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AUASB Glossary

Issued by the **Auditing and Assurance Standards Board**

Draft

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Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of the AUASB Glossary

This Glossary is available on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing the *AUASB Glossary*

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act).

Under section 227B of the ASIC Act, the AUASB may formulate guidance on auditing and assurance matters. Accordingly, the AUASB issues the *AUASB Glossary* under its powers described in section 227B of that Act.

Main Features

The *AUASB Glossary* sets out terms defined or used in the AUASB Standards.

AUASB Standards means standards issued by the AUASB, comprising:

Description	Prefix
Standards made under the <i>Corporations Act 2001</i>	ASA ASRE ^(a) ASQC
Standards on review engagements	ASRE
Standards on auditing and assurance engagements	ASAE ASA ^(b) AUS ^(c)

^(a) Standard ASRE 2410 only

^(b) Standard ASA 805 only

^(c) Standards AUS 804, AUS 810 and AUS 904 only

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The source of terms that are defined or used in standards made by the AUASB under the *Corporations Act 2001* are denoted in the *AUASB Glossary* by the following symbols:

- (a) * Denotes a term defined or used in standards with prefix “ASA” (ASAs), other than Auditing Standard ASA 805, operative for financial reporting periods commencing on or after 1 January 2010;
- (b) † Denotes a term defined or used in ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, other Financial Information and Other Assurance Engagements*; and
- (c) Δ Denotes a term defined or used in ASRE 2410 *Reviews of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*.

The terms are defined in the context of the principal usage.

The *AUASB Glossary* does not itself establish mandatory requirements for the performance of audit, review, assurance or related service engagements. Accordingly, the AUASB has not issued the *AUASB Glossary* as an Auditing Standard for the purposes of the corporations legislation.

The AUASB intends to update the *AUASB Glossary* periodically.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates the *AUASB Glossary* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

Dated xxx 2009

M H Kelsall
Chairman - AUASB

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Access controls means procedures designed to restrict access to on-line terminal devices, programs and data. Access controls consist of “user authentication” and “user authorisation.” “User authentication” typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. “User authorisation” consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent or detect:

- (a) Unauthorised access to on-line terminal devices, programs and data;
- (b) Entry of unauthorised transactions;
- (c) Unauthorised changes to data files;
- (d) The use of computer programs by unauthorised personnel; and
- (e) The use of computer programs that have not been authorised.

**Accounting estimate* means an approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where ASA 540² addresses only accounting estimates involving measurement at fair value, the term *fair value accounting estimates* is used.

**Accounting records* means the records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial report that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

*Activity (in the context of ASAE 3500)*³ means an action or actions associated with a function or program, including administrative and internal control functions, that are integral to the operations of a business unit or an entity. The economy, efficiency or effectiveness of the activity is the subject matter of a performance engagement.

¹ In the case of public sector engagements, the terms in this Glossary should be read as referring to their public sector equivalents. Where accounting terms have not been defined in the pronouncements of the Auditing and Assurance Standards Board (AUASB), reference should be made to the Glossary of Terms published by the Australian Accounting Standards Board (AASB).

² See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

³ See ASAE 3500 *Performance Engagements*

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**Analytical procedures* means evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount.

Annual report means A document issued by an entity, ordinarily on an annual basis, which includes its financial report together with the auditor's report thereon.

**Anomaly* means a misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.

**Applicable financial reporting framework* means the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial report that is acceptable in view of the nature of the entity and the objective of the financial report, or that is required by law or regulation.

The term *fair presentation framework* means a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

The term *compliance framework* means a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above. (see *fair presentation framework*)

**Applied criteria (in the context of ASA 810⁴)* means the criteria applied by management in the preparation of the summary financial statements.

**Appropriateness (of audit evidence)* means the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

⁴ See ASA 810 *Engagements to Report on Summary Financial Statements*.

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**Arm's length transaction* means a transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.

**Assertions* means representations by management and those charged with governance, explicit or otherwise, that are embodied in the financial report, as used by the auditor to consider the different types of potential misstatements that may occur.

*Assertion-based engagement (in the context of ASAE 3100)*⁵ means a compliance engagement where an entity asserts compliance with requirements as measured by the suitable criteria, and the assurance practitioner evaluates and expresses a conclusion to enhance the intended user's confidence in the entity's assertion.

Assertion-based engagement (in the context of ASAE 3500) means a performance engagement where the assurance practitioner reports on assertions prepared by the responsible party regarding the economy, efficiency or effectiveness of the activity.

Assess means analyse identified risks of to conclude on their significance. "Assess," by convention, is used only in relation to risk. (also see *Evaluate*)

Association (see *Auditor association with financial information*)

*†*Assurance* (see *Reasonable assurance*)

†*Assurance engagement* means an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (see *Reasonable Assurance Engagement* and *Limited Assurance Engagement*).

Assurance engagement risk—The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

**Assurance practitioner* means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.

⁵ See ASAE 3100 *Compliance Engagements*.

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†AUASB Standards means standards issued by the AUASB, comprising:

Description	Prefix
Standards made under the <i>Corporations Act 2001</i>	ASA ASRE ^(a) ASQC
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Standards on auditing and assurance engagements	ASAE ASA ^(b) AUS ^(c)

^(a) Standard ASRE 2410 only

^(b) Standard ASA 805 only

^(c) Standards AUS 804, AUS 810 and AUS 904 only

**Audit documentation* means the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).

**Audit evidence* means information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial report and other information. (See *Sufficiency of audit evidence* and *Appropriateness of audit evidence*.)

**Audit file* means one or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.

*†*Audit firm* (see *Firm*)

**Audit opinion* (see *Modified opinion* and *Unmodified opinion*)

**Audit risk* means the risk that the auditor expresses an inappropriate audit opinion when the financial report is materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

**Audit sampling (sampling)* means the application of audit procedures to less than 100% of items within a population of audit relevance such that all

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sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

**Audited financial report (in the context of ASA 810)* means a financial report⁶ audited by the auditor in accordance with Australian Auditing Standards, and from which the summary financial statements are derived.

**Auditing Standard* means a single standard made by the AUASB under the *Corporations Act 2001*. (see *AUASB Standards* and *Australian Auditing Standards*)

**Auditor* means the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an Auditing Standard expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

Auditor association with financial information means an auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor’s name in a professional connection.

**Auditor’s expert* means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor’s expert may be either an auditor’s internal expert (who is a partner⁷ or staff, including temporary staff, of the auditor’s firm or a network firm), or an auditor’s external expert.

**Auditor’s point estimate or auditor’s range* means the amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate.

**Auditor’s range* (see *Auditor’s point estimate*)

**Australian Accounting Standards* means the Australian Accounting Standards issued by the Australian Accounting Standards Board.

⁶ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* paragraph Aus 13.1, defines the term “financial report.”

⁷ “Partner” and “firm” should be read as referring to their public sector equivalents where relevant.

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**Australian Auditing Standards* or *Auditing Standard(s)* means standards made by the AUASB under the *Corporations Act 2001*. (see *AUASB Standards* and *Auditing Standard*)

**Business risk* means a risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.

**Comparative financial report* means comparative information where amounts and other disclosures for the prior period are included for comparison with the financial report of the current period but, if audited, are referred to in the auditor's opinion. The level of information included in that comparative financial report is comparable with that of the financial report of the current period.

**Comparative information* means the amounts and disclosures included in the financial report in respect of one or more prior periods in accordance with the applicable financial reporting framework.

Compilation engagement means an engagement in which accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarise financial information.

**Complementary user entity controls* means controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.

Compliance (in context of ASAE 3100) means adherence by the entity to the requirements as measured by the suitable criteria

Compliance engagement (in context of ASAE 3100) means an assurance engagement in which an assurance practitioner expresses a conclusion, after evaluating an entity's compliance with the requirements as measured by the suitable criteria.

Compliance engagement risk (in context of ASAE 3100) means the risk that the assurance practitioner expresses an inappropriate conclusion when the entity is materially non compliant with the requirements as measured by the suitable criteria.

**Compliance framework* (see *Applicable financial reporting framework* and *General purpose framework*)

Compliance framework (in the context of ASAE 3100) means a framework used by the entity, which is designed to ensure that the entity achieves

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compliance, and includes governance structures, programs, processes, systems, controls and procedures.

**Component* means an entity or business activity for which group or component management prepares financial information that should be included in the group financial report.

**Component auditor* means an auditor who, at the request of the group engagement team, performs work on financial information related to a component for the group audit.

**Component management* means management, or those charged with governance, responsible for the preparation of the financial information of a component.

**Component materiality* means the materiality level for a component determined by the group engagement team.

Control activities means those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.

Control environment means includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment is a component of internal control.

**Control risk* (see *Risk of material misstatement*)

Corporate governance (see *Governance*)

**Corresponding figures* means comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial report, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as "current period figures"). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures. Corresponding figures are not presented as a financial report capable of standing alone.

Criteria (see *Suitable criteria (in the context of ASAE 3100)*)

Criteria (in the context of ASAE 3500) means reasonable and acceptable standards of performance against which the extent of economy, efficiency or effectiveness of an activity may be assessed.

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Suitable criteria (in the context of ASAE 3500) have the following characteristics:

- (a) *relevance*: relevant criteria contribute to conclusions that assist decision-making by the intended users;
- (b) *completeness*: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the performance engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure;
- (c) *reliability*: reliable criteria allow reasonably consistent evaluation or measurement of the activity, including when used in similar circumstances by similarly qualified assurance practitioners;
- (d) *neutrality*: neutral criteria contribute to conclusions that are free from bias; and
- (e) *understandability*: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

**Date of approval of the financial report* means the date on which all the statements that comprise the financial report have been prepared and those with the recognised authority have asserted that they have taken responsibility for that financial report.

†Date of report means the date selected by the practitioner to date the report.

**Date of the auditor's report* means the date the auditor dates the report on the financial report in accordance with ASA 700.⁸

**Date of the financial report* means the date of the end of the latest period covered by the financial report.

**Date the financial report is issued* means the date that the auditor's report and audited financial report are made available to third parties.

**Deficiency in internal control* means:

- (a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial report on a timely basis; or

⁸ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

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- (b) A control necessary to prevent, or detect and correct, misstatements in the financial report on a timely basis is missing.

**Detection risk* means the risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.

Direct reporting engagement (in the context of ASAE 3100) means a compliance engagement where the assurance practitioner directly evaluates an entity's compliance with requirements as measured by the suitable criteria and expresses a conclusion to the intended users in a compliance report.

Direct reporting engagement (in the context of ASAE 3500) means performance engagements where the assurance practitioner directly undertakes the evaluation or measurement of the activity to report on the economy, efficiency or effectiveness of the activity.

Economy[±] (in the context of ASAE 3500) means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost.

Efficiency[±] (in the context of ASAE 3500) means the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.

Effectiveness[±] (in the context of ASAE 3500) means the achievement of the objectives or other intended effects of activities at a program or entity level.

**Element (see Element of a financial statement)*

**Element of a financial statement (in the context of ASA 805⁹)* means an element, account or item of a financial statement.

**Emphasis of Matter paragraph* means a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

†Engagement documentation means the record of work performed, results obtained, and conclusions the practitioner reached (terms such as "working papers" or "workpapers" are sometimes used).

[±] This definition may have broader application in the public sector and should not be seen as limiting existing legislative arrangements or custom.

⁹ See ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

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Engagement letter means the written terms of an engagement in the form of a letter.

**Engagement partner*¹⁰ (in the context of ASA 220) means the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

†*Engagement partner*¹¹ (in the context of ASQC 1) means the partner or other person in the firm who is responsible for the assurance engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

**Engagement quality control review* (in the context of ASA 220) means a process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgements the engagement team made and the conclusions it reached in formulating the auditor's report. The engagement quality control review process is for audits of financial reports of listed entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.

†*Engagement quality control review* (in the context of ASQC 1) means a process designed to provide an objective evaluation, on or before the date of the report, of the significant judgements the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial reports of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

**Engagement quality control reviewer* (in the context of ASA 220) means a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the auditor's report.

†*Engagement quality control reviewer* (in the context of ASQC 1) means a partner, other person in the firm, suitably qualified external person, or a team made up of such individuals, none of whom is part of the engagement team, with sufficient and appropriate experience and authority to objectively

¹⁰ "Engagement partner", "partner", and "firm" should be read as referring to their public sector equivalents where relevant.

¹¹ "Engagement partner", "partner", and "firm" should be read as referring to their public sector equivalents where relevant.

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evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the report.

**Engagement team (in the context of ASA 220)* means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.¹²

†*Engagement team (in the context of ASQC 1)* means all partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm.¹³

Entity's risk assessment process means a component of internal control that is the entity's process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.

Environmental matters means

- (a) Initiatives to prevent, abate, or remedy damage to the environment, or to deal with conservation of renewable and non-renewable resources (such initiatives may be required by environmental laws and regulations or by contract, or they may be undertaken voluntarily);
- (b) Consequences of violating environmental laws and regulations;
- (c) Consequences of environmental damage done to others or to natural resources; and
- (d) Consequences of vicarious liability imposed by law (for example, liability for damages caused by previous owners).

Environmental performance report means a report, separate from the financial report, in which an entity provides third parties with qualitative information on the entity's commitments towards the environmental aspects of the business, its policies and targets in that field, its achievement in managing the relationship between its business processes and environmental risk, and quantitative information on its environmental performance.

Environmental risk means in certain circumstances, factors relevant to the assessment of inherent risk for the development of the overall audit plan may

¹² See ASA 620 *Using the Work of an Auditor's Expert* paragraph 6(a), defines the term "auditor's expert."

¹³ See ASA 620 *Using the Work of an Auditor's Expert* paragraph 6(a), defines the term "auditor's expert."

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include the risk of material misstatement of the financial report due to environmental matters.

Error means an unintentional misstatement in a financial report, including the omission of an amount or a disclosure.

**Estimation uncertainty* means the susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

Evaluate means identify and analyse the relevant issues, including performing further procedures as necessary, to come to a specific conclusion on a matter. "Evaluation," by convention, is used only in relation to a range of matters, including evidence, the results of procedures and the effectiveness of management's response to a risk. (also see *Assess*)

**Exception* means a response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

**Experienced auditor* means an individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:

- (a) Audit processes;
- (b) Auditing Standards and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Auditing and financial reporting issues relevant to the entity's industry.

**Expert* (see *Auditor's expert* and *Management's expert*)

**Expertise* means skills, knowledge and experience in a particular field.

**External confirmation* means audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.

**Fair presentation framework* (see *Applicable financial reporting framework* and *General purpose framework*)

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**Financial report* means a complete set of financial statements for the year ending and the half-year respectively, and the director's declaration about the statements and notes, as defined in the *Corporations Act 2001*^{14 15}

**Financial statements* means a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.

*†*Firm* means a sole practitioner, partnership or corporation or other entity of assurance practitioners. For the purposes of the *Corporations Act 2001*, a firm means an individual auditor, audit firm or audit company.

Forecast means prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

**Fraud* means an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

**Fraud risk factors* means events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Fraudulent financial reporting means involves intentional misstatements, including omissions of amounts or disclosures in a financial report, to deceive financial report users.

General IT-controls means policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data centre and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

**General purpose financial report* means a financial report prepared in accordance with a general purpose framework.

¹⁴ See section 295 and section 303 of the *Corporations Act 2001*.

¹⁵ Australian Accounting Standards (e.g. See AASB 101 *Presentation of Financial Statements*) use the term "financial statements", which ordinarily refers to a complete set of financial statements, consistent with ASA 200 paragraph 13(f).

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**General purpose framework* means a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term *fair presentation framework* is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial report, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial report. Such departures are expected to be necessary only in extremely rare circumstances.

The term *compliance framework* (in the context of financial reporting) is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.¹⁶

**Governance* means describes the role of person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

**Group* means all the components whose financial information is included in the group financial report. A group always has more than one component.

**Group audit* means the audit of a group financial report.

**Group audit opinion* means the audit opinion on the group financial report.

**Group engagement partner* means the partner or other person in the firm who is responsible for the group audit engagement and its performance, and for the auditor's report on the group financial report that is issued on behalf of the firm. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team.

**Group engagement team* means partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and

¹⁶ See ASA 200, paragraph 13(a).

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evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial report.

**Group financial report* means a financial report that includes the financial information of more than one component. The term “group financial report” also refers to combined financial reports aggregating the financial information prepared by components that have no parent but are under common control.

**Group management* means management, or those charged with governance, responsible for preparing and presenting the group financial report.

**Group-wide controls* means controls designed, implemented and maintained by group management over group financial reporting.

**Historical financial information* means information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

*Historical financial information, other than a financial report (in the context of ASRE 2405)*¹⁷ includes:

- (a) Specific components, elements, accounts or items of a financial report, such as:
 - (i) A single financial statement, for example, an income statement or balance sheet.
 - (ii) Accounts receivable.
 - (iii) Impairment of asset accounts.
 - (iv) Inventory.
 - (v) The liability for accrued benefits of a defined benefits plan.
 - (vi) The recorded value of identified intangible assets.
 - (vii) Pro-forma historical financial information and adjustments.
 - (viii) The liability for “incurred but not reported” claims in an insurance portfolio, including related explanatory notes.
- (b) Other information derived from financial records, such as:

¹⁷ See ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

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- (i) A schedule of externally managed assets and income of a private pension plan, including related explanatory notes.
 - (ii) A schedule of net tangible assets, including related explanatory notes.
 - (iii) A schedule of disbursements in relation to a leased property, including related explanatory notes
 - (iv) A schedule of profit participation or employee bonuses, including related explanatory notes.
- (c) Financial statements prepared in accordance with a financial reporting framework that is not designed to achieve fair presentation, such as condensed financial statements and an entity's internal management accounts

**Inconsistency* means other information that contradicts information contained in the audited financial report. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial report.

*Independence*¹⁸ requires:

- (a) Independence of mindthe state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearancethe avoidance of facts and circumstances that are so significant that a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, would reasonably conclude a firm's, or a member of the assurance team's, integrity, objectivity or professional scepticism had been compromised.

Information system relevant to financial reporting means a component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities and equity.

**Inherent risk* (see *Risk of material misstatement*)

¹⁸ As discussed in APES 110 *Code of Ethics for Professional Accountants*.

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**Initial audit engagement* means an engagement in which either:

- (a) The financial report for the prior period was not audited; or
- (b) The financial report for the prior period was audited by a predecessor auditor.

Enquiry means enquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

Inspection (as an audit procedure) means examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset.

**Inspection (in the context of ASA 220)* means in relation to completed audit engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

†Inspection (in the context of ASQC 1) means in relation to completed engagements, procedures designed to provide evidence of compliance by engagement teams with the firm's quality control policies and procedures.

Intended users (in the context of ASAE 3100) means the person, persons or class of persons for whom the assurance practitioner prepares the compliance report. The responsible party may be one of the intended users, but not the sole user.

Intended users (in the context of ASAE 3500) means the person, persons or class of persons for whom the assurance practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the sole user.

Interim financial information or report means financial information (which may be less than a financial report as defined above) issued at interim dates (usually half-yearly or **quarterly**) in respect of a financial period.

**Internal audit function* means an appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

**Internal auditors* means those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

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**Internal control* means the process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term "controls" refers to any aspects of one or more of the components of internal control.

**International Financial Reporting Standards* means the International Financial Reporting Standards issued by the International Accounting Standards Board.

**International Public Sector Accounting Standards (in the context of ASA 700)* means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

Investigate means enquire into matters arising from other procedures to resolve them.

IT environment means the policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it uses to support business operations and achieve business strategies.

†*Limited assurance engagement (in the context of ASQC 1 and ASAE 3000)*¹⁹ means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion. A limited assurance engagement is commonly referred to as a review.

Limited assurance engagement (in the context of ASAE 3100) means an assurance engagement where the assurance practitioner's objective is a reduction in compliance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion. A limited assurance engagement is commonly referred to as a review

*†*Listed entity* means an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body.

¹⁹ See ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

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**Management* means the person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

**Management bias* means a lack of neutrality by management in the preparation and presentation of information.

**Management's expert* means an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial report.

**Management's point estimate* means the amount selected by management for recognition or disclosure in the financial report as an accounting estimate.

Material (in the context of ASAE 3100) means:

- (a) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) breaches; instance(s) of non compliance that are significant, individually or collectively in the context of the entity's compliance with the requirements as measured by the suitable criteria and that affect the assurance practitioner's conclusion; and/or
- (b) in relation to the compliance framework and controls; instance(s) of deficiency that are significant in the context of the entity's control environment and that may raise the compliance engagement risk sufficiently to affect the assurance practitioner's conclusion

Materiality (in the context of ASA 3500) means variations of the measure or assertions from identified criteria for the evaluation or measurement of performance of the activity which, if omitted, misstated or not disclosed has the potential to adversely affect decisions about the economy, efficiency or effectiveness made by users or the discharge of accountability by the responsible party or the governing body of the entity.

Misappropriation of assets means Involves the theft of an entity's assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.

**Misstatement (in the context of ASA 200)* means a difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

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Where the auditor expresses an opinion on whether the financial report is presented fairly, in all material respects, or gives a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial report to be presented fairly, in all material respects, or to give a true and fair view.

**Misstatement (in the context of ASA 450)* means a difference between the amount, classification, presentation, or disclosure of a reported financial report item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the auditor expresses an opinion on whether the financial report gives a true and fair view, or is presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial report to be presented fairly, in all material respects, or to give a true and fair view.

**Misstatement of fact* means other information that is unrelated to matters appearing in the audited financial report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the audited financial report.

**Modified opinion* means a qualified opinion, an adverse opinion or a disclaimer of opinion.

**†Monitoring* means a process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with reasonable assurance that its system of quality control is operating effectively.

Monitoring of controls means a process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.

**Negative confirmation request* means a request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

**†Network* means a larger structure:

- (a) That is aimed at cooperation, and

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- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

*†*Network firm* means a firm or entity that belongs to a network.

**Non-compliance (in the context of ASA 250²⁰)* means acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

**Non-response* means a failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.

**Non-sampling risk* means the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.

Observation means consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities.

**Opening balances* means those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

**Other information* means financial and non-financial information (other than the financial report and the auditor's report thereon) which is included, either by law, regulation, or custom, in a document containing an audited financial report and the auditor's report thereon.

**Other Matter paragraph* means a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

²⁰ See ASA 250 *Consideration of Laws and Regulations in an Audit of a Financial Report*.

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**Outcome of an accounting estimate* means the actual monetary amount which results from the resolution of the underlying transaction(s), event(s) or condition(s) addressed by the accounting estimate.

Overall audit strategy means sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.

**†Partner* means any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Performance audit engagement means a performance engagement where the assurance practitioner provides reasonable assurance.

Performance engagement means a performance audit or a performance review of all or a part of the activities of an entity (or entities) to assess economy, efficiency or effectiveness. It includes a *performance audit engagement* or a *performance review engagement* directed to assess:

- (a) the adequacy of an internal control structure or specific internal controls, in particular those intended to safeguard assets and to ensure due regard for economy, efficiency or effectiveness;
- (b) the extent to which resources have been managed economically or efficiently; and
- (c) the extent to which activities have been effective.

The terms *performance audit* and *performance review* are predominantly applied in the public sector. In the private sector these audits and reviews are commonly referred to as *operational audits* and *operational reviews*.

Performance engagement risk means the risk that the assurance practitioner expresses an inappropriate conclusion when the performance of an activity is not materially economic, efficient or effective. This would arise where the assurance practitioner draws conclusions based on evidence that is not soundly based or that is improper or incomplete as a result of inadequacies in the evidence gathering process, misrepresentation or fraud.

Performance review engagement means a performance engagement where the assurance practitioner provides limited assurance.

**Performance materiality* means the amount or amounts set by the auditor at less than materiality for the financial report as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial report as a whole. If applicable, performance materiality also refers to the amount or

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amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

*†*Personnel* means partners and staff.

**Pervasive* means a term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:

- (a) Are not confined to specific elements, accounts or items of the financial report;
- (b) If so confined, represent or could represent a substantial proportion of the financial report; or
- (c) In relation to disclosures, are fundamental to users' understanding of the financial report.

**Population* means the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

**Positive confirmation request* means a request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.

Practitioner means a professional accountant in public practice.

**Preconditions for an audit* means the use by management of an acceptable financial reporting framework in the preparation of the financial report and the agreement of management and, where appropriate, those charged with governance to the premise²¹ on which an audit is conducted.

**Predecessor auditor* means the auditor from a different audit firm, who audited the financial report of an entity in the prior period and who has been replaced by the current auditor.

**Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted* means that management and, where appropriate, those charged with governance have the following responsibilities that are fundamental to the conduct of an audit in accordance with Australian Auditing Standards. That is, responsibility:

²¹ See ASA 200, paragraph 13.

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- (a) For the preparation and presentation of the financial report in accordance with the applicable financial reporting framework; this includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of a financial report that is free from material misstatement, whether due to fraud or error; and
- (b) To provide the auditor with:
 - (i) All information, such as records, documentation, and other matters that are relevant to the preparation of the financial report ;
 - (ii) Any additional information that the auditor may request from management and, where appropriate, those charged with governance; and
 - (iii) Unrestricted access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, the responsibility is for the preparation and fair presentation of the financial report in accordance with the financial reporting framework; or the preparation of a financial report that gives a true and fair view in accordance with the financial reporting framework. This applies to all references to “preparation and presentation of the financial report” in the Australian Auditing Standards.

The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”

**Professional judgement* means the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

**Professional scepticism (in the context of ASA 200)* means an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

Professional scepticism (in the context of ASAE 3100 and ASAE 3500) means the assurance practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents and responses

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to enquiries and other information obtained from management and the responsible party.

Projection means prospective financial information prepared on the basis of:

- (a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) A mixture of best-estimate and hypothetical assumptions.

Prospective financial information means financial information based on assumptions about events that may occur in the future and possible actions by an entity. It is highly subjective in nature and its preparation requires the exercise of considerable judgement. Prospective financial information can be in the form of a forecast, a projection or a combination of both for example a one year forecast plus a five year projection (see *Forecast* and *Projection*)

Public sector means national governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).

†*Reasonable assurance* means, , a high, but not absolute, level of assurance.

Reasonable assurance engagement (in the context of ASAE 3000) means an assurance engagement where the assurance practitioner's objective is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement²² as the basis for a positive form of expression of the assurance practitioner's conclusion.

Reasonable assurance engagement (in the context of ASAE 3100) means an assurance engagement where the assurance practitioner's objective is a reduction in compliance engagement risk to an acceptably low level in the circumstances of the compliance engagement as the basis for a positive form of expression of the assurance practitioner's conclusion.

Recalculation means checking the mathematical accuracy of documents or records.

²² Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

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**Related party* means a party that is either:

- (a) A related party as defined in the applicable financial reporting framework^{*}; or
- (b) Where the applicable financial reporting framework establishes minimal or no related party requirements:
 - (i) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - (ii) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - (iii) Another entity that is under common control with the reporting entity through having:
 - a. Common controlling ownership;
 - b. Owners who are close family members; or
 - c. Common key management.

However, entities that are under common control by a state (i.e., a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

**†Relevant ethical requirements* means ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of APES 110 *Code of Ethics for Professional Accountants*^ψ issued by the Accounting Professional and Ethical Standards Board (APESB), related to an audit of a financial report and an audit of other historical financial information.

Reperformance means the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

**Report on the description and design of controls at a service organisation (referred to in ASA 402²³ as a type 1 report)* means a report that comprises:

^{*} See also section 228 of the *Corporations Act 2001*.

^ψ As in force at the relevant time.

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- (a) A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and implemented as at a specified date; and
- (b) A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

**Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in ASA 402 as a type 2 report) means a report that comprises:*

- (a) A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and
- (b) A report by the service auditor with the objective of conveying reasonable assurance that includes:
 - (i) The service auditor's opinion on the description of the service organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and
 - (ii) A description of the service auditor's tests of the controls and the results thereof.

Responsible party (in the context of ASAE 3100) means the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the subject matter; or
- (a) In an assertion-based engagement, is responsible for the subject matter information (the assertion),.

The responsible party may or may not be the party who engages the practitioner (the engaging party).

²³ See ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.

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Responsible Party (in the context of ASAE 3500) means the person (or persons) who:

- (a) In a direct reporting engagement, is responsible for the activity; and
- (b) In an assertion-based engagement, is responsible for the assertions or information concerning the performance of the activity and may also be responsible for the activity itself.

Review (in relation to quality control) means appraising the quality of the work performed and conclusions reached by others.

Review engagement means the objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review procedures means the procedures deemed necessary to meet the objective of a review engagement, primarily enquiries of entity personnel and analytical procedures applied to financial data.

**Risk assessment procedures* means the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial report and assertion levels.

**Risk of material misstatement* means the risk that the financial report is materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

- (a) Inherent risk means the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- (b) Control risk means the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

**Sampling (see Audit sampling)*

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**Sampling risk* means the risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:

- (a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
- (b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

**Sampling unit* means the individual items constituting a population.

Scope of a review means the review procedures deemed necessary in the circumstances to achieve the objective of the review.

**Service auditor* means an auditor who, at the request of the service organisation, provides an assurance report on the controls of a service organisation.

**Service organisation* means a third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting.

**Service organisation's system* means the policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report.

Significance means the relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgement about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

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**Significant component* means a component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial report.

**Significant deficiency in internal control* means a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.

**Significant risk* means an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.

**Single financial statement or specific element of a financial statement (in the context of ASA 805)*²⁴ includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element.

Smaller entity means an entity which typically possesses qualitative characteristics such as:

- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
- (b) One or more of the following:
 - (i) Straightforward or uncomplicated transactions;
 - (ii) Simple record-keeping;
 - (iii) Few lines of business and few products within business lines;
 - (iv) Few internal controls;
 - (v) Few levels of management with responsibility for a broad range of controls; or
 - (vi) Few personnel, many having a wide range of duties.

²⁴ See ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

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These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

**Special purpose financial report* means a complete set of financial statements, including the related notes, and where applicable, directors' declaration (or a declaration by those responsible for the financial report) about the statements and notes, prepared in accordance with a special purpose framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework[#] determine what constitutes a complete set of financial statements in accordance with a special purpose framework.

**Special purpose framework* means a financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.²⁵

**†Staff* means professionals, other than partners, including any experts the firm employs.

**Statistical sampling* means an approach to sampling that has the following characteristics:

- (a) Random selection of the sample items; and
- (b) The use of probability theory to evaluate sample results, including measurement of sampling risk.

A sampling approach that does not have characteristics (a) and (b) is considered non-statistical sampling.

**Stratification* means the process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).

Subject matter information means the outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.

[#] See for example, the *Corporations Act 2001* or Australian Accounting Standards.

²⁵ See ASA 200, paragraph 13(a).

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**Subsequent events* means events occurring between the date of the financial report and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

**Subservice organisation* means a service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

**Substantive procedure* means an audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.

**Sufficiency (of audit evidence)* means the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence.

Suitable criteria (in the context of ASAE 3100) means the reasonable and acceptable standards of compliance which are subject to the compliance engagement. Suitable criteria have the following characteristics:

- (a) reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter, when used in similar circumstances by similarly qualified practitioners;
- (b) neutrality: neutral criteria contribute to conclusions that are free from bias;
- (c) understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations;
- (d) relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users; and
- (e) completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the assurance engagement circumstances are not omitted.

†*Suitably qualified external person (in the context of ASQC 1)* means an individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee

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(with appropriate experience) of a professional accountancy body[#] whose members may perform audits and reviews of historical financial information, or other assurance engagements, or of an organisation that provides relevant quality control services.

**Suitably qualified external person (in the context of ASA 220)*— means an individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of a professional accountancy body[#] whose members may perform audits of financial reports or audits of other historical financial information, or of an organisation that provides relevant quality control services.

**Summary financial statements (in the context of ASA 810)* means historical financial information that is derived from a financial report but that contains less detail than the financial report, while still providing a structured representation consistent with that provided by the financial report of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.²⁶ Different jurisdictions may use different terminology to describe such historical financial information.

Supplementary information means information that is presented together with the financial report that is not required by the applicable financial reporting framework used to prepare the financial report, normally presented in either supplementary schedules or as additional notes.

Test means the application of procedures to some or all items in a population.

**Tests of controls* means an audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

**Those charged with governance* means the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.²⁷

**Tolerable misstatement* means a monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance

[#] For example, Institute of Chartered Accountants in Australia, CPA Australia and the National Institute of Accountants.

²⁶ See ASA 200 paragraph 13(f).

²⁷ For discussion of the diversity of governance structures, see paragraphs A1-A8 of ASA 260 *Communication with Those Charged with Governance*.

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that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

**Total rate of deviation* means a rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Uncertainty means a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial report.

**Uncorrected misstatements* means misstatements that the auditor has accumulated during the audit and that have not been corrected.

**Unmodified opinion* means the opinion expressed by the auditor when the auditor concludes that the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework.²⁸

**User auditor* means an auditor who audits and reports on the financial reports of a user entity.

**User entity* means an entity that uses a service organisation and whose financial report is being audited.

Walk-through test means tracing a few transactions through the financial reporting system.

**Written representation* means a written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include the financial report, the assertions therein, or supporting books and records.

²⁸ See ASA 700, paragraphs 35-36, deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.