

Communicating clearly in times of crisis

Decoding audit reports in the Covid-19 world

There is no doubt this is one of the most uncertain times most of us have experienced. The corporate world is no different with many businesses facing impending closure at worst; and heightened uncertainty at best.

The audit profession is assessing what the Covid-19 lockdown and flow on economic downturn means for each entity.



Now, for tomorrow

Key Impacts

There are a wide range of impacts, including:

- Access to information, such as the ability to do stocktakes and perhaps get access to hard copy documents.
- Valuations – where is the property market at now and where is it going? Who knows. So far we have seen quite significant caveats in valuation reports.
- Going concern – will the entity be able to continue to operate for at least 12 months from the date of signing the audit report?

The audit report is the auditor's key tool to communicate the key issues from an audit perspective to stakeholders. Management and directors take responsibility for ensuring that the financial statements themselves clearly communicate the information stakeholders need to be aware of, and we are certainly seeing greater disclosure as a result of the impact of Covid-19.

During these unprecedented times, we are likely to see a far greater number of modified audit reports with the auditor wanting to communicate just what you need to be aware of. A modified audit report is not necessarily a cause for concern.

HOT TIP – Read the audit report!

If you have never read an audit report before you may be pleasantly surprised. These audit reports may need some decoding as auditors are bound by the need to comply with the auditing standards when drafting these reports. Here's your guide on the following page to decoding audit reports:

Type of report	What this means?	Example and Explanation
Unqualified	Nothing to see here – all is good.	This is your bog-standard audit report. The financial statements have been audited and there is nothing in particular you need to be aware of.
Key Audit Matters	These are the areas we spent the most time looking into.	For most businesses, you will see something referred to in this section. It doesn't necessarily mean that something is wrong, it just means there was an area that the audit team needed to look into a bit more closely. A common example is valuation of assets, both physical assets and also intangible assets, such as company brands and goodwill. Balances that involve judgement and estimation are likely to feature here.
Emphasis of Matter	We really think you should know about this specific matter (signposting to where you can find more information in the financial statements themselves). We think it's important and agree with what's included in the financial statements about this matter.	These are the 'but wait' paragraphs. Examples include an emphasis of matter alerting readers to the subsequent event disclosure which outlines details of the Covid-19 lockdown and an overview of the impact this has had on the entity. Material uncertainty relating to going concern – we think that on balance the entity is going to be able to ride out the Covid-19 situation. However, there is a significant amount of uncertainty involved and we want you to be aware of this.
Qualified	We don't agree with what the financial statements say about this particular area or we just couldn't get enough information. We'll let you know what area this is and why we couldn't get the information or disagree.	A qualification doesn't impact on the whole financial statements just on specific areas. An example you might see is a qualification in relation to inventory where the audit team weren't able to attend the stocktake because of the need to adhere to social distancing restrictions.
Disclaimer of opinion	Stop – we can't get enough information to be able to give you an opinion on these financial statements. There may be quite valid reasons for this. But you can't rely on them.	Essentially the opinion itself is withheld. Examples of where you might see a disclaimer of opinion include going concern (i.e. we're not sure this entity is not going to be able to operate for the next 12 months). Or perhaps for a disclaimer for an investment property company given the level of uncertainty around the valuation and rental income (i.e. we just can't get enough comfort to give you an opinion on what is included in the financial statements).

We hope you and your families are staying safe during this time. If you need any help decoding audit reports or would like to discuss the impact that Covid-19 is having on your business please get in touch, we'd be only too happy to help.

About Baker Tilly Staples Rodway.

Baker Tilly Staples Rodway is proud to be a member of Baker Tilly International, a top ten global network of independent accounting and business advisory firms, whose member firms share our dedication to exceptional client service.

www.bakertillysr.nz

