Draft IDW Auditing Standard for Less Complex Entities: Scope and Preface (IDW AuSLCE 1)

IDW AuSLCE 1

Status: 2021/12/05[1]

Within the context of the audit of financial statements of small and medium-sized entities (SMEs) as a model, the Hauptfachausschuss (HFA) [Auditing and Assurance Board] has issued the following draft IDW Auditing Standard for Less Complex Entities: Scope and Preface.

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1 Preface

1 Within the context of audits of financial statements of small and medium-sized entities (SMEs) as a model, this IDW Auditing Standard for Less Complex Entities (IDW AuSLCE) deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with IDW AuSLCEs. Specifically, it sets out the overall objectives of the independent auditor and explains the nature and scope of an audit of LCEs designed to enable the independent auditor to meet those objectives. The standards have been developed to reflect the nature and circumstances of an audit of the financial statements of an LCE. This IDW AuSLCE also explains the scope, authority and structure of the IDW AuSLCE, and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the IDW AuSLCE. The independent auditor is referred to as "the auditor" hereafter.

2 *[repealed]*

3 IDW AuSLCEs are written in the context of an audit of financial statements by an auditor.

4 Generally Accepted Principles for Audits of Financial Statements for LCEs (GoA LCE) as deterimined by the Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW) comprise this IDW AuSLCE as well as:

(a) *IDW Auditing Standard for LCE 2: Overarching Requirements for a Financial Statement Audit*
(b) *IDW Auditing Standard for LCE 3: Engagement Acceptance and Preparatory Activities for a Financial Statement Audit*

[1] Issued by the HFA on December 5, 2021.

(c) *IDW Auditing Standard for LCE 4: Identification and Assessment of Risks of Material Misstatement*
(d) *IDW Auditing Standard for LCE 5: Responses to Assessed Risks*
(e) *IDW Auditing Standard for LCE 6: Concluding Auditing Procedures, Communication with Those Charged with Governance and obtaining Written Representations*
(f) *IDW Auditing Standard for LCE 7: Forming an Opinion, Auditor's Report and Archiving*

5 Section 4 sets out the authority for these standards. A clear description of the types of entities for which an audit in accordance with these standards has been designed is essential so that:

- The objectives and requirements to be included within the IDW AuSLCE to enable an auditor to perform an appropriate audit of the financial statements of an LCE are identifiable
- Legislative or regulatory authorities, firms, auditors, and others will be informed of the intended scope of the standard.

6 If this standard is used for audit engagements other than those contemplated in Section 4, the auditor is not permitted to represent compliance with the IDW AuSLCE in the auditor's report.

7 The appendix attached to this IDW AuSLCE defines the key terms used in the IDW AuSLCE.

2 An Audit of Financial Statements

8 The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. An audit conducted in accordance with IDW AuSLCE and relevant ethical requirements enables the auditor to form that opinion. In this context, the auditor is required to exercise professional judgment and maintain professional skepticism throughout planning and performing the audit.

9 The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. IDW AuSLCE do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with IDW AuSLCE is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to conduct of the audit.[2] The audit of financial statements does not relieve management or those charged with governance of their responsibilities.

10 As the basis for the auditor's opinion, IDW AuSLCE require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent

[2] See IDW Auditing Standard for Less Complex Entities: Engagement Acceptance and Preparatory Activities for a Financial Statement Audit (IDW AuSLCE 3), para. 1.

limitations of an audit that result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.

11 The concept of materiality is applied by the auditor in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements[3]. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.

12 The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable law or regulation[4].

13 The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in relation to matters arising from the audit. These may be established by the IDW AuSLCE or by applicable law or regulation.

3 Overall Objectives of the Auditor

14 In conducting an audit of financial statements, the overall objectives of the auditor are:

(a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material aspects, in accordance with an applicable financial reporting framework; and

(b) To report on the financial statements, and communicate as required by the IDW AuSLCE, in accordance with the auditor's findings.

15 In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the IDW AuSLCE require that the auditor disclaim an opinion or withdraw (or resign) from the engagement.

4 Scope and Limitations of IDW AuSLCE

16 This section sets out the authority of the IDW AuSLCE. In addition to specific prohibitions (paragraph 18), the requirements in the IDW AuSLCE are based on specific characteristics, set out in paragraph 19, in order to be proportionate to the typical nature and circumstance of an audit of an LCE (i.e., they do not address complex matters or circumstances).

17 The IDW AuSLCE are not permitted to be used for audits that are not audits of financial statements of LCEs. If the IDW AuSLCE are used for an audit outside the defined scope of these standards, compliance with the requirements of the IDW AuSLCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.

18 The IDW AuSLCE shall not be used

(a) When auditing the financial statements of a public interest entity (PIE) as defined in §316a HGB or of a listed entity as defined in ISA 220, or

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[3] See IDW Auditing Standard for Less Complex Entities: Responses to Assessed Risks (IDW AuSLCE 5).

[4] See IDW Auditing Standard for Less Complex Entities: Forming an Opinion, Auditor's Report and Archiving (IDW AuSLCE 7).

(b) If the entity has:

  (i) Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.
  (ii) Large or complex IT applications[5].
  (iii) Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to corporate governance arrangements, policies, procedures or processes established by the entity.

19 The IDW AuSLCE may generally be applied if the entity meets the following characteristics:

(a) The audited entity is – at most – a mid-sized limited liability company or - at most - a mid-sized limited liability commercial partnership.

(b) The non-consolidated annual financial statements under the German Commercial Code are to be audited and the audit is not a group audit as defined in the ISAs.

(c) The entity does not issue any supplementary information as set forth in ISA 700.

(d) The entity does not issue any other information as defined in ISA 720.

(e) The entity does not exhibit a complex organization in the sense that:

  1. internal controls are simply designed,

  2. complex accounting estimates, such as complex financial instruments or those requiring an expected loss model do not exist.

The entity has

(f) No oversight body by law or analogous to that required in the law (oversight body is, for example, the owner-manager),

(g) No internal audit function,

(h) No outsourcing of processes and controls relevant to the audit,

(i) No special-purpose entities,

(j) No matters contained in the financial statements that become effective after the completion of the audit.

The entity

(k) Does not voluntarily apply the German Corporate Governance Code.

(l) Applies no laws or regulations that set forth detailed requirements for the audit engagement or the responsibility of management.

In terms of the audit

(m) No additional subject matter information or underlying subject matters (e.g., economic circumstances for public enterprises, statements of use of funds, etc.) need to be assured,

(n) It is not an initial audit for the auditor,

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[5] To determine whether the IT application is large or complex, the explanations in ISA 315 (Revised 2019), appendix 5 (right column), can be used.

(o) No expertise in areas other than in accounting or auditing are needed, in order to obtain sufficient appropriate audit evidence,

(p) No engagement quality review is needed or performed,

(q) The audit does not represent an audit of previously audited financial statements that have been amended and there are no indications that the auditor's report for a previous audit needs to be withdrawn,

(r) No special industry requirements (e.g., for financial services) need to be observed,

(s) No withdrawal from the audit engagement for good cause (§ 318 Abs. 6 HGB),

(t) No voluntary emphasis of matter or other matter paragraphs pursuant to ISA 705,

(u) The audit is not a joint audit,

(v) It is presumed that, due to their extensive education and training, the simplicity of the German financial reporting framework (German Legally Required Accounting Principles), and its stability over time, German Public Auditors have the required understanding of the applicable financial reporting framework.

This list is not exhaustive and other relevant matters may also need to be considered. The absence of a characteristic does not necessarily exclude the use of the IDW AuSLCE, requires however the planning and execution of further audit procedures. The matters described in the list are intended to be considered both individually and in aggregate. Notwithstanding that professional judgment is to be used in determining whether the standards are appropriate to use, if there is uncertainty about whether an audit is an audit of the financial statements of an LCE, as set forth by this section, the use of the IDW AuSLCE is not appropriate.

Firms and Auditors

20 Firms are responsible for establishing policies or procedures in relation to the permitted use of the IDW AuSLCE by the firm's engagement teams. In doing so, the firm takes into account the specific prohibitions for use of the standards in paragraph 18 as well as the characteristics of use in paragraph 19. The firm may also further limit the classes of entities for which the firm's engagement teams can use the IDW AuSLCE.

21 For individual audit engagements, as part of the firm's acceptance or continuance procedures and the engagement partner's responsibilities related thereto, the engagement partner is required to determine that the audit engagement is an audit of an LCE in accordance with this section in order to use the IDW AuSLCE. For this purpose, the engagement partner takes into account:

(a) The specific prohibitions (paragraph 18),
(b) The characteristics of use (paragraph 19),
(c) Firm policies or procedures.

5 Effective Date

The IDW AuSLCE are effective for audits of financial statements for periods beginning on or after December 15, 2021. Voluntary early adoption is not permitted.

Appendix: Definitions

Term	Definition
Accounting Estimate	A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework is subject to significant estimation uncertainty. Estimation uncertainty is significant when it is expected to be more than clearly trivial.
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 journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
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.
Actual assertions	The individual representations, whether explicit or otherwise, regarding recognition, measurement, presentation, and disclosure, actually contained in the financial statements as prepared by management.
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.
Anomaly	A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
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.

Term	Definition
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	Summary categories of the “required assertions”. These summary categories are required to be used by auditors to consider different types of potential misstatement.
Audit documentation	The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as "working papers" or "workpapers" are also sometimes used).
Audit evidence	Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs: (a) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence. (b) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
Audit File	One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
Audit 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 reasonable basis on which to draw conclusions about the entire population.
Auditor	The person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an IDW AuSLCE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.
Auditor's point estimate or auditor's range	An amount, or range of amounts, respectively, developed by the auditor in evaluating management's point estimate.
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.

Term	Definition
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.
Controls	Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context: (a) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions. (b) Procedures are actions to implement policies.
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.
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.
Date of the financial statements	The date of the end of the latest period covered by the financial statements.
Date the financial statements are issued	The date that the auditor's report and audited financial statements are made available to third parties.
Deficiency in internal control	This exists when: (a) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or (b) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
Detection risk	The likelihood that the procedures performed by the auditor to reduce audit risk to an acceptably low level do not detect a misstatement that is material, either individually or when aggregated with other misstatements.
Engagement Letter	Written terms of an engagement in the form of a letter or other suitable form of contract.
Engagement partner	The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Term	Definition
Engagement Team	All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement.
Error	An unintentional misstatement in financial statements, including the omission of an amount or a disclosure.
Estimation uncertainty	Susceptibility of an inherent lack of precision in measurement.
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 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.
External Confirmation	Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
External information source	An external individual or organization that provides information that has been used by the entity in preparing the financial statement, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organization acting in the capacity of a management's expert the individual or organization is not considered an external information source with respect to that particular information.
Financial statement	A structured representation of historical financial information, including related 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 the applicable financial reporting framework. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.
Financial statements	An integrated set of more than one financial statement, including related disclosures.
Firm	A sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent.
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.

Term	Definition
Fraudulent financial reporting	Intentional misstatements, including omissions of amounts or disclosures in financial statements, to deceive financial statement users.
General information technology (IT) controls	Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e., the completeness, accuracy and validity of information) in the entity's information system. Also see the definition of IT environment.
Information process controls	Controls relating to the processing of information in IT applications or manual information processes in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information).
Inherent risk factors	Characteristics of events or conditions that affect inherent risk, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.
Inquiry	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.
IT environment	The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies. For the purposes of the IDW AuSLCE: (a) An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications include data warehouses and report writers. (b) The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software. (c) The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations.
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 an owner-manager.
Management bias	A lack of neutrality by management in the preparation of information.
Management's expert	An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Term	Definition
Management's point estimate	The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.
Misappropriation of assets	Theft of an entity's assets and often perpetrated by employees in relatively small and immaterial amounts. However, it can also involve management who are usually more capable of disguising or concealing misappropriations in ways that are difficult to detect.
Misstatement	A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. Misstatements reflect the difference between the "actual assertions" and the "required assertions". 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.
Modified opinion	A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.
Non-compliance	Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity.
Non-response	A failure of the confirming party to respond, or fully respond to a positive confirmation request, or a confirmation request returned undelivered.
Non-sampling risk	The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk.
Observation	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.
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.
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 materility level or levels for

Term	Definition
	particular classes of transactions, account balances or disclosures.
Personnel	Partners and staff in the firm.
Pervasive	A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgement: (a) Are not confined to specific elements, accounts or items of the financial statements; (b) If so confined, respresent or could represent a substantial proportion of the financial statements; or (c) In relation to disclosures, are fundamental to users' understanding of the financial statements.
Population	The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
Positive confirmation request	A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
Preconditions for an Audit	The agreement of management and, where appropriate, those charged with governance to premise, on which an audit is conducted.
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 IDW AuSLCE. 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

Term	Definition
	(iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence. In the case of a fair presentation framework, (a) above may be restated as “for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework,” or “for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework.” The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise”.
Prior period	Prior periods when the comparative information includes amounts and disclosures for more than one period.
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 audit evidence.
Professional standards	IDW Standards on Auditing of Less Complex Entities (IDW AuSLCE) and relevant ethical requirements.
Reasonable assurance	In the context of an audit of financial statements, a high, but not absolute, level of assurance.
Recalculation	Checking the mathematical accuracy of documents or records.
Related Party	A party that is either: (a) A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity; (b) Another entity over which the reporting entity has control or significant influence; directly or indirectly through one or more intermediaries; or (c) Another entity that is under common control with the reporting entity through having: i. Common controlling ownership; ii. Owners who are close family members; or iii. Common key management.
Relevant ethical requirements	Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to

Term	Definition
	audits of financial statements, together with national requirements that are more restrictive.
Relevant inherent risks	Inherent risks that have been assessed as exceeding an acceptably low level.
Relevant risks at a financial statement level	Risks of material misstatement at the financial statement level that have been assessed as exceeding an acceptably low level.
Relevant risks of material misstatement	Risks of material misstatement (inherent and control risk) that have been assessed as exceeding an acceptably low level.
Reperformance	The auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal controls.
Required assertions	The individual representations, whether explicit or otherwise, that would be contained in the financial statements if the requirements of the financial reporting framework regarding recognition, measurement, presentation and disclosure are appropriately applied to the transactions, events and conditions and other circumstances of the entity.
Risk assessment procedures	The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
Risk of material misstatement	The likelihood 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 probability of occurrence of a misstatement – that is material, either individually or when aggregated with other misstatements – in an assertion about a class of transaction, account balance or disclosure prior to consideration of any related controls. (b) Control risk – The likelihood of a misstatement – that is material, either individually or when aggregated with other misstatements – in an assertion about a class of transaction, account balance or disclosure, not being prevented, or detected and corrected, on a timely basis by the entity's internal control.
Risks arising from the use of IT	Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes (see IT environment).
Sampling 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 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

Term	Definition
	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 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.
Significant class of transactions, account balance or disclosure	A class of transactions, account balance or disclosure for which there is one or more assertions with an assessed inherent risk that exceeds an acceptably low level (i.e., a relevant inherent risk).
Significant deficiency in internal control	A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance.
Significant risk	An identified risk of material misstatement: (a) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or (b) That is to be treated as a significant risk in accordance with the requirements of other IDW AuSLCE.
Staff	Professionals, other than partners, including any experts the firm employs.
Statistical sampling	An approach to sampling that has the following characteristics: (a) Random selection of the sample items; and (b) The use of probability theory to evaluate sample results, including measurement of sampling risk. A sampling approach that does not have characteristics (a) and (b) is considered non-statistical sampling.
Stratification	The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).
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.
Substantive procedures	An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise: (a) Test 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

Term	Definition
	auditor's assessment of the risks of material misstatements and also by the quality of such audit evidence.
System of internal control	The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. For the purposes of the IDW AuSLCE, the system of internal control consists of five interrelated components: (a) Control environment; (b) The entity's risk assessment process; (c) The entity's process to monitor the system of internal control; (d) The information system and communication; and (e) Control activities.
Test of controls	An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, inherent risks.
Those charged with governance	The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example an owner-manager. In addition, for some entities, those charged with governance may have responsibilities related to the approval of the engagement.
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.
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 aspects, in accordance with the applicable financial reporting framework.
Written representations	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.