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
    o 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 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