

IMPLEMENTING THE CONCEPTUAL FRAMEWORK APPROACH UNDER THE PROPOSED CODIFICATION PROJECT

Threats and Safeguards
106th NASBA Annual Meeting
Maui, HI

Proposed AICPA Codification Project

- Conceptual Framework
 - Members in Public Practice
 - 1.000.010
 - Members in Business
 - 2.000.010

Proposed AICPA Codification Project

- Conceptual Framework is:
 - Similar to Threats and Safeguards embedded in the International Code of Ethics for Professional Accountants
 - Utilizes same concept as Independence Standards adopted by AICPA effective in April 2007
 - To be utilized when matters are not specifically addressed in the Code
 - Cannot be used to overcome a specific prohibition or other requirements in the Code

Proposed AICPA Codification Project

- Three steps of conceptual framework approach
 - Identify threats
 - Evaluate the significance of a threat
 - Identify and apply safeguards

Proposed AICPA Codification Project

- Threats
 - Seven broad categories
 - Self-review threat
 - Advocacy threat
 - Adverse interest threat
 - Familiarity threat
 - Undue influence threat
 - Financial self-interest threat
 - Management participation threat

Proposed AICPA Code vs. GAO Yellow Book

Proposed AICPA Code

- Adverse interest threat
- Advocacy threat
- Familiarity threat
- Management participation threat
- Self-interest threat
- Self-review threat
- Undue influence threat

GAO Yellow Book

- Bias threat
- Familiarity threat
- Management participation threat
- Self-interest threat
- Self-review threat
- Structural threat (unique to government)
- Undue influence threat

AICPA Threats Defined

- Adverse interest threat
 - Member (licensee) will not act with objectivity because their interests are in opposition to client
- Advocacy threat
 - Member (licensee) will promote a client's interests or position to the point that their objectivity or independence is compromised
- Familiarity threat
 - Due to long or close relationship with a client the member (licensee) will become too sympathetic to a client's interests or too accepting of a client's work product
- Management participation threat
 - Member (licensee) takes on the role of client management or otherwise assume management responsibilities

Threats Defined

- Self-interest threat
 - Member (licensee) could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with a client
- Self-review threat
 - The threat that a member (licensee) will not appropriately evaluate the results of a previous judgment made or service performed or supervised by a by the member or their firm and that the member will rely on that service in forming judgment as part of another service

Threats Defined

- Undue influence threat
 - The threat that a member (licensee) will subordinate judgment to an individual associated with a client due to an individual's:
 - reputation or expertise;
 - aggressive or dominate personality; or,
 - attempts to coerce or exercise excessive influence

Safeguards

- Safeguards are defined as controls that partially or completely eliminate threats or diminish the potential influence of a threat
- Safeguards used to eliminate a threat or reduce it to an acceptable level fall into three broad categories:
 - Safeguards created by the profession, legislation or regulation
 - Safeguards implemented by the client
 - It is not possible to rely solely on these safeguards
 - Safeguards implemented by the firm
 - Includes policies and procedures to implement professional and regulatory requirements