

Issues Paper – Definitions and Glossary of Terms

I. Completeness of Definitions

1. **Attachment 1** lists all definitions currently in the Glossary of Terms in Part I of the 2008 Handbook other than those defined in the clarified ISAs or otherwise not applicable because the term no longer exists in the clarified ISAs and other extant standards. (**For information, Attachment 2** lists the definitions included in each of the clarified ISAs.)
2. The Task Force does not believe that any of these definitions need to be added to the ISAs for purposes of clarity.

II. Glossary Matters

Context

3. ISAs contain definitions for the following terms which are used in different contexts in the ISAs:
 - *Reasonable assurance* – Defined in terms of an audit engagement (ISA 200), but also used in the context of other assurance engagements (ISAE 3000) and quality control (ISQC 1 and ISA 220).
 - *Inspection* – Defined in terms of quality control (ISQC 1 and ISA 220), but also used in relation to a type of audit procedure (ISA 500).
 - *Monitoring* – Defined in terms of quality control (ISQC 1 and ISA 220), but also used in the context of internal control.
4. For purposes of the Glossary, it is proposed that text in (brackets) clarify the contexts in which the terms apply. This is what is done at present for other terms to be read in a specific context. Proposed drafting is as follows:
 - “Reasonable assurance (in the context of assurance engagements, including audit engagements, and quality control) – [definition];”
 - “Inspection (in relation to quality control) – [definition];” and
 - “Monitoring (in relation to quality control) – [definition].”

Other Terms to be Included in the Glossary for Part II of 2009 Handbook

5. The extant Glossary includes ‘definitions’ for a number of additional terms. These have been drawn variously from descriptions within the application material of the extant ISAs and IAASB’s other Engagement Standards, the IAPSSs, and other discussions (for example, Staff and Steering Committee discussion on terms such as ‘significance’, ‘assess’, ‘evaluate’, and ‘investigate’). Many of these terms have been added over time in response to input suggesting that these ‘definitions’ would be helpful for translation purposes.
6. It is proposed that many of these terms should be retained in the Glossary for translation purposes. Some, however, appear slightly misleading when read as a definition (or

description), or otherwise seem unnecessary. The terms that are proposed for deletion, and those proposed to be retained, are indicated in **Attachment 2**.

ATTACHMENT 1

Other Terms in extant Glossary

I. Terms Proposed for Deletion from Glossary

Glossary of Terms – Part I of the Handbook – 2008 Edition	Comments
<i>Assistants</i> —Personnel involved in an individual audit other than the auditor.	Term occurs in one instance in the IAPSS. Self-explanatory.
<i>Attendance</i> —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.	Definition is not from extant ISAs. Self-explanatory.
<i>Audit matters of governance interest</i> —Those matters that arise from the audit of financial statements and, in the opinion of the auditor, are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. Audit matters of governance interest include only those matters that have come to the attention of the auditor as a result of the performance of the audit.	Needs to be read in the context of ISA 260.
<i>Audit of financial statements</i> —The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit of financial statements is an assurance engagement (see <i>Assurance engagement</i>).	Needs to be read in the context of ISA 200.
<i>External auditor</i> —Where appropriate the term “external auditor” is used to distinguish the external auditor from an internal auditor.	Not a definition
<i>Incoming auditor</i> —The auditor of the financial statements of the current period, where either the financial statements of the prior period have been audited by another auditor (in this case the incoming auditor also known as a successor auditor), or the audit is an initial audit engagement.	Definition is not from extant ISAs. Term does not occur in ISA 710 or 510, except single occurrence in the public sector consideration in 510.A1 ¹

¹ **Note:** It is proposed that reference to ‘incoming auditor’ in ISA 510.A1 be removed by the following drafting: “In the public sector, there may be legal or regulatory limitations on the information that the current auditor can obtain from the predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (e.g., an Auditor General, or other suitably qualified person appointed on behalf of

Glossary of Terms – Part I of the Handbook – 2008 Edition	Comments
<i>Successor auditor</i> —An auditor replacing an existing auditor (also known as an incoming auditor).	Definition is not from extant ISAs. Term does not occur in ISAs, except single occurrence in 240.fn22 ²
<i>Computer information systems (CIS) environment</i> —Exists when a computer of any type or size is involved in the processing by the entity of financial information of significance to the audit, whether that computer is operated by the entity or by a third party.	IT IAPS
<i>Database</i> —A collection of data that is shared and used by a number of different users for different purposes.	Self-explanatory
<i>Electronic Data Interchange (EDI)</i> —The electronic transmission of documents between organizations in a machine-readable form.	IT IAPS
<i>Encryption</i> (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 unauthorized disclosure or modification. Encryption can provide an effective control for protecting confidential or sensitive programs and information from unauthorized access or modification. However, effective security depends upon proper controls over access to the cryptographic keys.	IT IAPS
<i>Employee fraud</i> —Fraud involving only employees of the entity subject to the audit.	Self-explanatory
<i>Fair value</i> —The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.	Accounting term
<i>Firewall</i> —A combination of hardware and software that protects a WAN, LAN or PC from unauthorized access through the	IT IAPS

the Auditor General) is privatized, the amount of access to working papers or other information that the statutorily appointed auditor can provide ~~the newly-appointed an incoming~~ auditor that is in the private sector may be constrained by privacy or secrecy laws or regulation. In situations where such communications are constrained...”

² **Note:** It is proposed that reference to ‘successor auditor’ in 240.fn22 be removed by the following drafting: “The *IFAC Code of Ethics for Professional Accountants* provides guidance on communications with an auditor replacing the existing auditor~~a proposed successor auditor~~.”

Glossary of Terms – Part I of the Handbook – 2008 Edition	Comments
Internet and from the introduction of unauthorized or harmful software, data or other material in electronic form.	
<i>Going concern assumption</i> —Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.	Accounting term
<i>Limitation on scope</i> —A limitation on the scope of the auditor’s work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). A scope limitation may be imposed by circumstances (for example, when the timing of the auditor’s appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity’s accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed desirable.	Needs to be read in the context of ISA 705.
<i>Management fraud</i> —Fraud involving one or more members of management or those charged with governance.	Self-explanatory
<i>National practices (auditing)</i> —A set of guidelines not having the authority of standards defined by an authoritative body at a national level and commonly applied by auditors in the conduct of an audit, review, other assurance or related services.	Self-explanatory
<i>National standards (auditing)</i> —A set of standards defined by law or regulations or an authoritative body at a national level, the application of which is mandatory in conducting an audit, review, other assurance or related services.	Self-explanatory
<i>Opinion</i> —The auditor’s report contains a clear written expression of opinion on the financial statements. An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (also see Modified auditor’s report)	Self-explanatory, and “unqualified opinion” is defined in 700.
<i>PCs or personal computers (also referred to as microcomputers)</i> —Economical yet powerful self-contained general purpose computers consisting typically of a monitor	Self-explanatory

Glossary of Terms – Part I of the Handbook – 2008 Edition	Comments
(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.	
<i>Planning</i> —Involves establishing the overall audit strategy for the engagement and developing an audit plan, in order to reduce audit risk to an acceptably low level.	Needs to be read in the context of ISA 300.
<i>Quality controls</i> —The policies and procedures adopted by a firm designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that reports issued by the firm or engagement partners are appropriate in the circumstances.	Needs to be read in context of ISQC 1 and ISA 220. Terms does not actually appear in these standards.
<i>Scope of an audit</i> —The audit procedures that, in the auditor’s judgment and based on the ISAs, are deemed appropriate in the circumstances to achieve the objective of the audit.	Needs to be read in the context of ISA 200.
<i>Segment information</i> —Information in the financial statements regarding distinguishable components or industry and geographical aspects of an entity.	Accounting term
<i>Special purpose auditor’s report</i> —A report issued in connection with the independent audit of financial information other than an auditor’s report on financial statements, including: (a) A complete set of financial statements prepared in accordance with a an other comprehensive basis of accounting; (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement; (c) Compliance with contractual agreements; and (d) Summarized financial statements.	Needs to be read in the context of the scope of ISAs 800, 805 and 810
<i>Understanding of the entity and its environment</i> —The auditor’s understanding of the entity and its environment consists of the following aspects: (a) Industry, regulatory, and other external factors, including the applicable financial reporting framework. (b) Nature of the entity, including the entity’s selection and	Needs to be read in the context of ISA 315.

Glossary of Terms – Part I of the Handbook – 2008 Edition	Comments
<p>application of accounting policies.</p> <p>(c) Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements.</p> <p>(d) Measurement and review of the entity’s financial performance.</p> <p>(e) Internal control.</p>	
<p><i>Wide Area Network (WAN)</i>—A communications network that transmits information across an expanded area such as between plant sites, cities and nations. WANs allow for on-line access to applications from remote terminals. Several LANs can be interconnected in a WAN.</p>	<p>IT IAPS</p>

II. Terms Proposed for Retention in Addition to Terms Defined in ISAs

(NOTE: Marked text shows Staff’s proposed changes to refine or update the relevant definition.)

Glossary of Terms – Part I of the Handbook – 2008 Edition
<p><i>Access controls</i>—Procedures designed to restrict access to on-line terminal devices, programs and data. Access controls consist of “user authentication” and “user authorization.” “User authentication” typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. “User authorization” consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent or detect:</p> <ul style="list-style-type: none">(a) Unauthorized access to on-line terminal devices, programs and data;(b) Entry of unauthorized transactions;(c) Unauthorized changes to data files;(d) The use of computer programs by unauthorized personnel; and(e) The use of computer programs that have not been authorized.
<p><i>Agreed-upon procedures engagement</i>—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.</p>
<p><i>Application controls in information technology</i>— Manual or automated procedures that typically operate at a business process level. Application controls can be preventative or detective in nature and are designed to ensure the integrity of the accounting records. Accordingly, application controls relate to procedures used to initiate, record, process and report transactions or other financial data.</p>
<p><i>Assess</i>—Analyze identified risks of misstatement to conclude on their significance. “Assess,” by convention, is used only in relation to risk. (also see Evaluate)</p>
<p><i>Assurance engagement</i>—An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria (also see Subject matter information). Under the “International Framework for Assurance Engagements” there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement.</p> <p><i>Reasonable assurance engagement</i>—The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the</p>

Glossary of Terms – Part I of the Handbook – 2008 Edition
<p>engagement³ as the basis for a positive form of expression of the practitioner’s conclusion.</p> <p><i>Limited assurance engagement</i>—The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner’s conclusion.</p>
<p><i>Assurance engagement risk</i>—The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.</p>
<p><i>Auditor association with financial information</i>—An auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor’s name in a professional connection.</p>
<p><i>Compilation engagement</i>—An engagement in which accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarize financial information.</p>
<p><i>Computer-assisted audit techniques</i>—Applications of auditing procedures using the computer as an audit tool (also known as CAATs).</p>
<p><i>Control activities</i>—Those policies and procedures that help ensure that management directives are carried out. Control activities are a component of internal control.</p>
<p><i>Control environment</i>—Includes the governance and management functions and the attitudes, awareness and actions of those charged with governance and management concerning the entity’s internal control and its importance in the entity. The control environment is a component of internal control.</p>
<p><i>Criteria</i>—The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment.</p> <p><i>Suitable criteria</i>—Exhibit the following characteristics:</p> <ul style="list-style-type: none"> (a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users. (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the 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

³ 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.

Glossary of Terms – Part I of the Handbook – 2008 Edition	
	<p>the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.</p> <p>(d) Neutrality: neutral criteria contribute to conclusions that are free from bias.</p> <p>(e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.</p>
	<p><i>Engagement documentation</i>—The record of work performed, results obtained, and conclusions the practitioner reached (terms such as “working papers” or “workpapers” are sometimes used). The documentation for a specific engagement is assembled in an engagement file.</p>
	<p><i>Engagement letter</i>—Written terms of an engagement in the form of a letter 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 client and the form of any reports.</p>
	<p><i>Entity’s risk assessment process</i>—A component of internal control that is the entity’s process for identifying business risks relevant to financial reporting objectives and deciding about actions to address those risks, and the results thereof.</p>
	<p><i>Environmental matters</i>—</p> <p>(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);</p> <p>(b) Consequences of violating environmental laws and regulations;</p> <p>(c) Consequences of environmental damage done to others or to natural resources; and</p> <p>(d) Consequences of vicarious liability imposed by law (for example, liability for damages caused by previous owners).</p>
	<p><i>Environmental performance report</i>—A report, separate from the financial statements, in which an entity provides third parties with qualitative information on the entity’s commitments towards the environmental aspects of the business, its policies and targets in that field, its achievement in managing the relationship between its business processes and environmental risk, and quantitative information on its environmental performance.</p>
	<p><i>Environmental risk</i>—In certain circumstances, factors relevant to the assessment of inherent risk for the development of the overall audit plan may include the risk of material misstatement of the financial statements due to environmental matters.</p>
	<p><i>Error</i>—An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.</p>
	<p><i>Evaluate</i>—Identify and analyze 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</p>

Glossary of Terms – Part I of the Handbook – 2008 Edition
effectiveness of management’s response to a risk. (also see Assess)
<i>Forecast</i> —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).
<i>Fraudulent financial reporting</i> —Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.
<i>General IT-controls</i> — Policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.
<i>Governance</i> —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. Those charged with governance include management only when it performs such functions.
<i>Independence</i> ⁴ —Comprises: <ul style="list-style-type: none"> (a) Independence of mind—the state of mind that permits the provision of an opinion without being affected by influences that compromise professional judgment, allowing an individual to act with integrity, and exercise objectivity and professional skepticism. (b) Independence in appearance—the avoidance of facts and circumstances that are so significant a reasonable and informed third party, having knowledge of all relevant information, including any safeguards applied, would reasonably conclude a firm’s, or a member of the assurance team’s, integrity, objectivity or professional skepticism had been compromised.
<i>Information system relevant to financial reporting</i> —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.
<i>Inquiry</i> —Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, throughout the entity or outside the entity.
<i>Intended users</i> —The person, persons or class of persons for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.
<i>Interim financial information or statements</i> —Financial information (which may be less than a complete set of financial statements as defined above) issued at interim dates (usually half-yearly or quarterly) in respect of a financial period.

⁴ As defined in the IFAC *Code of Ethics for Professional Accountants*.

Glossary of Terms – Part I of the Handbook – 2008 Edition
<i>Investigate</i> —Inquire into matters arising from other procedures to resolve them.
<i>IT environment</i> —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.
<i>Misappropriation of assets</i> —Involves the theft of an entity’s assets and is often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.
<i>Monitoring of controls</i> —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.
<i>Observation</i> —Consists of looking at a process or procedure being performed by others, for example, the observation by the auditor of the counting of inventories by the entity’s personnel or the performance of control activities.
<i>Overall audit strategy</i> —Sets the scope, timing and direction of the audit, and guides the development of the more detailed audit plan.
<i>Practitioner</i> —A professional accountant in public practice.
<i>Professional accountant</i> ⁵ —An individual who is a member of an IFAC member body.
<i>Professional accountant in public practice</i> ⁶ —A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
<p><i>Projection</i>—Prospective financial information prepared on the basis of:</p> <ul style="list-style-type: none"> (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.
<i>Prospective financial information</i> —Financial information based on assumptions about events that may occur in the future and possible actions by an entity. Prospective financial information can be in the form of a forecast, a projection or a combination of both. (see Forecast and Projection)
<i>Public sector</i> —National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities

⁵ As defined in the IFAC *Code of Ethics for Professional Accountants*.

⁶ As defined in the IFAC *Code of Ethics for Professional Accountants*.

Glossary of Terms – Part I of the Handbook – 2008 Edition
(for example, agencies, boards, commissions and enterprises).
<i>Recalculation</i> —Consists of checking the mathematical accuracy of documents or records.
<i>Related services</i> —Comprise agreed-upon procedures and compilations.
<i>Reperformance</i> —The auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal controls, either manually or through the use of CAATs.
<i>Responsible party</i> —The person (or persons) who: <ul style="list-style-type: none"> (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter. <p>The responsible party may or may not be the party who engages the practitioner (the engaging party).</p>
<i>Review (in relation to quality control)</i> —Appraising the quality of the work performed and conclusions reached by others.
<i>Review engagement</i> —The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor’s attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.
<i>Review procedures</i> —The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.
<i>Scope of a review</i> —The review procedures deemed necessary in the circumstances to achieve the objective of the review.
<i>Significance</i> —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 judgment 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.
<i>Smaller entity</i> —Any entity in which typically possesses qualitative characteristics such as: <ul style="list-style-type: none"> (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity

Glossary of Terms – Part I of the Handbook – 2008 Edition
<p><u>provided the owner exhibits the relevant qualitative characteristics); and</u></p> <p><u>(b) One or more of the following:</u></p> <p><u>(i) Straightforward or uncomplicated transactions;</u></p> <p><u>(ii) Simple record-keeping;</u></p> <p><u>(iii) Few lines of business and few products within business lines;</u></p> <p><u>(iv) Few internal controls;</u></p> <p><u>(v) Few levels of management with responsibility for a broad range of controls; or</u></p> <p><u>(vi) Few personnel, many having a wide range of duties.</u></p> <p><u>These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.</u></p> <p>(a) There is concentration of ownership and management in a small number of individuals (often a single individual); and</p> <p>(b) One or more of the following are also found:</p> <p>(i) Few sources of income;</p> <p>(ii) Unsophisticated record-keeping; and</p> <p>(iii) Limited internal controls together with the potential for management override of controls.</p> <p>Small entities will ordinarily display characteristic (a), and one or more of the characteristics included under (b).</p>
<p><i>Subject matter information</i>—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.</p>
<p><i>Supplementary information</i>—Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.</p>
<p><i>Test</i>—The application of procedures to some or all items in a population.</p>
<p><i>Uncertainty</i>—A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.</p>
<p><i>Walk-through test</i>—Involves tracing a few transactions through the financial reporting system.</p>

ATTACHMENT 2**Terms Defined in the Clarified ISAs – For Information**

ISA	Defined Terms
200	Applicable financial reporting framework
	Fair presentation framework
	Compliance framework
	Audit evidence
	Audit risk
	Auditor
	Detection risk
	Financial statements
	Historical financial information
	Management
	Misstatement
	Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted
	Professional judgment
	Professional skepticism
	Reasonable assurance
	Risk of material misstatement
	Inherent risk
	Control risk
	Those charged with governance
210	Preconditions for an audit
220	Engagement partner
	Engagement quality control review
	Engagement quality control reviewer
	Engagement team
	Firm
	Inspection

ISA	Defined Terms
	Listed entity
	Monitoring
	Network firm
	Network
	Partner
	Personnel
	Professional standards
	Relevant ethical requirements
	Staff
	Suitably qualified external person
230	Audit documentation
	Audit file
	Experienced auditor
240	Fraud
	Fraud risk factors
250	Non-compliance
260	Those charged with governance
	Management
265	Deficiency in internal control
	Significant deficiency
300	-
315	Assertions
	Business risk
	Internal control
	Risk assessment procedures
	Significant risk
320	Performance materiality
330	Substantive procedures
	Test of controls

ISA	Defined Terms
402	Complementary user entity controls
	Service auditor
	Service organization
	Service organization's system
	Subservice organization
	User auditor
	User entity
	Report on the description and design of controls at a service organization (referred to in this ISA as a Type A report) and Report on the description, design, and operating effectiveness of controls at a service organization (referred to in this ISA as a Type B report)
450	Misstatement
	Uncorrected misstatements
500	Accounting records
	Appropriateness (of audit evidence)
	Audit evidence
	Management's expert
	Sufficiency (of audit evidence)
501	-
505	External confirmation
	Positive confirmation request
	Negative confirmation request
	Non-response
	Exception
510	Initial audit engagement
	Opening balances
	Predecessor auditor
520	Analytical procedures
530	Audit sampling (sampling)
	Population

ISA	Defined Terms
	Sampling risk
	Non-sampling risk
	Anomaly
	Sampling unit
	Statistical sampling
	Stratification
	Tolerable misstatement
	Tolerable rate of deviation
540	Accounting estimate
	Auditor's point estimate or auditor's range
	Estimation uncertainty
	Management bias
	Management's point estimate
	Outcome of an accounting estimate
550	Arm's length transaction
	Related party
560	Date of the financial statements
	Date of approval of the financial statements
	Date of the auditor's report
	Date the financial statements are issued
	Subsequent events
570	-
580	Written representation
600	Component
	Component auditor
	Component management
	Component materiality
	Group
	Group audit

ISA	Defined Terms
	Group audit opinion
	Group engagement partner
	Group engagement team
	Group financial statements
	Group management
	Group-wide controls
	Significant component
610	Internal audit function
	Internal auditors
620	Auditor's expert
	Expertise
	Management's expert
700	General purpose financial statements
	General purpose framework
	Fair presentation framework
	Compliance framework
	Unmodified opinion
705	Pervasive
	Modified opinion
706	Emphasis of Matter paragraph
	Other Matter paragraph
710	Comparative information
	Corresponding figures
	Comparative financial statements
720	Other information
	Inconsistency
	Misstatement of fact
800	Special purpose financial statements
	Special purpose framework

ISA	Defined Terms
805	-
810	Applied criteria
	Audited financial statements
	Summary financial statements