



Practice aid

# Understanding circumstances that may compromise your integrity and objectivity

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## The practice aid: What's it all about?

The AICPA Code of Professional Conduct (code) currently provides guidance on evaluating threats to members' compliance with the "Integrity and Objectivity Rule" (ET sec. [1.100.001](#) and ET sec. [2.100.001](#))<sup>1</sup> regarding the offering or accepting of gifts or entertainment.

But what about other circumstances that may create threats to our integrity or objectivity? In such circumstances, members should apply the "Conceptual Framework for Members in Public Practice" (ET sec. [1.000.010](#)) or the "Conceptual Framework for Members in Business" (ET sec. [2.000.010](#)).

The examples and case studies in this practice aid focus on other circumstances that may influence a member's behavior with respect to compliance only with the "Integrity and Objectivity Rule" — that is, matters that fall under the "Independence Rule" are not specifically addressed in this practice aid.<sup>2</sup> This practice aid applies to all professional services that a member provides to clients or employers.

## The practice aid is nonauthoritative

The code is the only authoritative source of AICPA ethics rules and interpretations. With guidance from the Professional Ethics Executive Committee, the staff of the Professional Ethics Division developed the nonauthoritative content of this practice aid from hotline inquiries to assist members and others in applying the code.

The guidance in this practice aid does not address the requirements of other standard-setters or regulatory bodies, such as the state boards of accountancy, the SEC, and the U.S. GAO, whose positions may differ from those of the AICPA.

Terms that are defined in the code are italicized. The first instance of a defined term or code citation links to the code.

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<sup>1</sup> All ET sections are located in AICPA *Professional Standards*.

<sup>2</sup> See "[Offering or Accepting Gifts or Entertainment](#)" interpretation ([1.285.010](#)) for independence guidance.

## Acknowledgments

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## Contents

The practice aid: What’s it all about? .....	i
The practice aid is nonauthoritative .....	ii
Acknowledgments .....	iii
What circumstances other than gifts and entertainment may threaten your integrity or objectivity? .....	1
Using the conceptual framework to identify and evaluate threats to integrity and objectivity ...	1
What factors may help you determine what’s “reasonable in the circumstances”?.....	2
What are some examples of practices that may minimize significant threats to integrity or objectivity? .....	3
Members in public practice: Possible scenarios and considerations .....	5
Political campaign contributions .....	5
Charitable donations .....	5
Sponsorship.....	6
Hospitality .....	7
Members in business: Possible scenario and considerations .....	8
Vendor relationship .....	8
Case studies.....	9
Case study 1: Volunteer services to a political campaign .....	9
Case study 2: Preferential treatment of immediate family member or close relative .....	11
Appendix: Conceptual framework example.....	13

## What circumstances other than gifts and entertainment may threaten your integrity or objectivity?

The AICPA Code of Professional Conduct (code) specifically addresses [members](#) receiving and giving gifts or entertainment and how this might create *threats* to compliance with the “Integrity and Objectivity Rule” (ET secs. [1.100.001](#) and [2.100.001](#)). But are there other circumstances that could threaten your integrity or objectivity? Of course there are. The following are some examples of such circumstances:

- Making political or charitable contributions<sup>3</sup>
- Offering or receiving preferential treatment, rights, or privileges
- Providing or receiving hospitality
- Accepting employment or other commercial opportunities
- Making a mutual recommendation or promotion of a business interest, product, or service
- Entering into activities that result in a relationship between a family member and a [client](#)

It is important to understand that not all circumstances you encounter will create *threats* to your integrity and objectivity; even when they do, you may be able to eliminate or reduce such *threats* with [safeguards](#) so that your integrity or objectivity is not compromised.

Use of the “[Conceptual Framework for Members in Public Practice](#)” (ET sec. 1.000.010) or the “[Conceptual Framework for Members in Business](#)” (ET sec. 2.000.010) will help you determine the effect the circumstances may have on your integrity and objectivity.

This practice aid focuses on the first four steps of the conceptual framework. The fifth step, documentation, is covered in ethics toolkits<sup>4</sup> to assist you with applying the steps of the conceptual framework. The worksheets in those toolkits can also be used to satisfy the documentation requirement.



## Using the conceptual framework to identify and evaluate threats to integrity and objectivity

Circumstances that may compromise your integrity or objectivity can create self-interest, undue influence, and familiarity *threats*.

<sup>3</sup>Charitable contributions are included in this document since they are not considered gifts. See paragraph 10 of the [AICPA's Background and Basis for Conclusions covering gifts and entertainment](#).

<sup>4</sup> For additional guidance on the application of the conceptual framework, see the [Members in Public Practice](#) and [Members in Business](#) Conceptual Framework toolkits.

This means under **Step 1: Identify threats**, you will need to determine whether the circumstance you have encountered could allow you to

- benefit, financially or otherwise, from an interest in or relationship with a *client*, an *employing organization*, or persons associated with the *client* or *employing organization* (self-interest *threat*).
- subordinate your judgment to an individual associated with a *client*, an individual associated with the *employing organization*, or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over you (undue influence *threat*).
- become too sympathetic to a *client's*, a person's, or *employing organization's* interests; or too accepting of their work, product, or service due to a long or close relationship with them (familiarity *threat*).



Next, under **Step 2: Evaluate the significance of the threat**, you will need to determine whether the *threat* is at an *acceptable level* (that is, reasonable in the circumstances). To do this you will need to use your professional judgment to evaluate whether a reasonable and informed third party would conclude that the circumstances would impair your integrity or objectivity.

If you conclude that the reasonable and informed third party would not conclude the circumstances would impair your integrity or objectivity, then the *threat* is reasonable in the circumstances and is at an *acceptable level*.

### What factors may help you determine what's "reasonable in the circumstances"?

When evaluating the *threats* under step 2 to determine whether they are reasonable in the circumstances, you may find the following factors helpful with your assessment. Of course, it may be necessary to consider a combination of factors to determine what's reasonable in the circumstances:

- Nature and timing
- Occasion or reason for the event
- Cost or value
- Frequency
- Whether the action or event was associated with the conduct of business
- Extent of participation by others
- Whether the intent of the individual is, or appears to be, to unduly influence an outcome or behavior



If after evaluating the *threats* you decide that a reasonable and informed third party may conclude that the circumstances would potentially impair your integrity or objectivity, then you'll move on to **Step 3: Identify and apply safeguards**. This may include practices that already exist or you may need to identify new safeguards to eliminate the *threat* created by the circumstances or reduce it to an acceptable level.

### What are some examples of practices that may minimize significant threats to integrity or objectivity?

Appearance is an important consideration in the determination of whether there are threats to your integrity and objectivity. How will circumstances be regarded by a reasonable and informed third party with knowledge of all the facts and circumstances?

Some practices you may consider implementing in step 3 to eliminate or reduce a significant *threat* to your integrity and objectivity include the following:

- Formalizing the organization's approval policy for contributions and sponsorships.
- Having a policy of participating only at or below a certain level of donorship (for example, avoid being the platinum sponsor of an event).
- Having a policy of rotating support for charitable causes from year to year.
- Providing guidance to your team for evaluating what is reasonable in the circumstances. Have the team consider things like nature, occasion, frequency, and value.
- Monitoring the client or vendor relationship if you are regularly sponsoring, making contributions, or providing or receiving hospitality.
- Limiting the amount and frequency of the contribution to a level that is reasonable in the circumstances to either the organization (donor) or the client (recipient).
- Considering the level of contribution that the member provides to others and what other donors provide to this recipient.
- Identifying guidelines for client interactions.
- Disclosing any safeguards that have been taken by the organization.

Despite the practices you may have in place, sometimes significant *threats* to integrity and objectivity may not be considered reasonable in the circumstances. When this occurs, it is necessary that you implement additional safeguards during step 3 to reduce these *threats* to an acceptable level so that they will be considered reasonable in the circumstances.

If you find yourself in this situation, examples of safeguards that you may find helpful include the following:



- Have a *member* of the *firm* who is not on the engagement team review the proposed contribution for reasonableness, including compliance with your organization's policies.
- Remove from the engagement team any *member* who is volunteering in a political campaign of a *client* or whose interaction with the *client* created a significant *threat*.
- Add a reviewer (inside or outside the *firm*) to any engagement your organization is currently working on for the *client* where any interaction with that *client* creates significant *threat*.



Under **Step 4: Evaluate the effectiveness of safeguards**, you will need to determine whether significant *threats* are at an *acceptable level* after applying the *safeguards* you've identified to proceed with the *professional services*. If you've determined that *threats* are not at an *acceptable level*, you may need to change or eliminate the circumstances.

Don't forget the fifth step, the documentation of significant *threats* identified and applicable practices or *safeguards*. You may refer to the [appendix](#) of this practice aid for an example of documentation.

## Members in public practice: Possible scenarios and considerations

The scenarios in this section are situations you may encounter that may create *threats* to your integrity and objectivity; however, not all circumstances you encounter will create *threats*. For any significant *threats* identified, you will need to try to implement *safeguards* to reduce the *threat* created by the circumstances to an *acceptable level* or change or eliminate the circumstances. You should document the significant *threat* identified and *safeguards* applied to eliminate or reduce *threats* to an *acceptable level*.

### Political campaign contributions

#### Scenario

A political candidate is associated with a potential *client*. The potential *client* issued a request for proposal for consulting services and, when preparing its proposal for services, a *member* identifies that an individual in the *firm* contributed to the political candidate's campaign.

#### Considerations

Questions the *member* might consider when determining whether the contribution made is reasonable in the circumstances may include the following:

- What is the political candidate's relationship with the *client* and what level of influence does this relationship give the candidate over the *client*?
- Is the contribution in compliance with relevant laws and regulations?
- Is the contribution intended to unduly influence the potential *client* to select the *firm* as its service provider?
- Could the contribution be perceived by a reasonable and informed third party to unduly influence the *client* to select the *firm* as its service provider?

### Charitable donations

#### Scenario

A consulting *client* is requesting that a *member* join the *client's* running team for a marathon benefiting a not-for-profit entity. To join the team, the *member* needs to pledge or obtain pledges to raise funds for the not-for-profit.

#### Considerations

Questions the *member* might consider relevant when determining whether the *member's* participation in a *client's* fundraising efforts impairs, or appears to impair, the *member's* integrity and objectivity may include the following:

- Are there individuals outside the *member's firm* participating in this event and what is their level of participation?
- Is the *member's* level of fund contributions more than that of individuals outside of the *member's firm* participating on the running team so as to create a significant familiarity *threat*?

## Sponsorship

### *Basic sponsorship of a charitable event*

#### *Scenario*

A charitable organization is having a fundraising gala event. An officer of one of the *firm's* consulting *clients* is on the organization's governing board and will be honored at the fundraising gala. The lead engagement *partner* requests that his *firm* sponsor a table at the gala and make a contribution to the charity.

#### *Considerations*

Questions the *member* might consider when determining whether the charitable contribution is reasonable in the circumstances may include the following:

- What is the timing and relation to new opportunities or contract renewal for *professional services*?
- What is the level of sponsorship and how does it align with other sponsors' contributions?
- Does the contribution appear to unduly influence the *client's* behavior, such as to retain the *member* for continued or additional services?

### *Premier or sole sponsorship of a charitable event*

#### *Scenario*

A not-for-profit consulting *client* is holding a golf outing to raise funds. The *client* asks the engagement *partner* if the *firm* will be one of the premier sponsors of the golf outing and whether the *firm* will also sponsor the "hole in one" prize.

#### *Considerations*

Questions the *member* might consider when determining whether being a premier sponsor of a *client's* charitable event is reasonable in the circumstances may include the following:

- Is the accounting *firm* becoming closely identified with the *client*?
- What is the level of sponsorship and donation to the not-for-profit *client* compared to other sponsors?
- Would applying *safeguards*, such as adding a reviewer, reduce the *threats* to an *acceptable level*?

## Hospitality

### Scenario 1

A *member* receives an invitation from the CEO of a consulting *client* requesting the *member's* presence at her home this weekend for dinner.

#### Considerations

Questions the *member* might consider when determining whether the *client's* hospitality would compromise the *member's* integrity and objectivity may include the following:

- Is there a reason to believe that the CEO's intent is to build a relationship to unduly influence the *member's* behavior?
- How often does the *member* attend dinners at the CEO's home?
- Who else from the *member's* *firm* and the CEO's company will be attending?

### Scenario 2

What if the invitation in scenario 1 was to the CEO's annual BBQ — a big event held in her backyard? The guest list includes other vendors, the *client's* customers, and individuals of influence such as a congressperson that the *client* supports.

#### Considerations

In addition to the considerations in scenario 1, *members* might consider how the size of the event may affect their evaluation.

## Members in business: Possible scenario and considerations

### Vendor relationship

#### *Scenario*

A controller of a company has a daughter who recently obtained employment with the company's current accounting software vendor. The controller has been vetting other accounting software vendors because the contract with this current vendor is up for renewal. The company's internal audit has raised a red flag regarding the invoices from the current vendor, such as billing for services not included in the contract. The controller is aware of this issue.

#### *Considerations*

Questions the controller might consider relevant when determining whether continuing vendor relationship impairs, or appears to impair, the member's integrity and objectivity may include the following:

- Could it be perceived by a reasonable and informed third party that the daughter's employment influenced the controller's behavior to use that particular vendor rather than thoroughly vetting all vendors and selecting the best one for the company?
- Is there a direct impact on the daughter's employment if the accounting software company does not renew this contract?
- What is the level of severity of the red flag raised by the internal audit team?
- Does the vendor selection process include others in the organization such that the decision does not solely reside with the controller?

## Case studies

### Case study 1: Volunteer services to a political campaign

#### *The situation*

You are part of an engagement team in a *firm* that provides consulting services to a law firm. The managing partner of the law firm tells you that he will be running in a local election if he gets enough support.

Your *firm* has a significant portion of its business in the city where the election will take place, so the candidate asks you to volunteer as his campaign treasurer and allow *firm* staff to volunteer to campaign for him.

You know that taking on the role of campaign treasurer or allowing *firm* staff to volunteer could create *threats* to your integrity and objectivity in providing the consulting services.

#### *The applicable guidance*

When evaluating this situation, you would apply the conceptual framework approach outlined in paragraph.07 of the “[Conceptual Framework for Members in Public Practice](#)” to determine whether there will be any effects on your integrity or objectivity.

#### *Analysis*

##### **What threats does this situation present?**

Using the conceptual framework, you identify the familiarity *threat* as a possible *threat* in this situation.

This *threat* may be present if you or other *firm* staff who volunteer for the campaign also participate in the consulting engagement. What if a close relationship develops with the candidate as a result of volunteering on the campaign?

##### **How significant is this threat?**

Now that you’ve identified the *threat* that may exist, it’s time to evaluate its significance. In doing so, you consider the appearance and what a reasonable and informed third party would conclude in this situation. Is the *threat* at an *acceptable level*? As part of your evaluation, you consider whether your *client* requested similar participation from other vendors and service providers.

##### **What safeguards can you apply?**

If you conclude that the *threat* to compliance with the code is significant, you may consider one or more of the following *safeguards*:

- Have the work reviewed by someone who is not associated with the consulting engagement. This person can be either inside or outside your *firm*.
- If you do volunteer as campaign treasurer, stop participating on the consulting engagement.
- Limit participation to only certain individuals.

### *What does it all come down to?*

As with most ethical questions, *safeguards* are key to compliance. If you already have sufficient *safeguards* in place or apply the *safeguards* you identify, such as those in the previous list, then *threats* to compliance with the “[Integrity and Objectivity Rule](#)” may be at an *acceptable level* and your *firm* may continue with the engagement.

In some situations, *threats* to compliance with the rule may be so significant that no *safeguards* can reduce or eliminate a *threat* to an *acceptable level*. In this case, you and your *firm* may need to terminate the relationship or decline the opportunity to help with the campaign. An example of a *threat* this significant would be if you or your *firm* volunteered services to the political campaign with the intent, or the appearance of an intent, to unduly influence your *client’s* behavior once your *client* is elected.

## Case study 2: Preferential treatment of immediate family member or close relative

### *The situation*

Company B is suing Company A for patent infringement; Company A engages you to provide litigation support. The deadline for you to submit your final analysis of the matter to Company A's CEO and legal counsel is Friday.

The CEO's son and your son play on the same Little League team. The CEO is the coach of the team and he decides on the positions and amount of time each child plays during a game. Your son really wants to play third base, which he has communicated to his coach, but until now the CEO has refused to play your son in this position and instead has played him in the catcher's position for every game.

You share an initial draft of your analysis with the CEO on the Monday before your Friday deadline. The CEO tells you that he expected a different analysis and doesn't believe your analysis is accurate, nor will it be strong enough to win the case.

Based on the facts and prior conversations with the CEO, you believe the information in the initial draft to be accurate. In addition, you and Company A's legal counsel warned Company A's board of directors and the CEO that it would be difficult to win this case based on the facts and complexity of the matter.

The next day, Tuesday, the CEO provides you with new facts and tells you he expects a new analysis based on these facts. The CEO stresses that if Company A doesn't win this case, it may need to file bankruptcy. You tell the CEO that you will review the updated analysis. Later that evening, your son informs you that the coach just assigned him to third base.

### *The applicable guidance*

You decide to analyze this situation using the "[Conceptual Framework for Members in Public Practice](#)" to determine whether there are *threats* to your integrity or objectivity because the "[Offering or Accepting Gifts or Entertainment](#)" interpretation (ET sec. 1.120.010) is not applicable to the CEO's last-minute decision to change the position your son will be playing in the next game.

### *Analysis*

#### **What threats does this situation present?**

Application of the conceptual framework helps you identify the following *threats*.

- If you don't change your analysis and Company A loses its case, Company A may not allow your *firm* to continue with the litigation engagement or other potential engagements.

Additionally, the CEO may not permit your son to play his favorite position during the Little League games. These circumstances could mean the undue influence and self-interest *threats* may be present.

- Because your son and the CEO's son play on the same team, it's possible you may approach the CEO's new facts with less skepticism and more leniency. This indicates the familiarity *threat* may also be present.



### How significant are these threats?

Now that you have identified the *threats*, it's time to evaluate their significance. Here are some things to consider

- How would the CEO offering your son the third-base position appear to a reasonable and informed third party aware of all the facts and circumstances?
- Is the CEO known to unduly influence others' behavior?
- What is your relationship with the CEO outside of the engagement that could increase *threats* to your integrity and objectivity?

### What safeguards can you apply?

If you conclude that *threats* to compliance with the code are significant, here are some examples of safeguards you may consider:

- Have Company A's legal counsel and board of directors verify the new facts.
- Get representation from Company A's management (other than the CEO) on all information for the case.
- Have the work reviewed by someone who is not associated with the litigation engagement. This could be someone inside or outside of your *firm*.

### What does it all come down to?

If you have the appropriate *safeguards* in place or apply additional *safeguards* you identify, such as those in the previous list, then *threats* to compliance with the "Integrity and Objectivity Rule" may be at an acceptable level and you may continue with the engagement.

In some situations, when it appears the intent of preferential treatment is to unduly influence your behavior, *threats* to compliance with the "Integrity and Objectivity Rule" may not be at an *acceptable level* and there may be no *safeguards* that can eliminate the *threats* or reduce them to an *acceptable level*. This is true even if the preferential treatment is not for you but is for an immediate family member or close relative and even if the action is clearly insignificant.

## Appendix: Conceptual framework example

The following example was used to complete the conceptual framework worksheet.

You are part of an engagement team in a *firm* that provides consulting services to a law firm. The managing partner of the law firm tells you that he will be running in a local election if he gets enough support.

Your *firm* has a significant portion of its business in the city where the election will take place, so the candidate asks you to volunteer as his campaign treasurer and allow *firm* staff to volunteer to campaign for him.

You know that taking on the role of campaign treasurer or allowing *firm* staff to volunteer could create threats to your integrity and objectivity in providing the consulting services.

When evaluating this situation, you would apply the conceptual framework approach outlined in paragraph.07 of the “Conceptual Framework for Members in Public Practice” to determine whether there will be any effects on your integrity or objectivity and consider what a reasonable and informed third party that is aware of the circumstances would conclude. You will need to use steps 3 and 4 if you’ve determined, after completing step 2, that a reasonable and informed third party may conclude that the circumstances would potentially impair your integrity or objectivity.

Summary of the relationship or circumstances	Step 1 Identify threats	Step 2 Evaluate significance of threat	Step 3 Identify and apply safeguards	Step 4 Evaluate effectiveness of safeguards
The managing partner of the law firm (the <i>client</i> ) asked that you volunteer as his campaign treasurer for his campaign.	Familiarity <i>threat</i> What if a close relationship develops with the candidate as a result of volunteering on the campaign?	Has your <i>client</i> requested similar participation from other vendors and service providers?	Have the work reviewed by someone who is not associated with the consulting engagement. This person can be either inside or outside your <i>firm</i> .  If you do volunteer as campaign treasurer, stop participating on the consulting engagement.	Examples of <u>safeguards</u> identified in step 3 may reduce the <i>threat</i> to an <u>acceptable level</u> .

Summary of the relationship or circumstances	Step 1 Identify threats	Step 2 Evaluate significance of threat	Step 3 Identify and apply safeguards	Step 4 Evaluate effectiveness of safeguards
The managing partner of the law firm (the <i>client</i> ) asked that you allow <i>firm</i> staff to volunteer and campaign for him.	Familiarity <i>threat</i> : What if a close relationship develops with the candidate as a result of volunteering on the campaign?	Has your <i>client</i> requested similar participation from other vendors and service providers?	Limit participation to only certain individuals.	Examples of <i>safeguards</i> identified in step 3 may reduce the <i>threat</i> to an <i>acceptable level</i> .
<b>Conclusion</b>	<p>If you've determined that the <i>threats</i> identified in step 1 are at an <i>acceptable level</i> during your evaluation in step 2, then your <i>firm</i> may be able to continue with the engagement; therefore, it may not be necessary to proceed to step 3.</p> <p>If you've determined that <i>threats</i> identified in step 1 are significant and not at an <i>acceptable level</i> during your evaluation in step 2, as with most ethical questions, <i>safeguards</i> are key to compliance. Accordingly, if you already have sufficient <i>safeguards</i> in place or apply new <i>safeguards</i> you've identified in step 3 that — based on your analysis performed in step 4 — may reduce <i>threats</i> to an <i>acceptable level</i>, then your <i>firm</i> may be able to continue with the engagement.</p> <p>In some situations, <i>threats</i> to compliance with the rule may be so significant that no <i>safeguards</i> can reduce or eliminate a <i>threat</i> to an <i>acceptable level</i>. In this case you and your <i>firm</i> may need to terminate the relationship or decline the opportunity to help with the campaign. An example of a <i>threat</i> this significant would be if you or your firm participate in the political campaign with the intent to influence your <i>client's</i> behavior once your <i>client</i> is elected.</p>			