AC410: Auditing

Unit 8 Glossary

**Adverse opinion**: An opinion that the financial statements do not fairly present financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. This situation occurs when the auditors believe that departures from GAAP are both material and pervasive.

**Analytical procedures**: The process of evaluating financial information made by a study of plausible relationships between financial and nonfinancial information.

**Contingent liability**: A possible liability, stemming from past events, which will be resolved as to existence and amount by some future event.

**Disclaimer of opinion**: A form of report in which the auditors state that they do not express an opinion on the financial statements.

**Known misstatements**: Specific misstatements identified by the auditors during the course of the audit.

**Likely misstatements**: Misstatements identified by the auditors during the course of the audit that are due to either extrapolation from audit evidence or differences in accounting estimates.

**Loss contingency**: A possible loss, stemming from past events, which will be resolved as to existence and amount by some future event. Loss contingencies should be disclosed in notes to the financial statements if there is a reasonable possibility that a loss has been incurred. When loss contingencies are considered probable and can be reasonably estimated, they should be accrued in the accounts.

**Representation letter**: A single letter or separate letters prepared by officers of the client company at the auditors’ request setting forth certain representations about the company’s financial position or operations.

**Scope limitation**: A restriction that prevents the auditors from being able to apply all of the audit procedures that they consider necessary in the circumstances. Scope limitations may be client imposed or may be imposed by other circumstances.

**Subsequent event**: An event occurring after the date of the balance sheet, but prior to completion of the audit and issuance of the audit report.
**Unmodified opinion**: The opinion expressed by the auditors when they conclude that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework (e.g., GAAP).

Reference