

## **SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report**

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**Select True or False:**

1. Communicating key audit matters is not a separate opinion on individual matters.
  - a) True
  - b) False
2. A material uncertainty related to going concern should be communicated as a key audit matter.
  - a) True
  - b) False
3. Auditor's report can have both key audit matters section and emphasis of matter paragraph.
  - a) True
  - b) False
4. Communicating key audit matters in auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole.
  - a) True
  - b) False
5. SA 701 applies to audits of quarterly financial statements under SEBI LODR Regulations 2015.
  - a) True
  - b) False
6. Key audit matters should not be communicated in case of adverse opinion.
  - a) True
  - b) False
7. Key audit matters may be communicated in case of qualified opinion.
  - a) True
  - b) False
8. A matter requiring modification of auditor's opinion cannot be communicated as key audit matter.
  - a) True
  - b) False

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9. A matter giving rise to a modified opinion in accordance with SA 705(Revised), is by its nature, a key audit matter.
  - a) True
  - b) False
10. Auditor is not required to include a reference to the “Section – material uncertainty related to going concern” in the key audit matters section.
  - a) True
  - b) False
11. If the auditor determines that there are no key audit matters to communicate, key audit matters section is still required in the auditor’s report.
  - a) True
  - b) False
12. SA 706(Revised) provides further guidance on the relationship between key audit matters and other matter paragraph in accordance with that SA.
  - a) True
  - b) False
13. SA 701 does not require the auditor to update key audit matters included in the prior period’s auditor’s report.
  - a) True
  - b) False
14. It is not useful for the auditor to consider whether a matter that was a key audit matter in the audit of the prior period continues to be a key audit matter in the audit of the current period.
  - a) True
  - b) False
15. It is not appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity.
  - a) True
  - b) False
16. Original information about the entity is the responsibility of the entity’s management and those charged with governance.
  - a) True
  - b) False

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17. In case of listed entities, the auditor is required to communicate at least one key audit matter in the auditor's report.
- a) True
  - b) False
18. Under key audit matters section, individual key audit matters may be organized in order of relative importance, based on auditor's judgment or may correspond to the manner in which matters are disclosed in the financial statements.
- a) True
  - b) False
19. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.
- a) True
  - b) False

#### Fill in the Blanks:

20. Purpose of communicating key audit matters is to \_\_\_\_\_ the communicative value of the auditor's report.
- a) Increase
  - b) Enhance
21. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant \_\_\_\_\_ judgment in the audited financial statements.
- a) Management
  - b) Auditor
22. Auditor shall describe each key audit matter using an appropriate \_\_\_\_\_ in the key audit matters section.
- a) Heading
  - b) Subheading
23. Auditor shall describe each key audit matter in the auditor's report unless law or regulation \_\_\_\_\_ public disclosure about the matter.
- a) Precludes
  - b) Prohibits
24. The \_\_\_\_\_ language in key audit matters section shall state that 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.
- a) Opening
  - b) Introductory

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25. Auditor's decision making process in determining key audit matters is designed to select a \_\_\_\_\_ number of matters from the matters communicated with those charged with governance.
- a) Smaller
  - b) Limited
26. Areas of significant auditor attention often relate to areas of \_\_\_\_\_ and significant management judgment in the financial statements and therefore often involve difficult or complex auditor judgments.
- a) Subjectivity
  - b) Complexity
27. Auditor may develop a \_\_\_\_\_ view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters.
- a) Initial
  - b) Preliminary
28. The \_\_\_\_\_ of presentation of individual matters within the key audit matters section is a material of professional judgment.
- a) Order
  - b) Sequence
29. Management or those charged with governance may decide to include \_\_\_\_\_ disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report.
- a) New or improved
  - b) New or enhanced
  - c) New or additional

**Choose the incorrect option from the following:**

30. Communicating key audit matters in the auditor's report is:
- a) Not a substitute for the disclosures in financial statements required by the applicable financial reporting framework.
  - b) Not a substitute for the disclosures necessary to achieve fair presentation.
  - c) Substitute for including an Emphasis of Matter paragraph.
  - d) Not a substitute for the auditor expressing a modified opinion.

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31. Description of each key audit matter in the “key audit matters section” needs to cover following aspects:
- a) Reference to related disclosures, if any, in the financial statements.
  - b) Explanation on the matter given by management.
  - c) How the matter was addressed in the audit.
  - d) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter.