



Practice aid

Conceptual framework toolkit for independence

July 2022

Member enrichment

© 2022 AICPA All rights reserved.

For information about the procedure for requesting permission to make copies of any part of this work, please email copyright-permissions@aicpa-cima.com with your request. Otherwise, requests should be written and mailed to Permissions Department, 220 Leigh Farm Road, Durham, NC 27707-8110 USA.

Contents

-
- 1 Introduction
-
- 2 Steps of the conceptual framework
 - 3 **Step 1:** Identify threats.
 - 3 **Step 2:** Evaluate the significance of a threat.
 - 3 **Step 3:** Identify and apply safeguards.
 - 4 **Step 4:** Evaluate the effectiveness of safeguards.
 - 4 **Step 5:** Document threats and safeguards.
-
- 5 Conceptual framework flowchart
-
- 6 Conceptual framework examples
 - 6 Friend or relative
 - 6 Significant fees
 - 6 Long-standing client
-
- 7 Conceptual framework worksheet
-
- 9 Conceptual framework worksheet example
-
- 11 Instructions for completing the conceptual framework worksheet

Introduction

At times, you may find yourself in a situation that is not directly addressed by a rule or interpretation in the AICPA® Code of Professional Conduct (code).

This is when you'll want to apply the **"Conceptual Framework for Independence"** (framework) (ET sec. 1.210.010).¹

The framework incorporates a "threats and safeguards" approach, which will assist you in analyzing relationships and circumstances that the AICPA code does not specifically address and in determining whether such relationships or circumstances may result in a violation of the **"Independence Rule"** (ET sec. 1.200.001).

The toolkit includes the following to help you implement the conceptual framework approach:

- Steps of the conceptual framework to provide detailed guidance on what to do when applying the conceptual framework approach
- A flowchart that serves as a visual aid for breaking down the steps of the conceptual framework approach
- Examples of relationships or circumstances that are not addressed in the AICPA code and how the conceptual framework may be applied in such situations
- A worksheet to help apply the steps of the conceptual framework that could also be used to satisfy the documentation requirement found in paragraph .09 along with an example for using it

For relationships or circumstances that involve threats to rules other than independence **you should use** the **"Conceptual Framework Toolkit for Members in Public Practice."**

¹ You can find all ET sections in the AICPA Code of Professional Conduct.

Steps of the conceptual framework

The conceptual framework approach requires that you take the following steps:

- (a) Identify threats that could compromise your independence or be perceived by a reasonable and informed third party who is aware of the relevant information as compromising your independence.
- (b) Evaluate the significance of the identified threats.
- (c) Identify and apply appropriate safeguards, when necessary.
- (d) Evaluate whether such safeguards have been effective to eliminate significant threats or reduce them to an acceptable level.

Professional judgment

You must apply professional judgment to make informed decisions about the courses of action available, and to determine whether such decisions are appropriate under the circumstances.

Professional judgment is the application of your training, skill, and experience to the facts and circumstances.

Consider whether your professional training, skill, and experience are sufficient to reach an appropriate conclusion or if consultation is necessary.

It's important to evaluate threats and safeguards with an inquiring mind. This means considering the source, relevance, and adequacy of the information being used along with the nature, scope, and results of the professional service being provided.

Examples include the emergence of new information, inconsistencies in the information obtained, a new client subsidiary, or a new user of the financial statements.

Be open to a need for further investigation or action and be aware of the effects of conscious or unconscious bias that could affect your professional judgment.

Here are some examples of bias that can affect you when identifying, evaluating, and addressing threats:

- **Anchoring bias** – Using an initial piece of information as an anchor against which subsequent information is inadequately assessed
- **Automation bias** – Favoring output generated from automated systems, even when human reasoning or contradictory information raises questions about whether such output is reliable or fit for purpose
- **Availability bias** – Placing more weight on events or experiences that immediately come to mind or are readily available than on those that are not
- **Confirmation bias** – Placing more weight on information that corroborates an existing belief than on information that contradicts or casts doubt on that belief
- **Groupthink** – The tendency for a group of people to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives
- **Overconfidence bias** – The tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions
- **Representation bias** – The tendency to base an understanding on a pattern of experiences, events, or beliefs that are assumed to be representative
- **Selective perception** – The tendency for a person's expectations to influence how the person views a particular matter or person

Seeking advice from experts, consulting with others to obtain additional input, and training on how to identify bias may help mitigate the effects of bias.

Under this approach, if you cannot apply appropriate safeguards to eliminate the threats or reduce them to an acceptable level, you should (if possible) change the circumstance or relationship so that the threats are at an acceptable level or decline or discontinue the attest engagement.

The following sections provide detailed guidance on the steps members should perform when applying the conceptual framework approach.

Step 1 – Identify threats

Threats are relationships or circumstances that could impair your independence. Paragraphs .12–.18 of the framework identify the following threats to independence: *adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence.*

If you encounter a relationship or circumstance that is not specifically addressed by an independent interpretation, you should determine whether the relationship or circumstance creates one or more threats.

You should use professional judgment when evaluating a situation for potential threats. In addition, be alert to whether

- the information being used might be influenced by bias or self-interest.
- there might be other conclusions that could be reached from the information obtained.
- there have been changes in facts and circumstances, especially for continuing engagements.

The existence of a threat does not mean that you are in violation of the “Independence Rule,” but you should evaluate the significance of the threat.

If you don’t identify any threats, you may proceed with the attest service. However, if you do identify threats, proceed to step 2, “Evaluate the significance of a threat.”



When evaluating the significance of a threat, you should determine whether the threat is at an acceptable level.

Step 2 – Evaluate the significance of a threat

If you have identified a threat, you will need to evaluate its significance.

Because threats can have a cumulative effect on your compliance with the rules, you should evaluate identified threats both individually and in the aggregate.

When evaluating the significance of a threat, determine whether the threat is at an acceptable level; that is, would a reasonable and informed third party who is aware of the relationship or circumstance conclude that the threat identified would not impair your independence?

In addition, consider both qualitative and quantitative factors, including whether any existing safeguards are in place that already reduce the threat to an acceptable level.

If you conclude that the threat is at an acceptable level, you are not required to evaluate the threat any further and you may proceed with the attest service.

However, if you conclude that the threat is not at an acceptable level, proceed to step 3, “Identify and apply safeguards.”

Step 3 – Identify and apply safeguards

If you have concluded that the threat is not at an acceptable level, you’ll need to identify safeguards that may be applied to eliminate the threat or reduce it to an acceptable level.

You may identify safeguards that already exist or you may need to identify new safeguards. It’s even possible that one safeguard may eliminate or reduce multiple threats.

In other cases, you may need to apply multiple safeguards to eliminate or reduce one threat to an acceptable level.

Safeguards may be created by the profession, legislation, or regulation, or may be implemented by the attest client or the firm. Examples of various safeguards within each category are presented in [paragraphs .21–.23](#) of the “Conceptual Framework for Members in Public Practice” ET sec. 1.000.010).

After you identify and apply safeguards, proceed to step 4, “Evaluate the effectiveness of safeguards” and use your professional judgment to evaluate whether the safeguards would be effective in eliminating or reducing the threat to an acceptable level.

Step 4 – Evaluate the effectiveness of safeguards

If you conclude that threats are at an acceptable level after applying the identified safeguards, proceed with the attest service.

Sometimes, no safeguards can eliminate the threat or reduce it to an acceptable level. It is also possible that there may be effective safeguards that you are unable to implement.

At such times, you’ll need to change or eliminate the circumstance or relationship creating the threat or decline or terminate the attest engagement.

If you provide services under such circumstances, you will compromise your compliance with the “Independence Rule.”

Refer to [paragraph .21](#) of the framework for examples of some factors that may aid in determining the effectiveness of a safeguard.

If you become aware of new information or changes in facts and circumstances that might affect whether a threat has been eliminated or reduced to an acceptable level, reevaluate and address that threat accordingly.

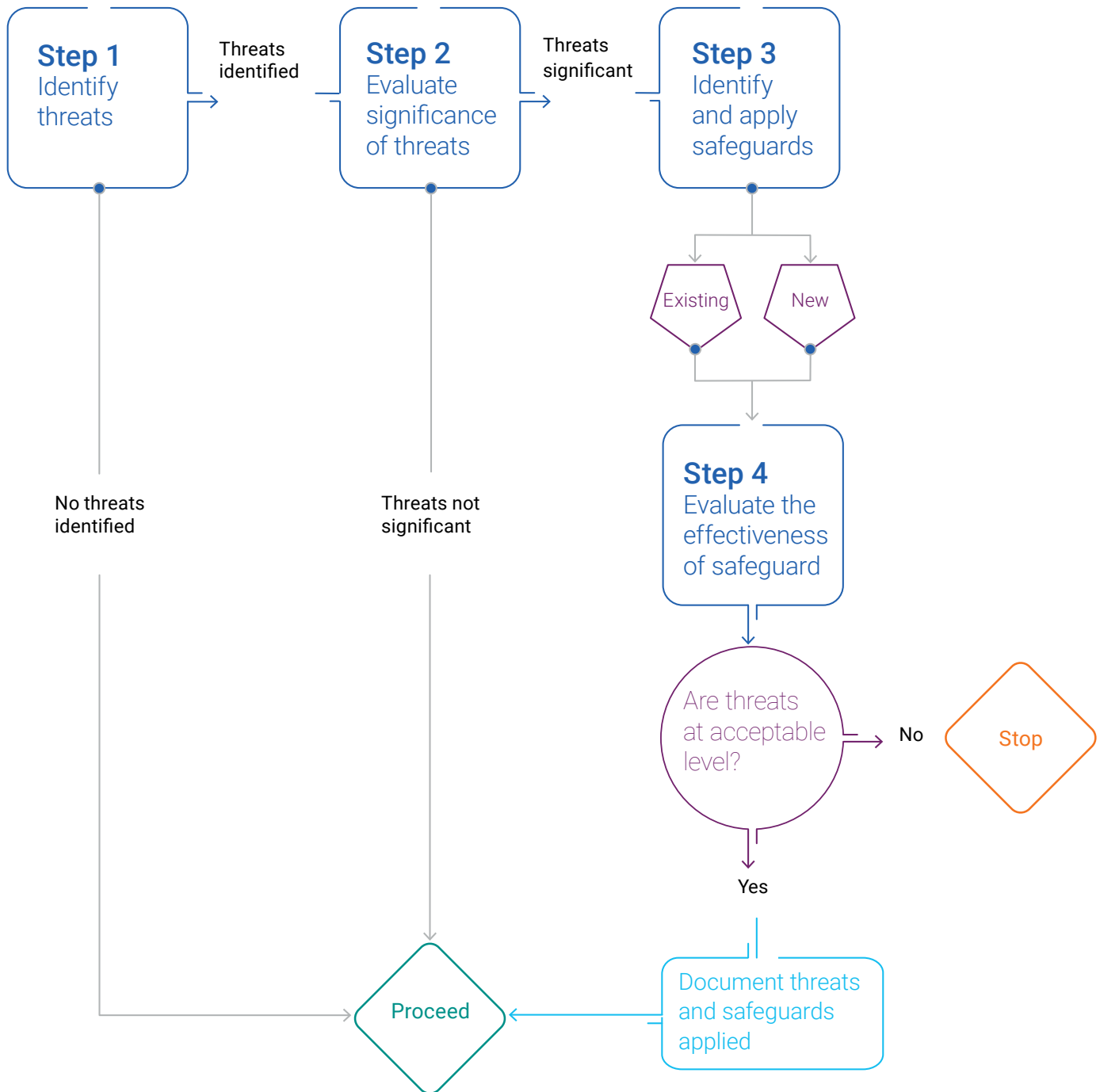
Step 5 – Document threats and safeguards

When you apply safeguards to eliminate significant threats or reduce them to an acceptable level, you must document your analysis.

If you can demonstrate the application of safeguards that eliminated or reduced threats but fail to prepare the required documentation, you will be in violation of the “[Compliance With Standards Rule](#)” (ET sec. 1.310.001). If you cannot demonstrate that safeguards were applied, you will be in violation of the “Independence Rule.”

Conceptual framework flowchart

The following flowchart illustrates the steps of the conceptual framework:



Conceptual framework examples

The following are examples of situations you may encounter that the AICPA code does not address. These threats and safeguards are not authoritative positions; rather, they demonstrate the use of the conceptual framework approach.

Use professional judgment in determining whether threats are significant and, if so, determine whether safeguards would effectively reduce those threats to an acceptable level or eliminate them.

For examples involving rules other than independence, see the “Conceptual Framework Toolkit for Members in Public Practice.”

Friend or relative

You are a manager on an audit engagement and you have a close personal friend or relative who is in a key position at the audit client. This person is not an immediate family member or a close relative as defined by the AICPA code.

Identified threat: Your close relationship with the individual in a key position may result in a lack of objectivity or professional skepticism during the audit. Therefore, the familiarity threat is present.

Possible safeguards: If you conclude that the threat to independence is significant, a safeguard you may consider is removing yourself from the audit engagement team for this particular client.

Significant fees

You are considering submitting a proposal for a new audit client. However, if you are retained, the fees from the potential client would be significant to your firm.

Identified threat: The significance of the fees collected from the prospective client may appear to diminish your objectivity, and it may be more difficult to separate the client’s interests from your own. Therefore, the *self-interest* threat is present.

Possible safeguards: If you conclude that the threat to independence is significant, these are some safeguards you may consider

1. Subject the assignment of engagement personnel to approval by another partner or manager.
2. Implement internal firm-level monitoring procedures for the audit client.
3. Subject the audit client to pre-issuance or post-issuance reviews.

Long-standing client

You perform tax services for a long-standing client and the client has recently requested that you perform a review engagement.

Identified threats: The familiarity threat is present because you may be too accepting of the client’s data due to the long-standing relationship with the client.

In addition, the self-review threat is present because you may rely on your prior tax services while performing the review for the client.

Possible safeguards: If you conclude that the threats to independence are significant, these are some safeguards you may consider:

- For the *familiarity* threat, use another partner at your firm or another firm to review the attest service you perform.
- For the *self-review* threat, if you determine that the “**General Requirements for Performing Nonattest Services**” (ET sec. 1.295.040) have been met, you may conclude that threats are at an acceptable level. Therefore, no additional safeguards are deemed necessary.

Conceptual framework worksheet

When you identify a relationship or circumstance that may create threats to your compliance with the "Independence Rule," you may wish to use the worksheet below to fulfill your documentation requirement under the AICPA code.

You can add additional relationships or circumstances to the worksheet as you identify them. Use the tab key to navigate through the fields.

Instructions for completing the worksheet are on page 11 of this toolkit.



Table 1: Conceptual framework worksheet

Summary of the relationship or circumstances	Step 1 Identify threats.	Step 2 Evaluate the significance of threats.	Step 3 Identify and apply safeguards.	Step 4 Evaluate the effectiveness of safeguards.
Describe the relationship or circumstance that may create threats to compliance with the "Independence Rule"	Describe the threat (<i>adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence</i>) associated with this relationship or circumstance.	Describe why the identified threats are or are not significant.	Describe the safeguards identified that will be applied to eliminate threats or reduce them to an acceptable level.	Describe whether the safeguards applied would or would not eliminate the threat or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, then document whether the firm can change or eliminate the circumstance or relationship creating the threat or will decline or discontinue the engagement.

Field A	Field B	Field C	Field D	Field E
---------	---------	---------	---------	---------

Conclusion	Field F			
------------	---------	--	--	--

Conceptual framework worksheet example

The conceptual framework worksheet below is based on the following situation:

Anthony and Jim have been best friends for more than 20 years. Anthony is a chemist with a sincere interest in making wine and a desire to own his own vineyard. Jim is a CPA and a partner at a small firm. During a barbecue at Jim's house, Jim's nephew mentioned that his employer, Red Grapes Vineyard, was up for sale. Anthony was excited about this opportunity to own his own vineyard, so he obtained a loan from a local bank and purchased the vineyard; however, to be compliant with the terms of the loan agreement, Anthony will have to provide audited financial statements to the

bank. Accordingly, Anthony approached his best friend Jim to perform the audit of Red Grapes Vineyard. Jim considered Anthony's proposal, but he was concerned about how his relationships with Anthony and his nephew may be viewed by members of the firm as well as the bank, so he reviewed the AICPA code for guidance. Jim did not find any guidance that specifically stated that independence would be impaired as a result of his relationship with Anthony or with his nephew, who is now the chief operating officer (COO) for Red Grapes Vineyard. However, Jim thought there might be an appearance issue and decided to consult the conceptual framework and emailed his partners the following analysis for their input.

Table 2: Conceptual framework worksheet example

<p>Summary of the relationship or circumstances</p> <p>Describe the relationship or circumstance that may create threats to compliance with the "Independence Rule"</p>	<p>Step 1 Identify threats.</p> <p>Describe the threat (<i>adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence</i>) associated with this relationship or circumstance.</p>	<p>Step 2 Evaluate the significance of threats.</p> <p>Describe why the identified threat is or is not significant.</p>	<p>Step 3 Identify and apply safeguards.</p> <p>Describe the safeguards identified that will be applied to eliminate the threat or reduce it to an acceptable level.</p>	<p>Step 4 Evaluate the effectiveness of safeguards.</p> <p>Describe whether the safeguards applied would or would not eliminate the threat or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, document whether the member or firm can change or eliminate the circumstance or relationship creating the threat or will decline/discontinue the engagement.</p>
<p>I am a partner in the firm and a close personal friend of the owner and operator of a potential audit client, Red Grapes Vineyard.</p>	<p>The <i>familiarity</i> threat is present.</p>	<p>The threat is significant because I could be too sympathetic to the audit client's interests or too accepting of the audit client's work.</p>	<p>I will not participate on the audit engagement, and I will not participate in any internal firm discussions concerning the audit client. Because the owner of the potential audit client is a close, personal friend of mine and I am a partner, the engagement will have to undergo an internal review prior to issuing the audit report to ensure that the attest engagement team exercised the appropriate level of professional skepticism.</p>	<p>My remaining off the engagement team and out of any internal discussions concerning the audit client plus the pre-issuance review will significantly reduce my ability to influence those responsible for the engagement. This will allow the engagement team to exercise the appropriate level of objectivity or professional skepticism.</p>
<p>I am a partner in the firm, and my nephew is employed at a potential audit client, Red Grapes Vineyard. My nephew is the COO.</p>	<p>The <i>familiarity</i> threat is present.</p>	<p>The threat is significant because I could be too sympathetic to the audit client's interests or too accepting of the audit client's work.</p>	<p>I will not participate on the audit engagement nor in any internal firm discussions concerning the audit client. Because the COO is related to me, the engagement will have to undergo an internal review prior to issuing the audit report to ensure that the attest engagement team exercised the appropriate level of professional skepticism.</p>	<p>My remaining off the engagement team and out of internal discussions concerning the audit client plus the pre-issuance review will significantly reduce my ability to influence those responsible for the engagement. This will allow the engagement team to exercise the appropriate level of objectivity or professional skepticism.</p>
<p>Conclusion</p>	<p>I have evaluated all identified threats, both individually and in the aggregate, and safeguards applied to eliminate any significant threats or reduce them to an acceptable level as documented in this worksheet. Based on my evaluation, I have concluded that, by implementing these safeguards, threats to compliance with the "Independence Rule" are at an acceptable level.</p>			

Instructions for completing the conceptual framework worksheet

Field A	In this field, provide a summary of the relationship or circumstance that you believe may create a threat to independence. Press the tab key to move to field B.
Field B	In this field, identify the threats that you believe exist and describe why you believe they exist. Press the tab key to move to field C.
Field C	In this field, describe why you believe the threats you have identified in field B are or are not significant. If you believe the threats are not significant, then you can stop here. If you believe they are significant, then press the tab key to proceed to field D.
Field D	In this field, describe which existing and new safeguards you applied. Examples of possible safeguards are included in paragraphs .21–.23 of the “Conceptual Framework for Members in Public Practice.” Press the tab key to move to field E.
Field E	In this field, describe why you believe the safeguards applied do or do not eliminate threats or reduce them to an acceptable level. If you conclude that threats are not at an acceptable level, then document your plan of action. For example, do you plan to change the relationship or circumstance so that the threats no longer exist or are not significant, or do you plan to not perform the attest engagement? Consider consulting paragraph .21 of the framework for examples of factors that may aid in determining the effectiveness of a safeguard. Press the tab key to move to the conclusion field.
Field F	In this field, document your conclusion about whether threats identified that may compromise compliance with the rules are at an acceptable level. When you are completing this field, you can save the worksheet page as a separate file.

Authors:

Sarah Brack, CPA, CGMA, CGFM
Manager
AICPA Professional Ethics Division

Michele Craig
Senior Manager
AICPA Professional Ethics Division

Ellen T. Gorla, CPA, CGMA
Associate Director
AICPA Professional Ethics Division

Contributors:

Catherine Allen, CPA
Audit Conduct, LLP

Chris Cahill
Retired

Robert Denham, Esq.
Partner
Munger, Tolles & Olson, LLP

Dr. Raymond Johnson, CPA
Professor Emeritus
Portland State University

Brian Lynch, CPA
Partner
EY LLP

Linda McAninch
Retired

Elizabeth McKneely
Senior Manager
Formerly of Deloitte LLP

Nancy Miller, CPA
Managing Director
KPMG LLP

Alan Steiger, CPA
Retired

Lisa Snyder, CPA, CGMA
National Assurance Managing Partner – Independence
BDO LLP

Wes Williams, CPA
Retired

Shannon L. Ziemba, CPA, CGMA
Manager
AICPA Professional Ethics Division

About the Association

The Association of International Certified Professional Accountants® (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs® (AICPA) and The Chartered Institute of Management Accountants® (CIMA®) to power trust, opportunity and prosperity for people, businesses and economies worldwide. It represents 689,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMA® designation holders and accounting and finance professionals globally.

Disclaimer: For information about obtaining permission to use this material other than for personal use, please email copyright-permissions@aicpa-cima.com. All other rights are hereby expressly reserved. The information provided in this publication is general and may not apply in a specific situation. Legal advice should always be sought before taking any legal action based on the information provided. Although the information provided is believed to be correct as of the publication date, be advised that this is a developing area. The Association, AICPA and CIMA cannot accept responsibility for the consequences of its use for other purposes or other contexts.

The information and any opinions expressed in this material do not represent official pronouncements of or on behalf of the AICPA, CIMA or the Association of International Certified Professional Accountants. This material is offered with the understanding that it does not constitute legal, accounting, or other professional services or advice. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

The information contained herein is provided to assist the reader in developing a general understanding of the topics discussed but no attempt has been made to cover the subjects or issues exhaustively. While every attempt to verify the timeliness and accuracy of the information herein as of the date of issuance has been made, no guarantee is or can be given regarding the applicability of the information found within any given set of facts and circumstances.



aicpa.org

Founded by AICPA and CIMA, the Association of International Certified Professional Accountants powers leaders in accounting and finance around the globe.

© 2022 Association of International Certified Professional Accountants. All rights reserved. AICPA and American Institute of CPAs are trademarks of the American Institute of Certified Public Accountants and are registered in the US, the EU and other countries. The Globe Design is a trademark of the Association of International Certified Professional Accountants and licensed to the AICPA. 2206-470753