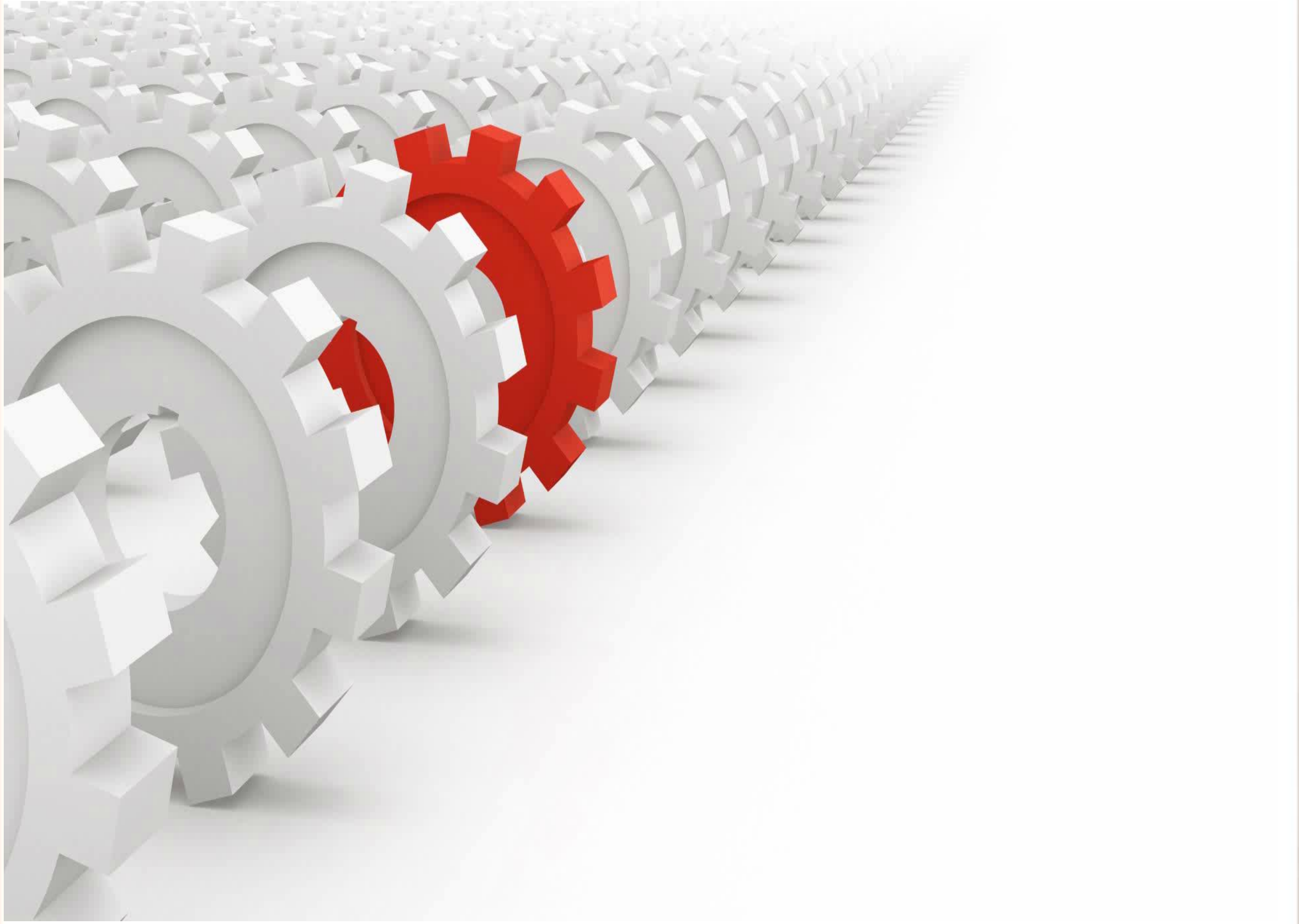

Reliability and Relevance of Financial Report in Audit

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Introduction

- Financial report is the end product of the financial accounting process which are prepared to demonstrate accountability to stakeholders and other users.
- The reports which are statutorily required to be prepared and audited are useful to stakeholders in making informed decisions
- Its usefulness, however, depends on whether the financial statements are reliable and relevant
- The auditor is therefore required to exercise utmost care and diligence to ensure that the financial statements does not contain material misstatements and errors

Financial Reports

- Financial reporting uses financial statements and other financial information to disclose financial data that indicates the financial health of a company over during a specific period of time
- According to **International Accounting Standard Board (IASB), the objective of financial reporting is** *"to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions."*
- The information disclosed in the financial reports is vital for management to make decisions about the company's future and provides information to capital providers like creditors and investors about the profitability and financial stability of the company
- Financial reporting helps management communicate the past successes and future expectations of the business
- Several of financial information in financial reports are required by law or by accounting standard practices

Composition of Financial Reports

- Financial Statements – This include:
- A statement of financial position as at the end of the period
- A statement of profit and loss and other comprehensive income for the period
- A statement of changes in equity for the period
- A statement of cash flows for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information
- Other Reports:
- Chairman's Reports – This is the address of the Chairperson of the Company Board of Directors (BOD) to its Shareholders at the Annual General Meetings (AGM) - summary of the financial affairs of the company, Composition of the BOD, company's external environment, the economic and financial situation of the country the company operates and the impact on the operations of the company

Composition of Financial Reports

- Management Discussions & Analysis – This section is sometimes reported as financial review in which the management team discusses the financial statements in comparison to the competition. In addition, the report focuses on industry trends, future strategies, and future opportunities and provides explanations on amounts reported in the financial statements to simplify and clarify information on the financial statements
- Management Responsibility for Financial Reporting
- Financial Summary/Financial Highlights – This section shows summary of financial information relating to Revenue, Net Income and Total Assets and most times represented pictorially Pie & Bar charts & Graphs
- Reports of the Independent Auditors - This report contains the independent opinion of the statutory auditors. The auditors take the company's financials and accounting principles

Users of Financial Reports

- The Government
- Legislature
- Management
- Employees
- Investors
- Development Partners
- Civil Society Organisation
- Researches
- Analysts, etc.

Reliability in Financial Reports

Information contained in the financial report is reliable if a user can depend upon it to be materially accurate and if it faithfully represents the information it purports to present. Reliability refers to whether financial information can be verified and used consistently by stakeholders with the same results. It means.the financial statement is undistorted, complete and free from errors.

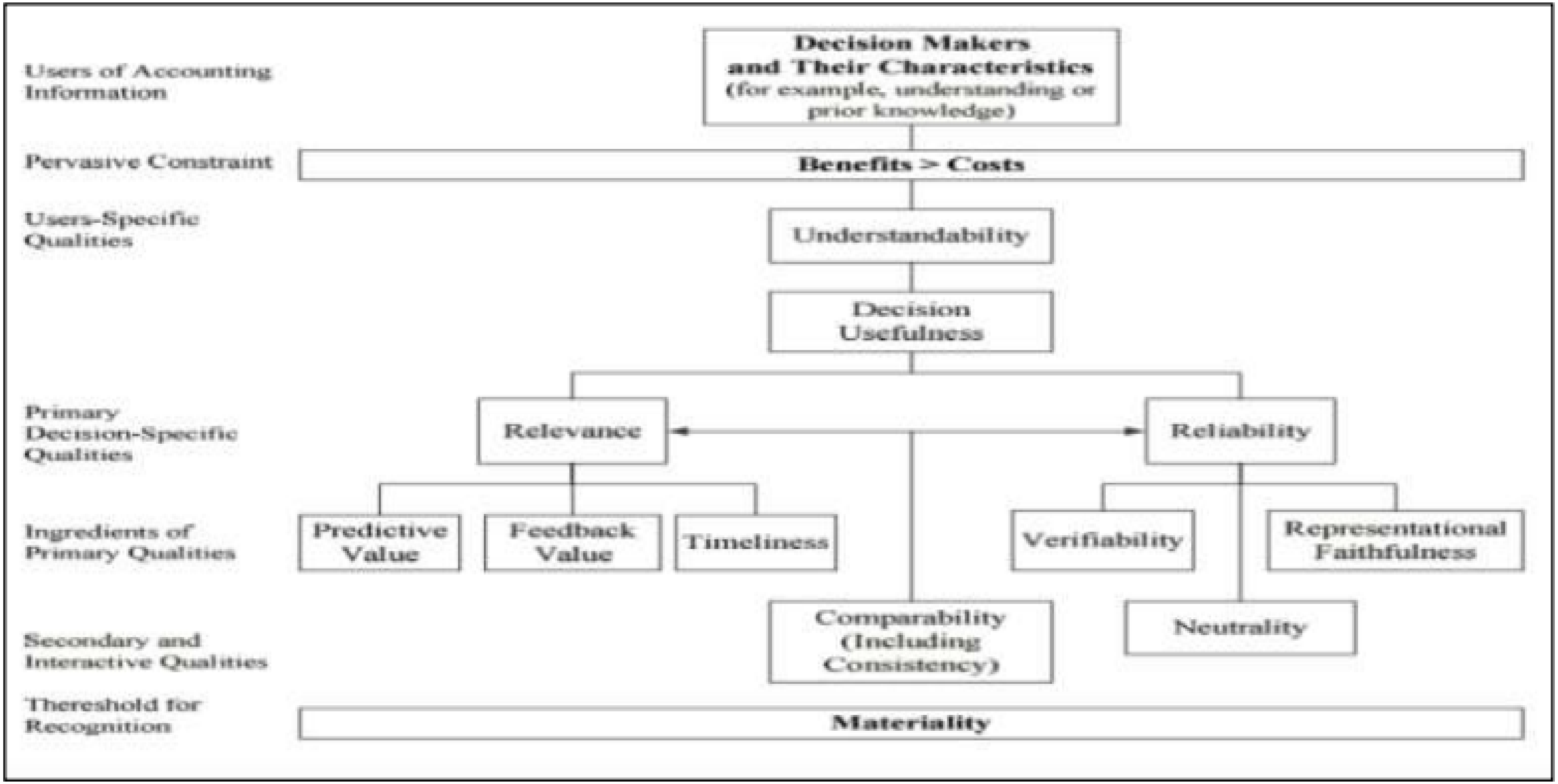
- Central to reliability of financial report are verifiability and credibility.
- To be reliable, information contained therein must be representationally faithful, verifiable, and neutral
- In financial reporting, information must have the quality of reliability in order to be useful
- Reliability of financial reports is achieved when information, which users depend upon, is free from bias and material mistakes.
- Reliability is enhanced by the use of accounting concepts and principles of relevance, completeness, timeliness, comparability, consistency, etc.

Relevance in Financial Reports

Relevance requires that accounting information is capable of affecting decisions made by its users. This relates to timeliness, comparability, and understandability.

- Information is relevant if it helps users of the financial statements in predicting future trends of the business (Predictive Value) or confirming or correcting any past predictions they have made (Confirmatory Value)
- Relevance is affected by the materiality of information contained in the financial statements because only material information influences the economic decisions of its users
- Users of financial reports requires information that facilitate making informed decisions in a timely manner

Hierarchy of Qualities of Financial Reports



Financial Reports Audit

- Paragraph 11 of Audit Regulations 2020 requires that:
- The Auditors shall present the results of statutory Audit in an Audit report in accordance with the requirements of International Auditing Standards.
- The Audit Report shall:
  - be in writing;
  - identify the entity whose financial statements are the subject of statutory Audit;
  - specify the financial statements, date, period covered and identify the financial reporting framework that has been applied in their preparation;
- The Audit Report shall:
- include a description of the scope of Audit and an Audit opinion

Reliability and Relevance in Audit Report

- The most important output from an audit exercise is the Audit Report.
- The amount of financial and non-financial resources expended on an audit can only be justified by the quality of the resulting report.
- Where significant findings from an audit are not properly reported to management, the opportunity to take the necessary corrective actions to avoid a recurrence may be lost to the management.

Objectives of Audit Report :

- Communicate the results of audit to the auditee.
- Make the results less susceptible to misunderstanding.
- Make audit results available and legible to the general public.
- Facilitate follow-up

Reliability and Relevance in Audit Report

Types of Audit Report

- Inspection Reports: a compilation of queries raised while carrying out the audit of MDA accounts and activities.
- Nil Report: no observations/queries to report in respect of the particular audit inspection.
- Special or Interim Report: reports irregularities of major importance requiring immediate attention, even when the inspection of the whole account has not been completed.
- Annual Report of the Auditor-General for the Federation: This is issued annually after completing the audit of the consolidated financial statements of the Federal Government.

Reliability and Relevance in Audit Report

Characteristics of a good Audit Report:

- Clarity and simplicity;
- Convincing;
- Accuracy and precision in stating facts and in drawing conclusions;
- Conciseness;
- Materiality;
- Timeliness;
- Usefulness;
- Completeness;
- Constructiveness of tone

What is Internal Control System?

- *Millichamp (2002) advanced that internal control system is the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records.*

- Internal controls are the systems used by an organization to manage risk and diminish the occurrence of fraud.

- The internal control structure is made up of the control environment, the accounting system, and procedures called control activities

- Several years ago, the Committee of Sponsoring Organizations (COSO), published a report known as COSO's Internal Control-Integrated Framework

What is Internal Control System

- The Report identified five components that are necessary in an effective internal control system.
  - Control Environment
  - Assessment of Risk
  - Control of Operational Activities
  - Monitoring of Control process
  - Accurate Communication of Information (Reporting)

Internal Controls over Financial Reporting (ICFR)

- ICFR is one element of the broader concept of internal control
- ICFR refers to the controls specifically designed to address risks related to financial reporting
- Succinctly put, ICFR of a public/Private entities consists of the controls that are designed to provide reasonable assurance that the company's financial statements are reliable and prepared in accordance with IPSAS/IFRS
- The risk of fraudulent financial reporting is a key consideration in the design and operation of ICFR
- Controls cannot remove the need for judgment or eliminate the variations in reporting inherent in situations in which a range of acceptable judgments is possible
- However, controls can be designed and implemented to address the process by which accounting judgments are made and thereby provide reasonable assurance that the financial reports are presented in accordance with standards.

Internal Controls over Financial Reporting

- The ability to effectively manage the business of an entity requires access to timely and accurate information that informs decision making
- Preparing reliable financial information is a key responsibility of the management of every public/private sector entity
- External Stakeholders must be able to place confidence in a financial reports
- Ability of management of the entity to fulfill its financial reporting responsibilities depends in part on the design and operating effectiveness of the controls and safeguards it has put in place over accounting and financial reporting
- Without such controls, it would be extremely difficult to prepare timely and reliable financial reports for management, investors, lenders, and other users.
- While no practical control system can absolutely assure that financial reports will never contain material misstatements, an effective system of Internal Control Over Financial Reporting (ICFR) can substantially reduce the risk of such misstatements in a company's financial statements

ICFR Roles & Responsibilities

Management	Independent Auditors	Audit Committees
• Responsible for the design, implementation, and monitoring of ICFR • Annually assess the effectiveness of ICFR in accordance with SOX. The SEC recommends this assessment take a top-down risk-based approach • Quarterly evaluate any change in the company's internal control over financial reporting that occurred during a fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting • Maintain evidential matter, including documentation, to provide reasonable support for its assessment of ICFR • Provide quarterly reporting stating management's responsibility for ICFR • Provide annual reporting of management's assessment of the company's ICFR • Keep the audit committee apprised of the operation and effectiveness of controls	• Follow a top-down risk-based approach that considers the whole financial reporting system but focuses greater attention on the controls over financial reporting areas most susceptible to material misstatement • Obtain an understanding of each component of the company's ICFR, even in a financial statement only audit • Report timely to management and the audit committee any deficiencies in internal control • When performing an integrated audit, report on the effectiveness of management's ICFR	• Oversee management's preparation of financial statements and design and operation of controls • Oversee financial reporting under SOX • Review the assessment of financial reporting risks • Review management's planned responses to the identified financial reporting risks • Discuss with management control deficiencies and their potential impact on financial reporting and nature of remedial actions • Evaluate the quality of management's financial reporting and related disclosures • Oversee and monitor activities of the internal audit including review of reports from internal audit • Hire and oversee the external auditor

Management Responsibility on Internal Control

In order to maintain effective internal controls, management should:

- Maintain adequate policies and procedures;
- Communicate these policies and procedures; and
- Monitor compliance with policies and practices.
- Responsibilities of management include, planning, organizing, directing and controlling.
- Controlling, including monitoring, is a process to ensure what is supposed to be done is being done.
- Control activities are the policies and procedures, which help ensure that management directives are carried out and include, but are not limited to the following:

Management Report on Internal Control over Financial Reporting

In order to maintain effective internal controls, management should:

- An entity's internal control over financial reporting is a process designed by, or under the supervision of, the Management and Directors of Finance and Accounts to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements.

An entity's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of adequate and accurate records that fairly reflect the transactions and events of the entity;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with standards and that receipts and expenditures are being made only in accordance with authorizations of management; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Significance of Internal Control in Financial Reporting

- Internal control ensure that the assets of the entity is safe
- keeps the organization from violating any laws, while fairly recording the financial activities in the accounting records.
- Proper accounting records are used to create the financial statements that the stakeholders use to evaluate the operations of the entity, including the entity and employee activities.
- Internal controls are more than just reviews of how items are recorded in the entity's accounting records but enable comparism of the accounting records to the actual operations of the entity.

Management Responsibility for Financial Statements

- Management has the responsibility for preparing the entity's financial statements and related disclosures.

- Management is responsible for the integrity and objectivity of the information in these financial statements.

- Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality.

- As part of the preparation of the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, and

- whether the use of the going concern basis of accounting is appropriate, as well as disclosing matters related to going concern.

Management Responsibility for Financial Statements

- Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS)

- This includes the design, implementation and maintenance of and for such internal control relevant as management determines is necessary to enable the

- The independent auditor then subjects the financial statements and disclosures to an audit.

Good Corporate Governance

- Financial reports' reliability can be enhanced by entities keying into good corporate code
- Governance is the term used to describe the role of persons entrusted with the supervision, control, and direction of an entity
- Corporate governance is the system by which organisations are directed and controlled to ensure that they are run with credibility.
- The Nigerian Code of Corporate Governance Code was unveiled by the Financial Reporting Council (FRC) in 2018
- The Code is intended to institutionalize corporate governance best practices and promote public awareness of essential corporate values and ethical practices

Conclusion

- Reliability and relevance are fundamental to the the credibility of financial reports for it to be useful to stakeholders
- These are to be borne in mind by auditors in the cause of audit of an entity to avoid issuing a wrong opinion that could mislead users.
- A strong internal control system put in place by management with good corporate governance would strengthen the reliability and make information contained in the financial statements to be credible users.

Thank You