

SA 705(Revised) - Modifications to the Opinion in the Independent Auditor's Report

Choose the correct option from the following:

1. The decision regarding the appropriateness of the type of modified opinion depends upon:
 - a) The nature of the matter giving rise to the modification - whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated
 - b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements
 - c) Both (a) and (b)
 - d) None of the above
2. Can a misstatement be considered to have a pervasive effect if the impact of misstatement is confined to specific elements, accounts or items of the financial statements representing a substantial proportion of the financial statements? For example, consider a situation when the misstatement is only in valuing inventory of a major raw material at cost instead of at net realisable value and when clear evidence is available that the fair value of the material was substantially lower than cost and the selling price of the finished product is pegged to current raw material prices, and the difference in valuation, if booked, could wipe out a substantial portion of the profit before tax of the entity.
 - a) Yes. If a material misstatement/possible misstatement pertains to an amount(s) in the financial statements and is confined to specific components, accounts or items of the financial statements, it is pervasive if it represents or could represent a substantial portion of the financial statements.
 - b) No. A material misstatement/possible misstatement is pervasive when it pertains to an amount(s) in the financial statements and is not confined to specific components, accounts or items of the financial statements.
3. Can the auditor express a modified opinion in case of inability to obtain sufficient appropriate audit evidence from circumstances beyond the control of the entity?
 - a) Yes. Limitation on scope of audit may arise from circumstances beyond the control of the entity, circumstances relating to the nature or timing of the auditor's work or limitations imposed by management
 - b) No. Circumstances beyond the control of the entity do not represent a limitation on scope of audit

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4. What is the appropriate nature of opinion in case 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) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
5. What is the appropriate nature of opinion in case 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?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
6. What is the appropriate nature of opinion in case 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?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
7. What is the appropriate nature of opinion in case 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?
 - a) Unmodified opinion
 - b) Qualified opinion
 - c) Adverse opinion
 - d) Disclaimer of opinion
8. While expressing a qualified opinion, which of the following phrases is appropriate to use.
 - a) 'Except for'
 - b) 'Subject to'
 - c) 'Read with the above'
 - d) Any of the above

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9. If an auditor concludes that his overall opinion on financial statements is either a disclaimer or adverse opinion, can the auditor give in the same report an unmodified opinion in respect of a single financial statement or specific account or element or item of a financial statement?
- a) Yes
 - b) No
10. One of the elements of the audit report on the financial statements as per SA 700(Revised) is the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. Should this statement be included in case of disclaimer of audit opinion:
- a) Yes, the statement should be included
 - b) The description should be amended to state that 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
 - c) No, the statement should not be included
 - d) Depends on the matter(s) giving rise to disclaimer of opinion
11. Material misstatement of the financial statements may arise in relation to:
- a) The appropriateness of the selected accounting policies
 - b) The application of the selected accounting policies
 - c) The appropriateness or adequacy of disclosures in the financial statements
 - d) All of the above
12. When the auditor disclaims an opinion on the financial statements, can Key Audit Matters be stated in the auditor's report of an entity for the audit of which SA 701 applies?
- a) Yes. Key Audit Matters should be reported in all cases including when the auditor disclaims an audit opinion
 - b) No. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report should not include Key Audit Matters
13. An auditor has disclaimed the audit opinion or has given an adverse opinion on overall financial statements. The auditor is aware of another matter that would have required a modification to the opinion. Shall the auditor describe and give effects of that other matter in the Basis for Opinion section?
- a) Yes
 - b) No

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14. If a modified opinion is expected, the communication by the auditor with those charged with governance should include:
- a) The circumstances that led to the expected modification
 - b) The wording of the modification.
 - c) Both (a) and (b)
 - d) Either of (a) or (b)
15. While reporting on the Consolidated Financial Statements, what is the responsibility of the principal auditor with respect to observations of component auditors?
- a) Principal auditor should mandatorily reproduce all the comments (Qualification/ Emphasis of Matter / Other Matter) of component auditors
 - b) Principal auditor should mandatorily reproduce all Qualifications of component auditors but is not required to reproduce Emphasis of Matter/ Other Matter of component auditors
 - c) Principal auditor is not required to consider the comments of component auditors
 - d) Principal auditor should consider the observations of component auditors as per the requirements of SA 600
16. What is the appropriate heading for the Opinion section, if the auditor modifies the audit opinion?
- a) 'Opinion'
 - b) 'Modified opinion'
 - c) 'Qualified Opinion', 'Adverse Opinion', or 'Disclaimer of Opinion', as appropriate
 - d) Either (a) or (b) above
17. The auditor has modified the opinion as a result of an inability to obtain sufficient appropriate audit evidence. Should the auditor include the reasons for that inability in the Basis for Opinion section?
- a) Yes
 - b) No
18. What should be the appropriate heading for the Basis for Opinion section, if the auditor modifies the audit opinion?
- a) 'Basis for Opinion'
 - b) 'Basis for Modified opinion'
 - c) 'Basis for Qualified Opinion', 'Basis for Adverse Opinion', or 'Basis for Disclaimer of Opinion', as appropriate
 - d) Either of option 2 or option 3 above

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19. In case of disclaimer of opinion on the financial statements, should the auditor include Other Information section in accordance with SA 720(Revised) in the auditor's report?
- a) Yes, Other Information section should be included in all cases including when the auditor disclaims an audit opinion
 - b) No, unless required by law or regulation
20. Material misstatement(s) or possible misstatement(s) would be considered to be pervasive, if in the auditor's judgment such material misstatement(s) or possible misstatement(s):
- a) Is not confined to specific elements, accounts or items of the financial statements
 - b) If so confined, represent or could represent a substantial proportion of the financial statements
 - c) In relation to disclosures, are fundamental to users' understanding of the financial statements
 - d) Any of the above

Choose all the correct options from the following:

21. What are the circumstances requiring modification of audit opinion?
- a) The auditor concludes that the financial statements as a whole are not free from material misstatement.
 - b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
 - c) The auditor concludes that the financial statements as a whole are free from material misstatement but 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.
 - d) The auditor concludes that the financial statements as a whole are free from material misstatement but considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit.