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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](http://www.auasb.gov.au).

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## CONTENTS

PREFACE

AUTHORITY STATEMENT

AUASB GLOSSARY

Draft

## 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.

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 source of terms in this Glossary is indicated beside each term, where applicable. Some terms are defined or used in several AUASB standards. Where no source is indicated, a term has been retained in the Glossary because it provides useful guidance to the auditor, although it may not be defined or used in the AUASB standards.

A term may have more than one definition and should be read in the context of the standard to which it applies. Such terms are notated with bracketed words indicating the relevant standard, for example, “(in the context of ASQC 1)”.

Where accounting terms have not been defined in the AUASB Standards, reference should be made to the *Glossary of Terms* published by the Australian Accounting Standards Board (AASB).

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 27 October 2009

M H Kelsall  
Chairman - AUASB

## AUASB Glossary

*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 540<sup>1</sup> addresses only accounting estimates involving measurement at fair value, the term *fair value accounting estimates* is used. ASA 540

*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. ASA 500

*Activity* (in the context of ASAE 3500<sup>2</sup>) 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. ASAE 3500

*Agreed-upon procedures engagement* means an engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results. AUS 904

*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 ASA 520

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<sup>1</sup> See ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

<sup>2</sup> See ASAE 3500 *Performance Engagements*

## AUASB Glossary

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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. ASA 530

*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. ASA 200

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*)

*Applicable financial reporting framework* (in the context of ASRE 2410<sup>3</sup>) means a financial reporting framework that is designed to achieve fair presentation. ASRE 2410

*Applied criteria* (in the context of ASA 810<sup>4</sup>) means the criteria applied by management in the preparation of the ASA 810

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<sup>3</sup> ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

## AUASB Glossary

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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. ASA 200  
ASA 500

*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. ASA 550

*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. ASA 315

*Assertion-based engagement (in the context of ASAE 3100<sup>5</sup>)* 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. ASAE 3100

*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. ASAE 3500

*Assess* means analyse identified risks 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 ASQC 1

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<sup>4</sup> See ASA 810 *Engagements to Report on Summary Financial Statements*.

<sup>5</sup> See ASAE 3100 *Compliance Engagements*.

## AUASB Glossary

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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* means 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, providing assurance services.

ASQC 1  
ASA 220

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

ASQC 1

- (a) *Auditing Standards*, which means auditing standards made under section 336 of the *Corporations Act 2001*, and include:
- (i) *ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information and Other Assurance Engagements*; and
  - (ii) *ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*;
- (b) *Australian Auditing Standards*, which means the suite of auditing standards issued by the AUASB, and include:
- *ASA 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
  - *ASA 810 Engagements to Report on Summary Financial Statements*.
- (c) Standards on Review Engagements; and
- (d) Standards on Assurance Engagements.

**AUASB Glossary**

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These standards are identified in the following table:

Description	Prefix
<p><i>Australian Auditing Standards</i>, comprising:</p> <p>(i) Auditing Standards made under section 336 of the <i>Corporations Act 2001</i>; and</p> <p>(ii) Auditing standards that are not made under the <i>Corporations Act 2001</i>.</p>	<p>ASA<sup>(a)</sup> ASQC ASRE<sup>(b)</sup>  ASA<sup>(c)</sup></p>
Standards on Review Engagements	ASRE <sup>(d)</sup>
Standards on Assurance Engagements	ASAE
<p><sup>(a)</sup> Other than ASA 805 and ASA 810.  <sup>(b)</sup> ASRE 2410 only.  <sup>(c)</sup> ASA 805 and ASA 810 only.  <sup>(d)</sup> Other than ASRE 2410.</p>	

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

ASA 230

*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*.)

ASA 200  
ASA 500

*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.

ASA 230

*Audit firm* (see *Firm*)

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

## AUASB Glossary

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<i>Audit risk</i> 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.	ASA 200
<i>Audit sampling (sampling)</i> means the application of audit procedures to less than 100% of items within a population of audit relevance such that all 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.	ASA 530
<i>Audited financial report</i> means a financial report or a complete set of financial statements audited by the auditor in accordance with Australian Auditing Standards, and from which the summary financial statements are derived.	ASA 810
<i>Auditor</i> 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.	ASA 200
<i>Auditor’s expert</i> 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 partner or staff, including temporary staff, of the auditor’s firm or a network firm), or an auditor’s external expert. “Partner” and “firm” should be read as referring to their public sector equivalents where relevant.	ASA 620
<i>Auditor’s point estimate or auditor’s range</i> means the amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate.	ASA 540
<i>Auditor’s range</i> (see <i>Auditor’s point estimate</i> )	
<i>Australian Accounting Standards</i> means the Australian Accounting Standards issued by the Australian Accounting	ASA 700 ASA 805

## AUASB Glossary

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Standards Board.

*Australian Auditing Standards* means the suite of auditing standards issued by the AUASB, and includes: ASA 101

- *ASA 805 Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
- *ASA 810 Engagements to Report on Summary Financial Statements*.

(see *AUASB Standards*)

*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. ASA 315

*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. ASA 710

*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. ASA 710

*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. ASA 402

## AUASB Glossary

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<b><i>Complete set of financial statements</i></b> means financial statements and related notes as determined by the requirements of the applicable financial reporting framework. For example, a complete set of financial statements as described in Accounting Standard AASB 101 <i>Presentation of Financial Statements</i> <sup>6</sup> includes:	ASA 200
(a) a statement of financial position as at the end of the period;	
(b) a statement of comprehensive income for the period;	
(c) a statement of changes in equity for the period;	
(d) a statement of cash flows for the period; and	
(e) notes, comprising a summary of significant accounting policies and other explanatory information	
<i>Compliance</i> means adherence by the entity to the requirements as measured by the suitable criteria.	ASAE 3100
<i>Compliance engagement</i> 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.	ASAE 3100
<i>Compliance engagement risk</i> 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.	ASAE 3100
<i>Compliance framework</i> (see <i>Applicable financial reporting framework</i> and <i>General purpose framework</i> )	ASA 200
<i>Compliance framework (in the context of ASAE 3100)</i> means a framework used by the entity, which is designed to ensure that the entity achieves compliance, and includes governance structures, programs, processes, systems, controls and procedures.	ASAE 3100
<i>Component</i> means an entity or business activity for which group or component management prepares financial information that should be included in the group financial	ASA 600

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<sup>6</sup> See AASB 101 *Presentation of Financial Statements*, paragraph 10.

## AUASB Glossary

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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. ASA 600

*Component management* means management, or those charged with governance, responsible for the preparation of the financial information of a component. ASA 600

*Component materiality* means the materiality level for a component determined by the group engagement team. ASA 600

*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 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. ASA 710

*Criteria* (see *Suitable criteria*)

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

*Suitable criteria* have the following characteristics: ASAE 3500

(a) *relevance*: relevant criteria contribute to conclusions that

## AUASB Glossary

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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, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for that financial report. ASA 560

*Date of report* means the date selected by the assurance practitioner to date the report. ASQC 1

*Date of the auditor's report* means the date the auditor dates the report on the financial report in accordance with ASA 700<sup>7</sup>. ASA 560

*Date of the financial report* means the date of the end of the latest period covered by the financial report. ASA 560

*Date the financial report is issued* means the date that the auditor's report and audited financial report are made available to third parties. ASA 560

*Deficiency in internal control* means: ASA 265

- (a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct,

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<sup>7</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

## AUASB Glossary

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misstatements in the financial report on a timely basis; or

- (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. ASA 200

*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. ASAE 3100

*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. ASAE 3500

*Economy*<sup>8</sup> means the acquisition of the appropriate quality and quantity of resources at the appropriate times and at the lowest cost. ASAE 3500

*Efficiency*<sup>8</sup> 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. ASAE 3500

*Effectiveness*<sup>8</sup> means the achievement of the objectives or other intended effects of activities at a program or entity level. ASAE 3500

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

*Element of a financial statement* means an element, account or item of a financial statement. ASA 805

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<sup>8</sup> This definition may have broader application in the public sector and should not be seen as limiting existing legislative arrangements or custom.

## AUASB Glossary

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*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. ASA 706

*Engagement documentation* means the record of work performed, relevant evidence obtained, and conclusions the assurance practitioner reached (terms such as "working papers" or "work papers" are sometimes used). ASQC 1

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

*Engagement partner* (in the context of ASA 220<sup>9</sup>) 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" should be read as referring to a public sector equivalent where relevant. ASA 220

*Engagement partner* (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 partner" should be read as referring to a public sector equivalent where relevant. ASQC 1

*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. ASA 220

*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 ASQC 1

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<sup>9</sup> See ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.

## AUASB Glossary

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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. ASA 220

*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 evaluate the significant judgements the engagement team made and the conclusions it reached in formulating the report. ASQC 1

*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.<sup>10</sup> ASA 220

*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.<sup>10</sup> ASQC 1

*Enquiry* means seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. ASA 500

*Entity's risk assessment process* means a component of internal control that is the entity's process for identifying

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<sup>10</sup> See ASA 620 *Using the Work of an Auditor's Expert* paragraph 6(a).

## AUASB Glossary

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business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.

*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. ASA 540

*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. ASA 505

*Experienced auditor* means an individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of: ASA 230

- (a) Audit processes;
- (b) Australian 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. ASA 620

*External confirmation* means audit evidence obtained as a direct written response to the auditor from a third party (the ASA 505

## AUASB Glossary

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confirming party), in paper form, or by electronic or other medium.

*Fair presentation framework* (see *Applicable financial reporting framework* and *General purpose framework*) ASA 200

*Financial report* means, for the purposes of the *Corporations Act 2001*, financial statements for the year ending or the half-year respectively, and notes to the financial statements, and the director's declaration about the statements and notes.<sup>11</sup> ASA 200  
ASA 700

*Financial report* means, for purposes other than the *Corporations Act 2001*, a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report.

*Financial statement* means a structured representation of historical financial information, 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. What constitutes a financial statement is determined by the requirements of the applicable financial reporting framework. ASA 200

*Firm* means a sole practitioner, partnership or corporation or other entity of assurance practitioners. "Firm" should be read as referring to a public sector equivalent where relevant. ASQC 1  
ASA 220

*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). AUS 804

*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. ASA 240

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<sup>11</sup> See section 295 and section 303 of the *Corporations Act 2001*.

## AUASB Glossary

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*Fraud risk factors* means events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. ASA 240

*Fraudulent financial reporting* means financial reporting involving intentional misstatements, including omissions of amounts or disclosures in a financial report, to deceive financial report users. ASA 240

*General purpose financial report* means a financial report prepared in accordance with a general purpose framework. ASA 700

*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. ASA 700

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.<sup>12</sup>

*Governance* means 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.

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<sup>12</sup> See ASA 200, paragraph 13(a).

## AUASB Glossary

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<i>Group</i> means all the components whose financial information is included in the group financial report. A group always has more than one component.	ASA 600
<i>Group audit</i> means the audit of a group financial report.	ASA 600
<i>Group audit opinion</i> means the audit opinion on the group financial report.	ASA 600
<i>Group engagement partner</i> 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.	ASA 600
<i>Group engagement team</i> 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 evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial report.	ASA 600
<i>Group financial report</i> 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.	ASA 600
<i>Group management</i> means management, or those charged with governance, responsible for the preparation of the group financial report.	ASA 600
<i>Group-wide controls</i> means controls designed, implemented and maintained by group management over group financial reporting.	ASA 600
<i>Historical financial information</i> 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	ASA 200

past.

*Historical financial information, other than a financial report (in the context of ASRE 2405)*<sup>13</sup> includes:

ASAE 2405

- (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:
  - (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

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<sup>13</sup> See ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

## AUASB Glossary

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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.

ASA 720

*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*)

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

ASA 510

- (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.

*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.

ASA 500

*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.

ASQC 1

*Intended users* (in the context of ASAE 3100) means the person, persons or class of persons for whom the assurance

ASAE 3100

## AUASB Glossary

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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. ASAE 3500

*Interim financial report* means a financial report that is prepared in accordance with an applicable financial reporting framework<sup>14</sup> for a period that is shorter than the entity's financial year. ASRE 2410

*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. ASA 610

*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. ASA 610

*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. ASA 315

*International Financial Reporting Standards* means the International Financial Reporting Standards issued by the International Accounting Standards Board. ASA 700

*International Public Sector Accounting Standards* means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board. ASA 700

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

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<sup>14</sup> For example, Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

## AUASB Glossary

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<i>Limited assurance engagement</i> 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.	ASQC 1
<i>Listed entity</i> 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.	ASQC 1 ASA 220
<i>Management</i> 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.	ASA 200 ASA 260
<i>Management bias</i> means a lack of neutrality by management in the preparation of information.	ASA 540
<i>Management's expert</i> 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.	ASA 500 ASA 620
<i>Management's point estimate</i> means the amount selected by management for recognition or disclosure in the financial report as an accounting estimate.	ASA 540
<i>Materiality</i> means, in relation to information, that information if omitted, misstated or not disclosed has the potential to affect the economic decisions of users of the financial report or the discharge of accountability by management or those charged with governance.	
<i>Misappropriation of assets</i> means 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.	ASA 240

Re-instated and updated definition of *materiality*, based on current AASB Glossary and AUASB Glossary.

## AUASB Glossary

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<p><i>Misstatement</i> 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.</p>	ASA 200 ASA 450
<p>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.</p>	
<p><i>Misstatement of fact</i> 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.</p>	ASA 720
<p><i>Modified opinion</i> means a qualified opinion, an adverse opinion or a disclaimer of opinion.</p>	ASA 705
<p><i>Monitoring</i> 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.</p>	ASQC 1 ASA 220
<p><i>Monitoring of controls</i> 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.</p>	
<p><i>Negative confirmation request</i> 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.</p>	ASA 505
<p><i>Network</i> means a larger structure:</p>	ASQC 1 ASA 220

## AUASB Glossary

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- (a) That is aimed at cooperation, and
- (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. ASQC 1  
ASA 220

*Non-compliance* 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. ASA 250

*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. ASA 505

*Non-sampling risk* means the risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk. ASA 530

*Observation* means 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. ASA 500

*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. ASA 510

*Other financial information* means historical financial information and other than historical financial information ASQC 1

## AUASB Glossary

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(for example prospective financial information)

*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. ASA 720

*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. ASA 706

*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. ASA 540

*Overall audit strategy* means the strategy that sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan. ASA 300

*Partner* (in the context of ASQC 1) means any individual with authority to bind the firm with respect to the performance of an audit, review or other assurance engagement. "Partner" should be read as referring to a public sector equivalent where relevant. ASQC 1

*Partner* (in the context of ASA 220) means any individual with authority to bind the firm with respect to the performance of an audit of a financial report or historical financial information. "Partner" should be read as referring to a public sector equivalent where relevant. ASA 220

*Performance audit engagement* means a performance engagement where the assurance practitioner provides reasonable assurance. ASAE 3500

*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

## AUASB Glossary

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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.

ASAE 3500

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

ASA 320

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

ASA 320

*Personnel* means partners and staff.

ASQC 1  
ASA 220

*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

ASA 705

## AUASB Glossary

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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. ASA 530

*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. ASA 505

*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 premise<sup>15</sup> on which an audit is conducted. ASA 210

*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. ASA 510

*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 acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with Australian Auditing Standards. That is, responsibility: ASA 200

- (a) For the preparation of the financial report in accordance with the applicable financial reporting framework; including where relevant their fair presentation;

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<sup>15</sup> See ASA 200, paragraph 13.

## AUASB Glossary

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- (b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error, and
- (c) To provide the auditor with:
  - (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial report such as record, documentation and other matters;
  - (ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance, for the purposes of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, (i) above may be restated as “for the preparation and *fair* presentation of the financial report in accordance with the financial reporting framework”, or “for the preparation of the financial report *that gives a true and fair view* in accordance with the financial reporting framework”.

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.

ASA 200

*Professional scepticism* 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.

ASA 200

## AUASB Glossary

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*Projection* means prospective financial information prepared on the basis of: AUS 804

- (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*) AUS 804

*Reasonable assurance* means, a high, but not absolute, level of assurance. ASQC 1  
ASA 200  
ASAE 3000  
ASAE 3100

*Reasonable assurance engagement* 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 engagement<sup>16</sup> 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. ASA 500

*Related party* means a party that is either: ASA 550

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<sup>16</sup> 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.

## AUASB Glossary

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- (a) A related party as defined in the applicable financial reporting framework<sup>17</sup>; 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 (that is, 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.

*Related services* means agreed-upon procedures and compilations.

*Relevant ethical requirements* means ethical requirements as described in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

ASQC 1  
ASA 220

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

ASA 500

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<sup>17</sup> See also section 228 of the *Corporations Act 2001*.

## AUASB Glossary

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*Report on the description and design of controls at a service organisation* (referred to in ASA 402 as a type 1 report) means a report that comprises:

ASA 402

- (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:

ASA 402

- (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:

ASAE 3100

- (a) In a direct reporting engagement, is responsible for the subject matter; or

## AUASB Glossary

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- (b) 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).

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

- (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 engagement* means an engagement, the objective of which 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 does not present fairly, or if applicable, is not true and fair, in all material respects, in accordance with the 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. ASRE 2410

*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. ASA 315

*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: ASA 200

- (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,

## AUASB Glossary

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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*)

ASA 530

*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:

ASA 530

- (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.

ASA 530

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

ASA 402

*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

ASA 402

## AUASB Glossary

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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. ASA 402

*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.

*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. ASA 600

*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. ASA 265

*Significant risk* means an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration. ASA 315

*Single financial statement or specific element of a financial statement* 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. ASA 805

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

- (a) Concentration of ownership and management in a small

## AUASB Glossary

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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.

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 an assertion statement by those responsible for the financial report, 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 the format and content of a financial report prepared in accordance with a special purpose framework.

ASA 800

*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.<sup>18</sup>

ASA 800

*Staff* means professionals, other than partners, including any

ASQC 1

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<sup>18</sup> See ASA 200, paragraph 13(a).

## AUASB Glossary

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experts the firm employs.	ASA 220
<i>Statistical sampling</i> means an approach to sampling that has the following characteristics:	ASA 530
(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.	
<i>Stratification</i> 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).	ASA 530
<i>Subject matter information</i> 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.	ASAE 3100
<i>Subsequent events</i> 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.	ASA 560
<i>Subservice organisation</i> 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.	ASA 402
<i>Substantive procedure</i> means an audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:	ASA 330
(a) Tests of details (of classes of transactions, account balances, and disclosures); and	
(b) Substantive analytical procedures.	
<i>Sufficiency (of audit evidence)</i> means the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of	ASA 200 ASA 500

## AUASB Glossary

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the risks of material misstatement and also by the quality of such audit evidence.

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

- (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 (with appropriate experience) of either a professional accountancy body whose members may perform audits and reviews of financial reports, or audits and reviews of other financial information, or other assurance engagements, or of an organisation that provides relevant quality control services. ASQC 1

*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 ASA 220

## AUASB Glossary

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organisation that provides relevant quality control services.

*Summary financial statements* means historical financial information that is derived from a financial report, or a complete set of financial statements, but that contains less detail than the financial report, or a complete set of financial statements, while still providing a structured representation consistent with that provided by the financial report, or a complete set of financial statements, of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.<sup>19</sup> Summary financial statements may include an assertion by those responsible for the summary financial statements. Different jurisdictions may use different terminology to describe such historical financial information. ASA 810

*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. ASA 530

*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. ASA 330

*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.<sup>20</sup> ASA 200  
ASA 260

*Tolerable misstatement* means a monetary amount set by the auditor in respect of which the auditor seeks to obtain an ASA 530

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<sup>19</sup> See ASA 200, paragraph 13(f).

<sup>20</sup> See ASA 260 *Communication with Those Charged with Governance* paragraphs A1-A8 for discussion of the diversity of governance structures.

## AUASB Glossary

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appropriate level of assurance 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. ASA 530

*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. ASA 570

*Uncorrected misstatements* means misstatements that the auditor has accumulated during the audit and that have not been corrected. ASA 450

*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.<sup>21</sup> ASA 700

*User auditor* means an auditor who audits and reports on the financial reports of a user entity. ASA 402

*User entity* means an entity that uses a service organisation and whose financial report is being audited. ASA 402

*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. ASA 580

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<sup>21</sup> 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.