

APB ETHICAL STANDARDS

GLOSSARY OF TERMS

(Revised December 2010)

accounting services The provision of services that involve the maintenance of accounting records or the preparation of financial statements that are then subject to audit

affiliate An entity that has any of the following relationships with the audited entity:

- (a) An entity that has direct or indirect control over the audited entity if, the audited entity is material, quantitatively or qualitatively, to such entity;
- (b) An entity with a direct financial interest in the audited entity if that entity has significant influence over the audited entity and the interest in the audited entity is material, quantitatively or qualitatively, to such entity;
- (c) An entity over which the audited entity has direct or indirect control;
- (d) An entity in which the audited entity, or an affiliate of the audited entity under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material, quantitatively or qualitatively, to the audited entity and its affiliate in (c); and
- (e) An entity which is under common control with the audited entity client (a “sister entity”) if the sister entity and the audited entity are both material, quantitatively or qualitatively, to the entity that controls both the audited entity and sister entity.

Factors that may be relevant in determining whether an entity or an interest in an entity is material to another entity include:

- the extent and nature of the relationships between the audited entity and the other entity and the impact these have on the relationships of either entity with the auditor of the audited entity, and
- the extent and nature of the relationship(s) between the auditor of the audited entity and the other entity and the impact that this has on their independence as auditor of the audited entity.

audit engagement partner The partner or other person in the firm who is responsible for the audit engagement and its performance and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

audit firm The sole practitioner, partnership, limited liability partnership or other corporate entity engaged in the provision of audit services. For the purpose of APB Ethical Standards, audit firm includes network firms in the UK and Ireland, which are controlled by the audit firm or its partners.

audit team All audit professionals who, regardless of their legal relationship with the auditor or audit firm, are assigned to a particular audit engagement in order to perform the audit task (e.g. audit partner(s), audit manager(s) and audit staff).

This does not include internal audit personnel who are involved in directly assisting the external auditor in carrying out external audit procedures provided that appropriate quality control arrangements are established as described in ISA (UK and Ireland) 610.

audited entity The entity whose financial statements are subject to audit by the audit firm.

chain of command	All persons who have a direct supervisory, management or other oversight responsibility over either any audit partner of the audit team or over the conduct of audit work in the audit firm. This includes all partners, principals and shareholders who may prepare, review or directly influence the performance appraisal of any audit partner of the audit team as a result of that partner's involvement with the audit engagement. It does not include any non-executive individuals on a supervisory or equivalent board.
close family	A non-dependent parent, child or sibling.
connected parties	An audited entity's connected parties are: <ol style="list-style-type: none">its affiliates;key members of management (including but not limited to directors and those charged with governance) of the audited entity and its significant affiliates, individually or collectively; andany person or entity with an ability to influence (other than in the capacity of professional advisors), whether directly or indirectly, key members of management or those charged with governance of the audited entity and its significant affiliates, individually or collectively, in relation to their responsibility for or approach to any matter or judgment that is material to the entity's financial statements.
contingent fee basis	Any arrangement made under which a fee is calculated on a pre-determined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed. A fee that is established by a court or other public authority is not a contingent fee.
engagement quality control reviewer	A partner or other person in the firm or a suitably qualified external person, with sufficient and appropriate experience

and authority to objectively evaluate, before the auditor's report is issued, the significant judgments which the engagement team has made and the conclusions reached in formulating the auditor's report. This may be the person who undertakes an engagement quality control review to meet the requirements of ISA (UK & Ireland) 220 '*Quality Control for an Audit of Financial Statements*'.

engagement team	All persons who are directly involved in the acceptance and performance of a particular audit. This includes the audit team, professional personnel from other disciplines involved in the audit engagement and those who provide quality control or direct oversight of the audit engagement.
entity in distress	An entity with actual or anticipated financial or operational difficulties that threaten the survival of that entity as a going concern.
Ethics Partner	The partner or other person in the audit firm having responsibility for the adequacy of the firm's policies and procedures relating to integrity, objectivity and independence, their compliance with APB Ethical Standards and the effectiveness of their communication to partners and staff within the firm and providing related guidance to individual partners.
financial interest	An equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such an interest.
immediate family	A spouse (or equivalent) or dependent.
informed management	Member of management (or senior employee) of the audited entity who has the authority and capability to make independent management judgments and decisions in

relation to non-audit services on the basis of information provided by the audit firm.

key management position

Any position at the audited entity which involves the responsibility for fundamental management decisions at the audited entity (e.g. as a CEO or CFO), including an ability to influence the accounting policies and the preparation of the financial statements of the audited entity. A key management position also arises where there are contractual and factual arrangements which in substance allow an individual to participate in exercising such a management function in a different way (e.g. via a consulting contract).

key partner involved in the audit

A partner, or other person in the engagement team (other than the audit engagement partner or engagement quality control reviewer), who either:

- is involved at the group level and is responsible for key decisions or judgments on significant matters or risk factors that relate to the audit of that audited entity, or
- is primarily responsible for the audit of a significant affiliate or division¹ of the audited entity.

listed company

An entity whose shares, stock or debt are quoted or listed on a UK or Irish recognised stock exchange, or are marketed under the regulations of a UK or Irish recognised stock exchange or other equivalent body. This includes any company in which the public can trade shares on the open market, such as those listed on the London Stock Exchange (including those admitted to trade on the Alternative Investments Market), PLUS Markets and the Irish Stock

¹ For the purposes of this definition, a significant affiliate or division is an affiliate or division which in the judgment of the group auditor, is individually likely to be of financial significance to the group, including those affiliates or divisions located outside the UK and Ireland.

Exchange (including those admitted to trade on the Irish Enterprise Exchange).

network firm

Any entity which is part of a larger structure that is aimed at co-operation and which is:

- (i) controlled by the audit firm; or
- (ii) under common control, ownership or management; or
- (iii) part of a larger structure that is clearly aimed at profit or cost sharing; or
- (iv) otherwise affiliated or associated with the audit firm through common quality control policies and procedures, common business strategy, the use of a common name or through the sharing of significant common professional resources.

non-audit services

Any engagement in which an audit firm provides professional services to an audited entity, its affiliates or another entity in respect of the audited entity, other than the audit of financial statements.

person in a position to influence the conduct and outcome of the audit:

- (a) Any person who is directly involved in the audit (the engagement team), including:
 - (i) the audit partners, audit managers and audit staff (the audit team);
 - (ii) professional personnel from other disciplines involved in the audit (for example, lawyers, actuaries, taxation specialists, IT specialists, treasury management specialists);
 - (iii) those who provide quality control or direct oversight of the audit;
- (b) Any person, who forms part of the chain of command for the audit within the audit firm;
- (c) Any person within the audit firm who, due to any other circumstances, may be in a position to exert such influence.

significant affiliate An affiliate identified by the group audit team:

- (i) that is of individual financial significance to the group; or
- (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements².

² Taken from the definition of a significant component in ISA (UK and Ireland) 600