## **Glossary**

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| Accounting applications | The methods and records used to (1) identify, assemble, analyze, classify, and record a particular type of trans­action or (2) report recorded transactions and maintain accountability for related assets and liabilities. Accounting applications often include information system processing. Information system processing is often performed by software programs hosted by information systems, which are also commonly referred to as applications. Common accounting applications are (1) billings, (2) accounts receivable, (3) cash receipts, (4) purchasing and receiving, (5) accounts payable, (6) cash disbursements, (7) payroll, (8) inventory control, and (9) property, plant, and equipment (PP&E). |
| Accounting estimate | An approximation of a monetary amount in the absence of a precise means of measurement. |
| Accounting system | The methods, records, and processes used to identify, assemble, analyze, classify, record, and report an entity’s transactions and to maintain accountability for the related assets and liabilities. |
| Accuracy/valuation or allocation | Amounts and other data relating to recorded transactions and events have been recorded appropriately. Assets, liabilities, and net position are included in the financial statements at appropriate amounts, and any resulting valuation or allocation adjustments are properly recorded. Financial and other information is disclosed fairly and at appropriate amounts. |
| Analytical procedures | The evaluations of financial information made through analysis of plausible relationships among both financial and nonfinancial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. |
| Annual financial statement | As defined by OMB, the annual financial statement comprises:   * + - * unaudited Management’s Discussion and Analysis (MD&A), * audited basic financial statements, including note disclosures, * unaudited required supplementary stewardship information (RSSI), if applicable, * unaudited required supplementary information (RSI), if applicable, and * unaudited other accompanying information, if applicable.   This report is also referred to as the Performance and Accountability Report (PAR). |
| Applicable financial reporting framework | Provides the criteria for management to present the financial statements of an entity, including the fair presentation of those financial statements (e.g., U.S. GAAP). The Federal Accounting Standards Advisory Board (FASAB) is the body designated by the AICPA as the source of U.S. GAAP for federal reporting entities. |
| Application controls | Controls that are incorporated directly into software programs, or applications, to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during information system processing. |
| Appropriateness | 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. |
| Appropriation | The most common form of budget authority, appropriations are statutory authority that permits federal entities to incur obligations and to make payments from the Treasury for specified purposes. Appropriations do not represent cash actually set aside in the Treasury for purposes specified in the appropriation acts. Appropriations represent amounts that entities may obligate during the period specified in the appropriation acts. Periods can be single year, multiyear, or no year. |
| Assertions | Management representations that are embodied in financial statement components. The FAM classifies assertions in the following five broad categories (as described in FAM 235.02):   * Existence or occurrence * Completeness * Rights and obligations * Accuracy/valuation or allocation * Presentation and disclosure |
| Assistant director | The person responsible for the operational conduct of the audit and generally for preparation of the audit report. In public accounting firms, the audit manager may have these responsibilities. |
| Assurance, level of | The complement of audit risk, which is an auditor judgment. This is not the same as confidence level, which relates to an individual sample. |
| Attribute sampling | Statistical sampling that reaches a conclusion about a population in terms of a rate of occurrence. |
| Audit director (first partner) | The person responsible for the quality of the financial statement audit and the audit report, reporting to the assistant IG for the audit or, at GAO, to the managing director. |
| Audit evidence | All the information used by the auditor in arriving at the conclusions on which the auditor’s reports are based, including the information contained in the accounting records underlying the financial statements and other information. |
| Audit risk | The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is composed of inherenet risk, control risk, risk of material misstatement, detection risk, and fraud risk. |
| Borrowing authority | Statutory authority that permits federal entities to borrow money and then to obligate against amounts borrowed. The amount to be borrowed may be definite or indefinite in nature, and the purposes for which the borrowed funds are to be used are stipulated by the authorizing statute. |
| Budget authority | Authority provided by law to allow federal entities to enter into financial obligations that will result in immediate or future outlays involving government funds. The Congress provides an entity with budget authority and may place restrictions on the amount, purpose, and timing of the obligation or outlay of such authority. The basic forms of budget authority include (1) appropriations, (2) borrowing authority, (3) contract authority, and (4) authority to obligate and expend offsetting receipts and collections. |
| Budget controls | Management’s policies and procedures for managing and controlling the use of appropriated funds and other forms of budget authority. |
| Canceled (closed) account | An appropriation account whose balance has been canceled. Once balances are canceled, the amounts are not available for obligation or expenditure for any purpose. |
| Cause and effect basis | In cost accounting, a way to group costs into cost pools in which an intermediate activity may be a link between the cause and the effect. |
| Classical probability proportional to size  sampling | A sample selection procedure that selects items for the sample in proportion to their relative size, usually their monetary amounts. Monetary unit sampling uses this method to select the sample. |
| Classical variables (estimation)  sampling | A sampling approach that measures sampling risk using the variation of the underlying characteristic of interest. This approach includes methods such as mean-per-unit, ratio estimation, difference estimation, and a classical form of probability proportional to size estimation. |
| Clearly trivial | The amount below which misstatements would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements. |
| Client | In the federal environment, the “client” may include the  • management of the federal entity to be audited, including senior executive and financial managers;  • inspector general (IG) if the IG has contracted for the audit;  • members of a board or commission responsible for the federal entity; and/or  • audit committee. |
| Combined precision | The achieved precision for all statistical sampling applications. |
| Commitment letter | A letter used by some auditors, either after a survey of work or the planning phase has been completed to confirm a commitment for a congressional request, mandate, or auditor’s statutory discretionary authority for any type of work. |
| Common data source | All of the financial and programmatic information available for the budgetary, cost, and financial accounting processes. It includes all financial and much non-financial data, such as environmental data, that are necessary for budgeting and financial reporting as well as evaluation and decision information developed as a result of prior reporting and feedback. |
| Compensating control | A control that limits the severity of a control deficiency and prevents it from rising to the level of significant deficiency or, in some cases, a material weakness. |
| Completeness | All transactions and events that should have been recorded are recorded in the proper period. All assets, liabilities, and net position that should have been recorded have been recorded in the proper period and properly included in the financial statements. |
| Compliance control | A process, by management and others, designed to provide reasonable assurance regarding the achievement of objectives for compliance with applicable laws, regulations, contracts and grant agreements. |
| Compliance system | The entity’s policies and procedures to monitor compliance with laws, regulations, contracts, and grant agreements applicable to the entity. |
| Compliance tests | Tests to obtain evidence on the entity’s compliance controls for each significant provision of laws, regulations, contracts, and grant agreements identified for testing, including budget controls for each relevant budget restriction. |
| Component auditor | An auditor who performs work on the financial information of a component that will be used as audit evidence for the group audit. |
| Confidence interval | A statistical sample-based estimate expressed as an interval or range of values. The sample is designed such that there is a specified confidence level for which the population value being estimated is expected to be located within the interval. More specifically, it is the projected misstatement or point estimate plus or minus precision at the desired confidence level and is also known as a precision or precision interval. |
| Confidence level | The probability associated with the precision, that is, the probability that the true misstatement is within the confidence interval. This is not the same as assurance. |
| Contingency | An existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. |
| Contract authority | Statutory authority that permits obligations to be incurred in advance of appropriations or in anticipation of receipts to be credited to a revolving fund or other account (offsetting collections). Contract authority is unfunded. Subsequent funding by an appropriation or by offsetting collections is needed to liquidate the obligations incurred under the contract authority. |
| Control activities | One of the five components of internal control, in addition to control environment, risk assessment, information and communications, and monitoring.  Control activities are the policies, procedures, techniques, and mechanisms that help ensure that management directives are carried out and respond to risks in the internal control system, which includes the entity’s information system. |
| Control deficiency | A condition when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. |
| Control environment | One of the five components of internal control, in addition to risk assessment, control activities, information and communications, and monitoring.  Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. |
| Control objective | The aim or purpose of specified controls. Control objectives address the risks that the controls are intended to mitigate. In the context of ICFR, a control objective generally relates to a relevant assertion for a significant class of transactions, account balance, or disclosure and addresses the risk that the controls in a specific area will not provide reasonable assurance that a misstatement or omission in that relevant assertion is prevented, or detected and corrected, on a timely basis. |
| Control risk | The risk that a misstatement that could occur in an assertion about a class of transaction, account balance, or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control. That risk is a function of the effectiveness of the design and operation of internal control in achieving the entity’s objectives relevant to preparation and fair presentation of the entity’s financial statements. Some control risk will always exist because of the inherent limitations of internal control. |
| Control tests | Audit procedures designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. |
| Cost | The monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce a good or to perform an activity or service. |
| Cycle | A grouping of related accounting applications. |
| Cycle matrix | A workpaper that links each of the entity’s accounts (in the chart of accounts) to a cycle, an accounting application, and a financial statement line item. |
| Degree of compliance | The following terms are used throughout the FAM to describe the degree of compliance with the standard or policy:  •**Must**: Compliance is mandatory when the circumstances exist to which the requirement is relevant. Most “musts” indicate unconditional requirements that come directly from professional auditing standards while other instances of “must” are unique needs for the government environment and, therefore, determined by GAO/CIGIE to be required.  •**Should**: Compliance is mandatory when the circumstances exist to which the requirement is relevant, except in rare circumstances when the specific procedure to be performed would be ineffective in achieving the intent of the requirement. The auditor must document (1) the justification for any departure and (2) how the alternative audit procedures performed were sufficient to achieve the intent of the requirement or policy. The documentation should be approved by the reviewer.  •**Generally should**: Compliance is strongly encouraged when the circumstances exist to which this policy is relevant. The auditor should discuss any departure with the assistant director (or equivalent, such as the audit manager in a public accounting firm) and document such discussions.  •**May, might, could**: These terms are used in the FAM to provide further explanation of and guidance for implementing audit requirements. Compliance is optional. The auditor need not document compliance. |
| Detection risk | The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements. It is a function of the effectiveness of an audit procedure and of its application by the auditor. |
| Disclosure entities | Organizations similar to consolidation entities in that they are either (a) in the budget, (b) majority owned by the government, (c) controlled by the government, or (d) would be misleading to exclude. Disclosure entities have a greater degree of autonomy with the government than consolidation entities. |
| Direct assistance | The use of internal auditors to perform audit procedures under the direction, supervision, and review of the auditor. |
| Emphasis-of-matter  paragraph | A paragraph included in the auditor's report that is required by GAAS, or is included at the auditor's discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements. |
| Engagement letter | A written agreement that documents the objectives and scope, roles and responsibilities of both federal entity management and the auditor, and other matters of the engagement. |
| Entity-level controls | Controls that have a pervasive effect on an entity’s internal control system. Entity-level controls may include controls related to the entity’s risk assessment process, control environment, service organizations, management override, and monitoring. |
| Entity management | The persons with executive responsibility for the conduct of the entity’s operations. |
| Entity profile | A workpaper used by the auditor to document the information useful for understanding the entity and its operations. In this profile the auditor generally should briefly document such elements as the entity’s origin, history, mission, size, locations, organization, and key members of management; the legal and regulatory framework; the applicable financial reporting framework and external and internal factors affecting operations; use of information systems; and accounting policies. |
| Errors | Mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. |
| Existence or occurrence | Recorded transactions and events occurred during the given period, are properly classified, and pertain to the entity. An entity’s assets, liabilities, and net position exist at a given date. |
| Expectation | The auditor’s estimate of a recorded amount (based on an analysis and understanding of relationships between the recorded amounts and other data) in an analytical procedure. |
| Expected misstatement | The dollar amount of misstatements the auditor expects in a population. |
| Expired accounts (appropriations) | Accounts in which the balances are no longer available for incurring new obligations because the time available for incurring such obligations has expired. |
| External confirmation | Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), either in paper form or by electronic or other medium (for example, through the auditor's direct access to information held by a third party). |
| Factual misstatement | A misstatement in which there is no doubt about the amount of the misstatement. |
| Federal financial management systems requirements | Consists of three parts: (a) reliable financial reporting, (b) effective and efficient operations, and (c) compliance with applicable laws and regulations. OMB and Treasury will develop, issue, and maintain the Federal Financial Management System Requirements to support these areas and publish them in the TFM. |
| Federal reporting entities | Reporting entities are organizations that issue a general purpose federal financial report because either there is a statutory or administrative requirement to prepare one or they choose to prepare one. The term “reporting entity” may refer to either the government-wide reporting entity or a component reporting entity. Statement of Federal Financial Accounting Concepts (SFFAC) 2 provides criteria for an entity to be a reporting entity. |
| Financial management systems | The financial systems and the financial portions of mixed systems necessary to support financial management, including automated and manual processes, procedures, controls, data, hardware, software, and support personnel dedicated to the operation and maintenance of system functions. |
| Financial reporting control | A process, created by management and other personnel, designed to provide reasonable assurance regarding the achievement of financial reporting objectives. |
| Financial statements (also called the basic or principal statements) | A component of a federal entity’s annual financial statement (also referred to as the Accountability Report), which consist of:   * Balance Sheet * Statement of Net Cost * Statement of Changes in Net Position * Statement of Budgetary Resources * Statement of Custodial Activity (if applicable) * Statement of Social Insurance (if applicable) * Related note disclosures |
| Fraud | An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit. |
| Fraud risk | The risk of fraudulent financial reporting and the risk of misappropriation of assets that cause a material misstatement of the financial statements. |
| Fraudulent financial reporting | Intentional misstatements or omissions of amounts or disclosures in financial statements to deceive financial statement users. Fraudulent financial reporting could involve intentional alteration of accounting records, misrepresentation of transactions, intentional misapplication of accounting principles, or other means. |
| Full cost | The total amount of resources used to produce the output. More specifically, the full cost of an output produced by a responsibility segment is the sum of (1) the costs of resources consumed by the responsibility segment that directly or indirectly contribute to the output and (2) the costs of identifiable supporting services provided by other responsibility segments within the reporting entity and by other reporting entities. |
| Fund Balance with Treasury (FBWT) | An asset account representing the unexpended spending authority in entity appropriations. Also serves as a mechanism to prevent entity disbursements from exceeding appropriated amounts. |
| General controls | General controls are the policies and procedures that apply to all or a large segment of an entity’s information system. General controls help ensure the proper operation of information systems by creating the environment for proper operation of application controls. |
| Haphazard sample | A sample consisting of sampling units selected without any conscious bias, that is, without any special reason for including or omitting items from the sample. It does not consist of sampling units selected in an arbitrary manner, rather it is selected in a way the auditor expects to be representative of the population. |
| Heritage assets | Property, plant, and equipment that are unique for one or more of the following reasons: (1) historical or natural significance, (2) cultural, educational, artistic (or aesthetic) importance, or (3) significant architectural characteristics. |
| Information and communication | One of the five components of internal control, in addition to control environment, entity risk assessment, control activities, and monitoring.  Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. |
| Information system | A discrete set of information resources organized for the collection, processing, maintenance, use, sharing, dissemination, or disposition of information. |
| Information system controls | Internal controls that are dependent on information systems processing and include general controls (entitywide, system, and application levels), application controls (input, processing, output, master file, interface, and data management system controls), and user controls (controls performed by people interacting with information systems). |
| Information system controls auditor | A person with technical expertise in information technology systems, general controls, applications, and information security. This person is involved with the planning, directing, or performing of audit procedures related to assessing information system controls. |
| Information system processing | Processing performed by information systems through the use of information technology. |
| Information technology specialist | A person possessing special skills or knowledge in the information technology field that extend beyond the skills and knowledge normally possessed by those working in specialized fields of auditing, such as information system controls auditing. |
| Inherent risk | The susceptibility of an assertion about a class of transaction, account balance, or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls. |
| Integrated audit | An audit of internal control over financial reporting that is integrated with an audit of financial statements |
| Intent letter | A letter used by some auditors to acknowledge a congressional request for any type of work. |
| Inter-entity | Activity and balances occurring between federal entities that are trading partners. Inter-entity and intra-entity amounts comprise intragovernmental activity and balances. |
| Internal audit function | A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity’s governance, risk management, and internal control processes. |
| Internal control | Internal control is a process effected by oversight body, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. |
| Internal control phase | This audit phase entails understanding, testing, and assessing internal control over financial reporting to reach conclusions about the reliability of financial reporting and compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements. |
| Internal control over financial reporting | A subset of the entity’s internal control and includes reliability of financial statements and compliance with laws, regulations, contracts, and grant agreements. |
| Intra-entity | Activity and balances occurring within a federal entity. Intra-entity and inter-entity amounts comprise Intragovernmental activity and balances. |
| Intragovernmental amounts | Activity and balances occurring within a federal entity (i.e. intra-entity) or between federal entities (i.e. inter-entity). |
| Intragovernmental Payment and Collection (IPAC) system | The primary method used by most federal entities to electronically bill and/or pay for services and supplies within the U.S. government. IPAC is used to communicate between the Treasury and the trading partner entities that the online billing and/or payment for services and supplies has occurred. |
| Iron curtain approach | An approach used to evaluate misstatements. This approach quantifies a misstatement based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of the misstatement’s year of origination. |
| Joint Financial Management Improvement Program (JFMIP) | The original source of governmentwide requirements for financial management systems software functionality that describes the basic elements of an integrated financial management system (including the core financial system). These requirements are now issued by OMB. This former joint undertaking consisted of the U.S. Department of the Treasury, the U.S. Government Accountability Office (GAO), the Office of Management and Budget (OMB), and the Office of Personnel Management (OPM). |
| Judgment fund | A permanent and indefinite appropriation administered by the Department of the Treasury that is available to pay judgments, settlement agreements, and certain types of administrative awards against the United States when such payment is not otherwise provided for in entity appropriations. |
| Judgmental misstatement | Misstatements arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection of accounting policies that the auditor considers inappropriate. |
| Limit | Used in performing substantive analytical procedures, the limit is the amount of difference between the expected and the recorded amount that the auditor will accept without investigation. |
| Limitation | A restriction on the amount, purpose, or period of availability of budget authority. While limitations are most often established through appropriations acts, they may also be established through authorization legislation. Limitations may be placed on the availability of funds for program levels, administrative expenses, direct loan obligations, loan guarantee commitments, or other purposes. |
| Line item risk analysis (LIRA) | A workpaper that contains the audit plan for each significant line item and identifies significant line items, assertions, and cycles/accounting applications and the related risks of material misstatement at the relevant assertion level. The auditor should also summarize and document the specific risks of material misstatement, other than pervasive risks, including the inherent, fraud, and control risk factors, for use in determining the nature, extent, and timing of audit procedures. |
| Logical unit | The balance or transaction that includes the selected dollar in a monetary unit sample. |
| Management | The persons with executive responsibility for the conduct of the entity’s operations. For some entities, management includes some or all of those charged with governance, for example, senior executives. |
| Management’s specialist | 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. |
| Materiality | The magnitude of an item’s omission or misstatement in a financial statement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the inclusion or correction of the item (FASB Statement of Financial Concepts No. 2). See materiality for the financial statements as a whole, performance materiality, design materiality, and tolerable misstatement. |
| Materiality benchmark | The element of the financial statements that the auditor judges is most significant to the primary users of the statements. The basis for which materiality is calculated. |
| Materiality for the financial statements as a whole | The auditor’s preliminary estimate of materiality in relation to the financial statements taken as a whole, primarily based on quantitative measures. It is used to determine performance materiality, which in turn is used to determine tolerable misstatement. These are then used to determine the risks of material misstatement and the nature, extent, and timing of substantive audit procedures. It is also used to identify significant laws, regulations, contracts, and grant agreements for compliance testing. |
| Material weakness | A deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. |
| Misappropriation of assets | Theft of an entity’s assets causing misstatements in the financial statements. |
| 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 presented fairly in accordance with the applicable financial reporting framework. Misstatement can arise from fraud or error. (Also see factual misstatement, judgmental misstatement, and projected misstatement) |
| Misstatement of fact | Other information that is unrelated to matters appearing in the audited financial statements that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing audited financial statements. |
| Modified opinion | A qualified opinion, an adverse opinion, or a disclaimer of opinion. |
| Monetary unit sampling | A variables sampling evaluation method that utilizes a probability-proportional-to-size (PPS) sample selection technique. |
| Monitoring | One of the five components of internal control, in addition to control environment, risk assessment, control activities, and information and communications.  Monitoring of controls is a process to assess the effectiveness of internal control performance over time. This consists of activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews. |
| Multipurpose testing | Performing several tests, such as control tests, compliance tests, and substantive tests, on a common selection, usually a sample. |
| Noncompliance | Acts of omission or commission by the entity, either intentional or unintentional, which are contrary to the prevailing laws or regulations. Such acts include transactions entered into by, or in the name of, the entity or on its behalf by those charged with governance, management, or employees. Noncompliance does not include personal misconduct (unrelated to the business activities of the entity) by those charged with governance, management, or employees of the entity. |
| Nonrecognized events | Subsequent events that provide evidence with respect to conditions that did not exist at the date of the financial statements but arose subsequent to that date. |
| Nonrepresentative selection | A selection of items to reach a conclusion only on the items selected. The auditor using a nonrepresentative selection (formerly referred to as a nonsampling selection) may not project the results to the portion of the population that was not tested. Accordingly, the auditor applies appropriate analytical and/or other substantive procedures to the remaining items, unless those items are immaterial in total or the auditor has already obtained enough assurance that there is a low risk of material misstatement in the total population. The auditor also uses nonrepresentative selections to test controls through inquiry, observation, and walkthrough procedures and to obtain planning information. |
| Nonstatistical sampling | A sampling technique for which the auditor considers sampling risk in evaluating an audit sample without using statistical theory to measure the risk. |
| Notification letter | A letter used by some auditors to notify federal agencies of new engagements for any type of work. |
| Obligation | A definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the U.S. that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the U.S. |
| Office of the General Counsel (OGC) | The office advises the auditor in (1) identifying significant provisions of applicable laws and regulations to test; (2) identifying budget restrictions; and (3) identifying and resolving legal issues encountered during the financial statement audit, such as evaluating potential instances of noncompliance. |
| Offsetting receipts and collections authority | Statutory authority that permits federal entities to obligate and expend the proceeds of offsetting receipts and collections. Offsetting receipts and collections are of a business- market-oriented nature and may include intragovernmental transactions, such as reimbursements for materials or services provided to other government entities. If, pursuant to law, they are credited to appropriations or fund expenditure accounts and are available for obligation without further congressional action, they are referred to as offsetting collections. |
| Operations controls | A process by management and others, designed to provide reasonable assurance regarding the achievement of objectives for the planning, productivity, quality, economy, efficiency or effectiveness of operations. |
| Other auditors | Auditors other than the audit organization performing the entity’s financial statement audit as group auditor. These “other” auditors may be part of the entity’s monitoring controls. |
| Other-matter paragraph | A paragraph included in the auditor's report that is required by GAAS, or is included at the auditor's discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report. |
| Overall analytical procedures | Analytical procedures performed as an overall financial statement review during the reporting phase. |
| Overall audit strategy | In developing the strategy, the auditor should (1) identify the characteristics of the engagement that define its scope; (2) ascertain the reporting objectives of the engagement in order to plan the timing of the audit and the nature of the communications required; (3) consider the factors that in the auditor’s professional judgment, are significant in directing the engagement team’s efforts; and (4) ascertain the nature, timing, and extent of resources necessary to perform the engagement. |
| Performance and Accountability Report (PAR) | See annual financial statement. |
| Performance materiality | The amount or amounts set by the auditor as a portion of materiality that the auditor allocates to particular line items, accounts, classes of transactions (such as disbursements), or disclosures. |
| Planning phase | The objectives of this audit phase are to gain an understanding of the entity to be audited; to understand its environment, including internal control; to identify significant areas for audit; and to design effective and efficient audit procedures. |
| Point estimate | Most likely amount of the population characteristic based on the extrapolation of the sample results. |
| Population | The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions. |
| Precision (allowance for sampling risk) | A measure of the difference between a sample estimate (projection) and the tolerable rate of deviation or tolerable misstatement at a specified sampling risk. |
| Preliminary analytical procedures | Analytical procedures performed during the audit planning phase. |
| Presentation and disclosure | The financial and other information in the financial statements is appropriately presented and described, and disclosures are clearly expressed. All disclosures that should have been included in the financial statements have been included. Disclosed events, transactions, and other matters have occurred and pertain to the entity. |
| Principal statements | See financial statements. |
| Probable | In evaluating a contingency for pending or threatened litigation and unasserted claims, a future confirming event(s) occurring is likely to occur. For other contingencies, the future event or events are more likely than not to occur. |
| 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 that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence. |
| Projected misstatement | The auditor’s best estimate of the amount of the misstatements in populations, involving the projection of misstatements identified in audit samples to the entire population from which the samples were drawn. |
| Providing entity | The entity providing services, products, goods, transfer funds, investments, debt, and/or incurring the reimbursable costs. This includes bureaus, departments, and/or programs within entities. The providing agency is the seller. The providing entity transfers out funds to another entity (transfers out) when appropriations are transferred without the exchange of goods or services. |
| Public-private partnerships (P3) | Risk-sharing arrangements or transactions lasting more than 5 years between public and private sector entities. |
| Random sample | A sample selected so that every combination of the same number of items has an equal probability of selection. |
| Ratio estimation | A classical variables sampling technique that uses the ratio of audited amounts to recorded amounts in the sample to estimate the total dollar amount of the population and an allowance for sampling risk. |
| Reasonable assurance | In the context of an audit of financial statements, a high, but not absolute, level of assurance. |
| Reasonably possible | The chance of the future event or events occurring is more than remote but less than probable. |
| Receiving entity | The entity receiving services, products, goods, transfer funds, purchasing investments, and/or borrowing from Treasury (or other entities). This includes bureaus, departments, and/or programs within entities. The receiving entity is the purchaser. The receiving entity receives transfers of funds (transfers in) when appropriations are transferred without the exchange of goods or services. |
| Reciprocal accounts | Corresponding SGL accounts that should be used by a providing/seller and receiving/buyer entity to record like intragovernmental transactions. For example, the providing entity’s accounts receivable would normally be reconciled to the reciprocal account, accounts payable, on the receiving entity’s records. |
| Recognized events | Subsequent events that provide additional evidence with respect to conditions that existed at the date of the financial statements and affect the estimates inherent in the process of preparing basic information and RSI. |
| Recorded amount | The financial statement amount being tested by the auditor in the specific application of substantive tests. |
| Regression estimate | An estimate of a population parameter for one variable that is obtained by substituting the known total for another variable into a regression equation calculated on the basis of sample values of the two variables. Ratio estimates are special kinds of regression estimates. |
| Reimbursable activity | In intragovernmental activity, similar to goods or services, except the amounts billed to the receiving entity by the providing entity are based on some agreed-upon price, which may or may not represent market value. |
| Related parties | Under FASAB standards, organizations are considered to be related parties in the general purpose federal financial report if the existing relationship or one party to the existing relationship has the ability to exercise significant influence over the other party’s policy decisions. Relationships and transactions between the entity and other federal entities (intragovernmental) are not considered related party relationships and transactions. Given the similarity of risks, related parties, as used in auditing standards, may also include disclosure entities, related parties, and public-private partnerships, as these terms are defined by FASAB. |
| Remote | The chance of potential liability to the entity is slight. |
| Reporting phase | This phase completes the audit based on the results of audit procedures performed in the preceding phases. This involves developing the auditor’s report on the entity’s (1) annual financial statements and supplementary information; (2) internal control over financial reporting; (3) financial management systems’ substantial compliance with the three FFMIA requirements (for CFO Act agencies); and (4) compliance with significant provisions of applicable laws, regulations, contracts, and grant agreements. |
| Required Supplementary Information | Information that a designated accounting standards setter requires to accompany an entity's basic financial statements. Required supplementary information is not part of the basic financial statements; however, a designated accounting standards setter considers the information to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, authoritative guidelines for the methods of measurement and presentation of the information have been established. |
| Responsibility segment | A significant organizational, operational, functional, or process component that has the following characteristics: (a) its manager reports to the entity’s top management, (b) it is responsible for carrying out a mission, performing a line of activities or services, or producing one or a group of products, and (c) for financial reporting and cost management purposes, its resources and results of operations can be clearly distinguished, physically and operationally, from those of other segments of the entity. |
| Reviewer (engagement quality control reviewer or second partner) | The person responsible for providing negative assurance about the quality of the audit and reports to the assistant IG for audit (or higher position) or, at GAO, is the chief accountant or designee. The reviewer may consult with other personnel as needed. |
| Rights and obligations | The entity holds or controls the rights to assets, and liabilities are the obligations of the entity at a given date. |
| Risk | See audit risk, inherent risk, control risk, risk of material misstatement, and detection risk. |
| Risk assessment | One of the five components of internal control, in addition to control environment, control activities, information and communications, and monitoring.  Risk assessment is the entity’s identification, analysis, and management of risks relevant to achievement of its objectives. This assessment provides the basis for developing appropriate responses to risk. |
| Risk of material misstatement | The risk that the financial statements are materially misstated prior to the audit. It is the auditor’s combined assessment of inherent risk and control risk. |
| Rollover approach | An approach used to evaluate misstatements. This approach quantifies a misstatement based on the amount of the misstatement originating in the current year Statement of Net Cost. |
| Safeguarding controls | Internal controls to protect assets from loss from unauthorized acquisition, use, or disposition of entity assets that could have a material effect on the financial statements. |
| Sample | Items selected from a population to reach a conclusion about the population as a whole. (Compare with nonrepresentative selection.) |
| Sampling | The selection and evaluation of less than 100 percent of the population of audit relevance such that the auditor expects the items selected (the sample) to be representative of the population and, thus, likely to provide a reasonable basis for conclusions about the population. In this context, representative means that evaluation of the sample will result in conclusions that, subject to the limitations of sampling risk, are similar to those that would be drawn if the same procedures were applied to the entire population. |
| Sampling interval | An amount between two consecutive sample items in a systematic sample. The sampling interval is determined by dividing the number of items in the population by the desired number of selections. When used in the context of a systematic sample used to select items for monetary-unit sampling (MUS), it is the tolerable misstatement divided by the statistical risk factor. |
| 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. For tests of controls, sampling risk is the risk of assessing control risk either too low or too high. For substantive testing, sampling risk is the risk of incorrect acceptance or the risk of incorrect rejection. |
| Sampling unit | Any of the individual elements, as defined by the auditor, that constitute the population. |
| Sequential sampling | A sampling plan for which the sample is selected in several steps, with each step conditional on the results of the previous steps. |
| Service organization | An organization of segment of an organization that provides services to user entities that are relevant to those user entities’ internal control over financial reporting. |
| Significant deficiency | A deficiency, or a combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those charged with governance. |
| Special Investigator Unit | The unit investigates specific allegations involving conflict-of-interest and ethics matters, contract and procurement irregularities, official misconduct and abuse, and fraud in federal programs or activities. In the offices of the IGs, this is the investigation unit; at GAO, it is the Forensic Audits and Investigative Service team. The Special Investigator Unit provides assistance to the auditor by (1) informing the auditor of relevant pending or completed investigations of the entity and (2) investigating possible instances of fraud, waste, and abuse. |
| Specific control evaluation (SCE) | Evaluating the effectiveness of specific control activities in achieving the control objectives. This process is documented on the SCE worksheet. |
| Standard General Ledger (SGL) | A uniform chart of accounts and guidance for standardizing U.S. federal accounting. Composed of five major sections: (1) chart of accounts, (2) accounts and descriptions, (3) account transactions, (4) SGL attributes, and (5) SGL crosswalks to standard external reports. Prescribed by the Department of the Treasury in its *Treasury Financial Manual.* |
| Standard General Ledger (SGL) at the transaction level | One of the three requirements of FFMIA. Implementing the SGL at the transaction level means that transactions are recorded in full compliance with the SGL Chart of Account’s descriptions and posting models/attributes that demonstrate how the SGL is to be used for recording transactions of the federal government accounting process; reports produced by the systems provide financial information, whether used internally or externally, that can be traced directly to the SGL accounts; and transactions from feeder systems, which may be summarized and interfaced into the core financial system’s general ledger, are posted following SGL requirements. |
| Statistical sampling | Audit sampling that uses the laws of probability for selecting and evaluating a sample from a population for the purpose of reaching a conclusion about the population. |
| Statistician (audit sampling specialist) | The person the auditor consults for technical expertise in areas such as audit sampling, audit sample evaluation, and selecting entity field locations to visit. |
| Stewardship information | Required supplementary stewardship information includes stewardship investments that are substantial investments made by the federal government for the benefit of the nation but are not physical assets owned by the federal government. When incurred, they are treated as expenses in determining the net cost of operations. Such investments should be measured in terms of expenses incurred for: (1) federally financed but not federally owned physical property (nonfederal physical property), (2) certain education and training programs (human capital), and (3) federally financed research and development (research and development). Nonfederal physical property investments are expenses incurred by the reporting entity for the purchase, construction, or major renovation of physical property owned by state and local governments. Human capital investments are expenses incurred to increase or maintain national economic productivity capacity and to produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. (The definition excludes education and training expenses for federal civilian and military personnel.) Research and development investments are expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for developing new or improved products and processes, with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. |
| Stewardship land | Land and rights owned by the federal government but not acquired for in connect with items of general PP&E. |
| Stratification | The process of dividing a population into subpopulations, each of which is a group of sampling units that have similar characteristics. Stratification may be used to focus procedures on risk areas or to reduce variability in sampling populations. |
| Subsequent events | Events or transactions that affect the basic information or RSI that may occur or become known between the date of the financial statements and the date of the auditor’s report. |
| Subsequently discovered facts | Facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report. |
| Substantive analytical procedures | The comparison of a recorded amount with an expectation of that amount and subsequent investigation of any significant differences to reach a conclusion on the recorded amount. |
| Substantive audit assurance | The auditor’s judgment about the probability that all substantive tests of an assertion will detect aggregate misstatements that exceed materiality. Not the same as confidence level. |
| Substantive procedures or tests | Audit procedures designed to detect material misstatements at the assertion level. Substantive procedures comprise tests of details and substantive analytical procedures. |
| Sufficiency | 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. |
| Suitable criteria | In agreed upon procedures engagements or other attestation engagement engagements, standards for acceptability which have the attributes of objectivity, measurability, completeness, and relevance. |
| Supplemental analytical procedures | Analytical procedures to increase the auditor’s understanding of account balances and transactions when detail tests are used as the sole source of sub­stan­tive assurance. |
| Systematic random sampling | A method of selecting a sample in which every *n*th item is selected using one or more random starts. When the first item is selected using judgment from the interval, the method is termed systematic sampling. |
| Technical accounting and auditing expert | The person who reports to the assistant IG for audit or higher. At GAO, this is the chief accountant or other designated expert. This expert advises on accounting and auditing professional matters and government-related issues. This person also may be the reviewer or may review reports on financial statements and reports that express opinions on financial information for compliance with professional auditing standards. |
| Testing phase | The objectives of this audit phase are to (1) obtain reasonable assurance about whether the financial statements are presented fairly, in all material respects, in accordance with U.S. GAAP; (2) determine whether the entity complied with significant provisions of applicable laws, regulations, contracts, and grant agreements; and (3) assess the effectiveness of internal control over financial reporting through testing controls often in coordination with other tests. |
| Those charged with governance (Oversight body) | Those who have the responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity’s financial reporting process. For a federal entity, those charged with governance may be members of a board or commission, an audit committee, the secretary of a cabinet-level department, or senior executives and financial managers responsible for the entity. |
| Tolerable misstatement | The application of performance materiality to a particular substantive sampling procedure. Tolerable misstatement is defined in AU-C 530.05 as 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 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 misstatement in the population. This is also referred to as tolerable error, tolerable rate, or tolerable deviation. |
| Trading partner code | Assigned by the U.S. Department of the Treasury, trading partner codes are used to facilitate the preparation of the *Financial Report of the United States Government*. |
| Trading partners | Federal entities that request or provide transactions and transfers between federal entities. |
| Transfers | Shifting of all or part of the budget authority in one appropriation or fund account to another. Entities may transfer budget authority only as specifically authorized by law. For accounting purposes, the nature of the transfer determines whether the transaction is treated as an expenditure or a nonexpenditure transfer. |
| *Treasury Financial Manual* (TFM) | The *Treasury Financial Manual* (TFM) is Treasury’s official publication of policies, procedures, and instructions concerning financial management in the Federal Government. It is intended to promote the Government’s financial integrity and operational efficiency. |
| Type 1 Report | Report on the fairness of the presentation of management’s description of the service organization’s system and the suitability of the design of the controls to achieve the related control objectives included in the description as of a specified date. |
| Type 2 Report | Report on the fairness of the presentation of management’s description of the service organization’s system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description throughout a specified period. |
| U.S. generally accepted accounting principles (U.S. GAAP) | The U.S. accounting principles that are promulgated by a standard setter approved by the AICPA. SFFAS 34 contains the hierarchy of accounting standards for financial statements of federal government entities, The standards issued by FASAB are the first level of the hierarchy. For government corporations and certain other entities, the standards issued by FASB are the first level of the hierarchy. |
| Uncorrected misstatements | Misstatements that the auditor has accumulated during the audit and that have not been corrected. |
| Universe | See population. |
| User Auditor | An auditor who audits and reports on the financial statements of a user entity. |
| User controls | Controls that are performed by people interacting with IS controls. The effectiveness of user controls typically depend on the accuracy of the information produced by the IS controls. |
| Walk-throughs | Audit procedures to help the auditor understand the design of controls and whether they have been implemented. They may also provide some evidence of control effectiveness. Walk-throughs of financial reporting controls include tracing one or more transactions from initiation, through all processing, to inclusion in the general ledger; observing the processing and applicable controls in operation; making inquiries of personnel applying the controls; and examining related documents. |

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|  | **OTHER GLOSSARIES** |
| NOTE 1 | The *Federal Information System Controls Audit Manual* *(FISCAM)* contains a glossary of information systems terms (see GAO-09-232G, February 2009). |
| NOTE 2 | *A Glossary of Terms Used in the Federal Budget Process* contains additional terms and definitions (see GAO-05-734SP, September 2005). |
| NOTE 3 | The AICPA’s *Audit Sampling Guide* contains a glossary of terms. |
| NOTE 4 | The Federal Accounting Standards Advisory Board’s *Handbook* *of* *Federal* *Accounting* *Standards* *and* *Other* *Pronouncements,* *as* *Amended* contains a glossary of terms. |