



Diocese of Southern Ohio

Audit Terms

acceptance sampling is sampling to determine whether internal control compliance is greater than or less than the tolerable deviation rate.

accounting data includes journals, ledgers and other records, such as spreadsheets, that support financial statements. It may be in computer readable form or on paper.

accounts receivable Debts due from customers from sales of products and services reported as a current asset.

accounting records are 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 journal entries; and records, such as work sheets and spreadsheets, supporting cost allocations, computations, reconciliations, and disclosures.

adjusting entries are accounting entries made at the end of an accounting period to allocate items between accounting periods.

adverse An audit opinion that the financial statements as a whole are not in conformity with U.S. GAAP.

agreed-upon procedures An engagement where the client specifies procedures and the accountant agrees to perform those procedures. An accountant may accept an engagement to apply agreed-upon procedures to financial statement elements, where the scope of the engagement is not sufficient to express an opinion, if the users assume responsibility for sufficiency of the procedures, and use of the report is restricted to specified users.

allocation Distribution according to a plan. Depreciation, amortization, and depletion are methods to allocate costs to periods benefited.

appropriate audit evidence is relevant (pertains to the proposition supported) and reliable (trustworthy).

audit adjustment is a correction of a financial information misstatement identified by the auditor, whether recorded or not.

audit committee A committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results.

audit documentation (working papers) are records kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions reached in the engagement. The documentation provides the principal support for the auditor's report.

audit evidence is information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.

audit objective In obtaining evidence in support of financial statement assertions, the auditor develops specific audit objectives in light of those assertions. For example, an objective related to the completeness assertion for inventory balances is that inventory quantities include all products, materials, and supplies on hand.

audit risk A combination of the risk that material errors will occur in the accounting process and the risk the errors will not be discovered by audit tests. Audit risk includes uncertainties due to sampling (sampling risk) and to other factors (nonsampling risk).

capitalized Recorded as an asset. A capitalized lease is in substance a purchase to the lessee. An asset is recorded equal to the present value of the lease payments, which is also recorded as a liability. Payments, partly interest and partly principal, are made on the lease liability. The leased asset is depreciated by the lessee as though it were legally owned by the lessee.

check register A listing of checks issued in numeric sequence and in order by date issued.

collateralize To pledge property as security (collateral) for a debt.

comparability Users evaluate accounting information by comparison. Similar companies account for similar transactions in similar ways. Another goal is comparison of one company's information from one period to the next (consistency). Operating trends should not be disguised by changing accounting methods.

compare (comparison) An audit procedure. The auditor observes similarities and differences between items such as an account from one year to the next.

completeness Assertions about completeness deal with whether all transactions and accounts that should be in the financial statements are included. For example, management asserts that all purchases of goods and services are included in the financial statements. Similarly, management asserts that notes payable in the balance sheet include all such obligations of the entity.

consistency To achieve comparability of information over time, the same accounting methods must be followed. If accounting methods are changed from period to period, the effects must be disclosed.

control A policy or procedure that is part of internal control.

control accounts are general ledger accounts that report totals of details included in subsidiary ledger accounts. For example, Accounts Receivable is a general ledger account with a balance equal to the total of the individual receivables included in the subsidiary accounts receivable ledger.

defalcation To misuse or embezzle funds.

deficiency An internal control shortcoming or opportunity to strengthen internal controls.

deviation Departure from prescribed internal control. Often expressed as a rate at which the departure occurs.

disclaimer (disclaim) A statement that the auditor is unable to express an opinion as to the presentation of financial statements in conformity with U.S. GAAP.

effective internal control Reasonable assurance that operational objectives are achieved, that published financial statements are reliably prepared, and that the entity complies with applicable laws and regulations.

embezzlement To take assets in violation of trust.

error Unintentional misstatements or omissions in financial statements. Errors may involve mistakes in gathering or processing accounting data, incorrect estimates from oversight or misinterpretation of facts, and mistakes in application of principles relating to amount, classification, presentation or disclosure.

evidence (evidential matter) includes written and electronic information (such as checks, records of electronic fund transfers, invoices, contracts, and other information) that permits the auditor to reach conclusions through reasoning.

examination is evaluating the preparation of prospective statements, support underlying assumptions, and presentation. The accountant reports whether, in his or her opinion, the statements conform to AICPA guidelines and assumptions provide a reasonable basis for the responsible party's forecast. The accountant should be independent, proficient, plan the engagement, supervise assistants, and obtain sufficient evidence to provide a reasonable basis for the report.

expenditure Cash paid or liability incurred.

financial statements are a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework.

fraud A deliberate deception to secure unfair or unlawful gain. False representation intended to deceive relied on by another to that person's injury. Fraud includes fraudulent financial reporting undertaken to render financial statements misleading, sometimes called management fraud, and misappropriation of assets, sometimes called defalcations.

gaap "Generally Accepted Accounting Principles." According to Rule 203 of the AICPA Code of Professional Conduct, GAAP for nongovernment entities include (in a conflict the source earlier in the list prevails): 1. FASB Standards and Interpretations, APB Opinions, ARBs. 2. FASB Technical Bulletins, AICPA Guides and AICPA Statements of Position. 3. Positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins. 4. AICPA accounting interpretations, FASB staff "Qs and As", and widely recognized industry practices. 5. FASB Concepts Statements, textbooks, articles.

gaas "Generally Accepted Auditing Standards." The ten auditing standards adopted by the membership of the AICPA. Auditing standards differ from audit procedures in that "procedures" relate to acts to be performed, whereas "standards" deal with quality of the performance of those acts and objectives of the procedures.

general ledger A record to which monetary transactions are posted (in the form of debits and credits) from a journal. It is the final record from which financial statements are prepared. General ledger accounts are often control accounts that report totals of details included in subsidiary ledgers.

internal control Policies and procedures designed to provide reasonable assurance that specific entity objectives will be achieved. It consists of the control environment, risk assessment, control activities, information and communications, and monitoring.

journal A book of original entry in a double-entry system. The journal lists all transactions and the accounts to which they are posted.

kiting Drawing a check on insufficient funds to take advantage of the time required for collection.

lapping A scheme to cover an embezzlement by using payments made by one customer to reduce the receivables balance of another customer.

liquidity The availability of cash or ability to obtain it quickly. Debt paying ability.

manual controls are controls performed manually, not by computer.

material weakness is a deficiency in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

memos Written records supporting journal entries. Credit memos support credits, while debit memos support debit entries.

obligations Assertions about obligations deal with whether liabilities are obligations of the entity at a given date. For example, management asserts that amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property and that the corresponding lease liability represents an obligation of the entity.

operating income from continuing operations is reported on an income statement.

opinion A CPA's conclusion held with confidence but not substantiated by positive knowledge or proof.

permanent audit documentation includes items of continuing accounting significance, such as the analysis of balance sheet accounts and contingencies. Such information from a prior year is used in the current audit and updated each year. Sometimes called the continuing file.

plan Audit planning is developing an overall strategy for conduct and scope of the audit. The nature, extent, and timing of planning vary with size and complexity of the entity, experience with the entity, and knowledge of the business. In planning the audit, the auditor considers the entity's business and its industry, its accounting policies and procedures, methods used to process accounting information, the planned assessed level of control risk, and the auditor's preliminary judgment about audit materiality.

positive assurance A statement as to what the CPA believes. An example is an opinion that the financial statements are presented fairly in conformity with U.S. GAAP. The opposite is negative assurance, a statement about what the CPA does not know. A statement that the CPA was "not aware of material modifications that should be made to financial statements for them to conform with U.S. generally accepted accounting principles" is negative assurance used in review reports.

proof of cash is a reconciliation of the general ledger cash balance at both the beginning and end of a period, combined with a reconciliation of cash deposited for the period with the cash receipts journal, and a reconciliation of checks for the period with the cash disbursements journal.

prospective financial statements are either financial forecasts or financial projections. Prospective financial statements may cover a period that has partially expired. Statements for periods that have completely expired are not prospective financial statements.

questionnaire An internal control questionnaire is a list of questions about the internal control system to be answered (with answers such as yes, no, or not applicable) during audit fieldwork. The questionnaire is part of the documentation of the auditor's understanding of the client's internal controls.

reasonable assurance (in audit report) An auditor works within economic limits. The audit opinion, to be economically useful, must be formed in a reasonable time and at reasonable cost. The auditor must decide,

exercising professional judgment, whether evidence available within limits of time and cost is sufficient to justify an opinion.

reliable (reliability) Different audit evidence provides different degrees of assurance to the auditor. When evidence can be obtained from independent sources outside an entity it provides greater assurance of reliability for an independent audit than that secured solely in the entity. More effective internal controls provide assurance about reliability of the accounting data and financial statements. The independent auditor's direct personal knowledge, from physical examination, observation, computation, and inspection, is more persuasive than information obtained indirectly.

remittance Sending money to someone. A remittance advice is a record of the amount sent, purpose of the payment, and associated account identification.

risk assessment procedures are the audit procedures performed to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and relevant assertion levels.

scope paragraph The paragraph in the audit report that explains the scope of the engagement. The wording of the standard scope paragraph is: "We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion."

significant deficiency is a deficiency in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

sufficiency (sufficient) A measure of the quantity of audit evidence. The independent auditor's objective is to obtain sufficient appropriate evidence to provide a reasonable basis for an opinion.

test A sample from a population to estimate characteristics of the population.

treasurer The officer who controls the entity's funds. The treasurer normally signs checks and is responsible for cash management.

trend analysis An analysis of the change in something over time. Analytical procedures, which compare financial statement ratios of different years, are an example of trend analysis.

trial balance A statement of open debit and credit accounts in a ledger to test their equality.

valuation An assertion made by management that each asset and liability is recorded at an appropriate carrying value.

working papers (written audit documentation) Records kept by the auditor of procedures applied, tests performed, information obtained, and pertinent conclusions in the engagement.

