



Practice aid

# Conceptual framework toolkit for members in public practice

July 2022

Member enrichment

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# 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 Members in Public Practice"** (framework) (ET sec. 1.000.010).<sup>1</sup>

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 the violation of any of the rules in the AICPA code.

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 along with an example for using it

For relationships or circumstances that involve **threats to independence**, you should use the **"Conceptual Framework Toolkit for Independence."**

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<sup>1</sup> 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 these steps:

- (a) Identify threats that could compromise your compliance with the rules in the AICPA Code of Professional Conduct (code) or be perceived by a reasonable and informed third party who is aware of the relevant information, as compromising your compliance with the rules.
- (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 you are providing.

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

Be open to a need for further investigation or action and to 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 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.

With this approach, if you can't 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 professional engagement.

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

## Step 1 – Identify threats

Threats are relationships or circumstances that could compromise your compliance with the rules. The code's rules and interpretations address many situations; however, they cannot address all relationships or circumstances that may arise.

Paragraphs .10–.16 of the framework identify the following threats: *adverse interest*, *advocacy*, *familiarity*, *management participation*, *self-interest*, *self-review*, and *undue influence*.

When no specific guidance exists, the code requires you to evaluate that situation from the perspective of a reasonable and informed third party using the conceptual framework approach.

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.

For reference, these are the rules for members in public practice:

- [Integrity and Objectivity Rule](#)
- [Independence Rule<sup>2</sup>](#)
- [General Standards Rule](#)
- [Compliance With Standards Rule](#)
- [Accounting Principles Rule](#)
- [Acts Discreditable Rule](#)
- [Contingent Fees Rule](#)
- [Commissions and Referral Fees Rule](#)
- [Advertising and Other Forms of Solicitation Rule](#)
- [Confidential Client Information Rule](#)
- [Form of Organization and Name Rule](#)

## Step 2 – Evaluate the significance of a threat

If you have identified a threat, you'll 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 compromise your compliance with the rules?

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.

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<sup>2</sup> A separate toolkit, *Conceptual Framework Toolkit for Independence*, assists with analyzing relationships or circumstances you encounter that involve threats to independence.

If, after evaluating the significance of the threat, you conclude that the threat is at an acceptable level, you are not required to evaluate the threat any further and may proceed with the professional 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 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. You may need to apply only one safeguard that 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 client or the firm. Examples of various safeguards within each category are presented in [paragraphs .21–.23](#) of the framework.

After you identify and apply the safeguards, proceed to step 4, “Evaluate the effectiveness of safeguards,” and use your professional judgment to evaluate whether the safeguards will 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 professional 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 professional engagement.

If you provide services under such circumstances, you will compromise your compliance with the rules. Refer to [paragraph .19](#) of the framework for examples of some factors that may aid in determining the effectiveness of a safeguard.

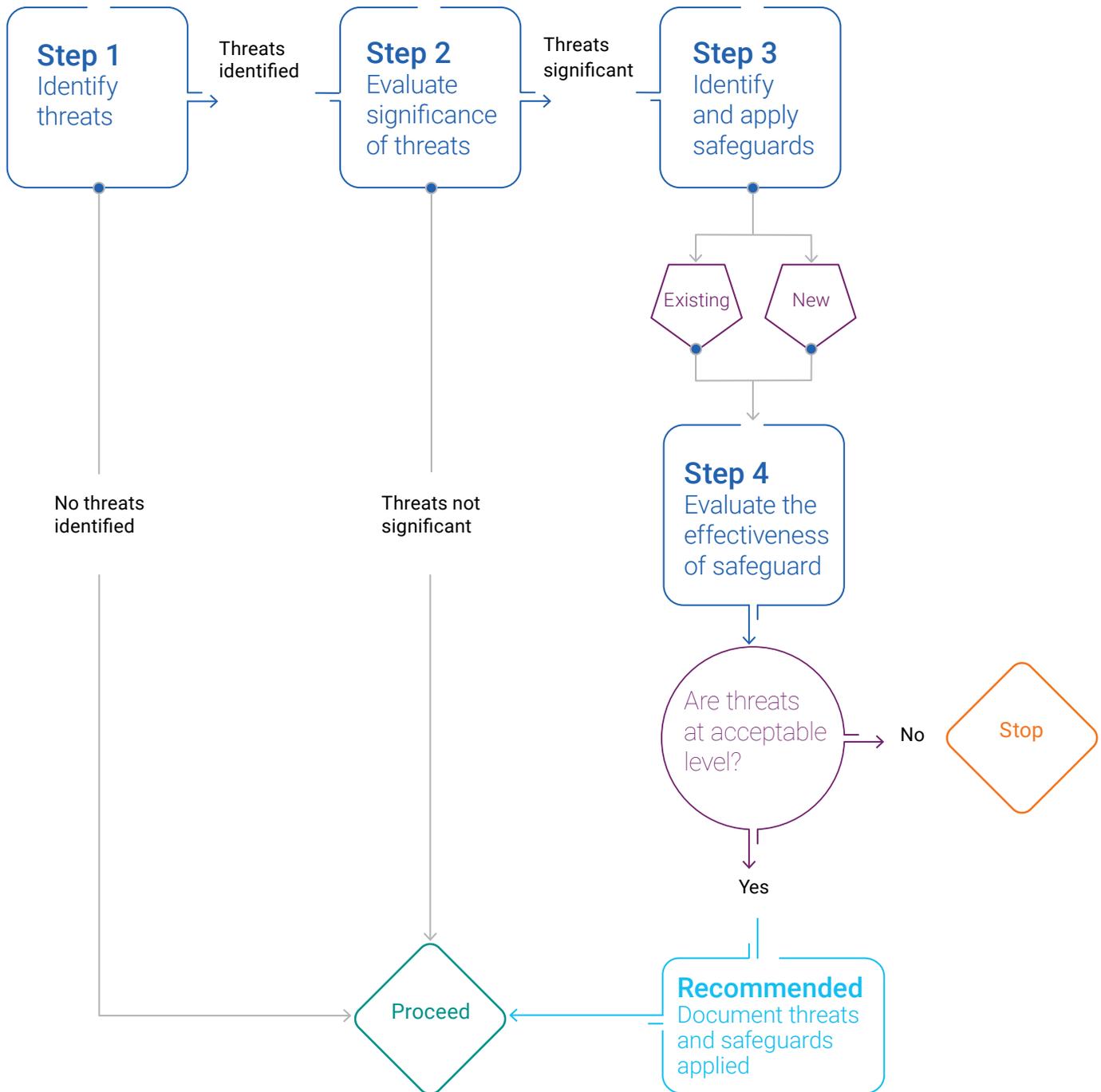
If you become aware of new information or changes in facts and circumstances that might affect whether a threat has been eliminated or reduced to an acceptable level, re-evaluate, and address that threat accordingly.

### Step 5 – Document threats and safeguards (recommended)

When you apply safeguards to eliminate significant threats or reduce them to an acceptable level, documenting your analysis and conclusion is a best practice.

# 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 for members in public practice.

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

For examples involving independence, see the [“Conceptual Framework Toolkit for Independence.”](#)

## Contingent fee arrangement for a consulting engagement

A furniture manufacturer has a program that reimburses retailers a portion of the amount paid for advertisements placed in newspapers, in circulars, and on websites if the advertising promotes the manufacturer’s products.

To obtain reimbursement, the retailer supplies the manufacturer copies of the advertisements and its paid invoices. The manufacturer wants to periodically check the accuracy and validity of these reimbursements and engages you to perform a consulting engagement to review and confirm the accuracy of the information the retailers submit.

The manufacturer agrees to pay you 25 percent of any costs it recoups as a result of erroneous reimbursements.

You understand that there is not a direct prohibition for entering into a contingent fee arrangement with a nonattest client, but you decide to consider the matter under the conceptual framework anyway. Your goal is to determine whether such a contingent fee arrangement may threaten your compliance with the rules.

You identify the following threats and safeguards to evaluate.

**Identified threat:** To generate a larger contingent fee, you may act in your self-interest by seeking to obtain a larger refund claim than may be appropriate from the manufacturer’s retailers. This situation may compromise your objectivity and integrity.

Therefore, you determine that the self-interest threat to compliance with the [“Contingent Fees Rule”](#) and the [“Integrity and Objectivity Rule”](#) (ET secs. 1.510.001 and 1.100.001) is present.<sup>3</sup>

**Possible safeguards:** Here are some examples of safeguards you may consider if you conclude that the threat to compliance with the rules is significant:

- Have the work reviewed by someone either inside or outside the firm who is not associated with the consulting engagement.
- Ensure the retailer receives specific information from the manufacturer permitting it to review the validity of the remuneration claims.

## Commission received by partner’s son

You are a partner in a firm and your nondependent son is a full-time broker who earned a significant commission for securing a prime rental property for a large local retailer. The retailer has now contacted your firm to request year-end financial statement audit services.

Although the AICPA code provides guidance regarding the receipt of a commission by a spouse in the [“Services Performed by a Member’s Spouse for a Commission”](#) interpretation (ET sec. 1.520.030), you find no guidance on commissions earned by nondependent children.

<sup>3</sup> You can find all ET sections in the AICPA Code of Professional Conduct.

## Conceptual framework examples (continued)

When carrying out responsibilities as professionals, the Responsibilities Principle [ET 0.300.020] calls for exercising sensitive professional and moral judgments in all activities. So instead of stopping your analysis here, you continue your evaluation.

Because the fee your son earned was significant, you decide to consider the matter under the conceptual framework to determine whether the commission may threaten your compliance with the rules.

You conclude that no threats are present because (1) your son had already received the commission before your firm was contacted about the potential audit services and (2) your son has no involvement in the firm's business or activities.

Although you identify no threats, you have decided to disclose the parental relationship to the prospective client to confirm that the retailer does not have any concerns.

### Assisting with the sale of client's business

A business-consulting client asks you to assist, in return for a success fee, with the identification of prospective buyers to purchase the client's business and to represent the client during negotiations with any prospective buyers.

Although the AICPA code has independence guidance on providing corporate finance services to an attest client and prohibits (to a large degree) the receipt of a contingent fee from an attest client, you cannot locate specific guidance on such services and contingent fee arrangements with nonattest clients.

You decide to consider the matter under the conceptual framework to determine whether providing such services may threaten your compliance with the rules. You identify the following possible threats and safeguards to evaluate.

**Identified threats:** Finding a potential buyer and negotiating a purchase price that maximizes the success fee may cause you to promote the client to the point that your objectivity is compromised.

You realize the self-interest and advocacy threats to compliance with the "Integrity and Objectivity Rule" and the "Contingent Fees Rule" are present.

**Possible safeguards:** If you conclude that the threats to compliance with the rules are significant, examples of safeguards you may consider include the following:

- Have the work reviewed by someone in or outside the firm who is not associated with the corporate finance services engagement.
- Have client management establish the criteria and specifications for the identification of potential buyers.
- Have client management make all significant decisions, including decisions during the negotiation process.

# Conceptual framework worksheet

When you identify a relationship or circumstance that may create threats to your compliance with the rules, you may wish to use the worksheet below to fulfill your compliance obligation 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 of the relationship or circumstance that may create threats to compliance with the rules.	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:

Mary and John Smith just celebrated their 20th wedding anniversary. Mary is a consulting partner in a CPA firm, and John is the senior vice president of finance at a company. A recruiter approached John with what he would consider his “dream job” as CFO of a well-respected and leading-edge company. The compensation package would be a significant upgrade to his current package.

He eagerly accepts the interview, which the recruiter schedules for the following day. Over dinner that night, John tells Mary the exciting news. Instead of excitement, Mary begins to rub her head. She explains to John

that for the past month she has been the lead partner on a major consulting project for the entity he will be interviewing with the next day. Mary explains that she is concerned about how his potential relationship with her consulting client may be perceived, so she excuses herself to review the AICPA code for guidance.

Mary does not find any guidance that specifically describes this situation. However, she decides to consult the conceptual framework and send her partners the following analysis for their input.

**Table 2: Conceptual framework worksheet example**

<p><b>Summary of the relationship or circumstances</b></p>	<p><b>Step 1 Identify threats.</b></p>	<p><b>Step 2 Evaluate the significance of threats.</b></p>	<p><b>Step 3 Identify and apply safeguards.</b></p>	<p><b>Step 4 Evaluate the effectiveness of safeguards.</b></p>
<p>Describe the relationship or circumstance that may create threats to compliance with the rules.</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>Describe why the identified threats are or are not significant.</p>	<p>Describe the safeguards identified that will be applied to eliminate threats or reduce them to an acceptable level.</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 of the firm, and my spouse is considering employment in a key position with a consulting client.</p>	<p>The <i>familiarity</i> and <i>self-interest</i> threats to the “Integrity and Objectivity Rule” are present.</p>	<p>The threats may be significant because my husband considers this his “dream job,” so I could be viewed as being too sympathetic to the client’s interests due to my husband’s consideration of employment with the client.</p>	<p>Our firm could explain the conflict to the consulting client and request to replace me on the consulting engagement during the interview process.</p> <p>I will remain off the engagement if my husband is offered the job.</p> <p>In addition, our firm will not assist the client with the hiring process of the new CFO.</p>	<p>Removing me from the consulting engagement while my husband is interviewing with the client (and thereafter, if he is hired) and ensuring that our firm and I have no input or bearing on the client’s hiring process will enable both me and our firm to maintain the appropriate level of integrity and objectivity.</p>
<p><b>Conclusion</b></p>	<p>I have evaluated all identified threats, both individually and in the aggregate, and proposed safeguards to eliminate or reduce any significant threats to an acceptable level as documented. Based on my evaluation, I have concluded that, by implementing these safeguards, threats to compliance with the “Integrity and Objectivity Rule” will be at an acceptable level.</p>			

# Instructions for completing the conceptual framework worksheet

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Field A	In this field, type in a summary of the relationship or circumstance that you believe may create a threat to complying with the rules. 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 proceed to field D by pressing the tab key.
Field D	In this field, describe which existing and new safeguards you applied. Examples of possible safeguards are included in <i>paragraphs .21–.23</i> 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 or reduce the threats to an acceptable level. If you conclude that threats are not at an acceptable level, 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 <i>paragraph .19</i> of the framework for examples of factors, which 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.

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