GLOSSARY OF TERMS 1

Notice to Handbook Users

This Glossary of Terms contains a complete listing of terms defined in Canadian Standard on Quality Management (CSQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, CSQM 2, *Engagement Quality Reviews,* the Canadian Auditing Standards (CASs), the Canadian Standards on Review Engagements (CSREs) and Canadian Standard on Related Services (CSRS) 4200, *Compilation Engagements*. It also includes descriptions of other terms found in CSQM 1, CSQM 2, the CASs, the CSREs and CSRS 4200 to assist in common and consistent interpretation. **This Glossary of Terms is only applicable to CSQM 1, CSQM 2, the CASs, the CSREs and CSRS 4200. It is not applicable to the Other Canadian Standards other than the CSREs and CSRS 4200.**

Access controls – 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:

(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.

Accounting estimate – A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty.

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

Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

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

Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters.

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

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

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 statements, 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 statements. Such departures are expected to be necessary only in extremely rare circumstances.

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

Application controls in information technology – 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.

Applied criteria (in the context of CAS 810 [2]) – The criteria applied by management in the preparation of the summary financial statements.

Appropriateness (of audit evidence) – 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.

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

Assertions – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement.

Assess – Analyze identified risks of material misstatements 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**)

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

Audit evidence – 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 statements and other information. (also see **Sufficiency of audit evidence** and **Appropriateness of audit evidence**)

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

Audit firm – (see **Firm**)

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

Audit risk – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.

Audit sampling (sampling) – 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.

Audited financial statements (in the context of CAS 810) – Financial statements [3] audited by the auditor in accordance with CASs, and from which the summary financial statements are derived.

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

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

Auditor's expert – An individual or organization 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 [4] or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

Auditor's point estimate or auditor's range – An amount, or range of amounts, respectively, developed by the auditor in evaluating management's point estimate.

Auditor's range – (see **Auditor's point estimate**)

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

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

Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.

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

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

Component – An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit. [Former definition retained in Archived Pronouncements.]

Component auditor – An auditor who performs work related to a component for the group audit. A component auditor is a part of the engagement team for a group audit. [Former definition retained in Archived Pronouncements.]

Component management – Management responsible for a component. [Former definition retained in Archived Pronouncements.]

Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for the purposes of planning and performing audit procedures in relation to a component. [Former definition retained in Archived Pronouncements.]

Computer-assisted audit techniques – Applications of auditing procedures using the computer as an audit tool (also known as CAATs).

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

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

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

Corporate governance – (see **Governance**)

Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, 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.

Criteria – 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.

Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Date of the auditor's report – The date the auditor dates the report on the financial statements in accordance with CAS 700. 5

Date of the financial statements – The date of the end of the latest period covered by the financial statements.

Date the financial statements are issued (in the context of the CASs) – The date that the auditor's report and audited financial statements are made available to third parties.

Date the financial statements are issued (in the context of CSRE 2400 6) – The date that the practitioner's report and reviewed financial statements are made available to third parties.

Deficiency in internal control – This exists when:

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

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

Deficiency in the firm's system of quality management (in the context of CSQM 1) – This exists when:

(i) A quality objective required to achieve the objective of the system of quality management is not established;

(ii) A quality risk, or combination of quality risks, is not identified or properly assessed;

(iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or

(iv) An other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of this CSQM has not been addressed.

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

Direct assistance – The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

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

Element of a financial statement (in the context of CAS 805 7) – An element, account or item of a financial statement.

Emphasis of Matter paragraph (in the context of the CASs) – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Emphasis of Matter paragraph (in the context of CSRE 2400) – A paragraph included in the practitioner's review engagement report that refers to a matter appropriately presented or disclosed in the financial statements that, in the practitioner's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

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

Engagement letter – Written terms of an engagement in the form of a letter.

Engagement partner 8 – The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Engagement quality review – An objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon performed by the engagement quality reviewer and completed on or before the date of the engagement report.

Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.

Engagement risk (in the context of CSRE 2400) – The risk that the practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.

Engagement team – All partners and staff performing the engagement, and any other individuals who perform procedures on the engagement, excluding an external expert 9 and internal auditors who provide direct assistance on an engagement.

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

Environmental risk – 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.

Error – An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Estimation uncertainty – The susceptibility of an accounting estimate and related disclosures to an inherent lack of precision in its measurement.

Evaluate – 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 effectiveness of management's response to a risk. (also see **Assess**)

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

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

(a) Audit processes;

(b) CASs 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 – Skills, knowledge and experience in a particular field.

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

External inspections – Inspections or investigations, undertaken by an external oversight authority, related to the firm's system of quality management or engagements performed by the firm.

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

Financial statements – A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

Findings (in relation to a system of quality management) – Information about the design, implementation and operation of the system of quality management that has been accumulated from the performance of monitoring activities, external inspections and other relevant sources, which indicates that one or more deficiencies may exist.

Firm – A sole practitioner, partnership or corporation or other entity of professional accountants. "Firm" should be read as referring to its public sector equivalents where relevant.

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.

Fraud risk factors – Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud, or an attitude or rationalization that justifies the fraudulent action. [Former definition retained in Archived Pronouncements.]

Fraudulent financial reporting – Involves intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.

Further procedures – Procedures performed in response to assessed risks of material misstatement, including tests of controls (if any), tests of details and analytical procedures.

General information technology (IT) controls – Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processingcontrols and the integrity of information (i.e., the completeness, accuracy and validity of information) in the entity's information system. Also see the definition of "IT environment".

General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.

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

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

(a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, 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 statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgments in (a) or (b) above. 10

Governance – Describes the role of person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

Group – A reporting entity for which group financial statements are prepared. [Former definition retained in Archived Pronouncements.]

Group audit – The audit of group financial statements.

Group audit opinion – The audit opinion on the group financial statements.

Group auditor –The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for:

(i) Establishing the overall group audit strategy and group audit plan;

(ii) Directing and supervising component auditors and reviewing their work;

(iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Group engagement partner – The engagement partner who is responsible for the group audit.[Former definition retained in Archived Pronouncements.]

Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of CAS 600, a consolidation process includes:

(i) Consolidation, proportionate consolidation, or an equity method of accounting;

(ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or

(iii) The aggregation of the financial information of entities or business units such as branches or divisions.

[Former definition retained in Archived Pronouncements.]

Group management – Management responsible for the preparation of the group financial statements.

Group performance materiality – Performance materiality in relation to the group financial statements as a whole, as determined by the group auditor.

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

IFRS Accounting Standards – IFRS Accounting Standards as issued by the International Accounting Standards Board.

Independence – Comprises:

(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.

Information processing controls – Controls relating to the processing of information in IT applications or manual information processes in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information).

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

Inherent risk factors - Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.

Initial audit engagement (in the context of the CASs) – An engagement in which either:

(a) The financial statements for the prior period were not audited; or

(b) The financial statements for the prior period were audited by a predecessor auditor.

Initial review engagement (in the context of CSRE 2400) – An engagement in which either:

(a) The financial statements for the prior period were not audited or reviewed; or

(b) The financial statements for the prior period were audited or reviewed by a predecessor practitioner.

Inquiry – Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity.

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

Intended users – The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.

Interim financial information or statements – 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.

Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes.

Internal auditors – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.

Internal control – 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.

Investigate – Inquire into matters arising from other procedures to resolve them.

IT environment – The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies.

Key audit matters – Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Limited assurance (in the context of CSRE 2400) – The level of assurance obtained where engagement risk is reduced 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 expressing a conclusion in accordance with this CSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements.

Listed entity – An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

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

Management bias – A lack of neutrality by management in the preparation of information.

Management's expert – An individual or organization 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 statements.

Management's point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.

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

Misstatement – A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

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

Misstatement of fact – Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements.

Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).

Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

Monitoring of controls – 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.

National standards (auditing) – 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 engagements. Such standards may include International Standards on Auditing issued by the International Auditing and Assurance Standards Board.

Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

Network – A larger structure:

(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 management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

Network firm – A firm or entity that belongs to the firm's network.

Non-compliance (in the context of CAS 250 11) – Acts of omission or commission intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.

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

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

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

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

Other information – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Other Matter paragraph (in the context of the CASs) – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Other Matter paragraph (in the context of CSRE 2400) – A paragraph included in the practitioner's review engagement report that refers to a matter other than those presented or disclosed in the financial statements that, in the practitioner's judgment, is relevant to users' understanding of the review engagement, the practitioner's responsibilities or the practitioner's review engagement report.

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

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

Partner – Any individual with authority to bind the firm with respect to the performance of a professional services engagement.

Performance materiality – The amount or amounts set by the auditor at less than materiality for the financial statements 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 statements 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.

Personnel – Partners and staff in the firm.

Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

(a) Are not confined to specific elements, accounts or items of the financial statements;

(b) If so confined, represent or could represent a substantial proportion of the financial statements; or

(c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

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

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

Practitioner (in the context of the CASs) – A professional accountant in public practice.

Practitioner (in the context of CSRE 2400) – A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where CSRE 2400 expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

Practitioner (in the context of CSRS 4200) – A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm.

Preconditions for an audit – The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise 12 on which an audit is conducted.

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

Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – 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 CASs. That is, responsibility:

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

(b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are 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 statements such as records, documentation and other matters;

(ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose 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, (a) above may be restated as "for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework," or "for the preparation of financial statements *that give 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 accountant – An individual who is a member of an IFAC member body.

Professional judgment (in the context of the CASs) – The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

Professional judgment (in the context of CSQM 1) – The application of relevant training, knowledge and experience, within the context of professional standards, in making informed decisions about the courses of action that are appropriate in the design, implementation and operation of the firm's system of quality management.

Professional judgment (in the context of CSRE 2400) – The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.

Professional judgment (in the context of CSRS 4200) – The application of relevant training, knowledge and experience within the context provided by CSRS 4200 and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

Professional standards – Canadian Auditing Standards (CASs) and relevant ethical requirements.

Professional standards (in the context of CSQM 1 13) – Assurance engagement standards as defined in the *Preface to the CPA Canada Handbook – Assurance*, and relevant ethical requirements.

Prospective financial information – 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. (also see **Forecast** and **Projection**)

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

Quality objectives – The desired outcomes in relation to the components of the system of quality management to be achieved by the firm.

Quality risk – A risk that has a reasonable possibility of:

(i) Occurring; and

(ii) Individually, or in combination with other risks, adversely affecting the achievement of one or more quality objectives.

Reasonable assurance (in the context of an audit of financial statements and CSQM 1) – A high, but not absolute, level of assurance.

Recalculation – Consists of checking the mathematical accuracy of documents or records.

Related party – A party that is either:

(a) A related party as defined in the applicable financial reporting framework; or

(b) Where the applicable financial reporting framework establishes minimal or no related party requirements:

(i) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;

(ii) Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or

(iii) Another entity that is under common control with the reporting entity through having:

a. Common controlling ownership;

b. Owners who are close family members; or

c. Common key management.

However, entities that are under common control by a state (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.

Relevant ethical requirements (in the context of the CSQMs) – Ethical requirements to which the engagement team and engagement quality reviewer are subject, which comprise relevant independence and other ethical requirements set out in rules of professional conduct / code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies.

Relevant ethical requirements (in the context of the CASs and CSRE 2400) – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which comprise relevant independence and other ethical requirements set out in rules of professional conduct / code of ethics applicable to the practice of public accounting issued by the various professional accounting bodies.

Relevant ethical requirements (in the context of CSRS 4200) – Ethical requirements, which the engagement team is subject to, are set out in rules of professional conduct / code of ethics issued by the various professional accounting bodies.

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

Report on the description and design of controls at a service organization (referred to in CAS 402 14 as a type 1 report) – A report that comprises:

(a) A description, prepared by management of the service organization, of the service organization'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 organization'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 organization (referred to in CAS 402 as a type 2 report) – A report that comprises:

(a) A description, prepared by management of the service organization, of the service organization'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 organization'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.

Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s):

(i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.

(ii) Procedures are actions to implement policies.

Responsible party – The person (or persons) who:

(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.

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

Risk assessment procedures – The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.

Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level:

(a) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(b) Control risk – The risk that a misstatement that could occur in an assertion about a class of transactions, 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 controls.

Risks arising from the use of IT - Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the entity’s information system, due to ineffective design or operation of controls in the entity’s IT processes (see IT environment).

Sampling – (see **Audit sampling**)

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

(a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.

(b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

Sampling unit – The individual items constituting a population.

Service auditor – An auditor who, at the request of the service organization, provides an assurance report on the controls of a service organization.

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

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

Service provider (in the context of CSQM 1) – An individual or organization external to the firm that provides a resource that is used in the system of quality management or in the performance of engagements. Service providers exclude the firm's network, other network firms or other structures or organizations in the network.

Significance – 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.

Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

Significant risk – An identified risk of material misstatement:

(i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or

(ii) That is to be treated as a significant risk in accordance with the requirements of other CASs. [15]

Smaller entity – An entity which typically possesses qualitative characteristics such as:

(a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

(b) One or more of the following:

- (i) Straightforward or uncomplicated transactions;
- (ii) Simple record-keeping;
- (iii) Few lines of business and few products within business lines;
- (iv) Simpler systems of internal control;
- (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 statements – Financial statements prepared in accordance with a special purpose framework.

Special purpose framework – 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. [16]

Staff – Professionals, other than partners, including any experts the firm employs.

Statistical sampling – An approach to sampling that has the following characteristics:

(a) Random selection of the sample items; and

(b) The use of probability theory to evaluate sample results, including measurement of sampling risk.

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

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

Subject matter information – 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.

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

Subservice organization – A service organization used by another service organization to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

Substantive procedure – An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

(a) Tests of details (of classes of transactions, account balances, and disclosures); and

(b) Substantive analytical procedures.

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

Summary financial statements (in the context of CAS 810) – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. 17 Different jurisdictions may use different terminology to describe such historical financial information.

Supplementary information – 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.

System of internal control – The system 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. For the purposes of the ISAs, the system of internal control consists of five inter-related components:

(a) Control environment;

(b) The entity's risk assessment process;

(c) The entity's process to monitor the system of internal control;

(d) The information system and communication; and

(e) Control activities.

System of quality management – A system designed, implemented and operated by a firm to provide the firm with reasonable assurance that:

(i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and

(ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Test – The application of procedures to some or all items in a population.

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

Third party (in the context of CSRS 4200) – The individual, organization or group other than management or those charged with governance.

Those charged with governance – The person(s) or organization(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. 18

Tolerable misstatement – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population.

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

Uncertainty – 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.

Uncorrected misstatements – Misstatements that the auditor has accumulated during the audit and that have not been corrected.

Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. 19

User auditor – An auditor who audits and reports on the financial statements of a user entity.

User entity – An entity that uses a service organization and whose financial statements are being audited.

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

Written representation – 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 financial statements, the assertions therein, or supporting books and records.

Footnotes

1. In the case of public sector engagements, the terms in this glossary should be read as referring to their public sector equivalents.

Where accounting terms have not been defined in the pronouncements of the Auditing and Assurance Standards Board, reference should be made to the Glossary of Terms published by the Accounting Standards Board.

2. CAS 810, *Engagements to Report on Summary Financial Statements*
3. CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*, paragraph 13(f), defines the term "financial statements."
4. "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.
5. CAS 700, *Forming an Opinion and Reporting on Financial Statements*
6. CSRE 2400, *Engagements to Review Historical Financial Statements*
7. CAS 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
8. "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.
9. CAS 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."
10. CAS 200, paragraph 13(a)
11. CAS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
12. CAS 200, paragraph 13
13. CSQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
14. CAS 402, *Audit Considerations Relating to an Entity Using a Service Organization*
15. CAS 240, paragraph 27 and CAS 550, *Related Parties*, paragraph 18
16. CAS 200, paragraph 13(a)
17. CAS 200, paragraph 13(f)
18. For discussion of the diversity of governance structures, see paragraphs A1-A8 of CAS 260, *Communication with Those Charged with Governance*, paragraphs A1-A2 of CSRE 2400, *Engagements to Review Historical Financial Statements*, or paragraph A6 in CSRS 4200, *Compilation Engagements*.
19. CAS 700,paragraphs 25-26, deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.
