
Glossary

Attest Client. An attest client is an entity whose financial statements or other information is being audited, reviewed, or attested to.

Attest Engagement. An attest engagement is an engagement that requires independence as defined in AICPA Professional Standards and includes the following:

- Financial statement audits.
- Financial statement reviews.
- Audits of internal control over financial reporting (as required by SOX section 404) performed under PCAOB Auditing Standard No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements.
- Engagements performed under the AICPA Statements on Auditing Standards (SASs) or Statements on Attestation Standards (SSAEs).

Attest Engagement Team. The attest engagement team consists of individuals participating in the attest engagement, including those who perform concurring and second-partner reviews. The attest engagement team includes all employees and contractors retained by the firm who participate in the attest engagement, whether their functional classification is audit, tax, or consulting services. The attest engagement team excludes specialists as discussed in SAS No. 73, Using the Work of a Specialist, and persons who perform only routine clerical functions, such as word processing and photocopying.

Certified Public Accountant. Any person who is duly qualified to practice as a certified public accountant in any state, territory, or possession of the United States, including a Commonwealth, or the District of Columbia.

Close Relative. A close relative is a parent, sibling, or nondependent child.

Competence. Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm.

Controlled Entity. A controlled entity is any entity, for example, a partnership, corporation, trust, joint venture, or pool, whose operating, financial, or accounting policies can be controlled by one or more covered members. To determine whether an entity or an individual can "control" another entity, use the definition of control provided by generally accepted accounting principles (GAAP for consolidation purposes). Generally, an entity has control whenever it owns a majority of the voting interest in another entity.

Controlling Interest. A controlling interest exists when one entity has control over another entity, as defined by GAAP for consolidation purposes.

Covered Member. A covered member is:

- a. An individual on the attest engagement team;
- b. An individual in a position to influence the attest engagement;
- c. A partner or manager who provides non-attest services to the attest client beginning once he or she provides ten hours of non-attest services to the client within any fiscal year and ending on the later of the date (i) the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) he or she no longer expects to provide ten or more hours of non-attest services to the attest client on a recurring basis;
- d. A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
- e. The firm, including the firm's employee benefit plans; or
- f. An entity whose operating, financial, or accounting policies can be controlled, as defined by generally accepted accounting principles (GAAP) for consolidation purposes, by any of the individuals or entities described in a. through e. or by two or more such individuals or entities if they act together.

Dependent. In general, a dependent is any individual for whom the covered member provides more than half of his or her financial support.

Direct Financial Interest. A direct financial interest occurs when a covered member has a direct financial interest in a client. For example, the direct financial interest may be shares of stock or stock options. Any direct financial interest in a restricted entity, no matter how small or how or when it originated, is considered to impair independence.

Due Professional Care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public.

Firm. A firm is a form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the American Institute of Certified Public Accountants engaged in the practice of public accounting. Firm includes the individual partners thereof except for purposes of applying Rule 101: Independence (ET Section 101.01). For purposes of applying Rule 101, firm includes a network firm when the engagement is either a financial statement audit or a review engagement, and the audit or review report is not restricted, as defined by professional standards.

GAAP. Generally accepted accounting principles.

Immediate Family. Immediate family is a spouse, spousal equivalent, or dependent (whether or not related).

Income Tax Preparer. Any person who prepares for compensation, or who employs one or more persons to prepare for compensation, any return of tax imposed by subtitle A or any claim for refund of tax imposed by subtitle A. For purposes of the preceding sentence, the preparation of a substantial portion of a return or claim for refund shall be treated as if it were the preparation of such return or claim for refund.

Independence. Independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services.

Indirect Financial Interest. An indirect financial interest occurs when a covered member invests in a non-client entity, which, in turn, invests in a client that is an entity restricted to the member. A common form of indirect investment is a limited partnership.

Individual in a Position to Influence the Attest Engagement. An individual in a position to influence the attest engagement is one who:

- Evaluates the performance or recommends the compensation of the attest engagement partner;
- Directly supervises or manages the attest engagement partner, including all successively senior levels above that individual in the firm;
- Consults with the attest engagement team regarding technical or industry-related issues specific to the engagement; or
- Participates in or oversees quality control activities, including internal monitoring, with respect to the specific attest engagement, including all successively senior levels in the firm.

Integrity. Integrity requires a member to be, among other things, honest and candid (within the constraints of client confidentiality). Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle. Integrity requires the member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

Joint Closely Held Investment. A joint closely held investment is an investment in an entity or property by the member and the client (or the client's officers or directors, or any owner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property.

Key Position. A key position is a position in which an individual:

- Has primary responsibility for significant accounting functions that support material components of the financial statements;
- Has primary responsibility for the preparation of the financial statements; or
- Has the ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

For purposes of attest engagements not involving a client's financial statements, a key position is one in which an individual is primarily responsible for, or able to influence, the subject matter of the attest engagement, as described above.

Loan. A loan is a financial transaction, the characteristics of which generally include, but are not limited to, an agreement that provides for repayment terms and a rate of interest. A loan includes, but is not limited to, a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment.

Manager. A manager is a professional employee of the firm who has either of the following responsibilities:

- a. Continuing responsibility for the overall planning and supervision of engagements for specified clients.
- b. Authority to determine that an engagement is complete subject to final partner approval if required.

Materiality. The independence rules do not establish a quantitative benchmark for materiality. It is a matter of judgment and includes both quantitative and qualitative factors. For additional guidance on materiality, refer to the definition contained in FASB Concepts Statement No. 2, Qualitative Characteristics of Accounting Information.

Member. A member, associate member, or international associate of the American Institute of Certified Public Accountants.

Network. For purposes of Interpretation No. 101-17, "Networks and Network Firms" (ET Section 101.19, a network is an association of entities that includes one or more firms that: (a) cooperate for the purpose of enhancing the firms' capabilities to provide professional services, and (b) share one or more of the following characteristics:

- The use of a common brand name, including common initials, as part of the firm name.
- Common control, as defined by generally accepted accounting principles in the United States, among the firms through ownership, management, or other means.
- Profits or costs, excluding costs of operating the association; costs of developing audit methodologies, manuals, and training courses; and other costs that are immaterial to the firm.

- Common business strategy that involves ongoing collaboration among the firms whereby the firms are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy.
- Significant part of professional resources.
- Common quality control policies and procedures that firms are required to implement and that are monitored by the association.

A network may comprise a subset of entities within an association if only that subset of entities cooperates and shares one or more of the characteristics set forth in the preceding list.

Network Firm. A network firm is a firm or other entity that belongs to a network, as defined in ET Section 92, Paragraph .28. This includes any entity, including another firm, that the network firm, by itself or through one or more of its owners, controls, as defined by generally accepted accounting principles in the United States, is controlled by, or is under common control with.

Objectivity. Objectivity is a state of mind, a quality that lends value to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

Office. An office is a reasonably distinct subgroup within a firm, whether constituted by formal organization or informal practice, where personnel who make up the subgroup generally serve the same group of clients or work on the same categories of matters. Substance should govern the office classification. For example, the expected regular personnel interactions and assigned reporting channels of an individual may well be more important than an individual's physical location.

Partner. A partner is a proprietor, shareholder, equity or non-equity partner or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned.

Practice Before the Internal Revenue Service. This practice comprehends all matters connected with a presentation to the Internal Revenue Service (IRS) or any of its officers or employees relating to a taxpayer's rights, privileges, or liabilities under laws or regulations administered by the IRS. Such presentations include, but are not limited to, preparing and filing documents, corresponding and communicating with the IRS, rendering written advice with respect to any entity, transaction, plan or arrangement, or other plan or arrangement having a potential for tax avoidance or revision, and representing a client at conferences, hearings, and meetings.

Significant Influence. In general, significant influence is presumed to exist when the investor owns between twenty and fifty percent of an investee.

Spousal Equivalent. The independence rules do not provide a specific definition of spousal equivalent. In determining whether an individual is a spousal equivalent, one must look to the closeness of the bond between the covered member and the individual. For example, persons in domestic partnerships or common law marriages, cohabitants, and others in close committed relationships that are in substance the equivalent of marriage would generally meet this criterion.

