Professional accountants have a responsibility to always act in the public interest. Compliance with the fundamental principles help in upholding this responsibility. However, sometimes the circumstances in which an accountant operates in their day-to-day job can create impediments, or “threats,” to that accountant’s ability to comply with the fundamental principles.

What is the Conceptual Framework?

The conceptual framework is an approach that all professional accountants are required to apply to comply with the fundamental principles. It involves identifying, evaluating and addressing threats. In doing so, professional accountants are required to exercise professional judgment; remaining alert for new information and changes in facts and circumstances; and using a reasonable and informed third party test.

Auditors and assurance practitioners are required to be independent when performing audits, reviews and other assurance engagements. In doing so, they too are required to apply the conceptual framework to identify, evaluate and address threats to independence.
WHAT ARE THREATS?

Let’s put these threats in context and apply the conceptual framework to identify threats to compliance with the fundamental principles. To do so, let’s revisit the role (from our first installment) of the Director of Accounting Policy who works for an international manufacturing company.

The CEO has a plan to set up operations in an emerging market. As Director of Accounting Policy, you are not sure the plan complies with bribery and corruption laws.

The company recently lost market share, and the stock has lost 10% of its market value. If earnings don’t improve soon, staff layoffs are inevitable—with the cuts targeting support functions like your team.

A credible new plan for entering a high-margin market will satisfy the Board of Directors and shareholders. The CEO has also promised sizable bonuses if the team can “get the job done, whatever it takes.”

You have reviewed email communications—several of which suggest that money has been transferred to external bank accounts in the target country around the same time that the new business plan was being developed. The documentation supporting the payments is not clear, but there were a number of “research and business exploration expenses” paid to experts during the planning phase.

In practice, the professional accountant asks the following questions in relation to each category of threat.

1. **SELF-INTEREST**—What’s in it for me and does this impact my decision making?
   - Does the promise of a large bonus make you hesitant to investigate the emails that were uncovered? Does it make you less objective?

2. **SELF-REVIEW**—Am I reviewing my own work or evaluating recommendations I previously made?
   - Were you involved in the development of the plan, and if so, would that threaten objectivity in evaluating the plan going forward?

3. **ADVOCACY**—Am I at risk of promoting my client’s or employer’s position in a way that is inappropriate?
   - Said another way, are you at risk of over-stating the legitimacy or value of the CEO’s position/plan in spite of concerns over the bribery issue in order to promote the interests of the company?

4. **FAMILIARITY**—Does my long-standing relationship with my client or employer threaten my decision-making or judgement?
   - Are you motivated to agree with the CEO’s plan, rather than objectively applying professional judgement, out of implicit trust in the CEO and the company’s decision-making process?

5. **INTIMIDATION**—Do I feel threatened in any way with respect to performing my job in a diligent, professional or objective way?
   - Does the CEO’s “whatever it takes” approach pressure you into feeling that both job and reputation are on the line if anything slows down or derails entry into the new market?

WHERE TO GET ASSISTANCE?

The conceptual framework is set out in Part 1, Section 120 of the Code. Additional provisions that are relevant to applying this framework are set out in Parts 2, 3, 4A and 4B, Sections 200, 300, 400 and 900 respectively.

The eCode, which is available at www.IESBAeCode.org, is an on-line resource for accountants and other users of the Code.