



INSTITUTE OF CHARTERED ACCOUNTANTS OF ZIMBABWE

**GUIDANCE ON CONSIDERATIONS THAT WILL AFFECT 2020
AUDIT OPINIONS**

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CONSIDERATIONS THAT WILL AFFECT 2020 AUDIT OPINIONS

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1. 2019 Audit Opinions Pattern

Most entities which had the ZWL as their functional currency were given adverse opinions by their external auditors for the financial reporting periods ending after 20 February 2019. The main basis cited by auditors for this opinion was non-compliance with International Financial Reporting Standards (IFRS), specifically International Accounting Standard 21 (IAS 21) - The Effects of Changes in Foreign Exchange Rates. The non-compliance arose because of the difference of the dates of the change in functional currency from the perspective of the IFRS and from perspective of the Zimbabwean legislation. Whereas legislation recognised 20 February 2019 as the date of the change from USD to ZWL, applying IFRS would show that the functional currency changed in October 2018.

The other aspect of non-compliance is that in order to comply with Statutory Instrument (S.I.) 33 of 2019, entities converted their balances and transactions using the 1:1 ZWL:USD exchange rate. Applying IAS 21 to determine the exchange rate would give a different exchange rate since entities will be required to use the exchange rate that reflects the economic substance of the value of the currency. Transactions in the market indicated a different rate between the two currencies despite the legal 1:1 ZWL:USD exchange rate.

Most recurring reasons for adverse and qualified opinions are listed below:

1. Non-compliance with IFRS: International Accounting Standard (IAS) 21- The Effects of Changes in Foreign Exchange Rates in the prior period and inappropriate application of IAS 8- Accounting Policies, Changes in Accounting Estimates and Errors.
2. Application of IAS 29 based on prior and current periods' financial information which are not in compliance with IAS 21 / IAS 8.
3. Inappropriate exchange rates used in the current year (Non-compliance with IAS 21).
4. Possible effects of the above matter on the comparability of the current period's figures and the corresponding figures i.e. impact of the above 2018 matters, for which no restatement has been done, on the corresponding numbers.
5. Effect of the above mentioned matters on the balances on the statements of financial position as some significant accounts still comprise of amounts from opening balances.
6. Valuation of investment property in USD and then converting at the closing exchange rate. This is not an accurate reflection of market dynamics as the risks associated with currency trading do not reflect the risks associated with property trading.

There were also a number of recurring key audit matters which are:

1. Valuation and accounting treatment of Legacy Debts/Reserve Bank of Zimbabwe ("RBZ") blocked funds
2. Valuation of expected credit losses (ECL) on financial assets;
3. Valuation of the derivative resulting from legacy debt.

2. 2020 Accounting Issues from 2019 Financial Statements

2.1 Opening balances

Since the figures on the 2019 financial statements will form the opening balances for the 2020 financial period, considerations have to be made by the auditor on the extent and effects of these balances on the subsequent financial statement. The consideration is important since the auditor is required by ISAs to obtain evidence regarding whether the opening balances contain misstatements that materially affect the current period's financial statements. The result of this will influence the type of audit opinion which the auditor will express on those financial statements.

In the Zimbabwean situation, since the financial statements' opinion were adverse because of a mostly pervasive issue (non-compliance with IAS 21), the auditor will need to consider what accounting policies and procedures, if any, have been implemented by the financial reporting entity to address the non-compliance with IFRS. The auditor will assess the sufficiency and appropriateness of these accounting policies and procedures in addressing the accounting issues which caused noncompliance with IFRS.

2.2 Property Valuation

Property valuation is also another consideration since it was one of the main reasons for qualifications and adverse opinions. Property is usually a major element of most reporting entities hence its value has to be determined appropriately.

On property valuations, the auditor has to make a determination with regards to the impact of the valuer's report on the audit report. The auditor may accept the valuer's report as appropriate audit evidence subject to concluding that the work of that valuer is adequate for the auditor's purposes as per ISA 620.

The nature, timing and extent of the auditor's procedures will depend on:

- a. The risks of material misstatement in the valuation of property;
- b. The significance of the valuer's work in the context of the audit;
- c. The auditor's knowledge of and experience with previous work performed by that valuer; and
- d. Whether that valuer is subject to the auditor's firm's quality control policies and procedures.

For the classes of property where the auditor will rely on the valuer's report, the auditor shall obtain a sufficient understanding of the field of valuations of valuer to enable the auditor to:

- a. Determine the nature, scope and objectives of that valuer's work for the auditor's purposes; and
- b. Evaluate the adequacy of that work for the auditor's purposes.

The auditor shall evaluate whether the valuer has the necessary competence, capabilities and objectivity for the auditor's purposes.

The auditor is required to evaluate the adequacy of the valuer's work for the auditor's purposes, including:

- i. The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other audit evidence;
- ii. If that valuer's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- iii. If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

Where the auditor determines that the work of the valuer is not adequate for the auditor's purposes, the auditor shall:

- a. Agree with that expert on the nature and extent of further work to be performed by that expert; or
- b. Perform additional audit procedures appropriate to the circumstances.

More disclosures and notes in the financial statements may help to clearly indicate the sensitivities of the property valuation and related inputs. These disclosures should provide information to allow the users of financial information to understand how the property values were determined and the major factors which influenced the property values.

In drafting the auditing report, the auditor shall not refer to the work of the valuer in an auditor's report containing an unmodified opinion. If the auditor makes reference to the work of a valuer in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

2.3 Legacy Debts (Blocked Funds)

Different entities will have different treatments on their legacy debts depending on:

1. The materiality impact of the legacy debts value to the audit report; and
2. The nature of instruments that the entity received from the RBZ for its legacy debts.

The matter will therefore be considered on a case by case basis and determine the effect to the specific entity's financial statements. For entities whose legacy debts did not have impact on their opinion, it is likely that the case will be the same for the current financial reporting period. This also holds for the entities whose legacy debts had a material impact on their audit opinions.

2.4 Exchange Rate

It appears that the Zimbabwean Dollar is subject to a longer-term lack of exchangeability for a number of entities, and one in which it is becoming increasingly difficult to observe any exchange transactions that might provide an exchange rate for immediate delivery of Zimbabwean Dollar for another currency.

This is shown by the following factors:

1. The legal supply of foreign currency in Zimbabwe is made only through administrated mechanisms regulated and directed by the jurisdictional authorities;
2. Many Zimbabwean foreign operations are unable to obtain foreign currency to make investment-related payments (such as dividend payments to foreign investors), and have been unable to obtain foreign currency for this purpose for several years;
3. More generally, the exchangeability of Zimbabwean Dollar for any purpose is limited. Since the introduction of the FCAS and the interbank market before, Zimbabwean foreign operations have been able to access foreign currency via the administered mechanism in small amounts and for limited purposes, which are listed on the priority list. Due to the legalisation of transacting in foreign currency however, entities are also now able to obtain some foreign currency from their trading activities.

Since the Zimbabwean Dollar is subject to a longer-term lack of exchangeability, the exchange rate may not be the same for all entities in Zimbabwe. From the IFRS Interpretations Committee Meeting on Foreign Exchange Restrictions May 2018 Paragraph 21-55, where there is longer-term lack of exchangeability, the exchange rates may be entity-specific i.e. they may vary from entity to entity depending on the method of estimation used and the starting rate used in estimating the exchange rate.

In estimating the exchange rate however, the entity must use verifiable inputs to produce its financial information. Different methods may be used for estimating the spot rate which may include using the following as a starting point for the estimation:

1. The Purchasing Power Parity; and
2. The official exchange rate from the Foreign Currency Auction System.

These will then be adjusted for factors such as entity-risk and inflation to obtain a spot rate for use in producing financial information.

The informal (parallel) market rate may not be used in estimating the exchange rate because it is not verifiable and does not have a reliable source from which it may be obtained. Entities will however be required to make certain disclosures required by Paragraph 125 of IAS 1.

An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and

about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

- a. the nature of the assumption or other estimation uncertainty;
- b. the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
- c. the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
- d. an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

The objective of the auditor with regard to this estimate is to obtain sufficient appropriate audit evidence about whether:

- a. the estimate in the financial statements, recognized and disclosed, is reasonable; and
- b. related disclosures in the financial statements are adequate, in the context of the applicable financial reporting framework.

The auditor shall evaluate, based on the audit evidence obtained, whether the estimate in the financial statements is either reasonable in the context of the applicable financial reporting framework, or is misstated. In order to make this evaluation, the auditor will need to obtain an understanding of:

- i. The method, including the model, used in making the estimate;
- ii. Relevant controls;
- iii. Whether management has used an expert;
- iv. The assumptions underlying the estimate;
- v. Whether there has been or ought to have been a change from the prior period in the methods for making the estimate, and if so, why; and
- vi. Whether and, if so, how management has assessed the effect of estimation uncertainty.

2.5 Functional Currency

During the year 2020, Government allowed the use of foreign currency for domestic transactions through Statutory Instrument 85 of 2020. This means that the environment in which entities were carrying on their trades in 2019 is different from that in which they were trading in 2020. This is because trade in foreign currency was not legal for most entities but was legalised in 2020 (SI85/2020). Most entities could therefore not have a foreign currency as their functional currency in 2019 but in 2020, they can, since transacting in foreign currency was legalised.

Since entities will be using more than one currency, they will have to determine which currency is their functional currency using the criteria set out in IAS 21. This determination is necessary because an entity has to use the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

The auditor will therefore have to make assessments of whether the functional currency that the entity is using has been appropriately determined and the necessary disclosures have been made. This assessment will be made at entity level of whether the entity's functional currency has changed during the year from the ZWL to a foreign currency.

3. Considerations for 2020 Audit Reports

3.1 Relevance of 2019 Accounting Issues

The key questions will be to what extent are these accounting issues relevant for the 2020 reporting period. If they are still relevant, the auditor will have to consider their impact on the audit opinion taking into consideration the changes which have occurred in the operating environment.

The auditor will also need to consider whether circumstances have arisen and events have occurred which have reduced the impact of the factors which caused the auditor to give a qualified or adverse opinion. A change in circumstances may change the factors that have significant impact on the auditor's judgments and opinion.

ISA 702 and 705 give the following guidelines in forming opinions:

1. **Unqualified Opinion:** The financial statements contain no material misstatements, i.e. management assertions tested and no material errors were noted.
2. **A qualified opinion:** The financial statements contain material misstatements in specific areas, or there is insufficient evidence for the auditor to conclude that specific amounts included in the financial statements are not materially misstated.
3. **An adverse opinion:** The financial statements contain material misstatements that are not confined to specific amounts, or the misstatements represent a substantial portion of the financial statements. (inaccurate, incomplete, not fairly present etc.)
4. **A disclaimer of opinion:** auditor was unable to obtain sufficient and appropriate audit evidence regarding a material and pervasive section of the financial statements

Applying the principles dictated by the ISAs, auditors should consider the possible impacts of the 2019 audit opinions on the 2020 audit reports by taking into account the following table:

2019 audit opinion Issued	Potential impact of prior year opinion on the current 2020 opinion
Unqualified	Where the opening balances are free from material misstatements, comparatives will not result in the modification of the opinion on the current year financial statements.
Adverse	<p>1. No adjustment made (2019 reason for adverse is not resolved) Consideration of whether the non-adjustment to the comparatives and effectively, the opening balances is material and pervasive to the current AFS. If material but not pervasive – Issue Qualified Opinion If material and Pervasive – Issue an adverse opinion</p> <p>2. Adjustments were made Auditor should consider whether the adjustment managed to deal with material misstatements from prior year partially or completely. Consideration of whether adjustments made were in line with the requirements of IFRS should also be made by the auditor.</p> <p>2.1 Partially Resolved If remaining misstatement is material but no longer pervasive to the financial statements as a whole – Issue qualified opinion. If remaining misstatement is material and pervasive – issue adverse If remaining misstatement is not material – issue an unmodified opinion</p> <p>2.2 Fully resolved No misstatements – Issue an unmodified opinion</p> <p>2.3 Incorrect application of IFRS in adjusting prior year misstatement If incorrect application of IFRS was made in the adjustment of the misstatement, then pervasiveness and materiality of the resulting error will have to be considered</p>
Qualified	<p>1. Adjustment not made to the opening balances Consideration has to be made by the auditor on the impact of the non-adjustment on the opening balances (and comparatives) and ultimately the year end balances.</p>

2019 audit opinion Issued	Potential impact of prior year opinion on the current 2020 opinion
	<p>A. If the reason for qualified opinion in the prior year has a material but not pervasive impact on the financials it will result in a qualified opinion.</p> <p>B. If the reason for qualified opinion is no longer material to the current financial statements an unmodified opinion will be issued.</p> <p>C. If the reason for the prior year qualification now remains material and is now pervasive to the financial statements, then an adverse opinion may have to be issued.</p> <p>2. Adjustments made to the financial statements Consideration on whether the adjustment is partially or completely resolving the misstatement from prior year should be made. The auditor should also consider the appropriateness of how the misstatement was resolved by the prepares.</p> <p>2.1 Partially Resolved</p> <p>A. If remaining misstatement is still material and is still not pervasive to the financial statements as a whole – Issue qualified opinion</p> <p>B. If remaining misstatement is material and now pervasive – issue adverse</p> <p>C. If remaining misstatement is not material - issue an unmodified opinion</p> <p>2.2 Misstatement is fully resolved Issue an unmodified opinion</p> <p>2.3 Incorrect application of IFRS in adjusting prior year misstatement If incorrect application of IFRS was made in the adjustment of the misstatement, then pervasiveness and materiality of the resulting error will have to be considered.</p>
Disclaimer of opinion	<p>Where the auditor was not able to obtain sufficient and appropriate audit evidence, consideration has to be made on the impact the evidence not obtained will have on the opening and ultimately closing balances of the entity.</p> <p>If auditor is still not able to obtain sufficient and appropriate evidence on the opening balances but the auditor now considers</p>

2019 audit opinion Issued	Potential impact of prior year opinion on the current 2020 opinion
	<p>the impact on the current year and comparatives to be material but not pervasive a qualified opinion may be issued</p> <p>However, if the auditor is still unable to obtain sufficient and appropriate audit evidence on the opening balances which he/she considers material and pervasive the auditor may issue a disclaimer of opinion on the 2020 financial statements.</p> <p>If the auditor is able to obtain sufficient and appropriate audit evidence on the opening balances, and is satisfied that no material misstatements exist then an unmodified opinion may be issued.</p>

N.B consideration in the above table is restricted to the impact of the prior year opinion on the current year financials. Auditors will have to apply ISA 700 and 705 regarding current year transactions and balances.

3.2 Impact of COVID-19

The auditor will also have to consider the impact that COVID-19 has on the entity's financial statements. Considerations will be made especially on the measurement and recognition of assets and liabilities. This is necessary due to the uncertainties brought by the pandemic which have affected the value of most assets and liabilities.

This will have implications in the auditor's report which may include:

1. Reporting of a Key Audit Matter (KAM)

A KAM in response to additional audit work necessary as a result of the outbreak of COVID-19. According to ISA 701, key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. ISA 701 requires that key audit matters are selected from matters communicated with those charged with governance.

COVID-19 may result in high estimation uncertainty of some accounting estimates. These will result in significant auditor judgments relating to areas in the financial statements that involved significant management judgment especially accounting estimates making them a KAM.

The other impact will be that COVID-19 will make some areas to have a higher risk of material misstatement due to the uncertainty that will be brought about by the pandemic, in particular in auditing estimates.

KAMs will be addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor will not provide a separate opinion on these matters.

2. Addition of a material uncertainty of in relation to going concern

The impact of COVID-19 on the appropriateness of management's use of the going concern basis of preparation of financial statements requires consideration by the auditor. Performance of additional audit procedures and exercise of professional scepticism will be necessary to evaluate the feasibility of management's future plans and going concern assessment. Auditors will also evaluate the adequacy, completeness and accuracy of the going concern disclosures in relation to COVID-19.

3. Emphasis of matter paragraph relating to significant uncertainty

An Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. The auditor's opinion will not have been modified in respect of this matter and it will not have been included in the KAMs paragraph.

Considering the uncertainty caused by COVID-19 may cause the auditor to include an emphasis of matter paragraph in their report highlighting on the uncertainty caused by COVID-19. The auditor should carefully consider whether including an emphasis of matter paragraph is necessary, based on the circumstances of the entity. It should not be made policy that an emphasis of matter paragraph should be used. Auditors should therefore document in each case the justification for the inclusion of the matter as being 'fundamental'.

Considering the Zimbabwean environment, areas that may result in an emphasis of matter paragraph are valuation of property or other assets, litigation outcome uncertainty as a result of breach of contract during the COVID-19 pandemic and the subsequent events disclosure as they may be significant.

4. A qualification or adverse opinion in respect of inadequate disclosures in the financial statements.

A detailed discussion of considerations for this is in 3.1 above.

3.3 Going Concern

Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. Since the assessment is made at a point in time, a significant event may occur after management had already completed the assessment and the auditor had already evaluated the assessment thereof but before the financial statements are finalised. In this case, the auditor will request management to reassess the entity's ability to continue

as a going concern and the auditor will be required to re-perform the evaluation thereof. It is therefore important that the auditor remains alert throughout the audit for evidence of any events or conditions that may cast doubt on the entity's ability to continue as a going concern.

3.3.1 Impact of COVID-19 on going concern

Due to COVID-19 and the environment that entities are operating in in Zimbabwe, it may be necessary that the assessment of going concern will be performed up to the signing of the auditor's report. The assessment may have to be more extensive given that the second wave of COVID-19 seems more deadly than the first one.

Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- In the case of a compliance framework, the financial statements not to be misleading.

3.3.2 Impact of the general economic environment and entity specific challenges

Currently, there is significant uncertainty about the Zimbabwean economy and given the prevailing hyperinflationary environment, consequent future earnings, solvency and cash flows for the future. Going concern assessments are therefore more difficult to make due to this highly uncertain and volatile environment. This may require entities to report a material uncertainty related to going concern.

Where management and those charged with governance have determined that the current circumstances are not reasonably expected to have any material financial impact on the entity, and that no material uncertainties related to going concern exist for the entity, the auditor will be required to apply professional scepticism.

If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements:

- Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in

the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.

If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to:

- Draw attention to the note in the financial statements that discloses the specific matters; and
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

- Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);
- In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

3.4 Other Considerations

3.4.1 Circumstances where an unmodified opinion is supported

There are circumstances which may lead the auditor to conclude that expressing an unmodified opinion will be appropriate. The auditor will need to evaluate all relevant factors, especially for entities which had modified opinions for the prior financial reporting period. This will be necessary given that there were significant changes in the operating environment of most entities which are likely to affect financial reporting and accounting for most entities.

The presence of some or all of the following circumstances and conditions may indicate that an unmodified opinion may be supported if expressed by the auditor on an entity's financial statements:

1. An unmodified audit opinion was expressed on the entity's prior year financial statements and no significant events have occurred which affect the fair presentation of the financial statements;
2. The entity performed a satisfactory revaluation of all its assets where the prior year's financial statements were qualified due to incorrect valuation of those assets;
3. The entity has a foreign currency, e.g. USD as its functional currency;
4. The value of misstated opening balances is not material to the class of balance sheet items, transactions or to the financial statements as a whole;
5. The reasons for modification of the financial statements have been appropriately addressed and accounted for correctly in accordance with IFRS; and
6. The entity restated, made adjustments and corrected errors and estimates to its financial statements which had a modified opinion expressed on them.

3.4.2 Circumstances on audit report where there is a disagreement with management

In the context of the 2020 financial statement audits, an example of an area that can result in disagreements between the auditor and management pertains to exchange rates. As the Zimbabwean dollar is subject to a long term lack of exchangeability, it is difficult to determine a universally accepted exchange rate between foreign currencies, resulting in entities having a company specific rate for reporting purposes dependent on its specific circumstances. As this exchange rate requires a significant level of judgement to be applied, disagreements may occur between management and auditors and thus auditors may have to apply the following guidance.

ISA 200 defines a misstatement as a difference between the reported amount, classification presentation or disclosure of a financial statement item and the amount classification presentation or disclosure that is required for the item to be in accordance with the applicable financial reporting framework.

Where the auditor expresses an opinion on whether the financial statements are presented fairly in all material respects or give a true and fair view of the financial statements, misstatements also include those adjustments of amounts, classifications, presentation or disclosures that in the auditor's judgement are necessary for the financial statements to be presented fairly in all material respects or to give a true and fair view.

Therefore, where the auditor is of the view that an adjustment should be effected in the financial statements regarding classification, presentation or a certain disclosure, but management holds a different view a misstatement arises.

The auditor should then consider the impact of this disagreement or misstatement on the form of audit report and opinion to be issued. The Auditor applies the principles highlighted in ISA 705, considering the materiality and pervasiveness of the disagreement.

- A. Thus a disagreement between the auditor and management which has a material and pervasive impact on the financial statements will result in a modified report, with a possible adverse opinion being issued by the auditor.
- B. Where the disagreement pertains to a material but non pervasive issue the report will still be modified but with a qualified opinion.

3.4.3 Circumstances and impact on audit report where there is a limitation of scope

There may be circumstances and impact on audit report where there is a limitation of scope (that is material to the financial statements). ISA 720 highlights that where there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient and appropriate audit evidence about the matter. For example, considering the lockdowns currently being implemented across the country because of the novel corona virus, auditors may not be able to carry out inventory counts and verify existence and valuation of inventory. Where the auditor is unable to do alternative procedures to satisfy

themselves on the truth and fairness of the inventory balance the auditor may need to consider whether this will constitute a limitation of scope.

Where the auditor is unable to obtain sufficient and appropriate audit evidence ISA705 gives guidance on what report and opinion should be given on the financial statements.

- A. Where the auditor considers that the inability to obtain sufficient and appropriate audit evidence material but is however not widespread across the financial statements a modified report may be issued, with a qualified opinion.
- B. However, were the audit evidence not obtained is pervasive as well as material then the auditor will have to issue a disclaimer of opinion.

3.4.4 Considerations in respect of KAM's in the audit report

There is a need for due consideration in respect of KAM's in the audit report in respect of any of these matters where no modification is assessed as necessary. Key audit matters are those matters, in the auditor's professional judgement were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. It is imperative to note that KAMs are not a substitute for expressing a modified opinion. Therefore, the auditor should consider the impact of COVID 19 and other accounting issues affecting the auditee's financial statements. If the identified issues above result in a modification of the report they should thus be excluded from the Key Audit matter section of the audit report.

When coming up with the KAM the auditor should consider the following:

1. Whether a significant risk was identified as per ISA 315, pertaining to the matter;
2. Any significant auditor judgment was applied relating to areas of the financial statements that involved significant management judgement and
3. The effect on the audit of significant events that occurred during the period.

Given the significant judgments and uncertainties experienced in the Zimbabwean economy (determination of functional currencies, effects of COVID 19 and the appropriate exchange rates where there is long term lack of exchangeability), auditors will need to evaluate an increased number of disclosures in the financial statements. This may result in the inclusion of additional Key Audit matters like Going Concern Assessment, Determination of Functional Currency and possibly determination of appropriate exchange rates.

For more information and or guidance on this and related matters, contact Owen Mavengere, the Technical Manager at the Institute of Chartered Accountants of Zimbabwe on email owenm@icaz.org.zw or technical@icaz.org.zw

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