in the prior year. We have provided the table below outlining how different opinions arise, their meanings and what needs to be done to get a clean audit opinion for the current year audit.

Type of opinion

Nature of matter giving rise to the modificatio	**Auditor's judgement about the pervasiveness of t effects or possible effects on the financial statements**	
	Material but not pervasive	**Material and pervasive**
Financial statements are materially misstated	Qualified	Adverse
Inability to obtain sufficient appropriate au evidence – limitation of scope.	Qualified	Disclaimer

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It is important that we explain or define certain terms to aid understanding the definition of these different types of opinions.

- A misstatement is material if it either exceeds the set materiality threshold or constitutes non-compliance with IFRS, IPSAS or laws and regulations.
- Pervasive means that the misstatement is not confined to a single but affects more line items in the financial statements or if isolated to a single line item it affects the significant part of the financial statements.

Types of opinions and their meanings i.e. based on some of the opinions issued due to currency reforms, this was because of non-compliance with IAS 21 The Effects of Changes in Foreign Exchange Rates.

a. Qualified audit opinion (i.e. an except for qualification)

- This means that the entity's financial statements fairly represent whatever they purport to presents in terms of International Financial Reporting Statements (IFRS) or International Public Sector Accounting Standards (IPSAS) frameworks except for items singled out.

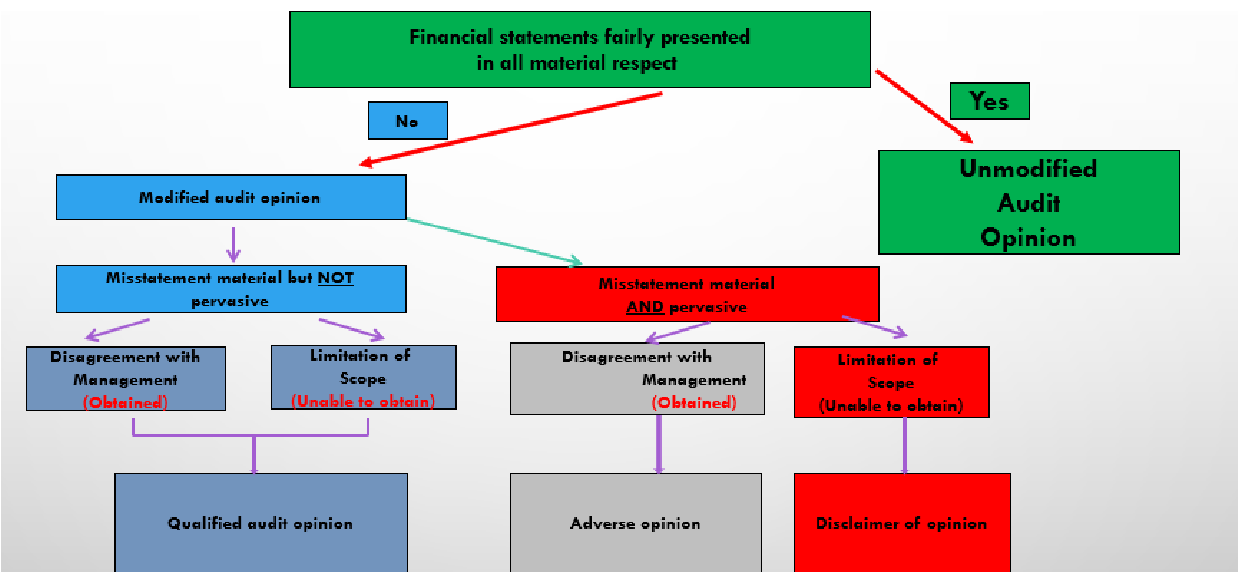
b. Adverse opinion

- This opinion means that financial statements as whole do not fairly presents whatever they purport to present in terms of either IFRS or IPSAS reporting frameworks. This arise because of financial statements being misstated and the misstatement(s) being pervasive.

c. Disclaimer

- This means that the auditor failed to obtain sufficient appropriate audit evidence and the alleged misstatements are material and pervasive therefore could not express opinion on the fair presentation of financial statements.

When auditors are assessing the decision to use when arriving at an Audit Opinion, they make use of the following Decision tree



Impact of the issues raised

If the prior year misstatements arising either as a result of the incorrect determination of the date of the change in functional currency or the incorrect rate, remain uncorrected, they will have an impact in the current year audit since they will affect:

a. The comparatives and
b. The opening balances

In line with *ISA 710 paragraph 11* impact will be assessed as follows:

Resolved Issues

If in the Auditors judgement the issue that resulted in a modification in the prior year has been resolved i.e. by reopening the prior period financial statements, restating the affected transactions and balances in a way that that and in line IFRS, IPSAS or regulatory requirements the auditors will consider the following *(ISA 710 paragraph A3)*

- Their prior opinion issue that gave rise to the modified opinion is resolved and properly accounted or disclosed in the financial statements in accordance with the IFRS, the auditor's opinion on the current period need not refer to the previous modification.

- The Auditors may deem the resolution of this issue a Key Audit Matter because of the following
  1. *Areas of higher assessed risk of material misstatement, or significant risks*
     As a result of the magnitude of the matter on the prior year opinion and some of the balances affected in the prior year which may be deemed high risk or significant risk areas

  2. *Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty*:

  3. *The effect on the audit of significant events or transactions that occurred during the period i.e. the process of resolution of issues that resulted in an opinion modification in the prior year may be deemed significant.*

If management opts not make adjustment to prior year financial statements to correct the issues raised in the opinion modification in prior year these will be deemed unresolved and the Auditors will consider the route noted below.

Unresolved Issues

In the current year, the auditor shall modify the auditor's opinion on the current period's financial statements if a matter is unresolved from a prior year opinion modification. With reference to *ISA 710 paragraph 11* the auditor shall make use of option a) or b) below.

a) *Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material*; or

b) *In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures*.

The modification from the prior year affected transactions and balances affect the current year financial statements as prior year balances and transactions are reflected as opening balances and comparative information to the financial statements which is fundamental to the preparation of financial statements.

Prior year Modification Not Relevant to Current Year

Even when the matter that led to the modification in the prior period may not be relevant to the current period figures. Nevertheless, a qualified opinion, may be required on the current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current and corresponding figures.

This may not affect most entities in Zimbabwe as the impact of IAS 21 affects current year balances because of opening balances.

Conclusion

Given the analysis above, it's more likely than not that should reporting entities in Zimbabwe not resolve the issues that led to auditors issuing modified audit opinions on the prior year financial statements, we are going to see modified opinions on current year (financial reporting period beginning January 2019) financial statements as a result of the impact on opening balances and transactions. Therefore, it is imperative that where practicable management resolve the issues raised in the prior audits as part of the process of ensuring that current financial statements are fairly presented.