Auditing and Assurance Standard **AUS 104**

(July 2002)

GLOSSARY OF TERMS

AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION

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Australian Accounting Research Foundation on behalf of
CPA Australia and **The Institute of Chartered Accountants in Australia**

The Australian Accounting Research Foundation was established by CPA Australia and The Institute of Chartered Accountants in Australia, and undertakes a range of technical and research activities on behalf of the accounting profession as a whole. A major responsibility of the Foundation is the development of Australian Auditing and Assurance Standards and Statements.

Auditing and Assurance Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 ”Conformity with Auditing Standards”.

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Access controls - 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.

Accountability matter - A matter for which the governing body/management of an entity:

(a) is responsible; and

(b) is obliged to report on, and/or be subject to an examination on, pursuant to an accountability relationship between two or more parties internal or external to the entity. That obligation may arise either explicitly as a result of an agreement or legislation, or implicitly because another party can be reasonably expected to have an interest in how the governing body/management has discharged its responsibility.

Accounting Bodies - CPA Australia and The Institute of Chartered Accountants in Australia.

Accounting estimate - An approximation of the amount of an item in the absence of a precise means of measurement.

Accounting Standards - For the purpose of AUSs the definition of Accounting Standards means:

(a) Australian Accounting Standards; or

(b) for entities required by legislation, ministerial directive or other government authority to comply with AASB Accounting Standards:

 (i) AASB Accounting Standards; and

(ii) Australian Accounting Standards for which there is no corresponding AASB Accounting Standard in relation to the reporting period to which the financial report relates.

Accounting system - (see Information system).

Actuary - An individual who is a Fellow of the Institute of Actuaries of Australia or an Accredited Member of that Institute.

Adverse opinion - (see Opinion).

Agreed-upon procedures engagement - A service where the auditor's objective is to issue a report of factual findings to those parties that have agreed to the procedures to be performed, in which no conclusion is communicated and therefore no assurance is expressed, but which provides the user with information to meet a particular need, and from which the user can draw conclusions and derive assurance as a result of the auditor's procedures.

Analytical procedures - The investigation and analysis of fluctuations and relationships to determine whether there are inconsistencies with other relevant information or deviations from predicted amounts.

Annual report - An entity ordinarily issues on an annual basis a document in which it includes its audited financial report together with the audit report thereon. This document is frequently referred to as the "annual report".

Application controls in computer information systems - Specific controls over the accounting applications to provide reasonable assurance that transactions are authorised and recorded, and are processed completely, accurately and on a timely basis.

Appropriateness of audit evidence - The measure of the quality of audit evidence, its relevance to particular assertions, and its reliability.

Assertions - (see Financial report assertions).

Assistants - Personnel involved in an individual audit other than the auditor, and includes an expert employed by the auditor.

Assurance - The satisfaction as to the reliability of information provided. The degree of satisfaction achieved is determined by the nature and extent of procedures performed by the auditor, the results of the procedures and the objectivity of the evidence obtained.

- *Reasonable assurance* - A high but not absolute level of assurance on an accountability matter is expressed as reasonable assurance in recognition of the fact that absolute assurance is rarely attainable due to such factors as the need for judgement, the use of testing, the inherent limitations on internal control and the fact that much of the evidence available to the auditor is persuasive rather than conclusive in nature. The concept relates to the accumulation of audit evidence necessary for the auditor to conclude whether there are any material misstatements in the subject matter taken as a whole. Reasonable assurance relates to the whole audit process. Reasonable in any given situation will depend on the facts of that situation and is determined by what evidence could reasonably be expected to be gathered and what conclusions could reasonably be expected to be drawn in the particular situation.

- *Negative assurance* - A moderate level of assurance, being a lower level of assurance than that provided in an audit. The auditor states whether anything has come to the auditor's attention that the information is not presented fairly in accordance with identified criteria.

Attendance - Attendance consists of being present during all or part of a process being performed by others; for example, attending physical inventory taking will enable the auditor to inspect inventory, to observe compliance of management's procedures to count quantities and record such counts and to test-count quantities.

Attest audit - (see Audit).

Attest review - (see Review engagement).

Audit - An audit is a service where the auditor's objective is to provide a high level of assurance through:

(a) the issue of a positive expression of an opinion that enhances the credibility of a written assertion(s) about an accountability matter ("attest audit"); or

(b) the provision of relevant and reliable information and a positive expression of opinion about an accountability matter where the party responsible for the matter does not make a written assertion(s) ("direct reporting audit").

Audit and audit related services - The range of engagements that:

(a) involve a systematic examination for which audit-based skills, which includes such skills as analysis of financial information, knowledge of internal control structures, problem solving, risk assessment, sample selection, knowledge of accounting standards and other aspects of reporting, are required;

(b) can be applied to an accountability matter that is capable of evaluation against reasonable criteria; and

(c) result in an independent, written report that provides assurance or information from which the user can derive assurance.

Audit evidence - The information obtained by the auditor in arriving at the conclusions on which the audit opinion is based. Audit evidence will comprise source documents and accounting records underlying the financial report, and corroborating information from other sources.

Audit firm - Either the partners of a firm providing audit services or a sole practitioner providing audit services, as appropriate.

Audit opinion - (see Opinion).

Audit plan - A description of the expected scope and conduct of the audit with sufficient detail to guide the development of the audit program.

Audit program - Sets out the nature, timing, and extent of planned audit procedures required to implement the overall audit plan. The audit program serves as a set of instructions to assistants involved in the audit, and as a means to control and record the proper execution of the work.

Audit report - A report issued by the auditor that expresses a high level of assurance about an accountability matter that is capable of evaluation against an identified framework.

Audit risk - The risk that the auditor gives an inappropriate audit opinion when the financial report is materially misstated. Audit risk has three components: inherent risk, control risk and detection risk.

Audit sampling (sampling) - Audit sampling (sampling) involves the application of audit procedures to less than 100% of items within an account balance or class of transactions such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can use either a statistical or non-statistical approach.

Auditor - The person with final responsibility for the audit or audit related service engagement. The term "auditor" is used throughout the AUSs. Such reference is not intended to imply that a person performing an audit or audit related service need necessarily be the auditor of the entity, nor that the service being provided is an audit. The term is used to indicate that the work is required to be performed by persons who have adequate training, experience and competence in auditing.

- *Continuing auditor* - The auditor who audited and reported on the prior period and continues as the auditor for the current period.

- *External auditor* - An auditor independent from the entity, appointed to express an opinion on an accountability matter. Where appropriate the terms 'external auditor' and 'external audit' are used to distinguish the external auditor from an internal auditor and to distinguish the external audit from the activities of internal auditing.

- *Incoming auditor* - The auditor who is appointed to replace the outgoing auditor.

- *Other auditor* - The auditor other than the principal auditor, with responsibility for reporting on the financial information of a component which is included in the financial report audited by the principal auditor. Other auditors include affiliated firms, whether using the same name or not, and correspondents, as well as unrelated auditors.

- *Outgoing auditor* - For the purpose of AGS 1004 an outgoing auditor is an auditor who resigns, is removed or retires pursuant to Sections 329 and 327(15) of the *Corporations Act 2001.*

- *Predecessor auditor* - The auditor who was previously the auditor of an entity and who has been replaced by another auditor.

- *Principal auditor* - The principal auditor is the auditor with responsibility for reporting on the financial report of an entity when that financial report includes financial information of one or more components audited by another auditor.

Back-up - Plans made by the entity to obtain access to comparable hardware, software and data in the event of their failure, loss or destruction.

Comparatives - The corresponding amounts and other disclosures for the preceding financial reporting period, or periods presented for comparative purposes as part of the current period's financial report.

Compilation engagement - In a compilation engagement, the accountant is engaged to use accounting expertise as opposed to auditing expertise to collect, classify and/or summarise financial information.

Component - Component is a division, branch, subsidiary, joint venture, associated company or other entity whose financial information is included in the financial report audited by the principal auditor.

Computation - Checking the arithmetical accuracy of source documents and accounting records, or performing independent calculations.

Computer information systems environment (CIS) - Exists when a computer of any type or size is involved in the processing by an entity of financial information of significance to the audit, whether that computer is operated by the entity or a third party.

Conclusive evidence - Decisive, convincing evidence.

Confirmation - The response to an inquiry to corroborate information contained in the accounting record.

Contingent liabilities - For the purpose of AUSs the definition of contingent liabilities adopted is as given in Accounting Standard AASB 1044 “Provisions, Contingent Liabilities and Contingent Assets”.

Continuing auditor - (see Auditor).

Control environment - The overall attitude, awareness and actions of management regarding internal control and its importance in the entity.

Control procedures - Those policies and procedures in addition to the control environment that management has established to ensure, as far as possible, that specific entity objectives will be achieved.

Control risk - The risk that misstatements that could occur in an account balance or class of transactions and that could be material, individually or when aggregated with the misstatements in other balances or classes, will not be prevented or detected on a timely basis by the internal control structure.

Covenant - An agreement, a contract.

Database - (See Database systems).

Database systems - Principally comprised of two components: the database and the database management system (DBMS).

(a) *Database* - A collection of data that is shared and used by many users for different purposes. Each user may not necessarily be aware of all the data stored in the database or of the ways that the data may be used for multiple purposes. Generally, individual users are aware only of the data that they use and may view the data as computer files utilised by their applications.

(b) *Database management system* - The software that is used to create, maintain and operate the database. Together with the operating system, the DBMS facilitates the physical storage of the data, maintains the interrelationships among the data, and makes the data available to application programs.

Database management system - (see Database systems).

Detection risk - The risk that an auditor’s substantive procedures will not detect a material misstatement that exists in an account balance or class of transactions that could be material, individually or when aggregated with misstatements in other balances or classes.

Direct reporting audit - (see Audit).

Direct reporting review - (see Review engagement).

Documentation - The material (working papers) prepared by, and for, or obtained and retained by the auditor in connection with the performance of the audit.

Electronic Data Interchange (EDI) - The electronic transmission of documents between or within organisations in a machine-readable form.

Emphasis of matter - Section of an auditor’s report that draws attention to or highlights a matter that is relevant to the users of the audit report but it is not of such a nature that it affects the audit opinion. An emphasis of matter section may only be used in certain limited circumstances.

Encryption (cryptography) - The process of transforming programs and information into a form that cannot be understood without access to specific decoding algorithms (cryptographic keys). For example, the confidential personal data in a payroll system may be encrypted against unauthorised disclosure or modification. Encryption can provide an effective control for protecting confidential or sensitive programs and information from unauthorised access or modification. However, effective security depends upon proper controls over access to the cryptographic keys.

Engagement letter - A letter that documents and confirms the auditor’s acceptance of the appointment, the objective and scope of the audit, the extent of the auditor’s responsibilities to the entity and the form of any reports.

Environmental matters - Environmental matters are defined as:

(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).

Error - An unintentional misstatement in financial reports, including the omission of an amount or a disclosure, such as:

(a) a mistake in gathering or processing data from which the financial report is prepared;

(b) an incorrect accounting estimate arising from oversight or misinterpretation of facts; and

(c) a mistake in the application of accounting principles relating to measurement, recognition, classification, presentation, or disclosure.

"Except for" opinion - (see Opinion).

Expert - A person or firm possessing special skill, knowledge and experience in a particular field other than accounting and auditing.

External auditor - (see Auditor).

External confirmation - External confirmation is the process of obtaining and evaluating audit evidence through a direct communication from a third party in a response to a request for information about a particular item affecting assertions made by management in the financial report.

External professional manager - For the purpose of AUS 522 an external professional manager is an entity appointed by the fund trustees, pursuant to an agreement, to manage certain assets of a fund.

Financial report - ither a general purpose financial report or special purpose financial report as defined in Miscellaneous Professional Statement APS 1

"Conformity with Accounting Standards and UIG Consensus Views". For entities subject to the *Corporations Act 2001*, sections 295 and 302 of that Act give a specific meaning to the term.

Financial report assertions - Assertions made by management, explicit or otherwise, that are embodied in the financial report. They can be categorised as follows:

(a) *existence* - an asset or a liability exists at a given date;

(b) *rights and obligation* - an asset or liability pertains to the entity at a given date;

(c) *occurrence* - a transaction or other event took place which pertains to the entity during the relevant period;

(d) *completeness* - there are no unrecorded assets, liabilities, transactions or other events, or undisclosed items;

(e) *valuation* - an asset or liability is recorded at an appropriate carrying value;

(f) *measurement* - a transaction or other event is recorded at the proper amount and revenue or expense is allocated to the proper period; and

(g) *disclosure* - an item is disclosed, classified, and described in accordance with the applicable financial reporting framework.

Forecast - 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 - 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. There are 2 types of intentional misstatements:

(a) fraudulent financial reporting – involves intentional misstatements or omissions of amounts or disclosures in the financial report to deceive financial report users; and

(b) misappropriation of assets – involves the theft of an entity's assets.

Fund - For the purpose of AUS 522, an entity, often a superannuation, provident or similar fund, that has material assets managed by an external professional manager.

Fund auditor - For the purpose of AUS 522, the fund auditor is the external auditor engaged to report on the financial report of a fund.

General controls in computer information systems - Manual and computer controls affecting the overall computer information system, to provide a reasonable level of assurance that the overall objectives of internal control are achieved.

General purpose financial report - A financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs.

Going concern basis - The accounting basis whereby in the preparation of the financial report the reporting entity is viewed as a going concern, that is, the entity is expected to:

(a) be able to pay its debts as and when they fall due; and

(b) continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

Governance - The term 'governance' describes the role of persons entrusted with the supervision, control and direction of an entity. Those charged with governance ordinarily are accountable for ensuring that the entity achieves its objectives, financial reporting, and reporting to interested parties.

Governing body - An entity's board of directors, trustees or governors, or other equivalent body or person.

Incoming auditor - (see Auditor).

Inability to form an opinion - (see Opinion).

Information system - The methods and records established to identify, assemble, analyse, calculate, classify, record and report the transaction and other events that affect an entity, and to maintain accountability for assets, liabilities, revenues and expenditures.

Inherent risk - A component of audit risk relating to the susceptibility of an account balance or class of transactions to misstatement that could be material, individually or when aggregated with misstatements in other balances or classes, assuming there were no related internal controls.

Inherent uncertainty - The potential for a matter to affect the financial report that is not so remote as to make its disclosure irrelevant, however, at the date of signing the audit report the outcome is contingent upon future events and is not capable of reasonable measurement.

Inquiry - Audit evidence gathering technique which seeks appropriate information of knowledgeable persons inside or outside the entity. Inquiries range from written inquiries addressed to third parties, to informal oral inquiries addressed to persons inside the entity.

Inspection - Audit evidence gathering technique which consists of examining records, documents, or tangible assets.

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

Internal auditing - An appraisal activity established within an entity as a service to the entity. It is independent within the entity and its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of the internal control structure. From the perspective of the external auditor, internal auditing is a component of the control environment.

Internal control structure/ Internal controls - The dynamic, integrated processes, effected by the governing body, management and all other staff, that are designed to provide reasonable assurance regarding the achievement of the following general objectives:

(a) effectiveness, efficiency and economy of operations;

(b) reliability of management and financial reporting; and

(c) compliance with applicable laws and regulations and internal policies.

IT environment - 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.

Knowledge of the business - The auditor’s level of knowledge for an engagement including a general knowledge of the economy and the industry within which the entity operates, and a more particular knowledge of how the entity operates.

Limitation on scope - A limitation on scope of an auditor's work exists when sufficient appropriate audit evidence on which to base an unqualified opinion does or did exist, or could reasonably be expected to have existed, but is not available to the auditor. This may be imposed by the audit mandate, for example, when the terms of the engagement specify that the auditor will not carry out a specific audit procedure that the auditor considers necessary or when there is a restriction on the type of opinion the auditor can express. It may also be imposed by the circumstances of the particular engagement, for example when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of inventories.

Managed assets - For the purpose of AUS 522, managed assets are the assets managed by an external professional manager.

Management - The governing body, audit committee, individual member of the governing body, officer(s) and/or other person(s) having responsibility for planning and directing the activities of an entity.

- *Operational management* - Those persons with responsibility for supervision of the day-to-day activities of the entity.

Management representations - Representations from management made to the auditor during the course of the audit, either solicited or unsolicited or in response to specific inquiries.

Manager's auditor - For the purpose of AUS 522, the manager's auditor is the external auditor of the external professional manager.

Material inconsistency - For the purpose of AUS 212, a material inconsistency exists when other information 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.

Material misstatement of fact - For the purpose of AUS 212, a material misstatement of fact in other information exists when such information, not related to matters appearing in the audited financial report, is incorrectly stated or presented.

Material weaknesses - The weaknesses in internal control that could have a material effect on the financial report.

Materiality - Information which if omitted, misstated or not disclosed separately has the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management including the governing body of the entity.

Misstatement - A mistake in financial information which would arise from fraud, error or non-compliance with laws and regulations.
Modified audit report - An audit report that contains a qualified opinion and/or an emphasis of matter.
Negative assurance - (see Assurance).

Non-compliance - The term ‘non-compliance’ is used to refer to acts of omission or commission by the entity being audited, either intentional or unintentional, which are contrary to the prevailing laws or regulations.

Non-statistical sampling - All sampling approaches that do not have all the characteristics of statistical sampling.

Observation - An audit evidence gathering technique that consists of looking at a process or procedure being performed by others, for example, the auditor may observe the counting of inventories by entity personnel or the performance of control procedures that leave no audit trail.

On-line computer systems - Enable users to access data and programs directly through terminal devices.

Opening balances - Those balances which exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of:

(a) transactions of prior periods; and

(b) accounting policies applied in the prior period.

Opinion - An audit opinion is a positive written expression within a specified framework indicating the auditor’s overall conclusion based upon audit evidence obtained that provides a high level of assurance:

(a) to enhance the credibility of an assertion about an accountability matter; or

(b) about the subject matter for which the accountable party is responsible.

The audit of financial or non-financial information may result in any of the following types of opinions being issued:

- *Unqualified opinion* - Indicates that an auditor is satisfied in all material respects that the subject matter is in accordance with an identified framework.

- *Qualified opinion* - Indicates that an auditor is not satisfied in all material respects that the subject matter is in accordance with an identified framework. The following represent the types of qualified opinion that may be expressed by the auditor:

  - *"Except for" opinion* - An "except for" opinion indicates that certain circumstances exist, that in the auditor's opinion are material or are likely to be material, however they are not of such magnitude or so pervasive or fundamental as to effect the subject matter as a whole. The following circumstances may result in an except for opinion:

    (i) disagreement with management;

    (ii) scope limitation; and

    (iii) a conflict between the identified framework.

  - *Adverse opinion* - The subject matter taken as a whole is misleading or of little use to the addressee of the audit report. This type of opinion will be expressed when the effects of a disagreement with management or conflict with an accepted framework is of such a magnitude or is so pervasive or fundamental to the subject matter.

  - *Inability to form an opinion* - The auditor is unable to express an opinion on the subject matter as a whole. This may occur if a scope limitation exists, where sufficient appropriate audit evidence cannot be reasonably obtained and the possible effects of any adjustments might be of such magnitude or so pervasive or fundamental to the subject matter.

An audit opinion may be expressed in relation to financial (for example, a general or special purpose financial report) or non-financial information (for example, compliance with specified conditions, regulations).

Other auditor - (see Auditor).

Other financial information - Financial information which does not constitute a financial report in that it does not contain a statement of financial performance or a statement of financial position.

Other information - Other financial or non-financial information contained in a document containing the audited financial report.

Outgoing auditor - (see Auditor).

PCs or *personal computers* (also referred to as microcomputers) - Economical yet powerful self-contained general purpose computers consisting typically of a monitor (visual display unit), a case containing the computer electronics and a keyboard (and mouse). These features may be combined in portable computers (laptops). Programs and data may be stored internally on a hard disk or on removable storage media such as CDs or floppy disks. PCs may be connected to on-line networks, printers and other devices such as scanners and modems.

Performance audit - An audit of all or part of an entity's or entities' activities to assess economy and/or efficiency and/or effectiveness. It includes any audit directed to:

(a) the adequacy of an internal control structure or specific internal controls, including those intended to safeguard assets and to ensure due regard for economy, efficiency and effectiveness;

(b) the extent to which resources have been managed economically and efficiently; and

(c) the extent to which activities have been effective.

Persuasive evidence - Persuasive is having the power to influence. Most audit evidence is persuasive, but not conclusive.

Planning - The development of a general strategy and a detailed approach for the expected nature, timing and extent of the audit engagement.

Population - In relation to sampling, the entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.

Predecessor auditor - (see Auditor).

Principal auditor - (see Auditor).

Privity letters - Privity is an interest in a transaction, contract or legal action to which one is not a party, arising out of a relationship to one of the parties.

Professional accountant - For the purpose of AUSs the definition of professional accountant adopted is as given in the Code of Professional Conduct, Section A.

Professional scepticism - An attitude that includes a questioning mind and a critical assessment of evidence. Without an attitude of professional scepticism, the professional accountant may not be alert to circumstances that lead to a suspicion, and may draw inappropriate conclusions from the evidence obtained.
Projection - 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 - Financial information based on assumptions about events that may occur in the future and on possible actions by an entity.

Public sector - The term 'public sector' refers to national governments, regional (for example, state, territory) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises).

Q*ualified opinion* - (see Opinion).

Quality control - Those policies and procedures adopted by an audit firm to ensure that all audits and audit related service engagements are conducted in accordance with Australian Auditing and Assurance Standards.

Realisable value - For the purpose of AUSs the definition of realisable value adopted is as given in Accounting Standard AASB 1019 "Inventories" and Australian Accounting Standard AAS 2 "Inventories".

Reasonable assurance - (see Assurance).

Related parties - For the purpose of AUSs the definition of related parties adopted is as given in Accounting Standard AASB 1017 "Related Party Disclosures" and Australian Accounting Standard AAS 22 "Related Party Disclosures".

Related services - (see Audit and audit related services).

Report of factual findings - A report that contains:

(a) identification of the specific financial or non-financial information to which the agreed-upon procedures have been applied;

(b) a statement that the procedures performed were those agreed with the recipient;

(c) identification of the purpose for which the agreed-upon procedures were performed;

(d) a listing of the specific procedures performed or reference to the terms and procedures of the engagement contained in another document such as an engagement letter; and

(e) a description of the auditor’s factual findings including sufficient details of errors and exceptions found.

Report to management - A communication, excluding the audit report, to management on matters arising from the audit of an entity’s financial report. A report to management would usually be in writing.

Representation letter - a letter from management to the auditor representing that the financial report is fairly presented. The letter is addressed to the external auditor, and dated at the date of the auditor’s report. It is signed by members of management whom the auditor believes are responsible for, and knowledgeable about, matters covered (chief executive officer and chief financial officer).

Review engagement - A service where the auditor’s objective is to provide a moderate level of assurance, being a lower level of assurance than that provided by an audit, through:

(a) the issue of a statement of negative assurance that enhances the credibility of a written assertion(s) about an accountability matter (“attest review”); or

(b) the provision of relevant and reliable information and a statement of negative assurance about an accountability matter where the party responsible for the matter does not make a written assertion (“direct reporting review”).

Sampling - (see Audit Sampling).

Scope of an audit - The term refers to the audit procedures deemed necessary in the circumstances to achieve the objective of an audit.

Scope limitation - (see Limitation on scope).

Service entity - An entity that provides services to the user to record, process, execute transactions, maintain related accountability for these transactions, or a combination thereof.

Service entity auditor - The auditor engaged to perform an audit on, or a related service on, or provide a written description about aspects of a service entity and report to the user and/or user auditor.

Significance - Significance is related to materiality of the financial report assertion affected.

Small entity - A small entity is any entity in which:

(a) there is concentration of ownership and management in a small number of individuals (often a single individual); and

(b) one or more of the following is also found:

- (i) few sources of income;
- (ii) unsophisticated record-keeping; and
- (iii) limited internal controls together with the potential for management override of controls.

Special purpose financial report - A financial report prepared in accordance with a financial reporting framework other than Accounting Standards and UIG Consensus Views.

Statistical sampling - Approaches to sampling that have all the following characteristics:

(a) random sample selection; and

(b) probability theory to;

- (i) determine the sample size;
- (ii) project sample results to the population, or stratum; and
- (iii) measure sampling risk.

Subsequent events - For audit purposes subsequent events refer to both events occurring between reporting period end and the date of the audit report, and facts discovered after the date of the audit report.

Substantive procedures - Tests performed to obtain audit evidence to detect material misstatements in the financial report and are of the following types:

(a) tests of details of:

(i) transactions; and

(ii) balances; and

(b) analytical procedures.

Sufficiency - The measure of the quantity of audit evidence obtained from tests of controls and substantive procedures.

Summarised financial report - An abridged report for the purpose of informing users interested in the highlights of the entity’s performance and financial position.

Transaction logs - Reports that are designed to create an audit trail for each on-line transaction. Such reports often document the source of a transaction (terminal, time and user) as well as the transaction’s details.

Tests of control - Tests performed to obtain audit evidence about the suitability of design and effective operation of the internal control structure.

Uncertainty - (see Inherent uncertainty).

Unqualified opinion - (see Opinion).

Working papers - (see Documentation).