

Nepal Standards on Auditing 2024

Volume I



लेखापरीक्षणमान बोर्ड
AUDITING
STANDARDS BOARD

(Established by the Government of Nepal Under the Nepal Chartered Accountants Act,
1997)

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Foreword

It has been observed that the International Auditing and Assurance Standards Board (IAASB) has been reviewing, revising, and developing International Standards on Auditing (ISA) annually with the support of a highly qualified and experienced expert team on a regular basis. The IAASB believes that transparent, high-quality international standards are essential pillars of the global financial architecture for the global economy. IAASB has been issuing ISAs in three volumes consisting of the **Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements** annually, and the same is being reviewed and revised periodically, partly and fully, as and when need arises. Currently, IAASB has already issued the **ISA for Less Complex Entities (LCE) and Conforming Amendment to Other International Standards Arising from the ISA for LCE** was approved by the IAASB Board on 21st September 2023 (3rd Ashwin 2080) and pronounced on 6th December 2023 (20th Mangsir 2080). The new **ISA for LCE and Conforming Amendment to Other International Standards Arising from the ISA for LCE** issued by IAASB shall be effective from 15th December 2025 (30th Mangsir 2082).

The Auditing Standards Board (AuSB or Board), Nepal has also revised Nepal Standards on Auditing 2024 (NSA 2024), Volume I and Volume II after careful review and study by replacing Nepal Auditing Standards 2018 (NSA 2018) Volume I and Volume II which consist of the Quality Control Standards, Quality Management Standards, Practice Notes, Auditing Standards for Historical Financial Information, and Assurance Standards for Audits or Reviews of Other than Historical Financial Information, in two volumes. As mandated by Nepal Chartered Accountants Act 1997, Nepal Standards on Auditing – 2024 are formulated by the Board in line with the **Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (2021 Edition)** issued by the International Auditing and Assurance Standards Board (IAASB).

Standard setters globally are in the process to develop and update the new practices in auditing techniques and methodologies through different standards. They are developing/revising the standards after considering the increasingly complex financial landscapes around the globe and the additional requirements to meet the needs of auditors, regulators, investors, academics, and the public. Based on the recommendation of the clarity project and considering the increasingly complex financial landscapes (such as the introduction of new technologies, war conditions and pandemics etc.), IAASB has developed, revised and redrafted the standards to enhance the quality and uniformity of audit practices across the globe and strengthen public confidence in the global accounting profession.

This Volume I of Nepal Standards on Auditing 2024 (NSA 2024) consists of the Structure of Pronouncements, Preface, Glossary of Terms, Nepal Standards on Quality

Control (NSQC 1) and 37 Nepal Standards on Auditing for Historical Financial Information. All these standards will be effective for voluntary compliance from 1st Shrawan 2081 and for mandatory compliance from 1st Shrawan 2082.

Nepal Standards on Auditing are to be read in conjunction with the framework that governs the standards set by the Board. While the development of standards is important and progress made in this sector is satisfactory, the application of standards is considered more important and remains a big challenge. With the objective to facilitate better understanding and widespread application of NSAs, AuSB has plans to publish checklists, guidance notes, and other supporting materials, along with conducting a series of comprehensive orientation programs.

Apart from this, I am very excited and pleased to share that the ISA for LCE and the Conforming Amendment to Other International Standards Arising from the ISA for LCE were already issued by the IAASB, and AuSB has also already made satisfactory progress in finalizing the review and issue of the Nepal Standards on Auditing for Audits of Financial Statement of Less Complex Entities (NSA for LCE) in the Nepalese context, which has been desperately waiting to be published since long time.

With the objective of providing greater accessibility and convenience to all stakeholders, I am pleased to announce that our website (www.ausb.gov.np) now offers access to the Board's publications as e-books as well. Currently, we have NSA 2018 (English Version), NSA 2024 (English Version) and Audit Reference Material (Nepali Version) in electronic form. We believe that the availability of e-books will cater to easy accessibility and the evolving highly beneficial to all the stakeholders.

I extend my sincere appreciation to the "Nepal Auditing Standards, Assurance Standards Review, Amendment and Development Technical Committee" coordinator and members: CA. Jitendra Kumar Mishra, Mr. Tara Prasad Pandey, CA. Teknath Acharya, CA. Bhoj Raj Pandey and RA. Bahadur Singh Bista. Further, my special thanks and appreciation goes to CA. Achyut Raj Joshi, CA. Anjana Pokharel, CA. Bidur Luitel, CA. Bikesh Madhikarmi, CA. Chandra Kanta Bhandari, CA. Gopal Kumar Shrestha, CA. Gyanendra Bahadur Bhari, CA. Kiran Kumar Khatri, CA. Laba Kumar Khatri, CA. Prabin Raj Kafle and CA. Ramesh Dhital for the draft review and preparation of this Nepal Standards on Auditing 2024. My deep appreciation to all the members of the Board, the Chief Executive Officer, and the Secretariat, including all staff of AuSB for their valuable dedication and hard work in bringing this updated volume of AuSB. I also take this opportunity to express my sincere gratitude to CA. Bhaskar Singh Lala, Past President, CA. Sujan Kumar Kafle, President, CA. Prabin Kumar Jha, Vice President, Council of the Institute of Chartered Accountants of Nepal (ICAN), Association of Chartered Accountants of Nepal (ACAN), Auditors Association of Nepal (AUDAN) and all other members of the ICAN for their constructive feedback and support for the timely application of standards issued by the Board.

Finally, as we embark on our journey through "Nepal Standards on Auditing 2024" in two volumes, I encourage you all to embrace the principles of diligence, professionalism, and ethical responsibility that define our profession. May this book serve as a beacon, guiding you towards achieving audit quality and maintaining public trust in financial reporting.



CA. Anup Kumar Shrestha
Chairman
Auditing Standards Board
June 2024

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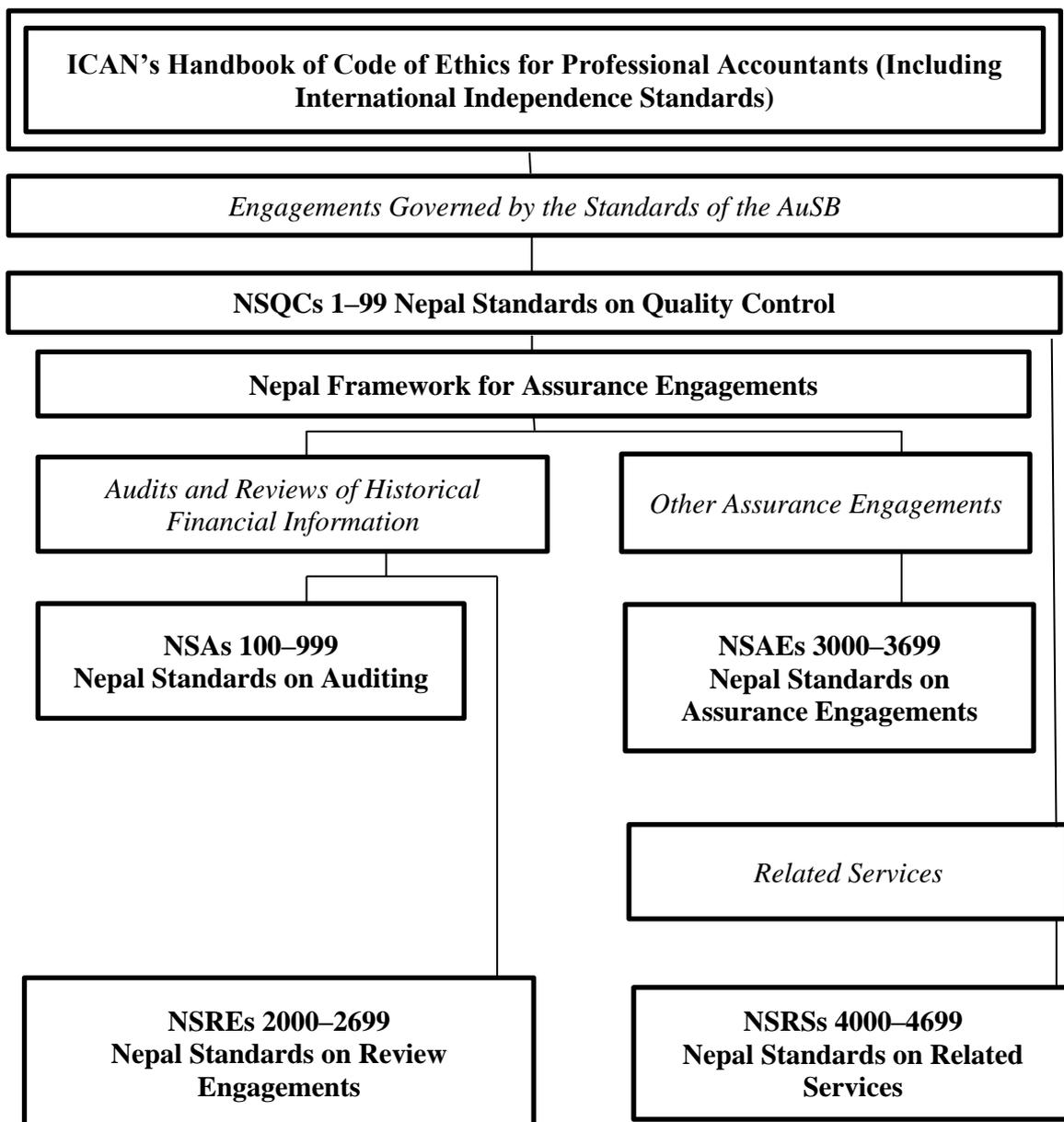
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STRUCTURE OF PRONOUNCEMENTS ISSUED BY THE AUDITING STANDARDS BOARD



PREFACE TO THE NEPAL QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE, AND RELATED SERVICES PRONOUNCEMENTS

Effective as of Shrawan 1, 2081 Voluntary Compliance and Mandatory Compliance
from Shrawan 1, 2082

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Introduction

1. This preface to the *Nepal Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* is issued to facilitate understanding of the scope and authority of the pronouncements the Auditing Standards Board (AuSB) issues, as set forth in the section 15(Nga) of the Nepal Chartered Accountants Act 1997.
2. The AuSB is committed to the goal of developing a set of Nepal Standards and other pronouncements which are generally accepted in Nepal and developed in line with IAASB's pronouncements.

The AuSB's Pronouncements

AuSB Authoritative Pronouncements

3. The AuSB's pronouncements govern audit, review, other assurance, and related services engagements that are conducted in accordance with Nepal Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in Nepal required to be followed in accordance with national standards. In the event that local laws or regulations differ from, or conflict with, the AuSB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the AuSB's Standards. A professional accountant should not represent compliance with the AuSB's Standards unless the professional accountant has complied fully with all standards relevant to the engagement.
4. The authoritative pronouncements of the AuSB are the Nepal Standards, which are issued following the AuSB's stated due process.

The Authority Attaching to Nepal Standards Issued by the Auditing Standards Board

5. Nepal Standards on Auditing (NSAs) are to be applied in the audit of historical financial information.
6. Nepal Standards on Review Engagements (NSREs) are to be applied in the review of historical financial information.
7. Nepal Standards on Assurance Engagements (NSAEs) are to be applied in assurance engagements other than audits or reviews of historical financial information.
8. Nepal Standards on Related Services (NSRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the AuSB.

9. NSAs, NSREs, NSAEs, and NSRSs are collectively referred to as the AuSB's Engagement Standards.
10. Nepal Standards on Quality Control (NSQCs) are to be applied for all services falling under the AuSB's Engagement Standards.

Nepal Standards on Auditing

11. NSAs are written in the context of an audit of financial statements¹ by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The authority of NSAs is set out in NSA 200.²

Nepal Standards on Quality Control

12. NSQCs are written to apply to firms in respect of all their services falling under the AuSB's Engagement Standards. The authority of NSQCs is set out in the introduction to the NSQCs.

Other Nepal Standards

13. Some Nepal Standards identified in paragraphs 6–8 contain: objectives, requirements, application and other explanatory material, introductory material and definitions. These terms are to be interpreted in a directly analogous way to how they are explained in the context of NSA and financial statement audits in NSA 200.
14. Other Nepal Standards identified in paragraphs 6–8 contain basic principles and essential procedures (identified in bold type lettering and by the word “should”) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a Standard to understand and apply the basic principles and essential procedures.
15. The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure.

¹ Unless otherwise stated, “financial statements” mean financial statements comprising historical financial information.

² NSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Nepal Standards on Auditing*

When such a situation arises, the professional accountant is required to document how alternative procedures performed achieve the purpose of the procedure and, unless otherwise clear, the reasons for the departure. The need for the professional accountant to depart from a relevant essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective.

16. Appendices, which form part of the application material, are an integral part of a Standard. The purpose and intended use of an appendix are explained in the body of the related Standard or within the title and introduction of the appendix itself.

Professional Judgment

17. The nature of the Nepal Standards requires the professional accountant to exercise professional judgment in applying them.

Applicability of the Nepal Standards

18. The scope, effective date and any specific limitation of the applicability of a specific Nepal Standard is made clear in the Standard. Unless otherwise stated in the Nepal Standard, the professional accountant is permitted to apply a Nepal Standard before the effective date specified therein.
19. Nepal Standards are relevant to engagements in the public sector. When appropriate, additional considerations specific to public sector entities are included:
 - (a) Within the body of a Nepal Standard in the case of NSAs and NSQCs; or
 - (b) In a Public Sector Perspective (PSP) appearing at the end of other Nepal Standards.

Non-Authoritative Material

20. Non-authoritative material includes Practice Notes issued by the AuSB and staff publications. Non-authoritative material is not part of the AuSB's Nepal Standards.

Nepal Auditing Practice Notes

21. Nepal Auditing Practice Notes (NAPNs) do not impose additional requirements on auditors beyond those included in the NSAs, nor do they change the auditor's responsibility to comply with all NSA relevant to the audit. NAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

22. Depending on the nature of the topic(s) covered, a NAPN may assist the auditor in:
- Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
 - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
 - Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

Practice Notes Relating to Other Nepal Standards

23. The AuSB may also issue Nepal Review Engagement Practice Notes (NREPNs), Nepal Assurance Engagement Practice Notes (NAEPNs), and Nepal Related Services Practice Notes (NRSPNs) to serve the same purpose for NSREs, NSAEs, and NSRSs respectively.

Staff Publications

24. Staff publications are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of AuSB pronouncements.

Language

25. The sole official text of an AuSB's Nepal Standard, Practice Note, exposure draft or other publication is that published by the AuSB in the English language.

GLOSSARY OF TERMS¹

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

- Unauthorized access to on-line terminal devices, programs and data;
- Entry of unauthorized transactions;
- Unauthorized changes to data files;
- The use of computer programs by unauthorized personnel; and
- The use of computer programs that have not been authorized.

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

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

Agreed-upon procedures engagement—An engagement in which an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.

**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

* Denotes a term defined in the NSAs

† Denotes a term defined in NSQC 1

¹ In the case of public sector engagements, the terms in this glossary should be read as referring to their public sector equivalents. Where accounting terms have not been defined in the pronouncements of the Auditing Standards Board, reference should be made to the Glossary of Terms published by the Accounting Standards Board.

GLOSSARY OF TERMS

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 NSAE 3410²)—The criteria used by the entity to quantify and report its emissions in the GHG statement.

Applicable criteria (in the context of NSAE 3420³)—The criteria used by the responsible party when compiling the pro forma financial information. Criteria may be established by an authorized or recognized standard-setting organization 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. In the context of NSRS 4410 (Revised),⁴ reference is to the financial information, rather than to the financial statements.

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.

² NSAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

³ NSAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

⁴ NSRS 4410 (Revised), *Compilation Engagements*

GLOSSARY OF TERMS

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 NSA 810 (Revised))*⁵—The criteria applied by management in the preparation of the summary financial statements.

**Appropriateness (of audit evidence)*—The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.

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

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

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

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

*†*Assurance*—(see *Reasonable assurance*)

Assurance engagement—An engagement in which a 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:

- (i) Either a reasonable assurance engagement or a limited assurance engagement:
 - a. Reasonable assurance engagement—An assurance engagement in which the

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

GLOSSARY OF TERMS

practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- b. Limited assurance engagement—An assurance engagement in which the 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 practitioner's attention to cause the 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 practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

(ii) Either an attestation engagement or a direct engagement:

- a. Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the 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 practitioner in the assurance report. In an attestation engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The practitioner's conclusion may be phrased in terms of:
 - i. The underlying subject matter and the applicable criteria;
 - ii. The subject matter information and the applicable criteria; or
 - iii. A statement made by the appropriate party(ies).
- b. Direct engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

GLOSSARY OF TERMS

Assurance engagement risk—The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

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.

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

**Audit evidence*—Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. (see *Sufficiency of audit evidence* and *Appropriateness of audit evidence*.)

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

*†*Audit firm*—(see *Firm*)

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

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

**Audit sampling (sampling)*—The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.

**Audited financial statements (in the context of NSA 810 (Revised))*—Financial statements⁶ audited by the auditor in accordance with NSAs, and from which the summary financial statements are derived.

**Auditor*—“Auditor” is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an NSA 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.

⁶ NSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Nepal Standards on Auditing*, paragraph 13(f), defines the term “financial statements.”

GLOSSARY OF TERMS

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

**Auditor’s expert*—An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor’s expert may be either an auditor’s internal expert (who is a 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—A specific year or an average over multiple years against which an entity’s emissions are compared over time.

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

Cap and trade—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 organization, whereby the service organization’s description of its system includes the nature of the services provided by a subservice organization, but that subservice organization’s relevant control objectives and related controls are excluded from the service organization’s description of its system and from the scope of the service auditor’s engagement. The service organization’s description of its system and the scope of the service auditor’s engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization’s review of an assurance report on controls at the subservice organization.

**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

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

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financial reporting framework. In the context of NSAE 3410, comparative information is defined as the amounts and disclosures included in the GHG statement in respect of one or more prior periods.

Compilation engagement— An engagement in which a practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework, and reports as required by this NSRS. Throughout NSRS 4410 (Revised), the words “compile”, “compiling” and “compiled” are used in this context.

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

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

**Component*—An entity 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 the preparation of the financial information of a component.

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

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

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.

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.

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

Controls at the service organization—Controls over the achievement of a control objective that is covered by the service auditor’s assurance report.

Controls at a subservice organization—Controls at a subservice organization 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.

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

†*Date of report (in relation to quality control)*—The date selected by the practitioner to date the report.

**Date of the auditor’s report*—The date the auditor dates the report on the financial statements in accordance with NSA 700 (Revised).⁸

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

**Date the financial statements are issued*—The date that the auditor’s report and audited financial statements are made available to third parties.

**Deficiency in internal control*—This exists when:

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

⁸ NSA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

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

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

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

**Element of a financial statement (in the context of NSA 805 (Revised))*⁹—An element, account or item of a financial statement.

Emissions—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 channeled to a sink. Emissions can be categorized 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 categorized 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—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 recognized by a regulatory or other scheme of which the entity is a part.

Emissions factor—A mathematical factor or ratio for converting the measure of an activity (for example, liters of fuel consumed, kilometers 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—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 judgment, is of such importance that it is fundamental to users’ understanding

⁹ NSA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

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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 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*¹⁰—*The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement partner” should be read as referring to its public sector equivalents where relevant.*

*†*Engagement quality control review*—A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of listed entities and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

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

Engagement risk —The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is 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. This excludes an auditor’s external expert engaged by the firm or by a network firm. The term “engagement team” also excludes individuals within the client’s

¹⁰ “Engagement partner,” “partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

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internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of NSA 610 (Revised).¹¹

*†*Engagement team (in the context of NSAE 3000 (Revised))*¹²— All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner’s external expert engaged by the firm or a network firm.

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

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

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

**Estimation uncertainty*—Susceptibility to an inherent lack of precision in measurement.

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

Evidence—Information used by the practitioner in arriving at the practitioner’s conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the NSAEs:

- (i) Sufficiency of evidence is the measure of the quantity of evidence.
- (ii) 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.

¹¹ NSA 610 (Revised), *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 assistances is restricted to situations where it is permitted.

¹² NSAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

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**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) NSAs and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Auditing and financial reporting issues relevant to the entity’s industry.

**Expert*—(see *Auditor’s expert* and *Management’s expert*)

**Expertise*—Skills, knowledge and experience in a particular field.

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

External information source—An external individual or organization that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of a management’s expert, service organization¹³, or auditor’s expert¹⁴ the individual or organization is not considered an external information source with respect to that particular information.

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

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

*†*Firm*—A sole practitioner, partnership or corporation or other entity of professional accountants. “Firm” should be read as referring to its public sector equivalents where relevant.

¹³ NSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*, paragraph 8

¹⁴ NSA 620, *Using the Work of an Auditor’s Expert*, paragraph 6

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Forecast—Prospective financial information prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best-estimate assumptions).

**Fraud*—An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

**Fraud risk factors*—Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

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

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

General information technology (IT) controls—Controls over the entity’s IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information 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 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:

- (i) 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
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.¹⁵

¹⁵ NSA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with*

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GHG statement—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 categorized 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.¹⁶

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

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

**Group*—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.

Nepal Standards on Auditing, paragraph 13(a)

¹⁶ NSAE 3000 (Revised), paragraph 12(x)

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

**Group-wide controls*—Controls designed, implemented and maintained by group management 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.

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

*Independence*¹⁷—*Comprises:*

- (a) Independence of mind—the state of mind that permits the expression of an opinion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance—the avoidance of facts and circumstances that are so significant 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 skepticism has been compromised.

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

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

Inherent risk factors—Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors¹⁸ insofar

¹⁷ As defined in the ICAN’s Handbook of the *Code of Ethics for Professional Accountants (including International Independence Standards)*

¹⁸ NSA 240, paragraphs A24–A27

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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.

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

Inquiry (in the context of NSRE 2400 (Revised))—Inquiry consists of seeking information of knowledgeable persons from within or outside the entity.

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

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

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

Interim financial information or statements—Financial information (which may be less than a complete set of financial statements as defined above) issued at interim dates (usually half-yearly or quarterly) in respect of a financial period.

**Internal audit function*—a function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management and internal control processes.

Internal auditors—Those individuals who carry out the activities of the internal audit function. Internal auditors may belong to an internal audit department or similar function.

**Internal control*—The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.

**Nepal Financial Reporting Standards*—The Nepal Financial Reporting Standards issued by the Accounting Standards Board.

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

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

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

Limited assurance (in the context of NSRE 2400 (Revised))—The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this NSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the financial statements.

Limited assurance engagement—(see *Assurance engagement*)

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

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

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

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

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

Measurer or evaluator—The party(ies) who measures or evaluates the underlying subject matter against the criteria. The measurer or evaluator possesses 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 capable of disguising or concealing misappropriations in ways that are difficult to detect.

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

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

In the context of NSAE 3000 (Revised), a misstatement is defined as 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 omissions.

In the context of NSRS 4410 (Revised), a misstatement is defined as a difference between the amount, classification, presentation, or disclosure of a reported item in the financial information, 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 financial information is prepared in accordance with a fair presentation framework, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the practitioner's judgment, are necessary for the financial information to be presented fairly, in all material respects, or to give a true and fair view.

Misstatement of fact (with respect to other information)(in the context of NSAE 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 on the financial statements.

**†Monitoring (in relation to quality control)*—A process comprising an ongoing consideration and evaluation of the firm's system of quality control, including a periodic inspection of a selection of completed engagements, designed to provide the firm with

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reasonable assurance that its system of quality control is operating effectively.

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

*†*Network*—A larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

*†*Network firm*—A firm or entity that belongs to a network.

**Non-compliance (in the context of NSA 250¹⁹)*—Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.

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

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

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

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

Organizational boundary—The boundary that determines which operations to include in the entity's GHG statement.

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

¹⁹ NSA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

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Other information (in the context of NSAE 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 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 judgment, 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 transaction(s), event(s) or condition(s) addressed by an accounting estimate.

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

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

**Performance materiality*—The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures. In the context of NSAE 3410, performance materiality is defined as the amount or amounts set by the 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 practitioner at less than the materiality level or levels for particular types of emissions or disclosures.

Performing a walk-through—Selecting transactions and tracing them through the applicable process in the information system.

*†*Personnel*—Partners and staff.

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

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

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- (b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

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

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

Practitioner—A professional accountant in public practice.

Practitioner (in the context of NSAE 3000 (Revised))—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this NSAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.

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

Practitioner (in the context of NSRS 4410 (Revised))—A professional accountant in public practice who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where NSRS 4410 (Revised) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

Practitioner's expert—An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. 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

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management and, where appropriate, those charged with governance to the premise²⁰ on which an audit is conducted.

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

*Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted—That management and, where appropriate, those charged with governance have acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with NSAs. That is, responsibility:

- (a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
- (b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide the auditor with:
 - (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, (a) above may be restated as “for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework,” or “for the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework.”

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

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

- (a) Adjustments to unadjusted financial information that illustrate the impact of a significant event or transaction (“event” or “transaction”) as if the event had occurred

²⁰ NSA 200, paragraph 13

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or the transaction had been undertaken at an earlier date selected for purposes of the illustration; and

- (b) 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 this NSAE, 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 accountant*²¹—An individual who is a member of the Institute of Chartered Accountants of Nepal (ICAN).

*Professional accountant in public practice*²²—A professional accountant, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.

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

Professional judgment (in the context of NSAE 3000 (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 judgment (in the context of NSRE 2400 (Revised))—The application of relevant training, knowledge and experience, within the context provided by assurance,

²¹ As defined in the Handbook of Code of Ethics for Professional Accountants (Including International Independence Standards)

²² As defined in the Handbook of Code of Ethics for Professional Accountants (Including International Independence Standards)

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accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.

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

Professional skepticism (in the context of NSAE 3000 (Revised))—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.

**Professional standards*—Nepal Standards on Auditing (NSAs) and relevant ethical requirements

†Professional standards (in the context of NSQC 1²³)—AuSB Engagement Standards, as defined in the AuSB' *Preface to the Nepal*

Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, and relevant ethical requirements.

Projection—Prospective financial information prepared on the basis of:

- (a) Hypothetical assumptions about future events and management actions which are not necessarily expected to take place, such as when some entities are in a start-up phase or are considering a major change in the nature of operations; or
- (b) A mixture of best-estimate and hypothetical assumptions.

Prospective financial information—Financial information based on assumptions about events that may occur in the future and possible actions by an entity. Prospective financial information can be in the form of a forecast, a projection or a combination of both. (see *Forecast and Projection*)

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.

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

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

Purchased offset—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

²³ NSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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removals (removal enhancements), compared to a hypothetical baseline.

Quantification—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 audit engagements, and in quality control)*—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 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—Comprise agreed-upon procedures and compilations.

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 (in the context of NSQC 1)*—Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking audits or reviews of financial statements, or other assurance or related services engagements, which ordinarily comprise the provisions of the Institute of

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Chartered Accountants of Nepal's *Handbook of the Code of Ethics for Professional Accountants (including International Independence Standards)* together with national requirements that are more restrictive.

Relevant ethical requirements (in the context of the NSAs)—Ethical requirements to which the engagement team and engagement quality control reviewer are subject when undertaking an audit engagement, which ordinarily comprise the provisions of the Institute of Chartered Accountants of Nepal's *Handbook of the Code of Ethics for Professional Accountants (including International Independence Standards)* related to an audit of financial statements, together with national requirements that are more restrictive.

Relevant ethical requirements (in the context of NSRE 2400 (Revised))—Ethical requirements to which the engagement team is subject when undertaking a review engagement, which ordinarily comprise the provisions of the Institute of Chartered Accountants of Nepal's *Handbook of the Code of Ethics for Professional Accountants (including International Independence Standards)*, related to a review of financial statements, together with national requirements that are more restrictive.

Relevant ethical requirements (in the context of NSRS 4410 (Revised))—Ethical requirements to which the engagement team is subject when undertaking a compilation engagement, which ordinarily comprise the provisions of the Institute of Chartered Accountants of Nepal's *Handbook of the Code of Ethics for Professional Accountants (including International Independence Standards)* related to compilation engagements, together with national requirements that are more restrictive.

Removal—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 organization (referred to in NSA 402²⁴ as a type I report)*—a report that comprises:

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

²⁴ NSA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

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

- (a) The service organization’s description of its system;
- (b) A written statement by the service organization that, in all material respects, and based on suitable criteria:
 - (i) The description fairly presents the service organization’s system as designed and implemented as at the specified date;
 - (ii) The controls related to the control objectives stated in the service organization’s description of its system 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 organization (referred to in NSA 402 as a type 2 report)—A report that comprises:*

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

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

- (a) The service organization’s description of its system;
- (b) A written statement by the service organization that, in all material respects, and based on suitable criteria:

²⁵ NSA 3402, *Assurance Reports on Controls at a Service Organization*

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- (i) The description fairly presents the service organization's system as designed and implemented throughout the specified period;
 - (ii) The controls related to the control objectives stated in the service organization'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 organization's description of its system operated effectively throughout the specified period; and
- (c) A service auditor's assurance report that:
- (i) Conveys a reasonable assurance conclusion about the matters in (b)(i)–(iii) above; and
 - (ii) Includes a description of the tests of controls and the results thereof.

Responsible party—The party(ies) responsible for the underlying subject matter.

Review (in relation to quality control)—Appraising the quality of the work performed and conclusions reached by others.

Review engagement—The objective of a review engagement is to enable an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Review procedures—The procedures deemed necessary to meet the objective of a review engagement, primarily inquiries of entity personnel and analytical procedures applied to financial data.

**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

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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 NSAE 3000 (Revised))—The risk that the subject matter information is materially misstated prior to the engagement.

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

**Sampling*—(see *Audit sampling*)

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

- (a) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
- (b) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

**Sampling unit*—The individual items constituting a population.

Scope of a review—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 organization, provides an assurance report on the controls of a service organization.

Service auditor (in the context of NSAE 3402)—A practitioner who, at the request of the service organization, provides an assurance report on controls of a service organization.

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

Service organization (in the context of NSAE 3402)—a third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting.

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Service organization'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 organization (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 organization (in the case of a type 1 report).

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

Service organization's system (or the system) (in the context of NSAE 3402)—The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor's assurance report. The service organization'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.

Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to those charged with governance, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

Significant 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 judgment, is of sufficient importance to merit the attention of those charged with governance.

Significant facility—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.

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**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 NSAs.

Sink—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—A physical unit or process that releases GHGs into the atmosphere.

**Special purpose financial statements*—Financial statements prepared in accordance with a special purpose framework.

**Special purpose framework*—A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.²⁶

*†*Staff*—Professionals, other than partners, including any experts the firm employs.

**Statistical sampling*—An approach to sampling that has the following characteristics:

- (a) random selection of the sample items; and

²⁶ NSA 200, paragraph 13(a)

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(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, that is, the information that results from applying the criteria to the underlying subject matter.

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

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

Subservice organization (in the context of NSAE 3402)—A service organization used by another service organization 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.

Suitable criteria—(see *Criteria*)

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

**Summary financial statements (in the context of NSA 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

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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.²⁷ Different jurisdictions may use different terminology to describe such historical financial information.

Supplementary information—Information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements, normally presented in either supplementary schedules or as additional notes.

System of internal control—The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. For the purposes of the NSAs, the system of internal control consists of five inter-related components:

- (a) Control environment;
- (b) The entity's risk assessment process;
- (c) The entity's process to monitor the system of internal control;
- (d) The information system and communication; and
- (e) Control activities.

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

Test of controls (in the context of NSAE 3402)—A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organization's description of its system.

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

**Those charged with governance*—The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.²⁸

²⁷ NSA 200, paragraph 13(f)

²⁸ For discussion of the diversity of governance structures, see paragraphs A1–A8 of NSA 260 (Revised), *Communication with Those Charged with Governance*.

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

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

Type of emission—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.

**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.²⁹

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

User auditor (in the context of NSAE 3402)—An auditor who audits and reports on the financial statements of a user entity.³⁰

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

User entity (in the context of NSAE 3402)—an entity that uses a service organization.

Walk-through test—see *Performing a walk-through*.

**Written representation*—A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

²⁹ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

³⁰ In the case of a subservice organization, the service auditor of a service organization that uses the services of the subservice organization is also a user auditor.