PART 18

AUDIT DEFINITIONS

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

accounting and review services are official pronouncements covering compilation and review engagements. Compilation is presenting in the form of financial statements information that is the representation of management (owners) without expressing assurance. Review is inquiry and analytical procedures to provide the accountant a basis for expressing limited assurance that there are no material modifications that should be made to the statements for them to be in conformity with U.S. generally accepted accounting.

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

accounting estimate An approximation of a financial statement element. Estimates are included in historical financial statements because some amounts are uncertain pending outcome of future events and relevant data about events that have occurred cannot be accumulated on a timely, cost-effective basis.

accounting principles are alternative ways of reporting and disclosing information in financial statements and related footnotes.

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

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

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

advisory services are a consulting service in which the CPA develops the findings, conclusions, and recommendations presented for client decision-making. This differs from attestation, where the CPA expresses a conclusion about a written assertion of another.

aggregate (aggregated) Constituting the whole. Aggregate expenses include expenses of all divisions combined for the entire year.

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

AICPA or American Institute of Certified Public Accountants The professional organization of CPAs in the U.S. It is a private organization of CPAs, not an arm of the government.

allocation Distribution according to a plan. Depreciation, amortization, and depletion are methods to allocate costs to periods benefited.
allowance for doubtful accounts A contra asset account with a credit balance used to reduce the carrying amount of accounts receivable to net realizable value. The allowance balance is the estimated total of uncollectible accounts included in accounts receivable.

allowance for sampling risk The difference between a sample estimate and the projected population characteristic at a specified sampling risk. This allowance is also the difference between the expected error rate and the tolerable deviation rate.

analytical procedure A comparison of financial statement amounts with an auditor's expectation. An example is to compare actual interest expense for the year (a financial statement amount) with an estimate of what that interest expense should be. The estimate can be found by multiplying a reasonable interest rate times the average balance of interest bearing debt outstanding during the year (the auditor's expectation). If actual interest expense differs significantly from the expectation, the auditor explains the difference in audit documentation.

analyze Identify and classify items for further study.

anticipated Expected.

application control Programmed procedure in application software designed to ensure completeness and accuracy of information.

approve To authorize. A manager authorizes a cash payment by signing a voucher providing approval for the disbursement.

arm's length transactions are transactions between people who have no relationship other than that of buyer and seller. The price is the true fair market value of the goods or services sold. If you buy or sell something to a close relative, you might give better terms than to an unrelated party, so the price might not represent the true market value of the goods or services.

ascertain An audit procedure to determine or to discover with certainty. For example, to ascertain the date on which an investment was purchased by examining source documents.

assertion Management asserts financial statements are correct with regard to existence or occurrence of assets, liabilities or transactions, completeness of information in the financial statements, rights and obligations at a point in time, appropriate valuation or allocation, presentation, and disclosure.

assess To determine the value, significance, or extent of.

assessed Determined. The level of control risk determined by the auditor, based on tests of controls, is the assessed level of control risk.

assurance The level of confidence one has.

attest (attestation) report In an attest engagement, a practitioner issues a written conclusion about the reliability of a written assertion that is the responsibility of another party.

attorney’s letter is signed by the client's lawyer and addressed to the auditor. It is the auditor's primary means to corroborate information furnished by management about litigation, claims, and assessments.

attribute sampling The characteristic tested is a property that has only two possible values (an error exists or it does not).

audit adjustment, whether or not recorded by the entity, is a proposed correction of the financial statements that may not have been detected except through audit procedures.
audit committee A committee of the board of directors responsible for oversight of the financial reporting process, selection of the independent auditor, and receipt of audit results.

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

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

audit planning is developing an overall strategy for the audit. The nature, extent, and timing of planning varies with size and complexity of the entity, experience with the entity, and knowledge of the entity's business.

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

Auditing Standards Board Statements on Auditing Standards are issued by the auditing standards board, the body of the AICPA designated to issue auditing pronouncements.

authorize (authorization) To give permission for. A manager authorizes a transaction by signing a voucher authorizing the disbursement.

backup A copy of a computer program or file stored separately from the original.

batch A set of computer data or jobs to be processed in a single program run.

Benford's law is a mathematical law that applies to any population of numbers derived from other numbers (such as the dollar amount of a sale, found by multiplying the quantity sold times the unit price). It holds that 30% of the time the first non-zero digit of this derived number will be one, and it will be a nine only 4.6% of the time. Benford's law is used by auditors to identify fictitious populations of numbers.

bill of lading A document issued by a carrier to a shipper, listing and acknowledging receipt of goods for transport and specifying terms of delivery.

blind trust A financial arrangement in which a person avoids possible conflict of interest by transferring financial affairs to a fiduciary who has sole asset management discretion. The person establishing the trust also gives up the right to information regarding the assets.

cancel supporting documents To mark supporting documents as having been used to support a transaction so the same documents can't be used to support another transaction. An example is stamping vouchers "paid."

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

caveat A warning or caution.

check digit A redundant digit added to a code to check accuracy of other characters in the code.

check register A listing of checks issued, normally in numeric sequence and in order by date issued.
**classification** Arrangement or grouping. Assets and liabilities are normally classified as current or noncurrent.

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

**collusion** A secret agreement between two or more parties for fraud or deceit.

**comfort letter** A letter written by the auditor to an underwriter of securities, which expresses an opinion about whether the audited financial statements and schedules in the registration statement comply as to form with applicable accounting requirements of the Act and related rules and regulations adopted by the SEC. Procedures performed are specified by the underwriter.

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

**comparative** Financial statements of a prior period shown with those of the current period to aid in comparisons between periods.

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

**compensating balance** An offsetting balance. A requirement by some banks that a borrower maintain a minimum balance in a checking or savings account as a condition of a loan. The offsetting balance increases the effective interest rate to the bank since the net amount loaned is reduced but the interest paid is unchanged.

**competence** of an internal audit staff is a function of qualifications, including education, certification, and supervision. Competent audit evidence is valid and reliable.

**compile (compilation)** A compilation is presenting in the form of financial statements information that is the representation of management without expressing assurance. Compilation of a financial projection is assembling prospective statements based on assumptions of a responsible party, considering appropriateness of presentation, and issuing a compilation report. No assurance is provided on the statements or underlying assumptions. The accountant need not be independent.

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

**compliance** Following applicable rules or laws.

**comprehensive basis of accounting** A complete set of rules other than U.S. GAAP applied to all items in a set of financial statements. Examples include a basis of accounting required by a regulatory agency, a basis of accounting the entity uses for its income tax return and the cash receipts and disbursements basis.

**computer controls** Internal controls performed by computer (software controls) as opposed to manual controls. Also means general and application controls over the computer processing of data.

**condensed financial statements** are presented in considerably less detail than complete financial statements.

**confirm (confirmation)** Communication with outside parties to authenticate internal evidence.
**consignment** Transfer of possession but not title to goods. Title stays with the consignor, while the consignee has possession.

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

**consulting services** performed by CPAs include consultations, advisory services, implementation services, product services, transaction services, and staff and support services.

**contingency** is an existing condition involving uncertainty as to possible gain (gain contingency) or loss (loss contingency) that will be resolved by future events. Estimates, such as the useful life of an asset, are not contingencies. Eventual expiration of the asset's utility is not uncertain.

**continuing auditor** is the auditor of the current year who also audited the financial statements of the client for the previous year.

**continuing accounting significance** Matters of continuing accounting significance are those normally included in the permanent audit documentation, such as the analysis of balance sheet accounts, and those relating to contingencies. Such information from a prior year is used by the auditor in the current year's audit and is updated each year.

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

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

**control environment** is the attitude, awareness, and actions of the board, management, owners, and others about the importance of control. This includes integrity and ethical rules, commitment to competence, board or audit committee participation, organizational structure, assignment of authority and responsibility, and human resource policies and practices.

**control policies and procedures** Control activities are the policies and procedures that help ensure management directives are carried out. Those pertinent to an audit include performance reviews, information processing, physical controls and segregation of duties.

**control risk** The risk that material error in a balance or transaction class will not be prevented or detected on a timely basis by internal controls.

**controller** An officer who supervises financial affairs of an entity. In internal control the controller is often the person with record keeping (general ledger) responsibilities, as contrasted with asset custody, management decision-making, and internal audit functions.

**corroborate** (corroborating) (corroboration) (corroborative) To strengthen with other evidence, to make more certain.

**count** Enumerate some characteristic such as the number of items in inventory.

**cumulative effect** of changing to a new accounting principle is the effect on retained earnings at the beginning of the current period. It is included in net income after extraordinary items. Only the direct effect (net of income tax effect) is considered.

**current ratio** Total current assets divided by total current liabilities.
custodian One who has possession or is in charge of something. Some entities entrust investment securities to a bank, which is custodian of the company's securities.

custody Possession.

cutoff Designating a point of termination. An auditor uses tests of cutoff to obtain evidence that transactions for each year are included in the financial statements of the appropriate year.

defalcation To misuse or embezzle funds.

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

detection risk The risk audit procedures will lead to a conclusion that material error does not exist when in fact such error does exist.

detective control A control designed to discover an unintended event or result.

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

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

disclosure Revealing information. Financial statement footnotes are one way of providing necessary disclosures.

discovery sampling Acceptance sampling (sampling to determine whether internal control compliance is greater than or less than the tolerable deviation rate) when the expected attribute occurrence rate is zero.

document (documentary) (documentation) Written or printed paper that bears information that can be used to furnish decisive evidence. Could also be a recording, computer readable information, or a photograph.

dual date If a major event comes to the auditor's attention between the report date and issuance of the report, the financial statements may include the event as an adjustment or disclosure. The auditor dual dates the audit report (as of the end of fieldwork, except footnote XX, which is dated later).

dual-purpose test Audit procedures are classified as substantive tests or tests of controls. If a procedure provides both types of evidence it is a dual-purpose test.

EDI or Electronic Data Interchange is the use of communication between an entity and customers or suppliers to transact business electronically. Purchase, shipping, billing, cash receipt, and cash disbursements can be completed entirely by exchanging electronic messages.

edit check Reasonableness, validity, limit, and completeness tests that are programmed routines designed to check input data and processing results for completeness, accuracy and reasonableness.

EDP or Electronic Data Processing Processing of information by computer as opposed to handwritten records.

effective income tax rate The income tax provision (expense) shown on an income statement divided by pretax income. This differs from the statutory rate because of deductions, credits, and exclusions.

effective internal control Reasonable assurance that the entity's operational objectives are achieved, that published financial statements are reliably prepared, and applicable laws and regulations are complied with.
effectiveness  Producing a desired outcome. An audit procedure is effective if the evidence supports a correct conclusion.

efficiency  The ratio of the audit evidence produced to audit resources used.

embedded control performance  deals with unexpected changes to data.

embezzlement  To take assets in violation of trust.

encryption  is scrambling data so it is meaningless to anyone but the intended recipient, who has the key to unscramble the data.

engagement letter  A letter that represents the understanding about the engagement between the client and the CPA. The letter identifies the financial statements and describes the nature of procedures to be performed. It includes an explanation of the objectives of the procedures, an explanation that the financial information is the responsibility of the company's management, and a description of the form of report.

environment  The control environment is the attitude, awareness, and actions of the board, management, owners, and others about importance of control. It includes integrity and ethical rules, commitment to competence, board or audit committee participation, organization structure, assignment of authority and responsibility, and human resource policies and practices.

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

estimation sampling  is sampling to estimate the actual value of a population characteristic within a range of tolerable misstatement.

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

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

examine  (examining) As an audit procedure, to examine something is to look at it critically.

except  for A qualified opinion. An auditor can qualify the audit opinion for both departures from U.S. GAAP in the financial statements and restrictions on the scope of the audit. The opinion paragraph of the qualified report is worded "In our opinion, except for..."

execute  (execution) To carry out an internal control procedure, such as to sign and mail a check after inspecting supporting documents.

existence  Assertions about existence deal with whether assets or liabilities exist at a given date. For example, management asserts that finished goods inventories in the balance sheet are available for sale.

expenditure  Cash paid or liability incurred.

explanatory  A paragraph added to an audit report to explain something, such as the reason for a qualified or adverse opinion.
explicitly Fully and clearly expressed, leaving nothing implied.

extend means to multiply one number by another (to test extensions is to test the accuracy of multiplication done by the client). To extend audit procedures is to apply additional audit procedures to obtain more evidence.

FASAB or Federal Accounting Standards Advisory Board An organization that sets GAAP in the U.S. for federal government entities.

FASB or Financial Accounting Standards Board A nongovernment private organization that sets GAAP in the U.S. for profit making entities and not-for-profit nongovernmental organizations.

field work The performance of audit procedures outside the CPA's office. Much field work, but not all, is done in the client's offices after the balance sheet date.

FIFO or First In First Out inventory cost flow.

financial forecasts are prospective financial statements that present expected future financial position, results of operations, and cash flows based on expected conditions. A financial forecast is of the most likely future scenario.

financial projections are prospective financial statements that present, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and changes in financial position. A financial projection includes several alternative scenarios while a forecast is the single most likely scenario.

financial institution confirmation request A confirmation sent to the client's bank or other financial institution asking the bank to confirm directly to the auditor information about balances at a particular date.

flowchart A schematic representation of a sequence of operations in an accounting system or computer program. Also called a flow diagram or flow sheet.

foot a column is to add a column of numbers.

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

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

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

GASB or Government Accounting Standards Board A nongovernment private organization that sets GAAP in the United States for governmental entities.
**general controls** Policies and procedures to assure proper operation of computer systems, including controls over data center and network operations, software acquisition and maintenance, and access security.

**general journal** A book of original entry in a double-entry system. The journal lists transactions and indicates accounts to which they are posted. The general journal includes all transactions not included in specialized journals used for cash receipts, cash disbursements, and other common transactions.

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

**general standard** In the ten U.S. generally accepted auditing standards there are three general standards: 1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor. 2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor. 3. Due professional care is to be exercised in performing the examination and preparation of the report.

**generalized audit software** Packaged computer programs used on a variety of computers during audit field work to read computer files, select information, perform calculations, create data files, and print reports in a format specified by the auditor.

**going concern** assumption assumes the company will continue in operation long enough to realize its investment in assets through operations (as opposed to sale). Presenting assets at historical cost is justified by assuming productive assets will be used rather than sold. This makes market values irrelevant and supports accounting methods that match the actual cost of an asset to periods benefited.

**Government Auditing Standards** A book issued by the comptroller general of the United States, sometimes called the "yellow book." Government Auditing Standards contains standards for audits of government organizations, programs, activities, and functions and of government assistance received by contractors, not-for-profit organizations, and other nongovernment organizations. These standards, which include designing the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on determination of financial statement amounts, are followed when required by law, regulation, agreement, contract, or policy. For financial audits, Government Auditing Standards prescribes fieldwork and reporting standards beyond those required by GAAS.

**gross margin percentage** The gross margin from an income statement divided by net sales revenue.

**hard copy** A printed copy of information as opposed to information stored in computer readable form.

**hardware** A computer and associated physical equipment involved in data processing or communications functions as opposed to software (the computer programs that provide instructions the computer follows).

**hardware control** Computer controls built into physical equipment by the manufacturer.

**hash total** A control total that has no meaning in itself except for control, e.g., total social security numbers of employees paid.

**hedges** protect an entity against the risk of adverse price or interest-rate movements on its assets, liabilities, or anticipated transactions. A hedge avoids or reduces risk by counterbalancing losses with gains on separate positions.

**Image-processing systems** scan documents into electronic images for storage. Reference and source documents may not be retained after conversion.
**immaterial** Of no importance. Something in financial statements that will not change decisions of investors.

**implicitly** Implied or understood even though not directly expressed.

**implied control performance** deals with expected changes to data.

**incompatible duties** Internal control systems rely on separation of duties to reduce the chance of errors or fraud. Duties are incompatible if they should be separated for control. For example, one person should not be in a position to both embezzle funds and to hide the embezzlement by changing the recorded accountability.

**incorrect acceptance** The risk of incorrect acceptance is the risk the sample supports the conclusion that the recorded balance is not materially misstated when it is materially misstated.

**incorrect rejection** The risk of incorrect rejection is the risk the sample supports the conclusion that the recorded balance is materially misstated when it is not materially misstated.

**independent** In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditors. This means freedom from bias, which is possible even when auditing one's own business (independence in fact). However, it is important that the auditor be independent in appearance (that others believe the auditor is independent).

**information systems** consist of infrastructure (physical and hardware components), software, people, procedures (manual and automated), and data.

**inherent limitation** The potential effectiveness of an entity's internal control is subject to inherent limitations. Human fallibility, collusion, and management override are examples.

**inherent risk** The susceptibility of a balance or transaction class to error that could be material, when aggregated with other errors, assuming no related internal controls.

**input control** Computer controls designed to provide reasonable assurance that transactions are properly authorized before processed by the computer, accurately converted to machine readable form and recorded in the computer, that data files and transactions are not lost, added, duplicated or improperly changed, and that incorrect transactions are rejected, corrected and, if necessary, resubmitted on a timely basis.

**inquire (inquiry)** Ask questions of client personnel.

**inspect (inspection)** As an audit procedure, to scrutinize or critically examine a document. As part of a CPA firm's quality control system, to monitor the effectiveness of the system.

**integrated test facility** A "dummy" unit (e.g., a department or employee) is established. Test (fictitious) transactions are posted to the dummy unit during the normal processing cycle. If test transactions are processed correctly that provides evidence that transactions of other units are processed correctly as well.

**integrity** Consistent adherence to an ethical code. If client management lacks integrity the auditor must be more skeptical than usual.

**interim audit procedures** are done during the year under audit, before year-end.

**interim financial information** is financial statements of a time period less than a full year.
**internal auditors** are employees of the client responsible for providing analyses, evaluations, assurances, recommendations, and other information to the entity's management and board. An important responsibility of internal auditors is to monitor performance of controls.

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

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

**internal control weakness** A defect in the design or operation of internal controls. A material weakness is a reportable condition that does not reduce to a relatively low level the risk that material errors or fraud would not be detected in a timely manner by employees in the normal course of their duties.

**introductory paragraph** The first paragraph of the auditor's standard report, which identifies the financial statements audited, states the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on the audit.

**inventory tag** A tag attached to inventory items that identifies the inventory items to aid in counting the physical inventory.

**inverse** The opposite or reverse. An inverse relationship between two variables means that when one increases the other decreases.

**investee** The company in which an investment is held. Often used to describe an equity method investment, in which the investor reports a share of the investee's net income.

**invoice** An itemized list of goods shipped or services rendered with costs.

**ISB** Independence Standards Board.

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

**just-in-time** An inventory system that attempts to minimize inventory costs that do not add value for the customer. It arranges for suppliers to deliver small quantities of raw materials just before those units are needed in production. Storing, insuring, and handling raw materials are costs that add no value to the product, and are minimized in a just in time system.

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

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

**lead schedule** The schedule at the beginning of audit documentation that summarizes the detailed schedules. lifo "Last In First Out" inventory cost flow.

**limit test** (limit check). A computer program step that compares data with predetermined limits as a reasonableness test (hours worked over 60 per week).

**liquidity** The availability of cash or ability to obtain it quickly. Debt paying ability.
lockbox (bank lockbox) speeds the availability of funds from cash collections by reducing the time from the customer mailing the check until the funds are available to spend. Remittances are sent to a bank near the customer and the bank deposits funds speedily to the payee's account.

management controls are controls performed by one or more managers.

management representation letter A letter addressed to the auditor, signed by the client's chief executive office and chief financial officer. During an audit, management makes many representations to the auditor. Written representations from management in the letter confirm oral representations given to the auditor, document the continuing appropriateness of such representations, and reduce the possibility of misunderstanding.

manual controls are controls performed manually, not by computer.

material (materiality) Information important enough to change an investor's decision. Insignificant information has no effect on decisions, so there is no need to report it. Materiality includes the absolute value and relationship of an amount to other information.

material weakness A condition in which internal controls do not reduce to a relatively low level the risk that material errors or fraud may occur and not be detected in a timely period by employees in the normal course of their duties.

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

misappropriate To embezzle or appropriate dishonestly for one's own use.

misstatement Stated wrongly or falsely. Untrue financial statement information.

mitigating Reducing in force or intensity.

narrative A written description of an internal control system.

negative assurance A statement of what the CPA does not know as opposed to what the CPA believes (positive assurance). A statement that the CPA was "not aware of material modifications that should be made to financial statements for them to conform with U.S. generally accepted accounting principles" is negative assurance used in review reports.

negative confirmation request The negative form of accounts receivable confirmation asks the client's customer to respond only if the customer disagrees with the balance determined by the client. The positive form asks the customer to respond whether the customer agrees or disagrees with the client's receivable balance. The negative form is used when controls over receivables are strong and accounts receivable consists of many accounts with small balances. The positive form is used when controls are weak or there are fewer, but larger, accounts.

nonsampling risk is audit risk not due to sampling. An auditor may apply a procedure to all transactions or balances and fail to detect a material misstatement. Nonsampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve a specific objective. For example, confirming recorded receivables cannot reveal unrecorded receivables. Nonsampling risk can be reduced to a negligible level through adequate planning and supervision.

objective A goal.

objectivity The internal auditors' objectivity depends on the organizational status of the internal audit function, whether the internal auditor has direct access and reports regularly to the board, the audit committee, or owner-manager, and who oversees internal auditor employment decisions.
**obligations** Assertions about obligations deal with whether liabilities are obligations of the entity at a given date. For example, management asserts that amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property and that the corresponding lease liability represents an obligation of the entity.

**obliterate** To do away with something so as to leave no trace.

**observe** (observation) Watch and test a client action (such as taking inventory).

**occurrence** Assertions about occurrence deal with whether recorded transactions have occurred during a given period. For example, management asserts that sales in the income statement represent the exchange of goods or services with customers for cash or other consideration.

**online** Access to a computer for immediate processing without having to wait for a batch of transactions to be processed at a later time.

**operating effectiveness** How an internal control was applied, the consistency with which it was applied, and by whom.

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

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

**opinion paragraph** The paragraph in the audit report that expresses the auditor's conclusions. The wording of the standard, unqualified opinion paragraph is: "In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Company at December 31, year A, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles."

**order** is a listing of goods or services requested from a supplier with specifications and desired delivery method. A company starts the purchase process internally with a requisition, which results in an order being transmitted to a supplier. When the supplier ships the goods or provides the service, an invoice is sent to the customer telling the customer the specifications, delivery method, and price of those goods or services.

**overall review** The objective of the overall review stage of the audit is to assess conclusions reached, and evaluate the overall financial statement presentation. The overall review includes reading the financial statements and notes and considering adequacy of evidence gathered in response to unusual or unexpected balances. Results of an overall review may indicate the need for additional evidence.

**parallel processing** is the simultaneous performance of multiple operations, usually in reference to computer systems.

**parity bit** An extra bit added to a string of bits to increase the accuracy of data transmission.

**password** A sequence of characters required to gain access to a computer system. Passwords are used to restrict computer system access to only authorized persons.

**payroll** Department that determines amounts of wage or salary due to each employee.

**peer review** A practice monitoring program in which the audit documentation of one CPA firm is periodically reviewed by independent partners of other firms to determine that it conforms to the standards of the profession.

**pending** Legal proceedings not yet decided.
**per diem** An allowance for daily expenses. Often used to reimburse employees for estimated expenses as opposed to accounting for each small component of the expenses.

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

**perpetrate** Carry out an action such as a crime.

**perpetual** An inventory accounting system updated for each addition to inventory and each issuance from inventory, so the records indicate the exact quantity on hand at any moment. The alternative is a periodic inventory system where actual inventory on hand is determined only once a year.

**personal financial statements** of individuals present assets and liabilities at estimated current value on an individual's balance sheet (statement of financial condition). A statement of changes in net worth presents major changes in net worth during a period. The accrual basis is used for assets and liabilities, which are presented in order of liquidity and maturity, without classification as to current and noncurrent. The cash value of life insurance less the amount of loans against it is an asset. Deferred income tax on the difference between the income tax basis and estimated current values is presented between liabilities and equity.

**personnel** The department that maintains records of each individual's employment.

**persuasive** Having the power to influence. Most audit evidence is persuasive, but not conclusive.

**pervasive** Having the ability to permeate. An error is pervasive if it is material to more than one of the primary financial statements.

**piecemeal opinion** Expression of an opinion on an item in financial statements is not permitted as part of a disclaimer or adverse opinion on the financial statements as a whole because it would tend to overshadow or contradict a disclaimer of opinion or an adverse opinion.

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

**pledge** Something given as security to guarantee payment of a debt.

**population size** The number of items in the population from which a sample is drawn.

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

**positive confirmation (positive request)** The positive form of receivables confirmation asks the customer to respond whether the customer agrees or disagrees with the client's reported receivable balance. The negative form of accounts receivable confirmation asks the client's customer to respond only if the customer disagrees with the balance determined by the client. The negative form is used when controls over receivables are strong and accounts receivable consists of many accounts with small balances. The positive form is used when controls are weak or there are fewer, but larger, accounts.
**predecessor auditor** The auditor of a client for a prior year who no longer audits that client.

**presentation** Assertions about presentation deal with whether particular financial statement components are properly classified and described. For example, management asserts that long-term liabilities in the balance sheet will not mature in one year. Similarly, management asserts that extraordinary items in the income statement are properly classified and described.

**preventative control** A control designed to avoid an unintended event.

**principal auditor** The auditor responsible for the greater portion of financial statements. The principal auditor may assume responsibility for the work of the other auditor or divide responsibility with the other auditor.

**pro forma** The objective of pro forma financial information is to show effects on historical financial information as if a proposed event had occurred earlier.

**probability proportional to size (pps) sampling** A sampling plan that bases the likelihood of selecting a particular account on the relative size of that account, so larger accounts have a greater probability of being selected for the sample than smaller accounts.

**probable** A contingent loss is probable if it is uncertain but likely to happen.

**procedure** An action, such as a step performed as part of an audit program or as part of the client's internal controls.

**processing control** is an internal control included in computer software designed to assure that all transactions are handled as authorized and none omitted or added.

**production cycle** The portion of an entity that acquires resources and converts them to the product or service for customers.

**production order** A document that initiates the manufacturing process.

**proficiency** as an auditor includes the auditor's formal education and subsequent experience. The independent auditor must undergo training adequate in technical scope, including commensurate general education. The assistant entering an auditing career must obtain experience with proper supervision and review of his or her work by a more experienced superior.

**program** An audit program is a listing of audit procedures to be performed in completing the audit. A computer program (software) is a listing of steps to be performed in processing the data.

**programmed controls** are built into computer software and include reasonableness tests, control totals, and sequence checks.

**pronouncements** of the FASB and GASB are rules that determine the principles for external financial reporting and disclosure.

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

**prospectus** A registration statement filed with the SEC includes audited financial statements (balance sheet, income statement, and statement of cash flows) for the previous three years. A prospectus contains the same information and must be supplied to all parties to whom offers are made. There is a twenty-day waiting period between the filing of the registration statement and the first sale of securities.
During this period, preliminary ads and a “red herring” prospectus can be provided to offerees but must be clearly marked as preliminary.

**proxy** A power of attorney granting a third party the right to a stockholder's vote. When management or others solicit proxies from stockholders, a copy of the proxy statement must be filed with the SEC ten days before mailing the solicitation. The proxy statement must include all information relevant to the matter voted on.

**purchase order** A document from a buyer to a seller placing an order and listing quantities and specifications.

**purport** Intending to present.

**qualified** (qualify) An audit opinion that the financial statements as a whole are presented in conformity with U.S. GAAP, with the exceptions noted.

**qualitative** Relating to the quality of a trait, as opposed to quantitative, which means expressed as a number.

**quality control systems** provide a CPA firm with reasonable assurance that personnel comply with professional standards and the firm's standards of quality, independence, integrity, and objectivity. It covers personnel management, acceptance and continuance of clients, engagement performance, and monitoring.

**quantitative** (quantitatively) Expressed as a number, as opposed to qualitative measurement.

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

**Questioned cost** is any disbursement or receipt, or the lack thereof, that is questioned by the auditor during the course of the audit or examination for any of the following reasons; there is a violation or possible violation of a provision of Indiana Code, uniform compliance guideline, federal or state regulation, local ordinance, contract, grant agreement, cooperative agreement, or other agreement or document governing the use of expenditure or receipt of funds; a negative variance between the record balances and the documents to support those balances that cannot be identified to specific disbursements or receipts due to the condition of record or the lack of required reconciliations; or a cost or expenses incurred by an individual or an entity that would appear to a prudent person to be extremely unreasonable, are in excess of the examiners defined materiality amounts, or do not reflect the actions a prudent person would take in the circumstances.

**quick ratio** Quick assets divided by current liabilities. Quick assets are current assets less inventories and prepaid expenses.

**random sample** (random-number sampling) Identical probability of each population item being selected for a sample. Also, the use of random numbers to select a random sample from a population.

**ratio estimation** In audit sampling a ratio of the proportion of errors in the sample applied to the population value to estimate total error.

**ratio** The relation between two quantities expressed as the quotient of one divided by the other. The ratio of 8 to 2 is written 8/2 and equals four. Financial statement ratios are used in analytical procedures in audits.

**reasonable assurance** (in audit report) An auditor works within economic limits. The audit opinion, to be economically useful, must be formed in a reasonable time and at reasonable cost. The auditor must
decide, exercising professional judgment, whether evidence available within limits of time and cost is sufficient to justify an opinion.

**reasonable assurance** (in internal control) An internal control, no matter how well designed and operated, cannot guarantee that an entity's objectives will be met because of inherent limitations in all internal control systems.

**reaudit** When an auditor is asked to audit and report on financial statements that have been previously audited and reported on.

**recalculate** Perform procedures again and compare to original results.

**receiving report** A document completed in the receiving department, which identifies the purchase order that initiated the purchase, and the date, quantity, and condition of goods received.

**recomputation** Perform procedures again and compare to original results.

**reconcile** (reconciliation) A schedule establishing agreement between separate sources of information, such as accounting records reconciled with the financial statements.

**registration statement** A statement submitted to officially provide the SEC with information about an offering of securities. A registration statement includes audited financial statements (balance sheet, income statement, and statement of cash flows) for the previous three years.

**regression analysis** A statistical method for finding the relationship between two or more variables. Also called least squares or linear regression.

**regulation** s-x is a regulation of the SEC that explains the format of information to be submitted to the SEC. It is entitled "Form and Content of and Requirements for Financial Statements, Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, and Energy Policy and Conservation Act of 1975."

**related parties** are those with whom the client has a relationship that might destroy the self-interest of one of the parties (accounting is based on measurement of arm's length transactions). Related parties include affiliates of the client, principal owners, management (decision makers who control business policy) and members of their immediate families.

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

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

**remote** A contingency with only a slight chance of occurring. In computer processing of information, a distant computer.

**reperformance** The repeating by the auditor of a computation made by the client to check its accuracy.

**reportable condition** Matters coming to the auditor's attention that are communicated to the audit committee because they are significant deficiencies in internal control which could adversely affect the ability to record, process, summarize, and report financial data.
representation A letter from management to the auditor representing that the financial statements are fairly presented. The letter is addressed to the independent auditor, and dated at the date of the auditor's report. It is signed by members of management whom the auditor believes are responsible for, and knowledgeable about, matters covered (chief executive officer and chief financial officer).

requisition A formal written request for something needed. A purchase by a company is initiated internally by a requisition, resulting in the issuance of a purchase order to the outside supplier.

revenue cycle The portion of a company that fills customer orders, accounts for receivables, and collects those receivables.

review To examine again. The overall review of audit documentation is completed after field work. A peer review is a practice monitoring program in which audit documentation of one CPA firm is periodically reviewed by independent partners of other firms to determine that they conform to professional standards. An analytical review is a type of substantive audit procedure. A review of financial statements of a nonpublic company is an engagement that results in the expression of less assurance than an audit, but more than in a compilation. A review of interim financial statements of a public company consists of analytical procedures and inquiries.

RFID or radio frequency identification tag is attached to and identifies a thing such as an item in inventory, a case of items, a pallet of cases, a car passing through a reader on a tollway, or a person passing through a doorway. A transceiver sends an activating signal and receives identification information. An active RFID tag has an internal battery and has a longer range than a passive tag which is powered by the radio signal it receives.

rights Assertions about rights deal with whether the entity has rights to the asset at a given date. For example, management asserts that amounts capitalized for leases in the balance sheet represent the cost of the entity's rights to leased property.

risk analysis An analysis of the possibility of suffering loss.

sample size The number of population items selected when a sample is drawn from a population.

sampling error Unless the auditor examines 100% of the population, there is some chance the sample results will mislead the auditor. This risk is sampling error. The larger the sample, the less chance of sampling error and the greater the reliability of the results.

sampling risk The possibility that conclusions drawn from the sample may not represent correct conclusions for the entire population.

Sarbanes-Oxley Act of 2002 established the Public Company Accounting Oversight Board and added requirements for publicly traded companies, their officers, boards and auditors. It increased penalties for corporate financial fraud.

SAS or Statements on Auditing Standards are interpretations of U.S. generally accepted auditing standards.

scope The type of engagement. The scope of an engagement might be a review, an audit, or a compilation. A scope limitation is a restriction on the evidence the auditor can gather.

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

SEC or the Securities and Exchange Commission is an agency that administers Federal securities laws which require disclosure of information about publicly traded securities. The SEC investigates securities fraud and regulates securities exchanges and brokers.

second request When an auditor confirms receivables, some customers of the client fail to respond to the first confirmation request. Another request sent to the same customers is the second request.

secured transaction Right to repossess goods as security for payment of a debt.

segregation of duties means assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. Segregation of duties reduces the opportunities for one person to both perpetrate and conceal errors or fraud.

self-checking digit An extra digit is added to a number. The extra digit is computed from the other digits in the number. The computer program can then check input by recomputing and comparing the check digit. This is a useful control over the input of account numbers.

service auditor The auditor of an organization that provides services such as data processing or pension trust administration to other organizations (the users). Auditors of the users (user auditors) rely on a report from the service auditor about controls in the service organization that apply to financial statements of the user organization they are auditing.

shipping document A document prepared when goods are shipped. It lists the date shipped, the customer, method of shipment, and quantities and specifications of goods shipped.

simulation Representation of the operation or features of one process or system through the use of another. Computer simulation of waiting lines can determine the number of employees needed to serve customers at a particular time.

single audit act This federal legislation requires state and local governments that receive federal aid of $500,000 or more in a fiscal year to have an audit under the act. A government that receives less than $500,000 can have an audit under the act or with specific laws and regulations of programs in which the government participates. Auditors report whether the audited entity has followed laws and regulations that may have a material effect on each major federal aid program.

software Programs and languages that control computer hardware.

specialist An expert at activities not usually done by auditors (such as an appraiser for valuation).

sqcs Statement on Quality Control Standards.

SSARS or Statements on Standards for Accounting and Review Services are pronouncements concerning unaudited financial information of a nonpublic entity issued by the AICPA Accounting and Review Services Committee.

standard deviation A statistic used to measure dispersion equal to the square root of the arithmetic mean of the squares of the deviations from the arithmetic mean.

statistical Making inferences in uncertain situations using applied mathematics. Measurements from a small group, the sample, are used to infer the behavior of a larger group, the population. Probability theory determines how well the sample represents the population.
**stop-or-go sampling** Taking a sample from a population and checking after each sample item is drawn whether the sample supports a desired conclusion. Sampling ceases as soon as that conclusion is supported.

**stratify** To arrange a population or a sample in distinct layers. Stratified sampling is used in auditing to select a greater percentage of accounts with high balances than of accounts with low balances.

**subject to** Years ago there was a type of qualified audit opinion that was worded "In our opinion, subject to....." Auditors are no longer permitted to issue such opinions.

**subsequent events** affect the client and occur between the balance sheet date and issuance of the financial statements. Some such events provide additional evidence about conditions that existed at the balance sheet date, such as the bankruptcy of a customer with a history of financial difficulty. The financial statements are adjusted to reflect this evidence. Evidence about conditions that did not exist at the balance sheet date, such as fire that destroyed the client's plant after the balance sheet date, may be so significant as to require disclosure.

**subsidiary ledger** The detailed information that totals to the balance in the general ledger account. The total of all customer accounts receivable included in the subsidiary ledger of accounts receivable is the balance in the general ledger accounts receivable account.

**substantiated** Supported with proof or evidence.

**substantive** A substantive audit procedure is a direct test of a financial statement balance.

**successor auditor** The auditor of a client for the current year when that client had another auditor in prior years. The auditor who is no longer the auditor of that client is the predecessor auditor.

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

**supervise** Supervision is directing efforts of assistants in the audit and determining whether objectives were accomplished. Elements of supervision include instructing assistants, keeping informed of problems, reviewing work performed, and dealing with differences of opinion among firm personnel. The appropriate extent of supervision depends on the complexity of subject matter and qualifications of persons performing the work.

**suppliers** provide goods or services to an audited entity. Sometimes called vendors.

**systrust engagements** A CPA tests a business system for its ability to operate without material error and reports on its reliability.

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

**test count** As part of inventory audit procedures auditors normally observe the client's employees counting physical inventory. A test count is inventory counted by the auditors to check the client's count.

**test data** is run through a computer program to test the software. Test data can be used to test compliance with controls in the software.

**test of controls** (tests of the operating effectiveness of internal controls) Auditors evaluate the design of controls, then determine if the controls are in operation. In order to rely on the controls they must also obtain evidence as to whether the controls are operating effectively.
test of detail Direct tests of financial statement balances (substantive audit procedures) that are not analytical procedures. If tests of details are performed as tests of controls as well as substantive tests they are "dual-purpose" tests.

tick marks in audit work papers are footnotes represented by a symbol instead of by a number. They indicate procedures that have been carried out on specific items in the work papers.

times interest earned Income before interest and taxes divided by interest expense.
tolerable deviation rate is the maximum rate of deviation from an internal control that will allow the auditor to place the planned reliance on that control.

tolerable misstatement When planning a sample for a substantive test of details, the auditor considers how much monetary misstatement may exist without causing the financial statements to be materially misstated. This maximum misstatement is called tolerable misstatement for the sample.

trace Follow a transaction through the steps of the system.

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

treasury stock is stock of the corporation that has been issued and later reacquired. It is not an asset. It is a reduction of stockholders' equity. Treasury stock can be recorded at either its cost or its par value.

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

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

turnover Inventory turnover is a measure of the time from receipt of inventory to its sale. It is found by dividing cost of sales by average inventory. Receivables turnover is a measure of the time it takes to collect receivables. It is found by dividing net credit sales by average net receivables. Employee turnover is the rate at which new employees replace old employees.

unqualified An audit opinion that the financial statements are in conformity with U.S. GAAP.

update (updated) If an auditor notices events that affect financial statements on which an audit report has been issued, they are considered when updating the report on the prior statements. If those statements are changed, the report says they have been restated and expresses the appropriate opinion. If an updated opinion differs from the previous opinion, an explanatory paragraph preceding the opinion paragraph explains that the report has been updated, discloses the date and type of opinion previously expressed, and events that caused the revision.

user auditor A "service auditor" is the auditor of an organization that provides services such as data processing or pension trust administration to other organizations (the users). Auditors of the users (user auditors) rely on a report from the service auditor about controls in the service organization that apply to financial statements of the user organization they are auditing.

validity check Software control over input of data to a computer system. Data is compared with the type of data properly included in each input field, e.g., only letters in a name field.

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

value-added network A telecommunications network providing communication facilities, which enhance basic telecommunications services. They add value by passing, storing and converting messages. Also
known as service providers and EDI service providers. Operated by a clearing house, an organization
that provides message/file collection, routing and distribution service on behalf of other organizations.

**variable sampling** The characteristic tested has many possible values (such as dollar value of
inventory).

**variance** A statistical measure of dispersion in a population. The variance is the square of the standard
deviation. The standard deviation equals the square root of the arithmetic mean of the squares of
deviations from the arithmetic mean.

**vendors** provide goods or services to an audited entity. Also called suppliers.

**verify** (verification) Prove accuracy of numbers or existence of assets.

**vouch** Prove accuracy of accounting entries by tracing to supporting documents.

**voucher** A document in support of an expenditure. The signature of an appropriate official on the voucher
is authorization for the treasurer to issue a check.

**webtrust engagements** A CPA issues an opinion on a web site when the business and information
privacy practices, transaction integrity, and protection of customer information meet certain standards.

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

**write-off** Cancellation of part or all of a balance. Costs incurred that have no future utility are charged
(written-off) to an expense or loss account, not carried forward as an asset.

**write-up** In dollar terms a write-up is an intentional over-valuation of assets. In narrative terms a
description of something or some event.