CPA REVIEW SCHOOL OF THE PHILIPPINES

Manila

AUDITING THEORY

AUDIT REPORT

Related PSAs: PSA 700, 710, 720, 560, 570, 600 and 620

1. When an independent auditor expresses an unqualified opinion he asserts that:
   (1) He performed the audit in accordance with generally accepted auditing standards.
   (2) The company is a profitable and viable entity.
   (3) The financial statements examined are in conformity with GAAP.
   (4) The financial statements are accurate and free of errors.

   a. All of the above statements are true.
   b. Only statements (1) and (3) are true.
   c. Only statements (2) and (4) are true.
   d. All of the above statements are false.

2. An audit report should be dated as of the
   a. date the report is delivered to the entity audited.
   b. date the financial statements were approved by the client management.
   c. balance sheet date of the latest period reported on.
   d. date a letter of audit inquiry is received from the entity's attorney of record.

3. If a company's external auditor expresses an unqualified opinion as a result of the audit of the company's financial statements, readers of the audit report can assume that
   a. The external auditor found no fraud.
   b. The company is financial sound and the financial statements are accurate.
   c. Internal control is effective.
   d. All material disagreements between the company and external auditor about the application of accounting principles were resolved in the satisfaction of the external auditor.

4. A statement that the auditor's responsibility is to express an opinion on the financial statements is contained in the:
   a. Opening paragraph
   b. Scope paragraph
   c. Opening and scope paragraph
   d. Opinion paragraph

5. The description of an audit in the scope paragraph of the standard audit report includes all of the following except:
   a. Evaluating the overall financial statement presentation.
   b. Assessing control risk.
   c. Examining, on a test basis, evidence supporting the amount and disclosures in the financial statements.
   d. Assessing the accounting principles used and significant estimates made by management.

6. The audit report is normally addressed to the:

	Board of directors	Stockholders	Chair of the Audit Committee
a.	No	Yes	No
b.	Yes	Yes	No
c.	Yes	Yes	Yes
d.	Yes	No	Yes

7. If comparative financial statements are presented and the present auditor has audited both years, the auditor should:
   a. Reissue the report
   b. Dual date the report
   c. Redate the report
   d. Update the report

8. In which of the following situations would the auditor appropriately issue a standard unqualified report with no explanatory paragraph concerning consistency?
   a. A change in the method of accounting for specific subsidiaries that comprise the group of companies for which consolidated statements are presented.
   b. A change from an accounting principle that is not generally accepted to one that is generally accepted.
   c. A change in the percentage used to calculate the provision for warranty expense.
   d. Correction of a mistake in the application of a generally accepted accounting principle.

9. An auditor's report contains the following sentences:

   We did not audit the financial statements of B Company, a consolidated subsidiary, whose statements reflect total assets and revenues constituting 20 percent and 22 percent, respectively, of the related consolidated totals. These statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely upon the report of the other auditors.

   These sentences
   a. disclaim an opinion
   b. qualify the opinion
   c. divide responsibility
   d. should not be part of the audit report

10. The management of a client company believes that the statement of cash flow is not a useful document and refuses to include one in the annual report to stockholders. As a result, the auditor's opinion should be
    a. qualified due to inadequate disclosure
    b. qualified due to a scope limitation
    c. adverse
    d. unqualified

11. An auditor's opinion reads as follows: "*In our opinion, except for the above-mentioned limitation on the scope of our audit…*" This is an example of a(n)
    a. review opinion
    b. emphasis on a matter
    c. qualified opinion
    d. unacceptable reporting practice

12. Eagle Company's financial statements contain a departure from generally accepted accounting principles because, due to unusual circumstances, the statements would otherwise be misleading. The auditor should express an opinion that is
    a. Qualified and describe the departure in a separate paragraph.
    b. Unqualified but not mention the departure in the auditor's report.
    c. Qualified or adverse, depending on materiality, and describe the departure in a separate paragraph.
    d. Unqualified and describe the departure in a separate paragraph.

13. An auditor is unable to determine the amounts associated with illegal acts committed by a client. The auditor would most likely issue
    a. Either a qualified opinion or a disclaimer of opinion.
    b. An adverse opinion.
    c. Either a qualified opinion or an adverse opinion.
    d. A disclaimer of opinion.

14. The objective of the consistency standard is to provide assurance that
    a. There are no variations in the format and presentation of financial statements.
    b. Substantially different transactions and events are not accounted for on an identical basis.
    c. The auditor is consulted before material changes are made in the application of accounting principles.
    d. The comparability of financial statements between periods is not materially affected by changes in accounting principles without disclosure.

15. If management fails to provide adequate justification for a change from one generally accepted accounting principle to another, the auditor should
    a. Add an explanatory paragraph and express a qualified or an adverse opinion for lack of conformity with generally accepted accounting principles.
    b. Disclaim an opinion because of uncertainty.
    c. Disclose the matter in a separate explanatory paragraph(s) but not modify the opinion paragraph.
    d. Neither modify the opinion nor disclose the matter because both principles are generally accepted.

16. When an auditor qualifies an opinion because of inadequate disclosure, the auditor should describe the nature of the omission in a separate explanatory paragraph and modify the

	Introductory paragraph	Scope paragraph	Opinion paragraph
a.	Yes	No	No
b.	Yes	Yes	No
c.	No	Yes	Yes
d.	No	No	Yes

17. An auditor may not express a qualified opinion when
    a. A scope limitation prevents the auditor from completing an important audit procedure.
    b. The auditor's report refers to the work of a specialist.
    c. An accounting principles at variance with generally accepted accounting principles is used.

d. The auditor lacks independence with respect to the audited entity.

18. An auditor decides to express a qualified opinion on an entity's financial statements because a major inadequacy in its computerized accounting records prevents the auditor from applying necessary procedures. The opinion paragraph of the auditor's report should state that the qualification pertains to
    a. A client-imposed scope limitation.
    b. A departure from generally accepted auditing standards.
    c. The possible effects on the financial statements.
    d. Inadequate disclosure of necessary information.

19. Totoy, CPA, was engaged to audit the financial statements of Bibo Co., a new client, for the year ended December 31, 2004. Totoy obtained sufficient audit evidence for all of Bibo's financial statement items except Bibo's opening inventory. Due to inadequate financial records, Totoy could not verify Bibo's January 1, 2004 inventory balances. Totoy's opinion on Bibo's 2004 financial statements most likely will be

	Balance Sheet	Income Statement
a.	Disclaimer	Disclaimer
b.	Unqualified	Disclaimer
c.	Disclaimer	Adverse
d.	Unqualified	Adverse

20. When management prepares financial statements on the basis of a going concern and the auditor believes the company may not continue as a going concern, the auditor should issue a(n)
    a. qualified opinion
    b. unqualified opinion with an explanatory paragraph
    c. disclaimer of opinion
    d. adverse opinion

21. A dual dated report contains the dates of a subsequent event and the date the:
    a. Auditor completed work in the client's office
    b. Financial statements were prepared
    c. Subsequent event was resolved
    d. Audit report was delivered

22. If the principal auditor decides to take responsibility for the work of other auditors, the principal auditor should:
    a. Modify the opening paragraph
    b. Modify the opening and opinion paragraphs
    c. Modify all three paragraphs
    d. Issue a standard report

23. An auditor who concludes that an uncertainty is not adequately disclosed in the financial statements should issue a:
    a. Disclaimer of opinion.
    b. Unqualified report with an explanatory paragraph.
    c. Special report.
    d. Qualified report.

24. An auditor may wish to emphasize a matter included in the financial statements by adding an explanatory paragraph to the audit report. In this case the following paragraphs of the audit report should be modified:
    a. Introductory paragraph
    b. Scope paragraph
    c. Opinion paragraph
    d. None

25. In the case of a client imposed scope limitation, the auditor must consider issuing a:
    a. Qualified opinion or disclaimer of opinion
    b. Qualified opinion or adverse opinion
    c. Disclaimer of opinion or adverse opinion
    d. Disclaimer of opinion

26. Which of the following modifications of the standard auditor's report does not require an explanatory paragraph.
    a. Reference to other auditors
    b. Inconsistency
    c. Scope limitation
    d. Adverse opinion

27. Pamela, CPA, was engaged to audit the financial statements of One Co. after its fiscal year had ended. The timing of Pamela's appointment as auditor and the start of field work made confirmation of accounts receivable by direct communication with the debtors ineffective. However, Pamela applied other procedures and was satisfied as to the reasonableness of the account balances. Pamela's auditor's report most likely contained a(n)
    a. Unqualified opinion.
    b. Unqualified opinion with an explanatory paragraph.
    c. Qualified opinion because of a scope limitation.
    d. Qualified opinion because of a departure from GAAS.

28. A limitation on the scope of an audit sufficient to preclude an unqualified opinion will always result when management
    a. Engages the auditor after the year-end physical inventory count is completed.
    b. Fails to correct a material internal control weakness that had been identified during the prior year's audit.
    c. Refuses to furnish a management representation letter to the auditor.
    d. Prevents the auditor from reviewing the working papers of the predecessor auditor.

29. When an auditor expresses an opinion other than unqualified opinion, a clear description of all substantive reasons for the modification of the opinion should be included in the report. This explanation should be presented:
    a. As a separate paragraph that precedes the opinion paragraph of the audit report.
    b. As a separate paragraph, preferably after the opinion paragraph, of the audit report.
    c. In the opinion paragraph
    d. As a separate paragraph in the notes to financial statements.

30. Where a limitation on the scope of the auditor's work requires modification of an unqualified opinion, the auditor's report should describe the limitation and:
    a. Indicate that the auditor is no longer responsible to his opinion.
    b. Indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.
    c. Refer the users to the particular note to financial statements that adequately discusses the limitation
    d. Indicate that the auditor is not satisfied of the results of the alternative procedures that he had performed.

31. What is the purpose of the following paragraph in a particular audit report:

    "…We draw attention to note X in the financial statements which discusses that the company incurred a net loss of P6.4 million during the year ended December 31, 2004 and as of that date, the Company's liabilities exceeded its total assets by P2,500,000..."

    a. A standard reporting requirement.
    b. Emphasis of matter about the going concern problems of the entity.
    c. Inadequate disclosure qualification.
    d. An inappropriate reporting.

32. An explanatory paragraph following an opinion paragraph that describes an uncertainty follows:

    As discussed in Note X to the financial statements, the company is a defendant in a lawsuit alleging infringement of certain patent rights and claiming damages. Discovery proceedings are in progress. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

    What type of opinion should the auditor express in this circumstance?
    a. unqualified b. qualified c. disclaimer d. adverse

33. If an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider issuing:
    a. Qualified or adverse opinion
    b. Qualified or disclaimer of opinion
    c. Unqualified opinion with explanatory paragraph
    d. Unqualified opinion.

34. When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express
    a. Qualified or adverse opinion
    b. Qualified or disclaimer of opinion
    c. Unqualified opinion with explanatory paragraph
    d. Unqualified opinion.

35. If subsequent to the issuance of the audited financial statements, the auditor becomes aware of material misstatements in the financial statements that exist prior to the date of the audit report, the auditor should
    a. Notify the parties who currently relying on the financial statements.
    b. Discuss the matter with management, and should take the action appropriate in the circumstances.
    c. Document such information in the audit plan for succeeding audit.
    d. Submit revised copies of the financial statements and audit report to the stockholders.

QUIZZERS

1. Which of the following is not explicitly included in the opening paragraph of an audit report?
   a. Identification of the financial statements that have been audited.
   b. A statement by the auditor that the audit provides a reasonable basis for the opinion.
   c. Statement that the financial statements are the responsibility of the entity's management.
   d. Statement that the responsibility of the auditor is to express an opinion on the financial statements based on his audit.

2. A measure of uniformity in the form and content of the auditor's report is desirable because
   a. It helps the auditors avoid legal liability.
   b. It helps the readers understand the report.
   c. It helps the auditor identify the usual circumstances that are expected to occur.
   d. It makes the auditors more informed of their responsibilities with respect to audit report.

3. The most common type of audit report contains a(n):
   a. Adverse opinion.
   b. Qualified opinion.
   c. Disclaimer of opinion.
   d. Unqualified

4. If an auditor is certain an illegal act has a material effect on financial statements and the clients agrees to adjust the statements accordingly, the auditor should:
   a. Withdraw from the engagement.
   b. Disclaim an opinion on the financial statements taken as a whole.
   c. Issue a qualified opinion.
   d. Issue an unqualified opinion.

5. It exists when other information contradicts information contained in the audited financial statements.
   a. Material misstatement of fact
   b. Material error
   c. Material inconsistency
   d. Material deviation

6. After issuing a report, a auditor has no longer obligation to make continuing inquiries or perform other procedures concerning the audited financial statements, unless
   a. Management of the entity requests the auditor to reissue the auditor's report.
   b. Information about an event that occurred after the end of fieldwork comes to the auditor's attention.
   c. Information, which existed at the report date and may affect the report, comes to the auditor's attention.
   d. Final determinations or resolutions are made of contingencies that had been disclosed in the financial statements.

7. Which of the following events occurring after the issuance of an auditor's report most likely would cause the auditor to make further inquiries about the previously issued financial statements?
   a. A technological development that could affect the entity's future ability to continue as a going concern.
   b. The entity's sale of a subsidiary that accounts for 30 percent of the entity's consolidated sales.
   c. The discovery of information regarding a contingency that existed before the financial statements were issued.
   d. The final resolution of a lawsuit explained in a separate paragraph of the auditor's report

8. An auditor would issue an adverse opinion if
   a. The audit was begun by other independent auditors who withdrew from the engagement.
   b. The statements taken as a whole do not fairly present the financial condition and results of operations of the company.
   c. A qualified opinion cannot be given because the auditor lacks independence.
   d. The restriction on the scope of the audit was significant.

9. An audit report contains the following paragraph:

   "Because of the inadequacies in the company's accounting records during the year ended June 30, 2005, it was not practicable to extend our auditing procedures to the extent necessary to enable us to obtain certain evidential matter as it relates to classification of certain items in the consolidated statements of operations."

   This paragraph most likely describes

a. A material departure from GAAP requiring a qualified audit opinion.
b. An uncertainty that should not lead to a qualified opinion.
c. A material scope restriction requiring a qualification of the audit opinion.
d. A matter that the auditor wishes to emphasize and that does not lead to a qualified audit opinion.

10. The auditor issued a qualified opinion covering the financial statements of Client A for the year ended December 31, 2004. The reason for the qualification was a departure from GAAP. In presenting comparative statements for the years ended December 31, 2004 and 2005, the client revised the 2004 financial statements to correct the previous departure from GAAP. The auditor's 2005 report on the 12/31/04 and 12/31/05 comparative financial statements will
    a. Express unqualified opinions on both the 2004 and 2005 financial statements.
    b. Express a qualified opinion on the 2004 financial statements and an unqualified opinion on the 2005 statements.
    c. Retain the qualified opinion covering the 2004 statements, but add an explanatory paragraph describing the correction of the prior departure from GAAP.
    d. Render qualified audit opinions for both 2004 and 2005 financial statements given the 2005 carryover effect of the 2004 error.

11. An auditor may reasonably issue an "except for" qualified opinion for

	Inadequate disclosure	Scope limitation
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

12. Soon after Boyd's audit report was issued, Boyd learned of certain related party transactions that occurred during the year under audit. These transactions were not disclosed in the notes to the financial statements. Boyd should
    a. Plan to audit the transactions during the next engagement.
    b. Recall all copies of the audited financial statements.
    c. Ask the client to disclose the transactions in subsequent interim statements.
    d. Determine whether the lack of disclosure would affect the auditor's report.

13. An auditor includes an explanatory paragraph in an otherwise unqualified report in order to emphasize that the entity being reported on is a subsidiary of another business enterprise. The inclusion of this paragraph
    a. Is appropriate and would not negate the unqualified opinion.
    b. Is a qualification.
    c. Is a violation of generally accepted reporting standards if this information is disclosed in footnotes to the financial statements.
    d. Necessitates a revision of the opinion paragraph to include the phrase "with the foregoing explanation."

14. Which of the following best describes the auditor's responsibility for "other information" included in the annual report to stockholders which contains financial statements and the auditor's report?
    a. The auditor has no obligation to read the "other information."
    b. The auditor has no obligation to corroborate the "other information," but should read the "other information" to determine whether it is materially inconsistent with the financial statements.
    c. The auditor should extend the examination to the extent necessary to verify the "other information."
    d. The auditor must modify the auditor's report to state that the "other information is unaudited" or "not covered by the auditor's report."

15. In which of the following circumstances would an auditor be most likely to express an adverse opinion?
    a. The statements are not in conformity with the ASC Statements regarding the capitalization of leases.
    b. Information comes to the auditor's attention that raises substantial doubt about the entity's ability to continue in existence.
    c. The chief executive officer refuses the auditor access to minutes of board of directors' meetings.
    d. Control tests show that the entity's internal control is so poor that the financial records cannot be relied upon.

16. When a principal auditor decides to make reference to another auditor's examination, the principal auditor's report should always indicate clearly, in the introductory, scope, and opinion paragraphs, the
    a. Magnitude of the portion of the financial statements examined by the other auditor.
    b. Division of responsibility.
    c. Disclaimer of responsibility concerning the portion of the financial statements examined by the other auditor.
    d. Name of the other auditor.

17. The independent auditor refers to both GAAP and GAAS when writing the standard audit report. These terms are mentioned as follows:

	a	b	c	d
Scope Paragraph	GAAP	GAAS	GAAP	GAAS
Opinion Paragraph	GAAS	GAAP	GAAP	GAAS

18. Which of the following best describes the reference to the expression "taken as a whole" in the fourth generally accepted auditing standard of reporting?
    a. It applies equally to a complete set of financial statements and to an individual financial statement.
    b. It applies only to a complete set of financial statements.
    c. It applies equally to each item in each financial statement.
    d. It applies equally to each material item in each financial statement.

19. If an accounting change has no material effect on the financial statements in the current year but the change is reasonably certain to have a material effect in later years, the change should be
    a. Treated as a consistency modification in the auditor's report for the current year.
    b. Disclosed in the notes to the financial statements of the current year.
    c. Disclosed in the notes to the financial statements and referred to in the auditor's report for the current year.
    d. Treated as a subsequent event.

20. An auditor's standard report expressed an unqualified opinion and includes an explanatory paragraph that emphasizes a matter included in the notes to the financial statements. The auditor's report would be deficient if the explanatory paragraph states that the entity
    a. Is a component of a larger business enterprise.
    b. Has changed form the completed contract method to the percentage of completion method to account for long-term construction contracts.
    c. Has had a significant subsequent event.
    d. Has accounting reclassifications that enhance the comparability between years.

21. In which of the following circumstances would an adverse opinion be appropriate?
    a. The auditor is not independent with respect to the enterprise being audited
    b. An uncertainty prevents the issuance of an unqualified report
    c. The statements are not in conformity with authoritative statements regarding accounting for pension plans
    d. A client-imposed scope limitation prevents the auditor from complying with generally accepted auditing standards

22. An auditor is confronted with an exception sufficiently material to warrant departing from the standard wording of an unqualified report. If the exception relates to a departure from the generally accepted accounting principles, the auditor must decide between a(n)
    a. adverse opinion and an unqualified opinion
    b. adverse opinion and a qualified opinion
    c. adverse opinion and a disclaimer of opinion
    d. disclaimer of opinion and a qualified opinion

23. An auditor had expressed a qualified opinion on the financial statements of a prior period because the client's financial statements departed from generally accepted accounting principles. The prior period statements are restated in the current period to conform with generally accepted accounting principles. The auditor's updated report on the prior period statements should
    a. express an unqualified opinion about the restated financial statements
    b. be accompanied by the auditor's original report on the prior period
    c. bear the same date as the auditor's original report on the prior period

d. qualify the opinion concerning the restated financial statements because of a change in accounting principles

24. A successor auditor should refer to a predecessor auditor's report in the
    a. Opening paragraph
    b. Scope paragraph
    c. Opinion paragraph
    d. Opening and opinion paragraph

25. Because of inadequate records the auditor is uncertain as to whether property and equipment is stated at cost. The auditor should issue a (n):
    a. Qualified opinion
    b. Unqualified opinion
    c. Adverse opinion
    d. Standard opinion

26. The auditor's report contains a paragraph explaining that the entity changed from the straight-line to the declining balance method of depreciation. The auditor expressed an:
    a. Adverse opinion
    b. Unqualified opinion
    c. Qualified opinion
    d. Disclaimer of opinion

27. The following circumstances result in a modified, but unqualified report, except:
    a. Inconsistent application of accounting principles.
    b. Emphasis of a related party transaction that is disclosed in a footnote.
    c. Lack of disclosure of a restriction on payment of dividends.
    d. Other auditors perform work for which the principal auditor does not assume responsibility.

28. Under which of the following sets of circumstances might an auditor disclaim an opinion?
    a. The financial statements contain a departure from GAAP, the effect of which is material.
    b. The principal auditor decides to make reference to the report of another auditor who audited a subsidiary.
    c. There has been a material change between periods in the method of the application of accounting principles.
    d. There were significant limitations on the scope of the audit.

29. Which of the following description is not included in the scope paragraph of the auditor's report?
    a. Examining, on a test basis, evidence to support the financial statement amounts and disclosures.
    b. Determining the accounting principles used in the preparation of the financial statements.
    c. Assessing the significant estimates made by management in the preparation of the financial statement.
    d. Evaluating the overall financial statement presentation.

30. Which of the following statements is best described in the scope paragraph of the independent auditor's report?
    a. The audit was planned and performed to obtain reliable assurance about whether the financial statements are free of material misstatements.
    b. The audit was conducted in accordance with financial reporting framework.
    c. The auditor makes the significant estimates in the preparation of the financial statements.
    d. A statement by the auditor that the audit provides a reasonable basis for the opinion.

31. When there is an assessed substantial doubt about the ability of the entity to continue as a going concern and such information is adequately disclosed in the notes to financial statements, the auditor should express a(n):
    a. Standard unqualified opinion.
    b. Unqualified opinion with explanatory paragraph.
    c. Qualified opinion
    d. Adverse opinion

32. If adequate disclosure is not made by the entity regarding substantial doubt about its ability to continue as a going concern, the auditor should include in his report specific reference to the substantial doubt as to ability of the company to continue as a going concern and should express:
    a. Unqualified opinion with explanatory paragraph
    b. A subject to qualified opinion or adverse opinion.
    c. Either an "except for" qualified opinion or an adverse opinion.
    d. A disclaimer of opinion.

33. Which of the following factors, by itself, would not cause uncertainty about the ability of a company to continue as a going concern?
    a. A significant net loss.
    b. Inability to pay its obligations as they come due.

c. The occurrence of uninsured catastrophe.
d. Legal proceedings that might jeopardize the entity's ability to operate.

34. If the auditor concludes that the fraud or error has a material effect on the financial statements and has not been properly corrected in the financial statements, the auditor should issue a:
    a. Unqualified opinion with explanatory paragraph.
    b. Qualified or adverse opinion.
    c. Qualified or disclaimer of opinion.
    d. Adverse or disclaimer of opinion.

35. If the auditor is precluded by the entity from obtaining evidence to evaluate whether fraud or error that may be material to the financial statements has, or is likely to have, occurred, the auditor should issue a (n):
    a. Unqualified opinion with explanatory paragraph.
    b. Qualified or adverse opinion.
    c. Qualified or disclaimer of opinion.
    d. Adverse or disclaimer of opinion.

36. In which of the following circumstances would an auditor usually choose between expressing a qualified opinion or disclaiming an opinion?
    a. Departure from generally accepted accounting principles
    b. Inadequate disclosure of accounting policies
    c. Inability to obtain sufficient competent evidential matter
    d. Unreasonable justification for a change in accounting principle

PSA 700 – The Auditor's Report on Financial Statements

37. The element of the auditor's report that distinguishes it from reports that might be issued by others is
    a. Title
    b. Addressee
    c. Auditor's signature
    d. Opinion paragraph

38. The financial statements audited by the auditor are identified in the
    a. Opening paragraph
    b. Scope paragraph
    c. Opinion paragraph
    d. All of the above.

39. Which of the following statements can be found on the scope paragraph of the standard audit report?
    a. The financial statements are the responsibility of the Company's management.
    b. Our responsibility is to express an opinion on these financial statements based on our audit.
    c. We believe that our audit provides a reasonable basis for our opinion.
    d. The financial statements 'present fairly, in all material respects'.

40. Which statement is incorrect regarding the date of the auditor's report?
    a. The auditor should date the report as of the completion date of the audit.
    b. The date of the report informs the reader that the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor became aware and that occurred up to that date.
    c. The auditor should not date the report earlier than the date on which the financial statements are signed or approved by management.
    d. The auditor should date the report as of date the report is delivered to the entity audited.

41. The following will usually result in a modified report but will not affect the auditor's opinion, except
    a. Existence of going concern problem.
    b. There is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements.
    c. Emphasis of a matter.
    d. There is a disagreement with management regarding the acceptability of the accounting policies selected.

42. In extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a
    a. Qualified or adverse opinion
    b. Disclaimer of opinion
    c. Unqualified opinion with explanatory paragraph
    d. Unqualified opinion.

PSA 710 – Comparatives

43. Which statement is incorrect regarding comparatives?
    a. The auditor is not required to determine whether the comparatives comply in all material respects with GAAP relevant to the financial statements being audited.
    b. There are two broad financial reporting frameworks for comparatives: the corresponding figures and the comparative financial statements.
    c. Under the corresponding figures framework, the corresponding figures for the prior period(s) are an integral part of the current period financial statements and have to be read in conjunction with the amounts and other disclosures relating to the current period.
    d. Under the comparative financial statements framework, the comparative financial statements for the prior period(s) are considered separate financial statements.

44. Which statement is incorrect regarding corresponding figures?
    a. The corresponding figures are not presented as complete financial statements capable of standing alone.
    b. The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
    c. The auditor's report refers only to the financial statements of the current period.
    d. The auditor's report refers to each period that financial statements are presented.

45. When the comparatives in which the prior audit report is unmodified, the auditor should issue an audit report in which:
    a. The comparatives are specifically identified in the opening paragraph but not referred to in the opinion paragraph of the auditor's report.
    b. The comparatives are specifically identified in the opening paragraph and are referred to in the opinion paragraph.
    c. The comparatives are not specifically identified in the audit report.
    d. The comparatives are described in the emphasis of matter paragraph of the auditor's report.

46. In case the prior period financial statements were audited by another auditor and the incoming auditor decides to refer to another auditor, the incoming auditor's report should indicate:
    a. That the financial statements of the prior period were audited by another auditor.
    b. The type of report issued by the predecessor auditor and, if the report was modified, the reasons therefore.
    c. The date of that report.
    d. All of the above.

47. In relation to comparatives as corresponding figures, which of the following is incorrect?
    a. When the prior period financial statements are not audited, the incoming auditor should state in the auditor's report that the corresponding figures are unaudited.
    b. The incoming auditor must refer to the predecessor auditor's report on the corresponding figures in the incoming auditor's report for the current period.
    c. When the financial statements of the prior period were audited by another auditor, the incoming auditor's report should state that the prior period was audited by another auditor.
    d. In situations were the incoming auditor identified that the corresponding figures are materially misstated, the auditor should request management to revise the corresponding figures or if management refuses to do so, appropriately modify the report.

48. When the financial statements of the prior period were not audited, the incoming auditor should:
    a. Insist that an audit of prior year's financial statements must be made.
    b. Not allow the inclusion of the corresponding figures in the financial statements of the current period.
    c. Disclaim his opinion and treat the unaudited corresponding figures as basis of scope limitation.
    d. Obtain sufficient appropriate audit evidence that the corresponding figures meet the requirements of the relevant financial reporting framework.'

- end of AT-5906 -