

Glossary of Terms

Updated April 2025

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Vision

Public trust and confidence in quality auditing and accounting



Mission

Upholding quality corporate reporting and an accountable profession

Our Values



Excellence

Striving to be
the best we
can be



Independence

Regulating
impartially and
objectively



Integrity

Being
trustworthy and
respectful

GLOSSARY OF TERMS¹

(Updated April 2025)

This Glossary defines terms used in the ISAs (Ireland), the ISQMs (Ireland) and IAASA's Ethical Standard. It is based on both the International Auditing and Assurance Standards Board (IAASB) and the Financial Reporting Council (FRC) glossary of terms, with supplemental definitions used in the IAASA standards (compared to the IAASB standards) shown in grey highlighted text.

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. Where ISA (Ireland) 540² addresses only accounting estimates involving measurement at fair value, the term “fair value accounting estimates” is used.

Accounting records—The records of initial accounting entries and supporting records, such as 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.

Accounting services—The provision of services that involve the maintenance of accounting records or the preparation of financial statements or other subject matter information or subject matter that are then subject to audit or an other public interest assurance engagement.

Affiliate firm—Any undertaking, regardless of its legal form, which is connected to a firm by means of common ownership, control or management.

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 International Auditing and Assurance Standards Board, reference should be made to the Glossary of Terms published by the International Accounting Standards Board.

² ISA (Ireland) 540, “Auditing Accounting Estimates and Related Disclosures.”

Affiliate (of an entity)—

An affiliate is an entity that has any of the following relationships with an entity relevant to the engagement:

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

Factors that may be relevant in determining whether an entity or an interest in an entity is material to another entity include:

- The extent and nature of the relationships between the entity relevant to the engagement and the other entity and the impact these have on the relationships of either entity with the firm, and
- The extent and nature of the relationship(s) between the firm and the other entity and the impact that this has on independence.

Agreed-upon procedures engagement—An engagement in which an auditor or reporting accountant is engaged to carry out those procedures of an audit or assurance nature to which the auditor or reporting accountant 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 or reporting accountant. 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 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.

In Ireland an annual report includes at least:

- (i) The statutory other information; and
- (ii) Any other documents that are incorporated by cross-reference in, or distributed to shareholders with, statutory other information either voluntarily or pursuant to law or regulation or the requirements of a stock exchange listing.

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

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

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

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

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

In Ireland the applicable financial reporting framework includes the requirements of applicable law.

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.

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.

Area of activity (relating to engagements)—In relation to a key audit partner or other covered person, or a person closely associated with such a partner or covered person, any engagements for which the covered person is a directly involved covered person and

any other engagements, in relation to which the engagement partner practices in the same office or business unit as the covered person.

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 by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur.

Assess—Analyze identified risks of 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 audit 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).

Reasonable assurance engagement—An assurance engagement in which the 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.

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 that 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 judgement, 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.

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

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).

In Ireland audit documentation includes all documents, information, records and other data required by ISQMs (Ireland), ISAs (Ireland) and applicable legal and regulatory requirements.

Audit engagement—An engagement to perform an audit in accordance with the ISAs (Ireland) and, where applicable, relevant legislation. It includes a statutory audit performed pursuant to the EU Audit Directive and Regulation or otherwise designated by national law as a statutory audit.

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 information obtained from other sources. (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—The sole practitioner, partnership, limited liability partnership or other corporate entity engaged in the provision of audit services. For the purpose of IAASA's Ethical Standard, audit firm includes network firms in Ireland which are controlled by the audit firm or its partners.

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

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

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

Audit team—All audit professionals who, regardless of their legal relationship with the auditor or audit firm, are assigned to a particular audit engagement in order to perform the audit task (e.g. audit partner(s), audit manager(s) and audit staff).

Audited entity—The entity whose financial statements are subject to audit by the audit firm.

Auditor—"Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner³ or other members of the engagement team, or, as applicable, the firm. Where an ISA (Ireland) 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.

³ In Ireland, this includes the key audit partner.

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 partner⁴ 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*)

Beneficial owner or controlling party—Any individual that ultimately owns or controls the entity. This includes structures where the ownership or control is exercised through a chain of ownership involving one or more intermediary entities, or other indirect means.

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.

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

Collective investment scheme—Any structure that enables multiple participants to invest in a meaningfully diversified portfolio of assets by contributing to a fund scheme or similar arrangement, which effectively pools their respective contributions into a single fund and allows them to participate in or receive profits or income from investments held by the scheme. The scheme is such that investors do not have day-to-day control over the management of the assets, whether or not they have the right to be consulted or to give directions, as it is independently managed by a professional fund manager who makes investment decisions on behalf of investors.

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

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

Compilation engagement—An engagement in which accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarize financial information.

⁴ "Partner" and "firm" should be read as referring to their public sector equivalents where relevant.

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. A component auditor may also be a key audit partner.

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).

Connected parties—An entity's connected parties are:

- a. Its affiliates;
- b. Key members of management (including but not limited to directors and those charged with governance) of the entity and its significant affiliates, individually or collectively; and
- c. Any person or entity with an ability to influence (other than in the capacity of professional advisors), whether directly or indirectly, key members of management or those charged with governance of the entity and its significant affiliates, individually or collectively, in relation to their responsibility for or approach to any matter or judgment that is material to the entity's financial statements or other subject matter information or subject matter.

Contingent fee basis—Any arrangement made under which a fee is calculated on a pre-determined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed. A fee that is established by a court, competent authority or other public authority is not a contingent fee.

Differential hourly fee rates, or arrangements under which the fee payable will be negotiated after the completion of the engagement, or increased to cover additional work identified as necessary during the engagement, do not constitute contingent fee arrangements.

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

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

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

Corporate governance—(see *Governance*)

Corporate holding entity—An entity which typically raises capital from private investors rather than public markets, whose primary purpose is to buy and control the ownership interests of the broad portfolio of companies it invests in.

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.

Covered person—A person in a position to influence the conduct or outcome of the engagement.

For an audit engagement:

- (a)(i) Each member of the engagement team with responsibilities for managing the performance of the engagement (including the person(s) responsible for ‘day to day’ direction and supervision on site at the entity, and all more senior members of the engagement team above them) and persons who provide engagement quality review for the engagement;
- (a)(ii) All other members of the engagement team;
- (b) Any other natural person whose services are placed at the disposal or under the control of the firm and who is involved in the audit, including for example any individual who is, or whose services are provided by, any external expert of the firm;
- (c) Any person in the firm with supervisory, management or other oversight responsibility over:
 - (i) The engagement or the engagement partner or other key partners involved in the engagement; or
 - (ii) The conduct of audit engagements performed by the firm.This includes each partner, principal, shareholder and other person in the firm:
 - a. At each level of firm management, supervision or oversight relating to the audit, up to and including individuals who have ultimate responsibility for the management or governance of the firm⁵; or

⁵ Senior or managing partner, chief executive or equivalent, and other members of the firm's management and supervisory bodies.

- b. Who has a direct role in the preparation or approval of the performance appraisal and/or remuneration of any individual defined in (a)(i), (b), (c)(i) and (c)(ii); and
- (d) Any other person within the firm or a network firm who, due to any other circumstances, is in a position to influence the conduct or outcome of the audit, for example by virtue of holding a very senior position, or having a mentoring role.

An independent non-executive appointed by a firm to act in a public interest role on a governance or oversight body of the firm is not a covered person.

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 the auditor’s report—The date the auditor dates the report on the financial statements in accordance with ISA (Ireland) 700⁶.

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.

Deficiency in the firm’s system of quality management (referred to as “deficiency” in ISQM (Ireland) 1)—This exists when:

- (i) A quality objective required to achieve the objective of the system of quality management is not established;
- (ii) A quality risk, or combination of quality risks, is not identified or properly assessed;
- (iii) A response, or combination of responses, does not reduce to an acceptably low level the likelihood of a related quality risk occurring because the response(s) is not properly designed, implemented or operating effectively; or

⁶ ISA (Ireland) 700, “Forming an Opinion and Reporting on Financial Statements.”

- (iv) Another aspect of the system of quality management is absent, or not properly designed, implemented or operating effectively, such that a requirement of ISQM (Ireland) 1 has not been addressed.

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

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

The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (Ireland). See paragraph 5-1 of ISA (Ireland) 610, “*Using the Work of Internal Auditors*”.

Direct effect (on the financial statements)—A service resulting in a change to, or supporting the continuing use of an existing treatment in the financial statements (including disclosures) of an entity as a result of a service being provided. This applies regardless of whether the direct effect is in respect of a set of financial statements under audit, or a future set of financial statements.

Directly involved covered person—In relation to an engagement, a covered person for the engagement that falls within the scope of paragraphs (a) or (b) of the definition of a covered person.

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 of the financial statements.

Engagement—In IAASA’s Ethical Standard, an audit 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).

In Ireland, engagement documentation shall include all documents, information, records and other data required by ISQMs (Ireland), ISAs (Ireland) and applicable legal and regulatory requirements.

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

*Engagement partner*⁷—The partner or other individual, appointed by the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a

⁷ “Engagement partner,” “partner,” and “firm” is to be read as referring to their public sector equivalents where relevant.

professional, legal or regulatory body. For an audit of financial statements, the engagement partner is a key audit partner.

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

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

Engagement risk—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 other individuals who perform procedures on the engagement, excluding an external expert and internal auditors who provide direct assistance on an engagement⁸.

For the purposes of IAASA's Ethical Standard, engagement team comprises all persons who are directly involved in the acceptance and performance of a particular audit. This includes the audit team, professional personnel from other disciplines involved in the engagement and those who provide quality control (other than the engagement quality reviewer) or direct oversight of the audit engagement, but it does not include any external experts contracted by the firm.

Entity in distress—An entity with actual or anticipated financial or operational difficulties that threaten the survival of that entity as a going concern.

Entity relevant to the engagement—An entity with respect to which the firm and covered persons are required to be independent. In the case of an audit engagement, the entity relevant to the engagement is the audited entity which is responsible for the audited financial statements reported on by the firm.

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

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.

Ethics Partner—The partner in the firm having responsibility for the adequacy of the firm's policies and procedures relating to integrity, objectivity and independence, their compliance with IAASA's Ethical Standard and the effectiveness of their communication to partners and staff within the firm and providing related guidance to individual partners.

⁸ The use of internal auditors to provide direct assistance is prohibited in an audit conducted in accordance with ISAs (Ireland) – see ISA (Ireland) 610, paragraph 5-1.

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

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

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

- (a) Audit processes;
- (b) ISAs (Ireland) and applicable legal and regulatory requirements;
- (c) The business environment in which the entity operates; and
- (d) Auditing and financial reporting issues relevant to the entity’s industry.

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

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

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

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

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

Financial instruments—These are defined in EU Directive 2014/65/EU, on markets in financial instruments, as:

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a

- Multilateral Trading Facility (MTF), or an Organised Trading Facility (OTF), except for wholesale energy products traded on an OTF that must be physically settled;
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
 - (8) Derivative instruments for the transfer of credit risk;
 - (9) Financial contracts for differences;
 - (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
 - (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

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 it can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross reference.

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

Firm—A sole practitioner, partnership, or corporation or other entity of professional accountants, or public sector equivalent.

In the case of an audit engagement, this includes a ‘statutory auditor’ who is a natural person; and a legal person or any other entity, regardless of its legal form, with the appropriate approval to carry out statutory audits. For the purpose of IAASA’s Ethical Standard, ‘firm’ also includes network firms in Ireland which are controlled by the firm or its partners.

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 IT-controls—Policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. General IT-controls commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance.

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

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

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

- (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.⁹

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.

⁹ ISA (Ireland) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing”, paragraph 13(a).

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. The group engagement partner may also be the key audit partner. Where joint auditors conduct the group audit, the joint engagement partners and their engagement teams collectively constitute the group engagement partner and the group engagement team.

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

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

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

Group-wide controls—Controls designed, implemented and maintained 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.

Immediate family—A spouse (or equivalent) or dependent.

Inconsequential—An impact of financial statements or subject matter information, about which an objective reasonable and informed third party would have no doubt was very small and trivial.

Independence—Freedom from conditions and relationships which, in the context of an engagement, would compromise the integrity or objectivity of the firm or covered persons.

Integrity or objectivity (and therefore independence) would be compromised if it is probable (more likely than not) that an objective, reasonable and informed third party would conclude that the threats, arising from any conditions or relationships that exist (taking into account any conflicts of interest that they may cause, or generally be perceived to cause, or otherwise, and having regard to any safeguards implemented), would impair integrity or objectivity to such an extent that it would be inappropriate for the firm to accept or continue to perform the engagement unless the threats were eliminated or further reduced or unless more, or more effective, safeguards were implemented.

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

Informed management—Member of management (or senior employee) of the entity relevant to the engagement who has the authority and capability to make independent management judgments and decisions in relation to non-audit services on the basis of information provided by the firm.

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

Initial audit engagement—An engagement in which either:

- (a) The financial statements for the prior period were not audited; or
- (b) The financial statements for the prior period were audited by a predecessor auditor.

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

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

Integrity—Being trustworthy, straightforward, honest, fair and candid; complying with the spirit as well as the letter of applicable ethical principles, laws and regulations; behaving so as to maintain the public's trust in the auditing profession; and respecting confidentiality except where disclosure is in the public interest or is required to adhere to legal and professional responsibilities.

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

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

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

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

International Financial Reporting Standards—The International Financial Reporting Standards issued by the International Accounting Standards Board.

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

IT environment—The policies and procedures that the entity implements and the IT infrastructure (hardware, operating systems, etc.) and application software that it 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.

Key audit partner—Is defined in Ireland¹⁰ as:

- (i) The statutory auditor(s) designated by an audit firm for a particular audit engagement as being primarily responsible for carrying out the statutory audit on behalf of the audit firm,
- (ii) In the case of a group audit, at least the statutory auditor(s) designated by an audit firm as being primarily responsible for carrying out the statutory audit at the level of the group and the statutory auditor(s) designated as being primarily responsible at the level of material subsidiaries, or
- (iii) The statutory auditor(s) who sign(s) the audit report.

Key management position—Any position at an entity relevant to an engagement which involves the responsibility for fundamental management decisions at the entity (e.g. as a CEO or CFO), including an ability to influence the accounting policies and the preparation of the financial statements of the entity. A key management position also arises where there are contractual and factual arrangements which in substance allow an individual to participate in exercising such a management function in a different way (e.g. via a consulting contract).

Key partner involved in the engagement—A partner, or other person in the engagement team (other than the engagement partner or engagement quality reviewer) who either:

- Is involved at the group level and is responsible for key aspects of the engagement, including decisions or judgments on significant matters or risk factors that relate to the engagement for that entity, or
- Is primarily responsible for the engagement work in respect of a significant affiliate, division or function of the entity.

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.

This includes any entity in which the public can trade shares, stock or debt on the open market, such as those listed on the Irish/London Stock Exchanges (including those

¹⁰ Article 2(16) of the EU Audit Directive refers.

admitted to trading on the Alternative Investment Market and Euronext Growth) and ISDX Markets.

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.

In Ireland, management will not normally include non-executive directors.

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.

Material uncertainty related to going concern—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern, where the magnitude of its potential impact and likelihood of occurrence is such that appropriate disclosure of the nature and implications of the uncertainty is necessary for:

- (i) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements; or
- (ii) In the case of a compliance framework, the financial statements not to be misleading.

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

Misstatement—A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Where the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

Misstatement of 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).

In Ireland, a misstatement of the other information also exists when the statutory other information has not been prepared in accordance with the legal and regulatory requirements applicable to the statutory other information.

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

Monitoring of controls—A process to assess the effectiveness of internal control performance over time. It includes assessing the design and operation of controls on a timely basis and taking necessary corrective actions modified for changes in conditions. Monitoring of controls is a component of internal control.

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

Network—A larger structure:

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

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

A network firm is any entity which is part of a larger structure that is aimed at co-operation and which is:

- (i) Controlled by the firm; or
- (ii) Under common control, ownership or management; or
- (iii) Part of a larger structure that is clearly aimed at profit or cost sharing; or
- (iv) Otherwise affiliated or associated with the audit firm through common quality management policies and procedures, common business strategy, the use of a common name or through the sharing of significant common professional resources.

Non-audit services—Any engagement in which an audit firm provides professional services to an audited entity, its affiliates or another entity where the subject matter of the engagement includes the audited entity and/or its significant affiliates other than the audit of financial statements of the audited entity.

Non-compliance (in the context of ISA (Ireland) 250¹¹)—Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, management or employees. Non-

¹¹ ISA (Ireland) 250, Section A - “*Consideration of Laws and Regulations in an Audit of Financial Statements*”, and ISA (Ireland) 250, Section B - “*The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector.*”

compliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management or employees of the entity.

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

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

Objectivity—Acting and making decisions and judgments impartially, fairly and on merit (having regard to all considerations relevant to the task in hand but no other), without discrimination, bias, or compromise because of commercial or personal self-interest, conflicts of interest or the undue influence of others, and having given due consideration to the best available evidence.

The need for objectivity in performing the engagement arises from, among other things, the fact that many of the important issues involved in the performance of the engagement, including those arising in the preparation of the subject matter information, do not relate to questions of fact but rather to questions of judgment. For example, with regard to financial statements, there are choices to be made by the board of directors in deciding on the accounting policies to be adopted by the entity: the directors have to select the ones that they consider most appropriate and this decision can have a material impact on the financial statements. Furthermore, many items included in the financial statements cannot be measured with absolute precision and certainty. In many cases, estimates have to be made and the directors may have to choose one value from a range of possible outcomes. When exercising discretion in these areas, the directors have regard to the applicable financial reporting framework.

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.

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

Other matter paragraph—A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's 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.

Personnel—Partners and staff in the firm.

*Persons closely associated*¹²—A ‘person closely associated’ is:

- (a) A spouse, or a partner considered to be equivalent to a spouse in accordance with national law;
- (b) A dependent child, in accordance with national law;
- (c) A relative who (at any time in the period from the start of the financial period in respect of which the engagement is being conducted to the date on which the engagement report is signed) has lived in the same household as the person with whom they are associated for at least one year;
- (d) A firm whose managerial responsibilities are discharged by, or which is directly or indirectly controlled by, the firm / person with whom they are associated, or by any person mentioned in (a), (b) or (c) or in which the firm or any such person has a beneficial or other substantially equivalent economic interest; or
- (e) A trust whose managerial responsibilities are discharged by, or which is directly or indirectly controlled by, or which is set up for the benefit of, or whose economic interests are substantially equivalent to, the firm / person with whom they are associated or any person mentioned in (a), (b) or (c).

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

- (a) Are not confined to specific elements, accounts or items of the financial statements;
- (b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (c) In relation to disclosures, are fundamental to users’ understanding of the financial statements.

¹² This definition covers that required by the EU Audit Directive. The EU Audit Directive defines a ‘person closely associated’ as within the meaning in Commission Directive 2004/72/EC. However, Regulation 596/2014 on market abuse (market abuse regulation) repeals and replaces, inter alia, Commission Directive 2004/72/EC with effect from 3 July 2016.

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.

Preconditions for an audit—The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management and, where appropriate, those charged with governance to the premise¹³ 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 ISAs (Ireland). 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.”

¹³ ISA (Ireland) 200, paragraph 13(j).

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

Professional accountant

For the purpose of the ISAs (Ireland) and IAASA’s Ethical Standard, *Professional accountants* are those persons who are members of a professional accountancy body, whether in public practice (including a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education.

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

Professional standards—IAASB Engagement Standards, as defined in the IAASB’s Preface to the International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements, and relevant ethical requirements.

In Ireland, professional standards in the context of ISQM (Ireland) ¹⁴ are the performance standards issued by IAASA.

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 startup 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*)

Public interest assurance engagement—Audits of financial statements undertaken in compliance with International Standards on Auditing (ISAs) (Ireland) and other engagements undertaken in compliance with performance standards issued by IAASA which, as of October 2023, comprise:

¹⁴ ISQM (Ireland) 1, “Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements.”

- (a) Reporting accountants acting in connection with an investment circular (the Standards for Investment Reporting (SIRs) (Ireland); and
- (b) Review of interim financial information by the independent auditor of the entity (International Standard on Review Engagements (Ireland) 2410).

Public interest entity—Is defined in Irish legislation¹⁵ as:

- (a) Have transferable securities admitted to trading on a regulated market¹⁶ of any EU member state or EEA state;
- (b) Are credit institutions (within the meaning of Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council¹⁷, other than those listed in Article 2 of Directive 2013/36/EU of the European Parliament and of the Council on access to the activity of credit institutions and investment firms); or
- (c) Are insurance undertakings (within the meaning given by Article 2(1) of Council Directive 91/674/EEC of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertaking).

No other entities have been specifically designated in law in Ireland as 'public interest entities'.

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).

Publicly traded entity - An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

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

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

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

Reasonable assurance—In the context of the ISQMs (Ireland), a high, but not absolute, level of assurance.

¹⁵ Section 1461(1) of the Companies Act 2014 refers.

¹⁶ "Regulated market" has the same meaning as in Regulation 2 of Transparency (Directive 2004/109/EC) Regulations 2007 (Statutory Instrument 277 of 2007). "Transferable securities" means anything which is a transferable security for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

¹⁷ Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

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.

In Ireland relevant definitions of “related party” are set out in the applicable financial reporting frameworks (for example, the definitions in International Accounting Standard 24, “*Related Party Disclosures*,” or FRS 102, “*The Financial Reporting Standard applicable in the UK and the Republic of Ireland*”).

Relative—A relative is a brother, sister, ancestor or lineal descendant. It does not include cousins for the purposes of this definition; however, it does apply to spouses or civil partners.

Related services—Comprise agreed-upon procedures and compilations.

Relevant ethical requirements—Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking engagements that are audits or reviews of financial statements or other assurance or related services engagements. Relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits or reviews of financial statements, or other assurance or related services engagements, together with national requirements that are more restrictive.

In Ireland the firm and its personnel are subject to ethical requirements from two sources: IAASA’s Ethical Standard concerning the integrity, objectivity and independence of the firm and its personnel, and the ethical pronouncements established by the auditor or assurance practitioner’s relevant professional body.

Relevant period—The engagement period and any additional period before the engagement period but subsequent to the balance sheet date of the most recent audited financial statements of the engagement client.

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 ISA (Ireland) 402¹⁸ as a type 1 report)—A report that comprises:

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

Report on the description, design, and operating effectiveness of controls at a service organization (referred to in ISA (Ireland) 402 as a type 2 report)—A report that comprises:

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

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

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

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.

¹⁸ ISA (Ireland) 402, "Audit Considerations Relating to an Entity Using a Service Organization."

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

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

- (a) *Inherent risk*—The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- (b) *Control risk*—The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Sampling—(see *Audit sampling*)

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

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

Sampling unit—The individual items constituting a population.

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

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

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

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

Significant affiliate—An affiliate 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 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 risk—An identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.

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.

In Ireland, company law provides a lighter reporting regime for companies that are defined, by legislation, as small. A company qualifies as “small” if it meets particular thresholds in respect of turnover, balance sheet total/gross assets and number of employees and certain other criteria. The thresholds and other criteria are subject to change and reference to the relevant legislation should be made to determine what they are in respect of a particular accounting period.

For the purpose of IAASA’s Ethical Standard, a small entity is defined in Section 6 of that standard.

SME listed entity—

- (a) An entity whose equity financial instruments had an average market capitalization of less than €200m on the basis of year end quotes for the previous three calendar years; or
- (b) An entity that issues exclusively non-equity financial instruments if:
 - (i) The total nominal amount of the non-equity financial instruments issued and outstanding does not exceed €200m; or
 - (ii) According to the last annual or consolidated accounts, meets at least two of the following criteria:
 - An average number of employee during the financial year of less than 250;
 - A total balance sheet not exceeding €43m;
 - An annual net turnover not exceeding €50m.

An entity whose equity financial instruments have been admitted to trading for less than three years shall be deemed an SME if its market capitalization is below €200m based on:

- (a) The closing share price of the first day of trading, if its shares have been admitted to trading for less than one year;
- (b) The last closing share price of the first year of trading, if its financial instruments have been admitted to trading for more than one year but less than two years; or
- (c) The average of the last closing share prices of each of the first two years of trading, if its financial instruments have been admitted to trading for more than two years but less than three years.

*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.¹⁹

¹⁹ ISA (Ireland) 200, paragraph 13(a).

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

For IAASA's Ethical Standard, 'staff' are the firm's managers, auditors, employees and any other natural persons whose services are placed at the disposal or under the control of the firm.

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

- (a) Random selection of the sample items; and
- (b) The use of probability theory to evaluate sample results, including measurement of sampling risk.

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

Statutory audit—An audit performed pursuant to the EU Audit Directive and Regulation or otherwise designated by national law as a statutory audit.

Statutory audit firm—

- (i) an audit firm which is approved in accordance with Part 27 of the Companies Act 2014 to carry out statutory audits, or
- (ii) an audit firm which is registered in accordance with Section 1465 of the Companies Act 2014 to carry out statutory audits.

*Statutory auditor*²⁰—An individual who is approved in accordance with Part 27 of the Companies Act 2014 to carry out statutory audits.

Statutory other information—For statutory audits of financial statements, those documents or reports that are required to be prepared and issued by the entity (including any reports or documents that are incorporated by cross reference) in relation to which the auditor is required to report publicly in accordance with law or regulation.

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.

²⁰ In the EU Audit Directive and Regulation the term 'statutory auditor' is used in the context of a natural person. In the Companies Act 2014, where the term 'statutory auditor' is used outside Part 27 of that Act, it means an individual or a firm that stands approved as a statutory auditor or statutory audit firm.

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

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.

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

Suitably qualified external person—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.

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

- (i) The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- (ii) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

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

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

Those charged with governance—The person(s) or organization(s) (e.g., 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.²¹

In Ireland, those charged with governance include the directors (executive and non-executive) of a company and the members of an audit committee where one exists. For

²¹ For discussion of the diversity of governance structures, see paragraphs A1-A8 of ISA (Ireland) 260, “*Communication with Those Charged with Governance*.”

other types of entity it usually includes equivalent persons such as the partners, proprietors, committee of management or trustees.

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

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

Uncertainty—A matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.

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

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

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

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

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

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



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