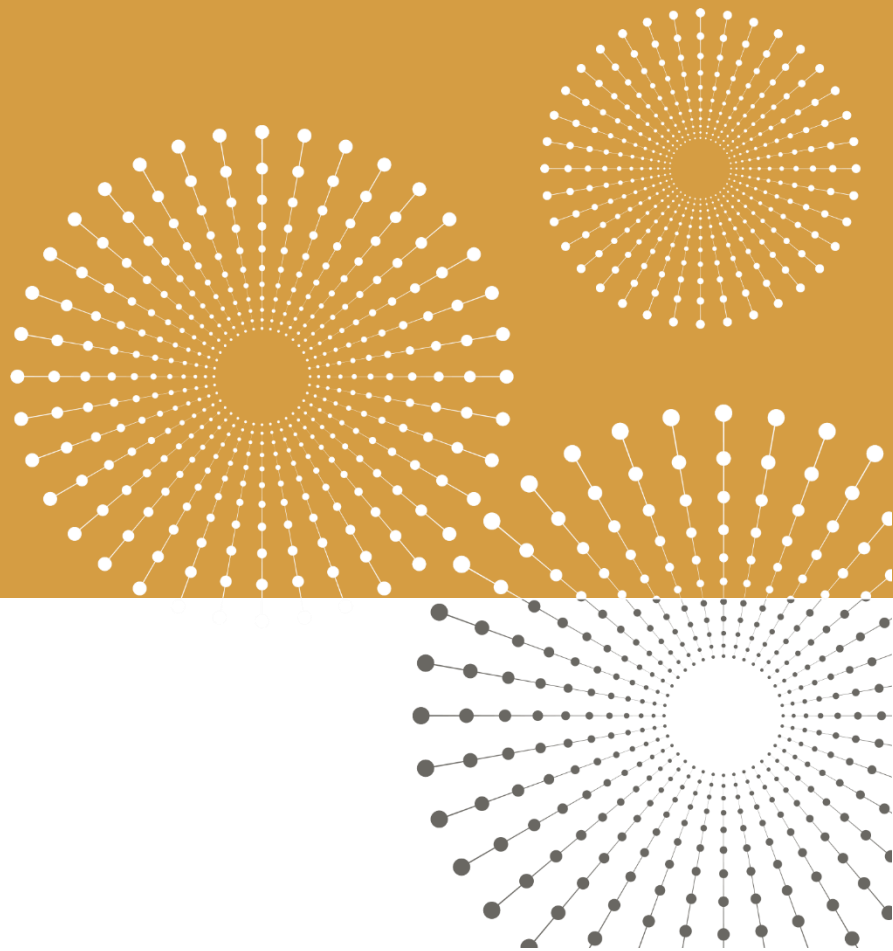


Explanatory Guide Au4

Glossary of Terms

Issued October 2012



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EXPLANATORY GUIDE Au4 Glossary of Terms**Issued October 2012**

This Explanatory Guide is issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB). This Glossary of Terms contains the definitions embedded in the auditing, review, other assurance, and related services standards, including the professional and ethical standards, issued by the XRB or the NZAuASB, as well as definitions of undefined terms that are used in those standards.

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EXPLANATORY GUIDE Au4

GLOSSARY OF TERMS¹

Issued by the New Zealand Auditing and Assurance Standards Board

This Glossary of Terms contains the definitions embedded in the auditing, review, other assurance, and related services standards, including the professional and ethical standards, issued by the XRB or the NZAuASB, as well as definitions of undefined terms that are used in those standards.

Explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of Professional and Ethical Standard 1² or for additional explanations of defined terms. References are also provided to terms described in Professional and Ethical Standard 1.

Acceptable level – A level at which an assurance practitioner using the reasonable and informed third party test would likely conclude that the assurance practitioner complies with the fundamental principles.

Access controls – Procedures designed to restrict access to on-line terminal devices, programmes and data. Access controls consist of “user authentication” and “user authorisation.” “User authentication” typically attempts to identify a user through unique logon identifications, passwords, access cards or biometric data. “User authorisation” consists of access rules to determine the computer resources each user may access. Specifically, such procedures are designed to prevent and detect:

- Unauthorised access to on-line terminal devices, programmes and data;
- Entry of unauthorised transactions;
- Unauthorised changes to data files;
- The use of computer programmes by unauthorised personnel; and
- The use of computer programmes that have not been authorised.

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 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 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 practitioners with a view to procuring assurance business.

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

² Professional and Ethical Standard (PES) 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

Agreed-upon procedures – Procedures that have been agreed to by the practitioner and the engaging party (and if relevant, other parties).

Agreed-upon procedures engagement – An engagement in which a practitioner is engaged to carry out procedures to which the practitioner and the engaging party (and if relevant, other parties) have agreed and to communicate the procedures performed and the related findings in an agreed-upon procedures report.

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 criteria (in the context of ISAE (NZ) 3410³) – The criteria used by the entity to quantify and report its emissions in the GHG statement.

Applicable criteria (in the context of ISAE (NZ) 3420⁴) – The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorised or 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 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.

³ ISAE (NZ) 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁴ ISAE (NZ) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

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.

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 ISA (NZ) 810 (Revised)⁵) – The criteria applied by management in the preparation of the summary financial statements.

Appropriate reviewer – An appropriate reviewer is a professional with the necessary knowledge, skills, experience and authority to review, in an objective manner, the relevant work performed or service provided. Such an individual might be an assurance practitioner.

This term is described in Professional and Ethical Standard 1, paragraph 300.8 A4.

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.

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 practitioner 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 – The responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

Assurance engagement – An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions:

⁵ ISA (NZ) 810 (Revised), *Engagements to Report on Summary Financial Statements*

- (a) Either a reasonable assurance engagement or a limited assurance engagement:
- (i) Reasonable assurance engagement – An assurance engagement in which the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner’s conclusion. The assurance practitioner’s conclusion is expressed in a form that conveys the assurance practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
 - (ii) Limited assurance engagement – An assurance engagement in which the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner’s attention to cause the assurance practitioner to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner’s professional judgement, meaningful. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.
- (b) Either an attestation engagement or a direct engagement:
- (i) Attestation engagement – An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner’s conclusion addresses whether the subject matter information is free from material misstatement. The assurance practitioner’s conclusion may be phrased in terms of
 - a. The underlying subject matter and the applicable criteria;
 - b. The subject matter information, and the applicable criteria; or
 - c. A statement made by the appropriate party.
 - (ii) Direct engagement – An assurance engagement in which the assurance practitioner means or evaluates the underlying subject matter against the applicable criteria and the assurance practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner’s conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

[NZ] Assurance practitioner – A person or an organisation, whether in public practice, industry, commerce or the public sector, appointed or engaged to undertake assurance engagements or related services.

[NZ] Assurance practitioner's expert – An individual or organisation possessing expertise in a field other than assurance, whose work in that field is used by the assurance practitioner to assist the assurance practitioner in obtaining sufficient appropriate audit evidence. An assurance practitioner's expert may be either an assurance practitioner's internal expert (who is a partner or staff, including temporary staff, of the assurance practitioner's firm or a network firm), or an assurance practitioner's external expert.

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

Assurance skills and techniques – Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation.

Assurance team –

- (a) all members of the engagement team for 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;
 - (ii) those who provide consultation regarding technical or industry specific issues, transactions or events for the assurance engagement; and
 - (iii) those who provide quality control for the assurance engagement, including those who perform the engagement quality control review for the assurance engagement.

Attestation engagement – An assurance engagement in which a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. In an attestation engagement, the assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The assurance practitioner's conclusion may be phrased in terms of:

- (a) The underlying subject matter and the applicable criteria;
- (b) The subject matter information and the applicable criteria; or
- (c) A statement made by the appropriate party(ies).

Attestation engagement on compliance (in the context of SAE 3100 (Revised))⁶ – A reasonable or limited assurance engagement in which a party other than the assurance practitioner, being the responsible party or evaluator, evaluates compliance with the compliance requirements. The outcome of that evaluation is provided in a Statement, which may either be available to the intended users or may be presented by the assurance practitioner in the assurance report. In an attestation engagement on compliance, the assurance practitioner's conclusion addresses whether the Statement is free from material misstatement. The assurance practitioner's conclusion may be phrased in terms of:

⁶ SAE 3100 (Revised) *Compliance Engagements*

- (a) The compliance outcome and the criteria; or
- (b) A Statement made by the appropriate party.

Attestation engagement on controls – A reasonable or limited assurance engagement in which a party other than the assurance practitioner, being the responsible party or evaluator, evaluates the design against the control objectives, and, if included in the scope of the engagement, the description, implementation or operating effectiveness of controls, against the design. The outcome of that evaluation is provided in a Statement, which may either be available to the intended users of the assurance report or may be presented by the assurance practitioner in the assurance report. The assurance practitioner’s conclusion may be phrased in terms of:

- (a) the design, and/or description, implementation or operating effectiveness of controls and the control objectives; or
- (b) the Statement of the responsible party or evaluator.

[NZ] Audit client – An entity in respect of which a firm conducts an audit engagement. When the client is a FMC reporting entity considered to have a higher level of public accountability, audit client will always include its related entities. When the audit client is not a FMC reporting entity considered to have a higher level of public accountability, audit client includes those related entities over which the client has direct or indirect control.

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 practitioner 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. (See also *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.

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
 - (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 audit engagement.

Audited financial statements (in the context of ISA (NZ) 810 (Revised)) – Financial statements audited by the auditor in accordance with ISAs (NZ), and from which the summary financial statements are derived.

Auditor – 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 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 context.

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 partner⁷ 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*)

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.

⁷ “Partner” and “firm” should be read as referring to their public sector equivalents where relevant.

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, child or sibling who is not an immediate family member.

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.

Compensating control – A control which makes up for a deficiency in another control in mitigating the risks that threaten achievement of a control objective.

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.

Compliance activity (subject matter or underlying subject matter) (in the context of SAE 3100 (Revised)) – The activity that is undertaken to meet the compliance requirement(s).

Compliance engagement (in the context of SAE 3100 (Revised)) – An assurance engagement in which an assurance practitioner expresses a conclusion after evaluating an entity’s compliance with the compliance requirements.

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

Compliance framework (in the context of SAE 3100 (Revised)) – A framework adopted by the entity, which is designed to ensure that the entity achieves compliance, and includes governance structures, programmes, processes, systems, controls and procedures.

Compliance outcome (subject matter information) (in the context of SAE 3100 (Revised)) – The outcome of the evaluation of the underlying subject matter (compliance activity) against the compliance requirements, using the criteria. The compliance outcome is the Statement of the responsible party or evaluator in an attestation engagement on compliance, or the assurance practitioner’s conclusion in a direct engagement on compliance, providing the outcome of their evaluation.

Compliance requirement(s) (in the context of SAE 3100 (Revised)) – The requirements established in law, regulations, other statutory requirements (e.g., Financial Markets Authority’s Standard Conditions for derivatives issuer licences), contractual arrangements, ministerial directives, industry or professional obligations or internally via entity policies, procedures and frameworks.

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.

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

Components of control – The integrated components which comprise the system of control, as defined by the control framework applied.

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

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 objective (in the context of SAE 3150⁸) – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate and may be categorised by the framework applied, such as operational (economy, effectiveness and efficiency), reporting (statutory or management, financial or non-financial) or compliance (adherence to laws and regulations or contractual obligations).

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

Controls – Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context:

- (i) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
- (ii) Procedures are actions to implement policies.

⁸ SAE 3150, *Assurance Engagements on Controls*

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 – The benchmarks used to measure or evaluate the underlying subject matter. The “applicable criteria” are the criteria used for the particular engagement.

Criteria (in the context of SAE 3100 (Revised)) – The benchmark, framework or legislation used to evaluate *whether* the compliance requirements have been met. The “applicable criteria” are the criteria used for the particular engagement.

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 the auditor’s report – The date the auditor dates the report on the financial statements in accordance with ISA (NZ) 700 (Revised).⁹

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 design of controls – An inadequacy or omission in the design of a control(s) that, in the assurance practitioner’s professional judgement, means the control(s) is not designed suitably to mitigate the risks that threaten achievement of the identified control objective(s).

Deficiency in implementation of controls – Instances where a control was not implemented as designed that, in the assurance practitioner’s professional judgement, mean the control(s) may not operate effectively as designed to achieve the identified control objective(s).

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.

Description of the system – A document prepared by the responsible party and provided to users, if included in the scope of the engagement, describing the entity’s system, within which the controls to be concluded upon operate, including identification of: the functions or services covered; the period or date to which the description relates; control objectives and details of,

⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

or reference to documentation detailing the controls designed to achieve those objectives. The entity's functions or services may be identified by geographic, operational or functional boundaries. A description of the system is distinct from documentation prepared by the responsible party or assurance practitioner, as the description is part of the subject matter of the engagement, which, if included in the scope of the engagement, is made available to users and concluded upon by the assurance practitioner. A description may be included in the scope of an attestation or direct engagement, however in a direct engagement no attestation is provided by the responsible party or evaluator with respect to whether the description is fairly presented.

Deficiency in the firm's system of quality management (in the context of PES 3) – 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) Any other aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of PES 3 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.

Deviation in operating effectiveness of controls – Instances where a control(s) was not operating as designed.

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

Direct controls – Controls which directly address the risks of a control objective not being achieved, by detecting, preventing or correcting a failure to achieve a control objective on a timely basis.

Direct engagement – An assurance engagement in which the assurance practitioner measures or evaluates the underlying subject matter against the applicable criteria and the assurance practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

Direct engagement on controls – A reasonable or limited assurance engagement in which the assurance practitioner evaluates the design of the controls against the control objectives and, if included in the scope of the engagement, the description, implementation and/or operating effectiveness of controls against the design. The outcome of the assurance practitioner's evaluation (subject matter information) is expressed in the assurance practitioner's conclusion.

Direct engagement on compliance – A reasonable or limited assurance engagement in which the assurance practitioner evaluates whether the compliance requirements have been met. The compliance outcome of the assurance practitioner's evaluation (the subject matter information) is expressed in the assurance practitioner's conclusion.

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 or officer – Those charged with the governance of an entity, or acting in an equivalent capacity, regardless of their title, which might vary from jurisdiction to jurisdiction.

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

Element of a financial statement (in the context of ISA (NZ) 805 (Revised)¹⁰ – An element, account or item 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 circumstances – The broad context defining the particular engagement, which includes: the terms of the engagement; whether it is a reasonable assurance engagement or a

¹⁰ ISA (NZ) 805 (Revised), *Special Considerations-Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

limited assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

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*¹¹ – 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 partner includes an employee of the Auditor-General, whom the Auditor-General has appointed under the Public Audit Act 2001 to act as an auditor and who:

- (i) Is responsible for the engagement and its performance, and for the report that is issued on behalf of the Auditor-General; and
- (ii) Where required, has the appropriate authority from a professional, legal or regulatory body.

*Engagement partner*¹² (in the context of ISRS (NZ) 4400) - The partner or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the agreed-upon procedures 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 period (audit and review engagements) – The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit or review report.

Engagement period (assurance engagements other than audit and review engagements) – The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final assurance report.

Engagement quality review – An objective evaluation of the significant judgements 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 – The risk that the assurance practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

¹¹ “Engagement partner”, “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

¹² “Engagement partner”, “partner”, and “firm” should be read as referring to their public sector equivalents where relevant.

*Engagement risk (in the context of ISRE (NZ) 2400)*¹³ – The risk that the assurance practitioner expresses an inappropriate conclusion when the financial statements are materially misstated.

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, excluding an external expert¹⁴ and internal auditors who provide direct assistance on an engagement.

Engagement team (in the context of ISA (NZ) 220 (Revised)) – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor’s external expert¹⁵ and internal auditors who provide direct assistance on an engagement.¹⁶

*Engagement team (in the context of ISAE (NZ) 3000 (Revised))*¹⁷ – All assurance practitioners and staff performing the engagement and any other individuals who perform procedures on the engagement, excluding an assurance practitioner’s external expert.

*Engagement team (in the context of ISRS (NZ) 4400)*¹⁸ – All partners and staff performing the agreed-upon procedures engagement, and any other individuals who perform procedures on the engagement, excluding a practitioner’s external expert.

Engaging party – The party(ies) that engages the assurance practitioner to perform the assurance engagement.

Engaging party (in the context of ISRS (NZ) 4400) – The party(ies) that engage(s) the practitioner to perform the agreed-upon procedures engagement.

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

Enquiry (in the context of ISRE (NZ) 2400) – Enquiry consists of seeking information of knowledgeable persons from within or outside the entity.

Entity (in the context of SAE 3100 (Revised)) – The legal entity, economic entity, or the identifiable portion of a legal or economic entity, or combination of legal or other entities or portions of those entities (for example, a joint venture) to which the compliance requirements relate.

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.

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

¹³ ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

¹⁴ ISA (NZ) 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

¹⁵ ISA (NZ) 620, paragraph 6(a), defines the term “auditor’s expert.”

¹⁶ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

¹⁷ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

¹⁸ ISRS (NZ) 4400, *Agreed-upon Procedures Engagements*

Entity's system (or the system) (in the context of SAE 3150) – The policies and procedures designed and implemented by the entity to provide the functions or services covered by the assurance practitioner's report, including the control objectives which address the overall objectives relevant to those functions or services and the controls designed to mitigate the risks that threaten achievement of those objectives.

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 – Susceptibility 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*)

Evaluator – The party(ies) who evaluates the underlying subject matter against the criteria. The evaluator possesses expertise in the underlying subject matter.

Evidence – Information used by the assurance practitioner in arriving at the assurance practitioner's conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the ISAEs (NZ):

- (a) Sufficiency of evidence is the measure of the quantity of evidence
- (b) Appropriateness of evidence is the measure of the quality of evidence

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 *Assurance practitioner's expert, Auditor's expert, External 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 practitioner in obtaining sufficient appropriate evidence.

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 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 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.

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.

Findings (in the context of ISRS (NZ) 4400) – Findings are the factual results of agreed-upon procedures performed. Findings are capable of being objectively verified. References to findings in ISRS (NZ) 4400 exclude opinions or conclusions in any form as well as any recommendations that the practitioner may make.

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 assurance practitioners, or public sector equivalent.

[NZ] Firm includes the Auditor-General as defined in section 10(1) of the Public Audit Act 2001.

Firm (in the context of PES 1)

- (a) A sole practitioner, partnership or corporation undertaking assurance engagements;
- (b) An entity that controls such parties, through ownership, management or other means; and
- (c) An entity controlled by such parties, through ownership, management or other means.

[NZ] FMC reporting entity considered to have a higher level of public accountability – A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the Financial Markets Conduct Act 2013; or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1) of the Financial Markets Conduct Act 2013.

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 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 processing controls 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 report – Comprise the financial statements and service performance information and, where applicable, *entity* information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report.

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.

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.

Greenhouse gases (GHGs) (in the context of ISAE (NZ) 3410) – Carbon dioxide (CO₂) and any other gases required by the applicable criteria to be included in the GHG statement, such as: methane; nitrous oxide; sulphur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluorocarbons. Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO₂-e).

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 the preparation of 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.

Implementation – The process of putting controls into effect by deployment or roll-out of controls to enable their operation as designed.

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.

Inclusive method (in the context of SAE 3150) – A method of dealing with the controls operating at a third party, which are integral to the system of control component which is subject to the assurance engagement, whereby the third party’s relevant control objectives and related controls are included in the scope of the assurance practitioner’s engagement.

Independence – Independence comprises:

- (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 that a firm’s, or an audit or assurance team member’s, integrity, objectivity or professional scepticism has been compromised.

Indirect controls – Controls which do not directly address the risks of a control objective not being achieved, but have an impact on the effectiveness of direct controls in detecting, preventing or correcting a failure to achieve a control objective on a timely basis.

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.

Inducement – An object, situation, or action that is used as a means to influence another individual’s behaviour, but not necessarily with the intent to improperly influence that individual’s behaviour.

Information system relevant to financial reporting – A component of internal control that includes the financial reporting system, and consists of the procedures and records established to initiate, record, process and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity.

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 – 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.

Intended users – The individual(s) or organisation(s), or group(s) thereof that the assurance 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.

Intended users (in the context of ISRS (NZ) 4400) – The individual(s) or organisation(s), or group(s) that the practitioner expects will use the agreed-upon procedures report. In some cases, there may be intended users other than those to whom the agreed-upon procedures report is addressed.

Interim financial statements – Financial statements that are prepared in accordance with an applicable financial reporting framework for a period that is shorter than the entity’s financial year.

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 auditors (in the context of SAE 3150) – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function, outsourcing entity or co-sourced from both internal audit and out-sourced resources.

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.

Internal control or control (in the context of SAE 3150) – The process designed, implemented and maintained by those charged with governance, management and other personnel to mitigate risks which may prevent the achievement of control objectives relating to the entity’s system. Controls within the scope of the assurance engagement may comprise any aspects of one or more components of control over an area(s) of activity within a defined boundary, such as the group, entity, facility or location.

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.

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 judgement, were of most significance in the audit or the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

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 assurance practitioner – The assurance practitioner or other individual, appointed by the firm who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. The “lead assurance practitioner” should be read as referring to its public sector equivalents where relevant.

Limited assurance engagement – (see *Assurance engagement*)

Limited assurance (in the context of ISRE (NZ) 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 ISRE (NZ) 2400. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the assurance practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users’ confidence about the financial statements.

[NZ] *Listed issuer* – A person that is party to a listing agreement with a licensed market operator in relation to a licensed market (and includes a licensed market operator that has financial products quoted on its own licensed market) (as defined in the Financial Markets Conduct Act 2013 section 6(1)).

Long-form report (in the context of NZ AS 1) – Auditor’s report including *information* and explanations that are intended to meet the information needs of intended users but not to affect the auditor’s opinion.

Long-form report (in the context of SAE 3100 (Revised)) – Assurance report including other information and explanations that are intended to meet the information needs of users but not to affect the practitioner’s conclusion. In addition to the matters required to be contained in the assurance practitioner’s report, long-form reports may describe in detail matters such as:

- (a) the terms of the engagement;
- (b) the criteria being used and the specific compliance objectives designed to meet each compliance requirement;
- (c) descriptions of the procedures that were performed;
- (d) findings relating to the procedures that were performed or particular aspects of the engagement;

- (e) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;
- (f) disclosure of materiality levels; or
- (g) recommendations.

The assurance practitioner may find it helpful to consider the significance of providing such information to meeting the needs of the intended users. Additional material is clearly separated from the practitioner's conclusion and worded in such a manner as to make it clear that it is not intended to alter or detract from that conclusion.

Long-form report (in the context of SAE 3150) – Assurance report including other information and explanations that are intended to meet the information needs of users but not to affect the practitioner's conclusion. In addition to the matters required to be contained in the assurance practitioner's report, long-form reports may describe in detail matters such as:

- (h) the terms of the engagement;
- (i) the criteria being used, such as the specific control objectives and controls as designed to achieve each objective;
- (j) the descriptions of the tests of controls that were performed;
- (k) findings relating to the tests of controls that were performed;
- (l) details of the qualifications and experience of the assurance practitioner and others involved with the engagement;
- (m) disclosure of materiality levels; or
- (n) recommendations.

The assurance practitioner may find it helpful to consider the significance of providing such information to meeting the needs of the intended users. Additional material is clearly separated from the practitioner's conclusion and worded in such a manner as to make it clear that it is not intended to alter or detract from that conclusion.

Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, 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 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 for recognition or disclosure in the financial statements as an accounting estimate.

Material – (in the context of SAE 3100 (Revised))

- (i) in relation to potential (for risk assessment purposes) or detected (for evaluation purposes) matter(s) of non-compliance – instance(s) of non-compliance that are significant, individually or collectively, in the context of the entity's compliance with compliance requirements, and that might influence relevant decisions of intended users or affect the assurance practitioner's conclusion; and/or

- (ii) in relation to the compliance framework and controls – instance(s) of deficiency that are significant in the context of the entity’s control environment and that may raise the compliance engagement risk sufficiently to affect the assurance practitioner’s conclusion.

Material control (in the context of SAE 3150) – A control which is necessary to mitigate the risk of a control objective not being achieved and for which there are no or insufficient compensating controls. The relevant control objectives are those at the level to be concluded on in the assurance report, whether overall or specific control objectives.

Measurer or evaluator – The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possess expertise in the underlying subject matter.

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 able to disguise or conceal 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 (in the context of NZ AS 1) – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.

Misstatement (in the context of ISAE (NZ) 3000 (Revised)) – A difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omission.

Misstatement (in the context of SAE 3100 (Revised)) – For attestation engagements on compliance, a difference between the Statement and the assurance practitioner’s evaluation of compliance with the compliance requirements. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

Misstatement (in the context of SAE 3150) –

- (a) In an attestation engagement, a difference between the responsible party or evaluator’s Statement and the appropriate evaluation of the design of controls against the control objectives, and/or the description, implementation or operating effectiveness of controls against the design, which is expressed either as a misstatement in the responsible party or evaluator’s Statement, or as a deficiency in the suitability of the design, misstatement in

the description, deficiency in implementation or deviation in operating effectiveness of controls.

- (b) In a direct engagement, a difference between the design and a design suitable to achieve the control objectives and/or a difference between the description, implementation or operating effectiveness of controls and the design, in so far as it is suitable, which is expressed as a deficiency in the suitability of the design of controls to achieve the control objectives, misstatement in the description, deficiency in the implementation or deviation in the operating effectiveness of controls as designed.

Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions.

Misstatement in the description of the system – An inaccuracy, inadequacy or omission in the description, including in identification of the boundaries and other identifying characteristics of the system, the control components described, the areas of activity encompassed and the controls as designed and/or implemented.

Misstatement of fact (with respect to other information) (in the context is ISAE (NZ) 3000 (Revised)) – Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information.

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.

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 ISA (NZ) 250¹⁹) – 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-compliance (in the context of SAE 3100 (Revised)) – For both attestation and direct engagements on compliance, a failure to meet a compliance requirement in whole or in part.

Non-response – A failure of the confirming party to respond, or fully respond, to a positive

¹⁹ ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

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 inventory counting by the entity's personnel, or of the performance of control activities.

[NZ] Offer document – A document, such as a product disclosure statement or a disclosure document, required by legislation to be prepared by an entity when financial products 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 or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.

Other information (in the context of ISAE (NZ) 3000 (Revised)) – Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon.

Other information (in the context of NZ AS 1) – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable, and the auditor's report thereon) included in an entity's annual report.

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 that 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.

Overall control objectives – Explicit or implicit assertions by the responsible party with respect to the subject matter that in an assurance engagement on controls, represent the broad objectives or purpose of the controls, in the context of the control component and system included in the scope of the engagement.

Partner – Any individual with authority to bind the firm with respect to the performance of an engagement governed by the standards of the XRB (including audits or reviews of financial statements, or other assurance or related services²⁰ engagements).

[NZ] Partner includes an employee of the Auditor-General with authority to bind the Auditor-General with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services engagements).

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 practitioner 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 practitioner at less than the materiality level or levels for particular types of emissions 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 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.

Pervasive (in the context of SAE 3150) – The effect or possible effect on the system of controls of, identified or undetected, deficiencies in the design of controls, misstatements in the description, deficiencies in implementation as designed or deviations in operating effectiveness as designed. Pervasive effects on the controls system are those that, in the assurance practitioner's judgement:

- (a) Are not confined to certain overall or specific control objectives, areas of activity, components of control or controls; or
- (b) If so confined, represent or could represent a substantial proportion of the system of controls included in the scope of the engagement.

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

²⁰ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

Population (in the context of SAE 3150) – The entire set of instances of a particular control from which a sample is selected and about which the assurance practitioner 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 ISRS (NZ) 4400) – The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm)²¹.

Practitioner's expert (in the context of ISRS (NZ) 4400) – An individual or organisation possessing expertise in a field other than assurance and related services, whose work in that field is used to assist the practitioner in fulfilling the practitioner's responsibilities for the agreed-upon procedures engagement. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm) or a practitioner's external expert.

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 on which an audit is conducted.

Predecessor accountant – A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

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 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 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

²¹ The practitioner may be in public practice, industry, commerce or the public sector.

- (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.”

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 activity – An activity requiring accountancy or related skills undertaken by an assurance practitioner, including accounting, auditing, taxation, management consulting, and financial management.

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 audit engagement.

Professional judgement (in the context of Professional and Ethical Standard 1) – Professional judgement involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

Professional judgement (in the context of Professional and Ethical Standard 3) – 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 judgement (in the context of ISAE (NZ) 3000 (Revised) and SAE 3100 (Revised)) – The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

Professional judgement (in the context of ISRE (NZ) 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 judgement (in the context of ISRS (NZ) 4400) – The application of relevant training, knowledge and experience, within the context provided by related services standards and relevant ethical requirements, in making informed decisions about the courses of action that are appropriate in the circumstances of the agreed-upon procedures 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 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 practitioner 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.

Professional standards – The standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board.

[NZ] Proposed assurance practitioner – An assurance practitioner who is considering accepting an audit, review or assurance appointment for a prospective client (or in some cases, an existing client).

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 interest entity – Any entity that meets the Tier 1 criteria in accordance with XRB A1²² and is not eligible to report in accordance with the accounting requirements of another tier.

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.

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

²² XRB A1, *Application of the Accounting Standards Framework*

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.

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 (in the context of an audit of financial statements, PES 3 and PES 4) – 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.

Related services – services to perform agreed-upon procedures or other non-assurance work that may ordinarily be carried out by an audit or assurance practitioner.

Relevant assertions – An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk).

Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to assurance practitioners when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1²³ related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.

Relevant ethical requirements (in the context of the ISAs (NZ)) – Ethical requirements to which the engagement team and the engagement quality reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of Professional and Ethical Standard 1 related to an audit of financial statements.

Relevant ethical requirements (in the context of ISRE (NZ) 2400) – Ethical requirements the engagement team is subject to when undertaking review engagements, which ordinarily comprise the provisions of Professional and Ethical Standard together with relevant legal, regulatory or contractual requirements that are more restrictive.

Relevant ethical requirements (in the context of ISRS (NZ) 4400) – Principles of professional ethics and ethical requirements that are applicable to the engagement team when undertaking agreed-upon procedures engagements. Relevant ethical requirements ordinarily comprise the provisions of Professional and Ethical Standard 1 together with national requirements that are more restrictive.

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) 402²⁴ as a “type 1 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 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.

²³ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

²⁴ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

Report on the description and design of controls at a service organisation (referred to in ISAE (NZ) 3402²⁵ as a “type 1 report”) (in the context of ISAE 3402) – A report that comprises:

- (a) the service organisation’s description of its system;
- (b) a written statement by the service organisation that, in all material respects, and based on suitable criteria:
 - (i) the description fairly presents the service organisation’s system as designed and implemented as at the specified date;
 - (ii) the controls related to control objectives stated in the service organisation’s description of its systems were suitably designed as at the specified date; and
- (c) a service auditor’s assurance report that conveys a reasonable assurance conclusion about the matters in (b)(i)-(ii) above.

Report on the description, design, and operating effectiveness of controls at a service organisation (referred to in ISA (NZ) 402 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.

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

- (a) the service organisation’s description of its system
- (b) a written statement by the service organisation that, in all material respects, and based on suitable criteria:
 - (i) the description fairly presents the service organisation’s system as designed and implemented throughout the specified period;
 - (ii) the controls related to the control objectives stated in the service organisation’s description of its system were suitably designed throughout the specified period; and
 - (iii) the controls related to the control objectives stated in the service organisation’s description of its system operated effectively throughout the specified period; and
- (c) a service auditor’s assurance report that:

²⁵ ISAE (NZ) 3402, *Assurance Reports on Controls at a Service Organisation*

- (i) conveys a reasonable assurance conclusion about the matters in (b)(i)-(iii) above; and
- (ii) includes a description of the test of controls and the results thereof.

Representation – Statement by the responsible party, either oral or written, provided to the assurance practitioner to confirm certain matters or to support other evidence. A representation is additional to but may be provided in combination with the responsible party’s or evaluator’s Statement provided in an attestation engagement.

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 party(ies) responsible for the underlying subject matter.

Responsible party (in the context of SAE 3100 (Revised)) – The party(ies) responsible for the underlying subject matter, being the compliance activity(ies) in a compliance engagement.

Responsible party (in the context of SAE 3150) – The party responsible for the underlying subject matter, being the design, description, implementation or operating effectiveness of controls in an assurance engagement on controls.

Responsible party (in the context of ISRS (NZ) 4400) – The party(ies) responsible for the subject matter on which the agreed-upon procedures are performed.

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

Review engagement – An assurance engagement, conducted in accordance with International Standard on Review Engagements (New Zealand) 2400 or New Zealand Standard on Review Engagements 2410 (Revised)²⁶, in which an assurance practitioner 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 practitioner’s attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review procedures (in the context of ISRE (NZ) 2400 and NZ SRE 2410(Revised)²⁷ – The procedures deemed necessary to meet the objective of a review engagement, primarily enquiries of entity personnel and analytical procedures applied to financial data.

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

²⁶ New Zealand Standard on Review Engagements 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*

²⁷ NZ SRE 2410 (Revised), *Review of Financial Statements Performed by the Independent Auditor of the Entity*

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 – (see *Control risk, Detection risk, Engagement risk, Environmental risk, Inherent risk, Risk of material misstatement*)

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 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 controls.

Risk of material misstatement (in the context of ISAE (NZ) 3000 (Revised)) – The risk that the subject matter information is materially misstated prior to the engagement.

Risk of material misstatement (in the context of NZ AS 1) – The risk that the service performance information is materially misstated.

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).

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.

Sampling – (see *Audit sampling*)

Sampling (in the context of SAE 3150) – The application of assurance procedures to less than 100% of items within a population of relevance to the engagement such that all sampling units have a chance of selection in order to provide the assurance practitioner with a reasonable basis on which to draw conclusions about the entire population.

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 risk (in the context of SAE 3150) – The risk that the assurance practitioner’s conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same assurance procedure. Sampling risk can lead to two types of erroneous conclusions:

- (a) that the controls are designed more suitably, the description is presented more fairly, or the controls are operating more effectively than they actually are. The assurance practitioner is primarily concerned with this type of erroneous conclusion because it affects the engagement’s effectiveness and is more likely to lead to an inappropriate assurance conclusion.
- (b) that controls are less effective than they actually are. This type of erroneous conclusion affects the engagement’s efficiency as it would usually lead to additional work to draw a conclusion.

Sampling unit – The individual items constituting a population.

Scepticism – (see *Professional scepticism*)

Scope of a review (in the context of ISRE (NZ) 2400 and NZ SRE 2410 (Revised)) – The review procedures deemed necessary in the circumstances to achieve the objective of the review.

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

Service auditor (in the context of ISAE (NZ) 3402) – An assurance practitioner who, at the request of the service organisation, provides an assurance report on controls at 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 (in the context of SAE 3150) – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are likely to be relevant to user entities’ internal control as it relates to relevant external reporting, whether financial, emissions and energy, carbon offsets, compliance or other reporting.

Service organisation (in the context of ISAE (NZ) 3402) – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are likely to be relevant to user entities’ internal control as it relates to financial reporting.

Service organisation's statement – The written statement about the matters referred to in (b) of the definition of a report on the description, design and operating effectiveness of controls at a service organisation (in the case of a type 2 report) or (b) of the definition of a report on the description and design of controls at a service organisation (in the case of a type 1 report).

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.

Service organisation's system (or the system) (in the context of ISAE (NZ) 3402) – The policies and procedures designed and implemented by the service organisation to provide user entities with the services covered by the service auditor's assurance report. The service organisation's description of its system includes identification of: the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls.

Service performance criteria – The selection of goods and/or services being reported on, and the performance measures and/or descriptions used to evaluate the entity's service performance for a particular engagement.

Service provider (in the context of Professional and Ethical Standard 3) – An individual or organisation 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 organisations in the network.

Short-form report (in the context of SAE 3100 (Revised)) – Assurance report including only the matters required under SAE 3100 (Revised).

Short-form report (in the context of SAE 3150) – Assurance report including only the matters required under SAE 3150.

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 judgement about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

Significant class of transactions, account balance or disclosure – A class of transactions, account balance or disclosure for which there is one or more relevant assertions.

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 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 ISAs (NZ).

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

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) Few internal controls;
 - (v) Few levels of management with responsibility for a broad range of controls; or
 - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

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 financial reporting 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.

Specific control objective – Control objective expressed in sufficient detail such that controls can be designed to achieve that objective directly without further breakdown.

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

Statement (in the context of SAE 3100 (Revised)) – The outcome in writing of the responsible party or evaluator's evaluation of compliance with the compliance requirements, provided to the assurance practitioner in an attestation engagement. A Statement is the subject matter information in an attestation engagement on compliance.

Statement (in the context of SAE 3150) – The outcome in writing of the responsible party or evaluator's evaluation of the suitability of the design of controls to achieve the control objectives, and if included in the scope of the engagement, the fair presentation of the

description of the system, implementation of controls as designed or operating effectiveness of controls as designed, provided to the assurance practitioner in an attestation engagement. A statement is the subject matter information in an attestation engagement on controls.

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 measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.

Subject matter information (in the context of SAE 3150) – The outcome of the measurement or evaluation of the underlying subject matter against the criteria. In an assurance engagement on controls the subject matter information is the Statement of the responsible party or evaluator in an attestation engagement or the assurance practitioner's conclusion in a direct engagement, providing the outcome of their evaluation.

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.

Subservice organisation (in the context of ISAE (NZ) 3402) – A service organisation used by another service organisation to perform some of the services provided to user entities that are likely to be relevant to user entities' internal control as it relates 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.

Suitably qualified external person (in the context of ISA 220) – An individual outside the firm with the competence and capabilities to act as an engagement partner, for example a partner of another firm, or an employee (with appropriate experience) of either a professional accountancy body whose members may perform audits of historical financial information or of an organisation that provides relevant quality control services.

Summary financial statements (in the context of ISA (NZ) 810 (Revised)) – 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.

System – The function or service at the entity, location or operational facility for which the controls are being reporting upon by the assurance practitioner.

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 (NZ), the system of internal control consists of five inter-related components:

- (i) Control environment;
- (ii) The entity's risk assessment process;
- (iii) The entity's process to monitor the system of internal control;
- (iv) The information system and communication; and
- (v) 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.

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.

Test of controls (in the context of SAE 3150) – A procedure designed to evaluate the design, description, implementation or operating effectiveness of controls in achieving the identified control objectives.

Tests of controls (in the context of ISAE (NZ) 3402) – A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organisation's description of its system.

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, 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.

Tolerable rate of deviation (in the context of SAE 3150) – A rate of deviation in the operation of control procedures as designed in respect of which the assurance practitioner seeks to obtain an appropriate level of assurance that the rate of deviation set by the assurance practitioner 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.

Underlying subject matter – The phenomenon that is measured or evaluated by applying criteria.

Underlying subject matter or subject matter (in the context of SAE 3150) – The controls within the system designed to achieve the control objectives, and, if included in the scope of the engagement, the description of the system, the controls implemented or the controls in operation.

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.

User entity (in the context of SAE 3150 and ISAE (NZ) 3402) – An entity that uses a service organisation.

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

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.