

SA 450 - Evaluation of Misstatements Identified During the Audit

Select True or False:

1. The judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate is considered as misstatement.
 - a) True
 - b) False
2. Auditor need not reassess the materiality based on actual financial results for evaluating the uncorrected misstatements.
 - a) True
 - b) False
3. If management believes the uncorrected misstatements identified by the auditor are not misstatements and that fact is stated in written representation obtained in accordance with SA 450, the auditor can leave out such misstatements in forming an opinion on the financial statements.
 - a) True
 - b) False
4. Where there is a large number of individual immaterial uncorrected misstatements, the auditor may communicate to those charged with governance, the number and overall monetary effect of the uncorrected misstatements, rather than the details of each individual uncorrected misstatement.
 - a) True
 - b) False
5. If uncorrected misstatements have been communicated with person(s) with management responsibilities and those person(s) also have governance responsibilities, they need not be communicated again with those same person(s) in their governance role.
 - a) True
 - b) False
6. An omission of information not specifically required by the applicable financial reporting framework but which, in the judgment of the auditor, is important to the users' understanding of the financial position, financial performance or cash flows of the entity is considered as material misstatement irrespective of being lower than the materiality for the financial statements as a whole.
 - a) True
 - b) False

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7. A misclassification between balance sheet line items may not be considered material in the context of the financial statements as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios.
- a) True
 - b) False
8. Auditor should communicate to those charged with governance the effect of only current year misstatements not relating to prior years.
- a) True
 - b) False
9. The auditor should communicate on timely basis all misstatements accumulated during the audit to the appropriate level of management unless prohibited by law or regulation.
- a) True
 - b) False

Fill in the Blanks:

10. Auditor should not accumulate misstatements which are _____.
- a) Immaterial
 - b) Clearly Trivial
 - c) Not significant
 - d) None. All misstatements should be accumulated
11. Auditor should obtain written representation from those charged with governance on _____.
- a) Corrected misstatements
 - b) Uncorrected misstatements
 - c) Both a and b

Choose the correct option from the following:

12. What is uncorrected misstatements?
- a) Misstatements that auditor has identified but not agreed by management hence not rectified.
 - b) Misstatements that management has identified and reported to auditors but not rectified.
 - c) Misstatements that internal auditor has identified but not rectified by management.
 - d) Misstatements that auditor has accumulated during the audit and not rectified.

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13. Auditor should revise audit strategy and audit plan if:
- a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material
 - b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SA 320
 - c) Both (a) and (b)
14. If auditor's reassessment of materiality based on actual financial results, results in lower materiality, auditor should:
- a) Express adverse opinion directly
 - b) Re-consider the performance materiality and nature, timing and extent of further audit procedures to base the audit opinion
 - c) Resign from the audit
 - d) Obtain management representation letter for uncorrected misstatements
15. The auditor's documentation of uncorrected misstatements may take into account:
- a) The consideration of the aggregate effect of uncorrected misstatements
 - b) The evaluation of whether the materiality level or levels for particular classes of transactions, account balances or disclosures, if any, have been exceeded
 - c) The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants)
 - d) All the Above
16. What is factual misstatement?
- a) Differences arising in judgment of management and that of auditor
 - b) Auditor's best estimate of misstatements in the population
 - c) Misstatements about which there is no doubt
 - d) None of the above
17. Misstatements may result from:
- a) An inaccuracy in gathering or processing data from which the financial statements are prepared
 - b) An omission of an amount or disclosure
 - c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts
 - d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate
 - e) All the above

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18. Misstatements can be in the nature of:
- a) Factual misstatements
 - b) Judgmental misstatements
 - c) Projected misstatements
 - d) All the above
19. The auditor should determine the materiality of uncorrected misstatements with respect to:
- a) Individual misstatements
 - b) Misstatements in the aggregate
 - c) Need not determine as misstatements are uncorrected
 - d) Both (a) and (b)
20. The audit documentation should include:
- a) The amount below which misstatements would be regarded as clearly trivial
 - b) All misstatements accumulated during the audit and whether they have been corrected
 - c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion
 - d) All the above