

SA 706(Revised) - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

Select True or False:

1. Emphasis of Matter paragraph in the auditor's report represents a "modified" opinion.
 - a) True
 - b) False

Fill in the blanks:

2. "Emphasis of Matter" paragraph is given by an auditor to highlight matters disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is _____ to users' understanding of the financial statements.
 - a) Fundamental
 - b) Relevant
 - c) Complex

Choose the correct option from the following:

3. Emphasis of Matter paragraph can be given by an auditor for:
 - a) Expressing a qualified opinion or adverse opinion or disclaiming an opinion
 - b) Disclosures in financial statements that are required by the applicable financial reporting framework
 - c) Key Audit Matters
 - d) Matter disclosed in financial statements which is fundamental to the user's understanding of the financial statements
4. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in auditor's report, auditor should communicate this expectation to those charged with governance and provide them with the proposed wording.
 - a) Yes
 - b) No
 - c) Depends on the discretion of the auditor
 - d) Yes but proposed wording should not be shared

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5. When an auditor includes an Emphasis of matter paragraph in auditor's report, he should:
 - 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 where relevant disclosures that fully describe the matter can be found in the financial statements
 - c) Indicate that auditor's opinion is not modified in respect of the matter emphasized
 - d) All of above
6. What should be the placement of an Emphasis of Matter paragraph in situation where the auditor's report also includes Key Audit Matters section?
 - a) Emphasis of Matter paragraph should be presented before the Key Audit Matters section
 - b) Emphasis of Matter paragraph should be presented after the Key Audit Matters section
 - c) Emphasis of Matter paragraph may be presented before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph
 - d) Auditor cannot include an Emphasis of Matter paragraph when Key Audit Matters section is also included in the auditor's report
7. Emphasis of Matter paragraph is required to be included within a separate section of auditor's report with the heading "Emphasis of Matter".
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities
8. Other Matter Paragraph is required to be included within a separate section of auditor's report with the heading "Other Matter" or other appropriate heading.
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities
9. If the financial statements are prepared in accordance with a special purpose framework, can the auditor include an 'other matter paragraph' in the auditor's report.
 - a) Yes
 - b) No
 - c) Optional
 - d) Yes for audit reports of listed entities

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10. Prior period financial statements were audited by a predecessor auditor and the existing auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures. How should the existing auditor highlight this fact in his audit report for the current year?
- a) The auditor should include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements
 - b) The auditor should include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities relating to corresponding figures
11. Is the auditor required to include Emphasis of Matter Paragraph in the auditor's report when the financial statements are prepared in accordance with a special purpose framework?
- a) The auditor should include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework
 - b) It is advisable but not necessary for the auditor to include an Emphasis of Matter when financial statements are prepared in accordance with special purpose framework
 - c) The auditor should not include an Emphasis of Matter Paragraph when financial statements are prepared in accordance with special purpose framework
 - d) The auditor should include an Other Matter paragraph when financial statements are prepared in accordance with special purpose framework
12. Is the auditor required to include Emphasis of Matter Paragraph (where considered appropriate) in the auditor's report when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation?
- a) Yes, the auditor is required to include an Emphasis of Matter Paragraph in such situations
 - b) No, auditor is not required to include an Emphasis of Matter in such situations
 - c) It is advisable but not necessary
 - d) A separate reporting should be made to the regulator for this matter
13. Is it advisable for an auditor to highlight all significant matters and transactions that affect the financial statements as emphasis of matter paragraphs?
- a) Yes, it is advisable to highlight all the significant matters and transactions as emphasis of matter paragraphs
 - b) No, widespread use of emphasis of paragraphs may diminish effectiveness of the auditor's communication about such matters

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14. Should matters described in Emphasis of Matter paragraph also be reported as Key Audit Matters?
- a) Auditor should consider all emphasis of matters paragraphs as key audit matters
 - b) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the key audit matter section should cross refer to the emphasis of matter paragraph
 - c) Auditor should consider all emphasis of matters paragraphs as key audit matters but instead of repeating these, the emphasis of matter paragraph should cross refer to the key audit matter section
 - d) If matters that are determined to be key audit matters are also, in the auditor's judgment, fundamental to users' understanding of the financial statements, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements
15. What is the difference between "Other Matter" paragraph and Emphasis of Matter paragraph?
- a) Emphasis of Matter paragraph refers to matters that are 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. Whereas Other Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor's judgment is relevant to user's understanding of the audit or auditor's responsibility or auditor's report.
 - b) Other Matter paragraph refers to matters that are appropriately presented or disclosed in the financial statements whereas Emphasis of Matter paragraph refers to matters that are not presented or disclosed in the financial statements but in the auditor's judgment it is necessary to bring them to the users' attention.
 - c) There is no difference between Emphasis of Matter paragraph and Other Matter paragraph and both can be used interchangeably.
16. Emphasis of Matter paragraph can be used if an auditor has a disagreement with the management about the recognition, measurement, disclosure or presentation of a transaction or event reflected in the financial statements:
- a) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter
 - b) SA 706(Revised) allows the auditor to use an emphasis of matter paragraph in case of a disagreement with the management on a reporting matter provided that the matter is appropriately disclosed by the management in the financial statements

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- c) SA 706(Revised) does not apply in such situations and auditor should consider the requirements of SA 705(Revised) in this regard
 - d) Either of the approach in Option (b) or Option (c) is acceptable
17. Other Matter paragraph may be issued:
- a) To enhance users' understanding of an audit
 - b) If it is relevant to users' understanding of the auditor's responsibilities or the auditor's report
 - c) Either of the above circumstances
 - d) None of the above circumstances
18. In the following circumstances, identify whether auditor is required to include Other Matter Paragraph in the auditor's report:
- a) If the financial statements of the prior period were audited by a predecessor auditor and the auditor is permitted by law or regulation to refer to the predecessor auditor's report on the corresponding figures and decides to do so
 - b) The statement that the nature, timing and extent of the audit procedures performed comply with auditing standards
 - c) The auditor has identified significant deficiency in internal control
 - d) A matter that is required to be presented in the financial statements
19. Can an auditor include an Other Matter paragraph for the following matters?
- a) Any matter that is required to be presented or disclosed in the financial statements
 - b) Any information that the auditor is prohibited from providing by law, regulation or other professional Standards
 - c) Information that is required to be provided by management
 - d) None of the above
20. When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities in the auditor's report
- a) It should be included in the Report on Other Legal and Regulatory Requirements section
 - b) It may be included in the Report on Other Legal and Regulatory Requirements section
21. In cases where the auditor's report is intended for specific users and thus a restriction on distribution and use is included in the auditor's report, can the auditor include an Emphasis of Matter paragraph?
- a) Yes, auditor may include an Emphasis of Matter paragraph because such matter is fundamental to users' understanding of the financial statements
 - b) No, the auditor may consider necessary to include an Other Matter paragraph as the matter relates to auditor's report and is not related to disclosure in the financial statements

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22. While reporting on the consolidated financial statements of a company, an auditor has relied on the work of component auditor for a significant component. How should the matter be reported in the auditor's report on the consolidated financial statements of the company?
- a) The auditor should include an Emphasis of Matter paragraph to alert the users about placing reliance on the work of component auditor
 - b) The auditor should include an Other Matter paragraph to alert the users about placing reliance on the work of component auditor
 - c) Either of the above
 - d) There is no requirement for the parent auditor to state reliance on the component auditor in the audit report on consolidated financial statements
23. There is material uncertainty regarding the entity's ability to continue as going concern and adequate disclosures are made in financial statements. In such a situation, the matter should be reported as –
- a) Other Matter Paragraph
 - b) Emphasis of Matter Paragraph
 - c) No implication on report
 - d) SA 706(Revised) does not apply in such a situation and the reporting should be done as per requirements of SA 570(Revised), Going Concern
24. In which of the following situations an auditor may include an Other Matter paragraph in the auditor's report?
- a) Two sets of general purpose financial statements are prepared by the company (one under Indian Accounting Standards and other under IFRS) and the two frameworks are acceptable in their respective circumstances. If included, the Other Matter paragraph refers to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements
 - b) Preparation of consolidated financial statements and separate financial statements of a same entity for same reporting period under same accounting framework
25. Consider a situation where the auditor is unable (for example due to legal requirements) to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive. How can the auditor report this including why it is not possible for the auditor to withdraw from the engagement?
- a) The auditor may include an Emphasis of Matter paragraph as such information is fundamental to users' understanding of financial statements
 - b) The auditor may include an Other Matter paragraph as it is relevant to users' understanding of audit and the auditor's responsibilities