

Chapter 11

Question Bank

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11.1 SA 700

Q1.	<p>SA-700 requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SAs more recognizable. Which of the following is that specific heading :</p> <p>(a) Key audit matters (b) Basis of opinion (c) Date (d) All of the above</p> <p>(Sample MCQs)</p>
	<p>Correct answer: (d) All of the above</p>
Q2.	<p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. Advise about qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.</p> <p>(RTP, May 2018, NA) (MTP1, Nov 2019, 4 Marks)</p> <p>OR</p> <p>The auditor evaluated, in respect of T Ltd., whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Auditor's evaluation included consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. Advise the qualitative aspects of the entity's accounting practices.</p> <p>(MTP1, May 2018, 5 marks) (MTP2, Nov 2018, 5 Marks) (MTP1, May 2019, 4 marks)</p>
	<p>Evaluations by the Auditor</p> <p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.</p> <p>This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.</p> <p>Qualitative Aspects of the Entity's Accounting Practices</p> <ol style="list-style-type: none"> 1. Management makes a number of judgments about the amounts and disclosures in the financial statements. 2. SA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices. 3. In considering the qualitative aspects of the entity's accounting practices, the auditor may become

	<p>aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:</p> <ol style="list-style-type: none"> i) The selective correction of misstatements brought to management's attention during the audit Example <ul style="list-style-type: none"> • Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings. • The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgment and involvement of audit executives. ii) Possible management bias in the making of accounting estimates. <p>4. SA 540 addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.</p>
Q3.	<p>The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Explain</p> <p>(RTP, Nov 2018, NA) (MTP2, May 2019, 4 marks) (MTP1, May 2020, 4 marks) (MTP2, May 2021, 4 marks)</p> <p>Responsibilities for the Financial Statements: The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements."</p> <p>SA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SAs is conducted. Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted.</p> <p>This section of the auditor's report shall describe management's responsibility for:</p> <ol style="list-style-type: none"> a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; [because of the possible effects of fraud on other aspects of the audit, materiality does not apply to management's acknowledgement regarding its responsibility for the design, implementation, and maintenance of internal control (or for establishing and maintaining effective internal control over financial reporting) to prevent and detect fraud.] and b) 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, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate
Q4.	<p>In order to form the audit opinion as required by SA 700, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free</p>

from material misstatement, whether due to fraud or error. Explain the conclusions that the auditor shall take into account. Also explain the objective of auditor as per SA 700.

(MTP1, Nov 2018, 5 Marks)

The objectives of the auditor as per SA 700 (Revised), "Forming An Opinion And Reporting On Financial Statements" are:

- a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- b) To express clearly that opinion through a written report. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

To form opinion - Auditor to obtain Reasonable assurance

In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

That conclusion shall take into account:

- whether sufficient appropriate audit evidence has been obtained;
- whether uncorrected misstatements are material, individually or in aggregate;
- The evaluations

Q5. "An auditor is required to make specific evaluations while forming an opinion in an audit report." State them.

(SA, Nov 2018, 5 marks) (MTP2, May 2021, 4 marks) (MTP1, Nov 2021, 3 marks)

Specific Evaluations by the auditor: The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. In particular, the auditor shall evaluate whether :

- i) The financial statements adequately disclose the significant accounting policies selected and applied;
- ii) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
- iii) The accounting estimates made by management are reasonable;
- iv) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
- v) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- vi) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

Q6. The Auditor is fully satisfied with the audit of an entity in respect of its systems and procedures and wants to issue a report without any hesitation. What type of opinion can be given and give reasoning

(MTP2, May 2019, 3 marks) (MTP1, May 2020, 3 marks) (RTP, May 2021, NA)

Unqualified Opinion:

1. An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the financial reporting framework used for the preparation and presentation of the financial statements.

	<p>2. An unqualified opinion indicates, implicitly, that any changes in the accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.</p> <p>3. An unqualified opinion also indicates that:</p> <ul style="list-style-type: none"> • the financial statements have been prepared using the generally accepted accounting principles, which have been consistently applied; • the financial statements comply with relevant statutory requirements and regulations; and • there is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.
Q7.	<p>Where the firm is appointed as an auditor of the entity the audit report is signed only in the name of audit firm.</p> <p>(SA, May 2019, 2 marks)</p> <p>Incorrect:</p> <p>Where the firm is appointed as the auditor, the report is signed in the personal name of the auditor and in the name of the audit firm. The partner/proprietor signing the audit report also needs to mention the membership number assigned by the Institute of Chartered Accountants of India along-with registration number for the firm</p>
Q8.	<p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion". Explain what is included in this "Basis for Opinion" section.</p> <p>(RTP, Nov 2019, NA) (RTP, Nov 2020, NA)</p> <p>Basis for Opinion: The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion",that:</p> <ol style="list-style-type: none"> a) States that the audit was conducted in accordance with Standards on Auditing; b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
Q9.	<p>An Audit report is :</p> <ol style="list-style-type: none"> (a) an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent. (b) an opinion drawn on the entity's books of accounts to make sure that the records are true and fair representation of the transactions they claim to represent. (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent. (d) an opinion drawn on the entity's books of accounts to make sure that the records are true and correct representation of the transactions they claim to represent <p>(MTP1, Nov 2019, 1 Mark)</p> <p>Correct answer: (c) an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.</p>
Q10.	<p>Which of the following is not a Specific Evaluations by the Auditor :</p> <ol style="list-style-type: none"> (a) The financial statements adequately disclose the significant accounting policies selected and applied;

	<p>(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;</p> <p>(c) The accounting estimates made by management are reasonable;</p> <p>(d) The sufficient appropriate audit evidence has been obtained;</p> <p>(MTP1, Nov 2019, 2 Marks)</p>
	<p>Correct answer: (d) The sufficient appropriate audit evidence has been obtained;</p>
Q11.	<p>CORRECT/INCORRECT</p> <p>An Audit report is an opinion drawn on the entity's financial statements to make sure that the records are true and correct representation of the transactions they claim to represent.</p> <p>(RTP, May 2020, NA)</p>
	<p>Incorrect:</p> <p>The purpose of an audit is to enhance the degree of confidence of intended users of the financial statements. The aforesaid purpose is achieved by the expression of an independent reporting by the auditor as to whether the financial statements exhibit a true and fair view of the affairs of the entity. Thus, an Audit report is an opinion drawn on the entity's financial statements to make sure that the records are true and fair representation of the transactions they claim to represent.</p>
Q12.	<p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Explain and analyse the indicators of lack of neutrality with examples, wherever required.</p> <p>(RTP, May 2020, NA)</p>
	<p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated. Indicators of a lack of neutrality include the following:</p> <p>i) The selective correction of misstatements brought to management's attention during the audit.</p> <p>Example</p> <ul style="list-style-type: none"> • Correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings. • The combination of several deficiencies affecting the same significant account or disclosure (or the same internal control component) could amount to a significant deficiency (or material weakness if required to be communicated in the jurisdiction). This evaluation requires judgment and involvement of audit executives. <p>ii) Possible management bias in the making of accounting estimates</p>
Q13.	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also identify the entity whose financial statements have been audited. Apart from the above, explain the other relevant points to be included in opinion section.</p> <p>(RTP, May 2020, NA)</p>
	<p>The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion." The Opinion section of the auditor's report shall also:</p> <ol style="list-style-type: none"> a) Identify the entity whose financial statements have been audited; b) State that the financial statements have been audited; c) Identify the title of each statement comprising the financial statements;

	<p>d) Refer to the notes, including the summary of significant accounting policies; and</p> <p>e) Specify the date of, or period covered by, each financial statement comprising the financial statements.</p>
Q14.	<p>CORRECT/INCORRECT</p> <p>In considering the qualitative aspects of the entity's accounting practices, the auditor may not become aware of possible bias in management's judgments.</p> <p>(RTP, Nov 2020, NA)</p>
	<p>Incorrect:</p> <p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated.</p>
Q15.	<p>What an auditor should state in "Basis for opinion" section of auditor's report and when the auditor modifies the opinion on the financial statements, what amendments he should make in this section ?</p> <p>(SA, Jan 2021, 4 marks)</p>
	<p>An auditor should state in "Basis for Opinion" section of Auditor's Report as under:</p> <p>Basis for Opinion:</p> <p>The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:</p> <ol style="list-style-type: none"> i) States that the audit was conducted in accordance with Standards on Auditing; ii) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SAs; iii) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. iv) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. <p>Amendments an Auditor should make :</p> <p>When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SA 700 (Revised):</p> <ol style="list-style-type: none"> i) Amend the heading "Basis for Opinion" required by para of SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and ii) Within this section, include a description of the matter giving rise to the modification.
Q16.	<p>CORRECT/INCORRECT</p> <p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments.</p> <p>(RTP, May 2021, NA)</p>
	<p>Correct:</p> <p>In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that lack of neutrality together with uncorrected misstatements causes the financial statements to be materially misstated.</p>
Q17.	<p>The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally. Explain</p> <p>(RTP, May 2021, NA)</p>

	<p>The requirements of SA 700 are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This SA promotes consistency in the auditor's report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with SAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur</p>
Q18.	<p>The Location of the description of the auditor's responsibilities for the audit of the financial statements is always within the body of the auditor's report.</p> <p>(SA, July 2021, 2 marks)</p> <p>Incorrect:</p> <p>The description of the auditor's responsibilities for the audit of the financial statement shall be always shown as below -</p> <ul style="list-style-type: none"> • Within the body of the auditor's report • Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix or <p>By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so</p>
Q19.	<p>CA Guru is in the process of preparing the final audit report of JPA Private Limited and would like to disclaim his opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence. How CA Guru shall amend the description of the auditor's responsibilities as required by SA 700 (Revised)?</p> <p>(SA, July 2021, 3 marks)</p> <p>Since the auditor, CA Guru, disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence of JPA Pvt Ltd, the auditor (CA Guru) shall amend the description of the auditor's responsibilities required by SA 700 (Revised) to include only the following:</p> <ol style="list-style-type: none"> a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report; b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements , and c) The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised)
Q20.	<p>M/s S & Associates are the Statutory Auditors of Real Ltd., a company engaged in the business of manufacturing of garments. The auditor has completed the audit and is in the process of forming an opinion on the financial statements for the F.Y. 2020-2021. CA K, the engagement partner, wants to conclude that whether the financial statements as a whole are free from material misstatements, whether due to fraud or error. What factors he should consider to reach that conclusion?</p> <p>(SA, Dec 2021, 4 marks)</p> <p>Factors to be considered to form an opinion:</p> <p>The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement,</p>

	<p>whether due to fraud or error. That conclusion shall take into account:</p> <ol style="list-style-type: none"> a) The auditor's conclusion, in accordance with SA 330, whether sufficient appropriate audit evidence has been obtained b) The auditor's conclusion, in accordance with SA 450, whether uncorrected misstatements are material, individually or in aggregate. c) The evaluations required <ul style="list-style-type: none"> • The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. • This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.
<p>Q21.</p>	<p>When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700. Explain</p> <p>(RTP, May 2022, NA)</p> <hr/> <p>When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by SA 700 (Revised) to include only the following:</p> <ol style="list-style-type: none"> a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Standards on Auditing and to issue an auditor's report; b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and c) The statement about auditor independence and other ethical responsibilities required by SA 700 (Revised)
<p>Q22.</p>	<p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework. Explain stating clearly specific evaluations made by the auditor.</p> <p>(RTP, May 2022, NA)</p> <hr/> <p>The auditor shall evaluate whether the financial statements are prepared in accordance with the requirements of the applicable financial reporting framework.</p> <p>This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements. In particular, the auditor shall evaluate whether:</p> <ol style="list-style-type: none"> a) The financial statements adequately disclose the significant accounting policies selected and applied; b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate; c) The accounting estimates made by management are reasonable; d) The information presented in the financial statements is relevant, reliable, comparable, and understandable; e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and f) The terminology used in the financial statements, including the title of each financial statement, is appropriate. <p>Further, when the financial statements are prepared in accordance with a fair presentation framework, the evaluation mentioned above shall also include an evaluation by the auditor as to whether the financial</p>

statements achieve fair presentation which shall include consideration of:

- a) The overall presentation, structure and content of the financial statements; and
- b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.

The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

11.2 SA 705

- Q1. The auditor shall express _____ opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.
- (a) Adverse
 - (b) Qualified
 - (c) Disclaimer
 - (d) None of the above

(Sample MCQs)

Correct answer: (a) Adverse

- Q2. CA. Goofy has been appointed as an auditor for audit of a complete set of financial statements of Dippy Ltd., a listed company. The financial statements of the company are prepared by the management in accordance with the Accounting Standards prescribed under section 133 of the Companies Act, 2013. However, the inventories are misstated which is deemed to be material but not pervasive to the financial statements. Based on the audit evidences obtained, CA. Goofy has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570. Further, CA. Goofy is also aware of the fact that a qualified opinion would be appropriate due to a material misstatement of the Financial Statements. State what phrases should the auditor use while drafting such opinion paragraph?

- (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (b) In our opinion and to the best of our information and according to the explanations given to us, with the foregoing explanation, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (c) In our opinion and to the best of our information and according to the explanations given to us, subject to the misstatement regarding inventories, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.
- (d) In our opinion and to the best of our information and according to the explanations given to us, with the explanation described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view in conformity with the applicable financial reporting framework.

(Sample MCQs) (RTP, May 2019, NA)

Correct answer: (a) In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the aforesaid financial statements present fairly, in all material respects, or give a true and fair view

	in conformity with the applicable financial reporting framework
Q3.	<p>Minnie Ltd., a listed company, appointed CA. Kranny for auditing complete set of consolidated financial statements of the company. CA. Kranny is unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements. Based on the audit evidence obtained, CA. Kranny concludes that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern in accordance with SA 570. State what type of opinion CA. Kranny must have provided in the given scenario?</p> <p>(a) Unmodified opinion. (b) Qualified opinion. (c) Adverse opinion. (d) Disclaimer of opinion.</p> <p>(Sample MCQs)</p>
	Correct answer: (b) Qualified opinion
Q4.	<p>CORRECT/INCORRECT</p> <p>The auditor shall express an adverse opinion when:</p> <p>(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive</p> <p>(MTP1, May 2018, 2 marks) (MTP1, Nov 2018, 2 marks) (MTP1, May 2019, 2 marks)</p>
	<p>Incorrect:</p> <p>The auditor shall express a qualified opinion when:</p> <p>(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive</p>
Q5.	<p>"The auditor of PQR LTD. is unable to obtain sufficient appropriate audit evidence and also auditor thinks that the possible effects of undetected misstatements on the financial statements would be both material and pervasive. The auditor perceives the situation involving multiple uncertainties there by the auditor concludes that it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements. Advise and explain the type of opinion auditor would issue in the given circumstances. You are also required to explain the meaning of pervasive in this regard."</p> <p>(MTP2, May 2018, 5 marks)</p>
	<p>The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.</p> <p>The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the</p>

	<p>financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</p> <p>Meaning of Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.</p> <p>Pervasive effects on the financial statements are those that, in the auditor's judgment:</p> <ul style="list-style-type: none"> i) Are not confined to specific elements, accounts or items of the financial statements ii) If so confined, represent or could represent a substantial proportion of the financial statements; or iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.
Q6.	<p>CORRECT/INCORRECT</p> <p>"The auditor shall express a qualified opinion when:</p> <p>(a) The auditor concludes that misstatements are material but not pervasive to the financial statements; or</p> <p>(b) The auditor is unable to obtain sufficient appropriate audit evidence but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive "</p> <p>(MTP2, Nov 2018, 2 Marks)</p> <p>Correct:</p> <p>The auditor shall express a qualified opinion when:</p> <p>(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or</p> <p>(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive</p>
Q7.	<p>CORRECT/INCORRECT</p> <p>An auditor should issue disclaimer of opinion when there is difference of opinion between him and the management on a particular point.</p> <p>(SA, Nov 2018, 2 marks)</p> <p>Incorrect:</p> <p>The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive. In case of difference of opinion, either the auditor will issue a qualified report or adverse report and not disclaimer of opinion.</p>
Q8.	<p>Which of the following is correct :</p> <p>(a) The auditor shall express a qualified opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p> <p>(b) The auditor shall express a disclaimer opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p> <p>(c) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p> <p>(d) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not</p>

	<p>pervasive, to the financial statements (MTP1, May 2019, 2 marks)</p> <p>Correct answer: (c) The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p>
Q9.	<p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express:</p> <p>(a) a disclaimer opinion (b) a qualified opinion (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705. (d) unmodified opinion</p> <p>(RTP, Nov 2019, NA) (MTP1, May 2020, 2 marks)</p> <p>Correct answer: (c) a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.</p>
Q10.	<p>A company did not disclose accounting policies required to be disclosed under Schedule III or any other provisions of the Companies Act, 2013, the auditor should issue–</p> <p>(a) a qualified opinion (b) an adverse opinion (c) a disclaimer of opinion (d) emphasis of matter paragraph.</p> <p>(MTP1, Nov 2019, 1 Mark)</p> <p>Correct answer: (a) a qualified opinion</p>
Q11.	<p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances,</p> <p>(a) the auditor shall express a qualified opinion in accordance with SA 705. (b) the auditor shall express a disclaimer of opinion in accordance with SA 705. (c) the auditor shall express a qualified opinion or adverse opinion, as appropriate, in accordance with SA 705. (d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705.</p> <p>(MTP1, Nov 2019, 2 Marks)</p> <p>Correct answer: (d) the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA 705</p>
Q12.	<p>CORRECT/INCORRECT</p> <p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.</p> <p>(MTP1, May 2020, 2 marks) (MTP2, May 2021, 2 marks)</p> <p>Incorrect:</p> <p>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or a disclaimer of opinion, as appropriate, in accordance with SA</p>

	705
Q13.	<p>Delightful Ltd. is a company engaged in the production of smiley balls. During the FY 2020-21 the company transferred its accounts to computerised system (SAP) from manual system of accounts. Since the employees of the company were not well versed with the SAP system, there were many errors in the accounting during the transition period. As such the statutory auditors of the company were not able to extract correct data and reports from the system. Such data was not available manually also. Further, the employees and the management of the company were not supportive in providing the requisite information to the audit team. The auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. Explain the kind of audit report that the statutory auditor of the company should issue in this case.</p> <p>(RTP, Nov 2021, NA)</p> <p>The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.</p> <p>The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</p> <p>In the present case Delightful Ltd, the statutory auditor of the company is unable to extract correct data and reports from the SAP system for conduct of audit. Also, such data and reports are not available manually. Moreover, the auditor believes that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.</p> <p>As such, the statutory auditor of Delightful Ltd. should give a disclaimer of opinion.</p>
Q14.	<p>While conducting audit of VED Ltd., you as an auditor are not only prevented in completing certain audit procedures but also are not able to obtain audit evidence even by performing alternative procedures. How you will deal with this situation?</p> <p>(MTP1, May 2022, 4 marks)</p> <p>As per SA 705, "Modifications to the Opinion in the Independent Auditor's Report", if, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.</p> <p>If management refuses to remove the limitation, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.</p> <p>If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:</p> <ol style="list-style-type: none"> 1) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or 2) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall: <ul style="list-style-type: none"> ● Withdraw from the audit, where practicable and possible under applicable law or regulation; or ● If withdrawal from the audit before issuing the auditor's report is not practicable or

possible, disclaim an opinion on the financial statements.

If the auditor withdraws, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion.

11.3 SA 701

Q1. Communicating Key Audit Matter is not a substitute for disclosure in the Financial Statements rather Communicating key audit matters in the auditor's report is in the context of the Auditor having formed an opinion on the financial statements as a whole. Analyse.

(RTP, May 2018, NA) (RTP, Nov 2019, NA)

OR

Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not considered as a substitute or alternative for a number of important items. What are those items?

(MTP2, May 2022, 3 marks)

As per **SA 701, "Communicating Key Audit Matters in the Auditor's Report"**, communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:

- i) A substitute for disclosures in the financial statements that the applicable Financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
- ii) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 "Modifications to the Opinion in the Independent Auditor's Report";
- iii) A substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or
- iv) A separate opinion on individual matters.

Q2. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". What would the introductory language in this section of the auditor's report state. Also, state the purpose of communicating key audit matters.

(MTP2, May 2018, 5 marks)

OR

Explain clearly the purpose of communicating key audit matters.

(RTP, Nov 2018, NA)

The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters". The introductory language in this section of the auditor's report shall state that:

- i) 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]; and
- ii) These matters were 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 does not provide a separate opinion on these matters.

Purpose of communicating key audit matters: As per SA 701, "Communicating Key Audit Matters in the Auditor's Report", the purpose of communicating key audit matters is to enhance the communicative value

	<p>of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements.</p>
Q3.	<p>CORRECT/INCORRECT</p> <p>The statutory auditor of ABC Ltd. is of the opinion that communicating key audit matters in the auditor's report constitutes a substitute for disclosure in the financial statements.</p> <p>(SA, May 2018, 2 marks) (MTP2, May 2019, 2 marks)</p>
	<p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable Financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation.</p>
Q4.	<p>Which of the following is incorrect :</p> <p>(a) Communicating key audit matters in the auditor's report is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;</p> <p>(b) Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);</p> <p>(c) Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern;</p> <p>(d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);</p> <p>(MTP2, May 2019, 2 marks)</p>
	<p>Correct answer: (d) Communicating key audit matters in the auditor's report is a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised)</p>
Q5.	<p>How would an auditor determine Key Audit Matters as per SA - 701, "Communicating Key Audit Matters in the Independent Auditor's Report"?</p> <p>(SA, Nov 2020, 3 marks)</p> <p>OR</p> <p>As an auditor of listed company, what are the matters that the auditor should keep in mind while determining "Key Audit Matters".</p> <p>(RTP, Nov 2021, NA) (MTP1, Nov 2021, 3 marks)</p>
	<p>Determining Key Audit Matters: As per SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", the auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:</p> <p>i) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding</p>

	<p>the Entity and Its Environment.</p> <p>ii) 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.</p> <p>iii) The effect on the audit of significant events or transactions that occurred during the period.</p> <p>The auditor shall determine which of the matters determined in accordance with above were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters.</p>
Q6.	<p>CORRECT/INCORRECT</p> <p>Communicating Key Audit Matters is a substitute for the auditor expressing a modified audit opinion when required by the circumstances of a specific audit engagement in accordance with SA 705.</p> <p>(SA, Jan 2021, 2 marks)</p>
	<p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is not a substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SA 705 (Revised);</p>
Q7.	<p>Communicating key audit matters in the auditor's report is a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern</p> <p>(RTP, May 2022, NA)</p>
	<p>Incorrect:</p> <p>Communicating key audit matters in the auditor's report is not a substitute for reporting in accordance with SA 570 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern</p>

11.4 SA 706

Q1.	<p>CORRECT/INCORRECT</p> <p>Other matter paragraph is 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.</p> <p>(MTP1, May 2018, 2 marks) (MTP1, Nov 2018, 2 marks) (MTP2, Nov 2018, 2 Marks) (MTP1, May 2019, 2 marks)</p>
	<p>Incorrect:</p> <p>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</p>
Q2.	<p>Define Emphasis of Matter Paragraph and how it should be disclosed in the Independent Auditor's Report?</p> <p>(SA, May 2018, 5 marks) (RTP, Nov 2020, NA)</p> <p>OR</p> <p>Define Emphasis of Matter paragraph. When the auditor shall include an Emphasis of Matter paragraph in the auditor's report? Also explain how the auditor would include an Emphasis of Matter in the auditor's</p>

report?

(RTP, May 2019, NA)

Emphasis of Matter paragraph – 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.

Emphasis of Matter Paragraphs in the Auditor’s Report

If the auditor considers it necessary to draw users’ attention to a matter 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 shall include an Emphasis of Matter paragraph in the auditor’s report provided:

- a) The auditor would not be required to modify the opinion in accordance with SA 705 (Revised) as a result of the matter; and
- b) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report.

Separate section for Emphasis of Matter paragraph

When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:

- a) Include the paragraph within a separate section of the auditor’s report with an appropriate heading that includes the term “Emphasis of Matter”;
- b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
- c) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized

Q3. Which of the following is correct :

- (a) When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor need not disclose the substantive reasons for the different opinion.
- (b) When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706.
- (c) When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an emphasis of Matter paragraph in accordance with SA 706.
- (d) When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph or emphasis of matter paragraph in accordance with SA 706.

(MTP2, May 2019, 2 marks)

Correct answer: (b) When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with SA 706

Q4. Which of the following is not correct:

- (a) SA 700- Forming an Opinion and Reporting on Financial Statements

	<p>(b) SA 705- Modified Opinion (c) SA 701- Communicating Key Audit Matters (d) SA 706-Comparative Information (MTP1, Nov 2020, 2 marks)</p>
	<p>Correct answer: (d) SA 706-Comparative Information</p>
<p>Q5.</p>	<p>State clearly the objective of the Auditor as per SA 706. Also define emphasis of matter paragraph and other matter paragraph. (MTP1, Nov 2020, 4 marks)</p> <p>As per SA 706 (Revised) on “Emphasis of Matter Paragraphs and Other Matter Paragraphs In The Independent Auditor’s Report”, the objective of the auditor, having formed an opinion on the financial statements, is to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of clear additional communication in the auditor’s report, to:</p> <ol style="list-style-type: none"> A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users’ understanding of the financial statements; or As appropriate, any other matter that is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report. <p>Emphasis of Matter paragraph – 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.</p> <p>Other Matter paragraph – A paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report</p>
<p>Q6.</p>	<p>CORRECT/INCORRECT The inclusion of an Emphasis of Matter paragraph in the Auditor's Report affects the auditor's opinion. (MTP1, May 2021, 2 marks)</p> <p>Incorrect: When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall indicate that the auditor’s opinion is not modified in respect of the matter emphasized. Such a paragraph shall refer only to information presented or disclosed in the financial statements. The inclusion of an Emphasis of Matter paragraph in the auditor’s report does not affect the auditor’s opinion.</p>
<p>Q7.</p>	<p>Mention the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. (MTP2, Nov 2021, 3 marks)</p> <p>Examples of circumstances to include Emphasis of Matter Paragraph: As per SA 706 (Revised) on “Emphasis of Matter Paragraphs and Other Matter Paragraphs In The Independent Auditor’s Report”, the examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are;</p> <ol style="list-style-type: none"> An uncertainty relating to the future outcome of an exceptional litigation or regulatory action. A significant subsequent event that occurs between the date of the financial statements and the date of the auditor’s report. Early application (where permitted) of a new accounting standard that has a material effect on the

- financial statements.
- d) A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

11.5 SA 710

- Q1. The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement. Advise the essential audit reporting differences between the approaches Also explain the audit procedure regarding comparative information.

(MTP2, May 2018, 5 marks)

OR

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. Explain clearly stating the essential audit reporting differences between the approaches. Also define comparative information and audit procedures regarding comparative information.

(RTP, May 2019, NA)

The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.

The essential audit reporting differences between the approaches are:

- a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
- b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

Definition of Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

Audit Procedures regarding comparative information

The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:

- a) The comparative information agrees with the amounts and other disclosures presented in the prior period; and
- b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.

Q2. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in some circumstances. Explain those circumstances

(MTP1, Nov 2018, 5 Marks)

OR

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures. Discuss the exceptions of the above statement when the prior period financial statements are audited.

(SA, Nov 2019, 4 marks)

When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances.

1. **If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion** and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either
 - 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.
2. **If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements** on which an unmodified opinion has been previously issued, the auditor shall verify whether the misstatement has been dealt with as required under the applicable financial reporting framework and, if that is not the case, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified.
3. **Prior Period Financial Statements Not Audited**- If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements