



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

## EXPLANATORY GUIDE Au4

### Glossary of Terms

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This Explanatory Guide is issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB). This Glossary of Terms contains all of the definitions embedded in the auditing and assurance standards, including the professional and ethical standards, issued by the XRB or the NZAuASB.

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## EXPLANATORY GUIDE Au4

## GLOSSARY OF TERMS

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

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**This Glossary of Terms contains all of the definitions embedded in the auditing and assurance standards, including the professional and ethical standards, issued by the XRB or the NZAuASB.**

*Acceptable level* – A level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the assurance provider at that time, that compliance with the fundamental principles is not compromised.

*Accounting estimate* – An approximation of a monetary amount in the absence of a precise means of measurement. This term is used for an amount measured at fair value where there is estimation uncertainty, as well as for other amounts that require estimation. Where ISA (NZ) 540<sup>1</sup> addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used.

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

*Advertising* – The communication to the public of information as to the services or skills provided by assurance providers with a view to procuring assurance business.

*Analytical procedures (in the context of ISA (NZ) 520)* – 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 issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor’s report thereon.

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

*Applicable criteria (in the context of ISAE (NZ) 3410)* – The criteria used by the entity to quantify and report its emissions in the GHG statement.

*Applicable criteria (in the context of ISAE (NZ) 3420)* – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorised or

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<sup>1</sup> ISA (NZ) 540, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

recognised standard-setting organisation or by law or regulation. Where established criteria do not exist, they will be developed by the responsible party.

*Applicable financial reporting framework* – The financial reporting framework adopted by 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 to provide disclosures beyond those specifically required by the framework; or
- (b) acknowledges explicitly that it may be necessary 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 acknowledgements in (a) or (b) above.

*Applicable requirements (in the context of SAE 3100<sup>2</sup>)* – The requirements established in laws, regulations, agreements, contracts, standards, codes or policies with which the entity is required to comply.

*Applied criteria (in the context of ISA (NZ) 810<sup>3</sup>)* – The criteria applied 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, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

*Assertions (in the context of ISAE (NZ) 3410)* – Representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the assurance provider to consider the different types of potential misstatements that may occur.

*Assess* – Analyse identified risks of material misstatement to conclude on their significance. “Assess,” by conventions, is used only in relation to risk. (also see *Evaluate*)

*Association* – (see *Auditor association with financial information*)

*Assurance* – (see *Reasonable Assurance*)

*Assurance client* – An entity in respect of which a firm conducts an assurance engagement.

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<sup>2</sup> SAE 3100, “Compliance Engagements.”

<sup>3</sup> ISA (NZ) 810, “Engagements to Report on Summary Financial Statements.”

*Assurance engagement* – An engagement in which an assurance provider 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.

*Reasonable assurance engagement* –The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the assurance provider’s opinion. Reasonable assurance means a high, but not absolute, level of assurance. An audit engagement is a reasonable assurance engagement.

*Limited assurance engagement* – The objective of a limited assurance engagement is compliance reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than that for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance provider’s opinion. A review engagement is a limited assurance engagement.

*Assurance engagement risk* – The risk that the assurance provider expresses an inappropriate conclusion when the subject matter information is materially misstated.

[NZ] *Assurance provider* – Any person or organisation appointed or engaged to provide assurance services.

[NZ] *Assurance services*– Comprise of any assurance engagements performed by an assurance provider.

*Assurance team* –

- (a) all professionals participating in the assurance engagement;
- (b) all others within a firm who can directly influence the outcome of the assurance engagement, including:
  - (i) those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the assurance engagement partner, in connection with the performance of the assurance engagement. For the purposes of an audit engagement this includes those at all successively senior levels above the lead engagement partner through the firm’s chief executive;
  - (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement;
  - (iii) those who provide quality control for the assurance engagement; and
  - (iv) for the purposes of an audit client, all those within a network firm who can directly influence the outcome of the audit engagement.

*Audit client* – An entity in respect of which a firm conducts an audit engagement.

*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 engagement (in the context of PES 1)* – A reasonable assurance engagement in which an assurance provider expresses an opinion whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects,), in accordance with an applicable financial reporting framework, such as an engagement conducted in

accordance with International Standards on Auditing (New Zealand). This includes a Statutory Audit, which is an audit required by legislation or other regulation.

*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. For purposes of the ISAs (NZ):

- (a) sufficiency of audit evidence is 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.
- (b) appropriateness of audit evidence is 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.

*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.

*Audit team (in the context of PES 1)* –

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
- (c) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement.

*Audited financial statements (in the context of ISA (NZ) 810)* – Financial statements audited by the auditor in accordance with ISAs (NZ), 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 an ISA (NZ) 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’s expert* – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor’s expert may be either an auditor’s internal expert (who is a partner<sup>4</sup> 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* – The amount, or range of amounts, respectively, derived from audit evidence for use in evaluating management’s point estimate.

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

*Base year (in the context of ISAE (NZ) 3410)* – A specific year or an average over multiple years against which an entity’s emissions are compared over time.

*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.

*Cap and trade (in the context of ISAE (NZ) 3410)* – A system that sets overall emissions limits, allocates emissions allowances to participants, and allows them to trade allowances and emission credits with each other.

*Carve-out method* – Method of dealing with the services provided by a subservice organisation, whereby the service organisation’s description of its system includes the nature of the services provided by a subservice organisation, but that subservice organisation’s relevant control objectives and related controls are excluded from the service organisation’s description of its system and from the scope of the service auditor’s engagement. The service organisation’s description of its system and the scope of the service auditor’s engagement include controls at the service organisation to monitor the effectiveness of controls at the subservice organisation, which may include the service organisation’s review of an assurance report on controls at the subservice organisation.

*Close family* – A parent, non-dependent child or sibling.

*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.

*Comparative information (in the context of ISAE (NZ) 3410)* – The amounts and disclosures included in the GHG statement in respect of one or more prior periods.

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

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<sup>4</sup> “Partner” and “firm” should be read as referring to their public sector equivalents where relevant.

*Compliance* – Adherence by the entity to the applicable requirements as measured by suitable criteria.

*Compliance breach* – An instance of non-compliance with applicable requirements.

*Compliance engagement* – An assurance engagement in which an assurance provider expresses a conclusion in the form of an opinion after evaluating an entity's compliance with the applicable requirements.

*Compliance engagement risk* – The risk that an assurance provider expresses an inappropriate opinion when the entity is materially non-compliant with the applicable requirements.

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

*Compliance system* – The systems or programmes, including internal controls, established within an entity to provide reasonable assurance that the entity complies with applicable requirements.

*Component* – An entity or business activity for which group or component management prepares financial information that should be included in the group financial statements.

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

*Component management* – Management responsible for preparing the financial information of a component, overseen by those charged with governance of the component.

*Component materiality* – The materiality for a component determined by the group engagement team.

*Contingent fee* – A fee calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed by the firm. A fee that is established by a court or other public authority is not a contingent fee.

*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 objective* – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.

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

*Controls at the service organisation* – Controls over the achievement of a control objective that is covered by the service auditor's assurance report.

*Controls at a subservice organisation* – Controls at a subservice organisation to provide reasonable assurance about the achievement of a control objective.

*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* – Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure.

*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 recognised authority have asserted that they have taken responsibility for those financial statements.

*Date of report (in relation to quality control)* – The date selected by the assurance provider to date the report.

*Date of the auditor’s report* – The date the auditor dates the report on the financial statements in accordance with ISA (NZ) 700<sup>5</sup>.

*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* – The date that the auditor’s report and audited 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.

*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.

*Direct financial interest* – A financial interest:

- (a) owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- (b) beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

*Director* – Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title.

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

*Element of a financial statement (in the context of ISA (NZ) 805<sup>6</sup>)* – An “element, account or item of a financial statement.”

<sup>5</sup> ISA (NZ) 700, “Forming an Opinion and Reporting on Financial Statements.”

<sup>6</sup> ISA (NZ) 805, “Special Considerations-Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

*Emissions (in the context of ISAE (NZ) 3410)* – The GHGs that, during the relevant period, have been emitted to the atmosphere or would have been emitted to the atmosphere had they not been captured and channelled to a sink. Emissions can be categorised as:

- Direct emissions (also known as Scope 1 emissions), which are emissions from sources that are owned or controlled by the entity.
- Indirect emissions, which are emissions that are a consequence of the activities of the entity, but which occur at sources that are owned or controlled by another entity. Indirect emissions can be further categorised as:
  - Scope 2 emissions, which are emissions associated with energy that is transferred to and consumed by the entity.
  - Scope 3 emissions, which are all other indirect emissions.

*Emissions deduction (in the context of ISAE (NZ) 3410)* – Any item included in the entity’s GHG statement that is deducted from the total reported emissions, but which is not a removal; it commonly includes purchased offsets, but can also include a variety of other instruments or mechanisms such as performance credits and allowances that are recognised by a regulatory or other scheme of which the entity is a part.

*Emissions factor (in the context of ISAE (NZ) 3410)* – A mathematical factor or ratio for converting the measure of an activity (for example, litres of fuel consumed, kilometres travelled, the number of animals in husbandry, or tonnes of product produced) into an estimate of the quantity of GHGs associated with that activity.

*Emissions trading scheme (in the context of ISAE (NZ) 3410)* – A market-based approach used to control greenhouse gases by providing economic incentives for achieving reductions in the emissions of such gases.

*Emphasis of Matter paragraph* – 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 judgement, is of such importance that it is fundamental to users’ understanding of the financial statements.

*Engagement* – In the context of the Professional and Ethical Standards, is an assurance engagement.

*Engagement documentation* – The record of work performed, results obtained, and conclusions the assurance provider 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*<sup>7</sup> – The partner or other person in 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.

*(NZ) Engagement quality control review* – A process designed to provide an objective evaluation, before the report is issued, of the significant judgements the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is only for audits of financial statements of issuers and those other engagements, if any, for which the firm as determined an engagement quality control is required.

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<sup>7</sup> “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

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

*Engagement team* – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm. It also excludes individuals within an audit client's internal audit function providing direct assistance on the engagement.

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

*Entity (in the context of ISAE (NZ) 3410)* – The legal entity, economic entity, or the identifiable portion of a legal or economic entity (for example, a single factory or other form of facility, such as a land fill site), or combination of legal or other entities or portions of those entities (for example, a joint venture) to which the emissions in the GHG statement relate.

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

*Exception* – 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.

*Existing accountant* – An accountant currently holding an audit appointment or carrying out accounting, taxation, consulting or similar non-assurance services for a client.

*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) ISAs (NZ) 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 expert* – An individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organisation possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the assurance provider in obtaining sufficient appropriate evidence.

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

*Financial interest* – An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest.

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

*Financial statements on which the firm will express an opinion* – In the case of a single entity, the financial statements of that entity. In the case of consolidated financial statements, also referred to as group financial statements, the consolidated financial statements.

*Firm* – A sole practitioner, partnership or corporation or other entity providing assurance.

*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.

*Fraudulent financial reporting* – Involves intentional misstatement, 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 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 those charged with governance to provide disclosures beyond those specifically required by the framework; or
- (b) acknowledges explicitly that it may be necessary for those charged with governance 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 acknowledgements in (a) or (b) above.

*GHG statement (in the context of ISAE (NZ) 3410)* – A statement setting out constituent elements and quantifying an entity’s GHG emissions for a period (sometimes known as an emissions inventory) and, where applicable, comparative information and explanatory notes including a summary of significant quantification and reporting policies. An entity’s GHG statement may also include a categorised listing of removals or emissions deductions. Where the engagement does not cover the entire GHG statement, the term “GHG statement” is to be read as that portion that is covered by the engagement. The GHG statement is the “subject matter information” of the engagement

*Greenhouse gases (GHGs) (in the context of ISAE (NZ) 3410)* – Carbon dioxide (CO<sub>2</sub>) and any other gases required by the applicable criteria to be included in the GHG statement, such as: methane; nitrous oxide; sulfur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluorocarbons. Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO<sub>2</sub>-e).

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

*Group* – All the components whose financial information is included in the group financial statements. A group always has more than one component.

*Group audit* – The audit of group financial statements.

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

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

*Group engagement team* – Partners, including the group engagement partner, and staff who establish the overall group audit strategy, communicate with component auditors, perform work on the consolidation process, and evaluate the conclusions drawn from the audit evidence as the basis for forming an opinion on the group financial statements.

*Group financial statements* – Financial statements that include the financial information of more than one component. The term “group financial statements” also refers to combined financial statements aggregating the financial information prepared by components that have no parent but are under common control.

*Group management* – Management responsible for preparing the group financial statements.

*Group-wide controls* – Controls designed, implemented and maintained over group financial reporting.

*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.

*Immediate family* – A spouse (or equivalent) or dependent.

*Inconsistency* – Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from

audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.

*Inclusive method* – Method of dealing with the services provided by a subservice organisation, whereby the service organisation's description of its system includes the nature of the services provided by a subservice organisation, and that subservice organisation's relevant control objectives and related controls are included in the service organisation's description of its system and in the scope of the service auditor's engagement.

*Independence* – Independence is:

- (a) independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism
- (b) independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit or assurance team's, integrity, objectivity or professional scepticism has been compromised.

*Indirect financial interest* – A financial interest beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has no control or ability to influence investment decisions.

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

*Initial audit engagement* – 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.

*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.

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

*Intended users* – The person, persons or class of persons for whom the assurance provider prepares the assurance report. The responsible party can be one of the intended users, but cannot be the only one.

*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 audit function (in the context of ISAE (NZ) 3402)* – An appraisal activity established or provided as a service to the service organisation. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

*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.

*International Financial Reporting Standards* – The International Financial Reporting Standards issued by the International Accounting Standards Board

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

[NZ] *Issuer* – All issuers, as defined by the Securities Act 1978 (or any Act that replaces it) or any other Act (no matter what size).

*Key audit partner* – The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.

[NZ] *Key assurance partner* – The engagement partner, the individual responsible for the engagement quality control review, and other assurance partners, if any, on the engagement team who make key decisions or judgements on significant matters with respect to the assurance engagement.

*Lead engagement partner* – In connection with an audit, the partner responsible for signing the report on the consolidated financial statements of the audit client, and, where relevant, the partner responsible for signing the report in respect of any entity whose financial statements form part of the consolidated financial statements, and on which a separate stand-alone report is issued. When no consolidated financial statements are prepared, the lead engagement partner would be the partner responsible for signing the report on the financial statements.

*Limited assurance engagement* – (see *Assurance engagement*)

*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 and/or those charged with governance in the preparation of information.

*Management’s expert* – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

*Management’s point estimate* – The amount selected by management and/or those charged with governance for recognition or disclosure in the financial statements as an accounting estimate.

*Material* – (in relation to SAE 3100)

- (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) compliance breaches: breaches that are significant, individually or in aggregate, in the context of the entity’s compliance with applicable requirements, and that affect the assurance provider’s opinion; and/or
- (ii) in relation to an entity’s compliance system; instance(s) of deficiency that are significant in the context of the entity’s control environment as it affects achievement of the entity’s

compliance objectives, and that may increase the compliance engagement risk sufficiently to affect the assurance provider's opinion.

*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 amount, classification, presentation, or disclosure of a reported 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 judgement, 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.

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

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

*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 control policies and 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 a network.

*Non-compliance (in the context of ISA (NZ) 250<sup>8</sup>)* – Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

*Non-response* – 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.

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<sup>8</sup> ISA (NZ) 250, "Consideration of Laws and Regulations in an Audit of Financial Statements."



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

*Offer document* – A document, such as a prospectus, required by legislation to be prepared by an Issuer when securities are offered to the public.

*Office* – A distinct sub-group of a firm, whether organised on geographical or practice lines.

*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.

*Organisational boundary (in the context of ISAE (NZ) 3410)* – The boundary that determines which operations to include in the entity’s GHG statement.

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

*Other Matter paragraph* – 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 judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s 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.

*Partner* – Any individual with authority to bind the firm with respect to the performance of an assurance 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.

*Performance materiality (in the context of ISAE (NZ) 3410)* – The amount or amounts set by the assurance provider at less than materiality for the GHG statement to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the GHG statement. If applicable, performance materiality also refers to the amount or amounts set by the assurance provider at less than the materiality level or levels for particular types of emissions or disclosures.

*Personnel* – Partners and staff.

*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 judgement:

- (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.

*Preconditions for an audit* – The use of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of those charged with governance to the premise 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 those charged with governance, on which an audit is conducted* – That 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 ISAs (NZ). 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 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 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 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 of the matters to which they relate* in accordance with the financial reporting framework.”

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

*Pro forma adjustments* – In relation to unadjusted financial information, these include:

- (i) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and

- (ii) Adjustments to unadjusted financial information that are necessary for the pro forma financial information to be compiled on a basis consistent with the applicable financial reporting framework of the reporting entity (“entity”) and its accounting policies under that framework.

Pro forma adjustments include the relevant financial information of a business that has been, or is to be, acquired (“acquiree”), or a business that has been, or is to be, divested (“divestee”), to the extent that such information is used in compiling the pro forma financial information (“acquiree or divestee financial information”).

*Pro forma financial information* – Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. In ISAE (NZ) 3420, it is presumed that pro forma financial information is presented in columnar format consisting of (a) the unadjusted financial information; (b) the pro forma adjustments; and (c) the resulting pro forma column.

*Professional judgement* – 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 assurance engagement.

*Professional scepticism* – 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 assurance evidence.

*Professional scepticism (in the context of SAE 3100)* – An attitude that includes a questioning mind, being alert to conditions which may indicate possible compliance breaches. An attitude of professional scepticism means the assurance provider makes a critical assessment of the validity of the evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.

*Professional services* – Professional activities performed for clients.

*Prospectus* – A document issued pursuant to legal or regulatory requirements relating to the entity’s securities on which it is intended that a third party should make an investment decision.

*[NZ] Public benefit entities* – Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

*[NZ] Public entity* – Has the meaning as defined in section 5 (1) of the Public Audit Act 2001.

*[NZ] Public sector auditor* – The Auditor-General or an auditor appointed by the Auditor-General to perform audits or other assurance services for public entities.

*Published financial information* – Financial information of the entity or of an acquiree or a divestee that is made available publicly.

*Purchased offset (in the context of ISAE (NZ) 3410)* – An emissions deduction in which the entity pays for the lowering of another entity’s emissions (emissions reductions) or the increasing of another entity’s removals (removal enhancements), compared to a hypothetical baseline.

*Quantification (in the context of ISAE (NZ) 3410)* – The process of determining the quantity of GHGs that relate to the entity, either directly or indirectly, as emitted (or removed) by particular sources (or sinks).

*Reasonable assurance* – A high, but not absolute, level of assurance.

*Reasonable assurance engagement* – (See *Assurance engagement*)

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

*Related entity* – An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.

*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.

*[NZ] Relevant ethical requirements* – Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise the Ethical Standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

*Removal (in the context of ISAE (NZ) 3410)* – The GHGs that the entity has, during the period, removed from the atmosphere, or that would have been emitted to the atmosphere had they not been captured and channeled to a sink.

*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 organisation* (referred to in ISA (NZ) 402<sup>9</sup> and ISAE (NZ) 3402<sup>10</sup> as a type 1 report) – A report that comprises:

<sup>9</sup> ISA (NZ) 402, “Audit Considerations Relating to an Entity Using a Service Organisation.”

<sup>10</sup> ISAE (NZ) 3402, “Assurance Reports on Controls at a Service Organisation.”

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

*Report on the description, design, and operating effectiveness of controls at a service organisation* (referred to in ISA (NZ) 402 and ISAE (NZ) 3402 as a type 2 report) – A report that comprises:

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

*Responsible party* – The person(s) within an entity who:

- (a) in a direct reporting engagement, is responsible for the subject matter, (that is, ensuring compliance with applicable requirements).
- (b) in an assertion-based engagement, is responsible for the subject matter information<sup>11</sup> (assertions with regard to the evaluation or measurement of the subject matter applying suitable criteria in accordance with applicable requirements) on which the assurance provider expresses an opinion in the report.

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

*Review (in relation to a Review engagement)* – A review is an examination of financial information of any entity, whether profit-oriented or not and irrespective of its size or legal form, when such an examination is conducted with the objective of providing a report that nothing has come to the assurance provider's attention to cause the assurance provider to believe that the financial information does not present a true and fair view, and which may result in the reader obtaining a moderate level of assurance on the financial information.

*Review client* – An entity in respect of which a firm conducts a review engagement.

*Review engagement* – An assurance engagement, conducted in accordance with Review Standard 1 (RS 1), in which an assurance provider expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance provider's attention that causes the assurance provider to believe that the

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<sup>11</sup> For an understanding of "subject matter" and "subject matter information" see XRB EG Au1, paragraph 17-20.

financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

*Review team –*

- (a) All members of the engagement team for the review engagement; and
- (b) All others within a firm who can directly influence the outcome of the review engagement, including:
  - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the review engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm's Senior or Managing Partner (Chief Executive or equivalent);
  - (ii) Those who provide consultation regarding technical or industry specific issues, transactions or events for the engagement; and
  - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the review engagement.

*Risk assessment procedures –* The audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial 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 transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

*Sampling – (see Audit sampling)*

*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 organisation, provides an assurance report on the controls of a service organisation.

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

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

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

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

*Significant facility (in the context of ISAE (NZ) 3410)* – A facility that is of individual significance due to the size of its emissions relative to the aggregate emissions included in the GHG statement or its specific nature or circumstances which give rise to particular risks of material misstatement.

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

*Sink (in the context of ISAE (NZ) 3410)* – A physical unit or process that removes GHGs from the atmosphere.

*Source (in the context of ISAE (NZ) 3410)* – A physical unit or process that releases GHGs into the atmosphere.

*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.

*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 assurance provider 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 organisation* – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities’ information systems relevant to financial reporting.

*Substantive procedure* – 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.

*Suitable criteria* – The benchmarks or bases that are suitable to be used to evaluate the entity’s compliance with the applicable requirements.

*Suitably qualified external person* – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform assurance engagements or of an organisation that provides relevant quality control services.

*Summary financial statements (in the context of ISA (NZ) 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. Different jurisdictions may use different terminology to describe such historical financial information.

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

*Test 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* – a party other than the entity, advising assurance provider

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

*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.

*Type of emission (in the context of ISAE (NZ) 3410)* – A grouping of emissions based on, for example, source of emission, type of gas, region, or facility.

*Unadjusted financial information* – Financial information of the entity to which pro forma adjustments are applied by the responsible party.

*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.

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

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

*Written representation* – A written statement by those charged with governance 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.