



# **AICPA and IESBA Independence Rules:**

**A Comparison for AICPA Members  
Performing Attest Services under IFAC  
Standards**

**October 1, 2010**

## About this Document

The AICPA *Code of Professional Conduct* (“AICPA Code”) requires members performing attest engagements to comply with the AICPA independence rules and the rules of other organizations that issue independence standards applicable to the member’s engagement (ET§101.01). The purpose of this document is to assist AICPA members who are performing professional services under the International Standards on Auditing (ISAs) or the International Standards on Review Engagements (ISREs) of the International Federation of Accountants (IFAC) to comply with the independence rules of the *Code of Ethics for Professional Accountants*, which is promulgated by the International Ethics Standards Board for Accountants (“IESBA Code”). AICPA members performing engagements under the ISAs or the ISREs should comply with the independence requirements of both the AICPA and the IESBA, and in particular comply with the more restrictive independence requirement(s) of either the AICPA Code or the IESBA Code.

To help AICPA members comply with the AICPA and IESBA Codes in performing these engagements, this document highlights provisions in Section 290, *Independence—Audit and Review Engagements* of the IESBA Code<sup>1</sup> that are generally more restrictive than the relevant provisions of the AICPA Code (ET Section 101, *Independence*). This document does not address provisions of the AICPA Code that are more restrictive than the IESBA Code (for example, loans to or from an audit client). In addition, this document does not address the rules of other regulators such as the Securities and Exchange Commission (SEC) or the Public Company Accounting Oversight Board (PCAOB).

The IESBA Code addresses several matters that are not specifically addressed in the AICPA independence rules, but would require application of the *Conceptual Framework for AICPA Independence Standards* (AICPA Conceptual Framework). Examples include *Long Association of Senior Personnel (Including Partner Rotation) with a Client* (§290.150-.155) and *Fees—Relative Size* (§290.220-.222). The AICPA Conceptual Framework requires an evaluation of threats and safeguards, which is similar to the evaluation required under the IESBA Code. Therefore, these types of matters have been excluded from this document because in these instances, proper application of the AICPA Conceptual Framework should lead to results that are substantially similar to those obtained when applying the IESBA Code. An illustration of this appears at the end of this document.

The document is current as of October 1, 2010.

*Notice to Readers: This document is designed to be an educational and reference material for AICPA members and others interested in the subject. It is not an authoritative document. It does not establish policy positions, standards, or preferred practices. This guidance is distributed with the understanding that the AICPA is not rendering any legal or ethical advice.*

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<sup>1</sup> IESBA §290 applies to audit engagements, which includes both audits and reviews of financial statements (§290.1).

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## I – Compensation and Evaluation Policies

**AICPA Code:** Provides no specific guidance on how a firm’s compensation or evaluation policies impact independence, thus members should apply the *Conceptual Framework for AICPA Independence Standards* (AICPA Conceptual Framework). That framework includes as a potential safeguard accounting firm policies that preclude audit partners from being directly compensated for selling nonattest services to their attest clients. Thus, a member may choose – but would not be required – to apply this safeguard to mitigate the threat to independence. (ET§101.01.26(y))

**IESBA Code:** Effective January 1, 2012, the IESBA Code prohibits a key audit partner from being evaluated or compensated based on the partner’s success in selling non-assurance services to his or her audit client. According to the Code, “key audit partners” include: “*the engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” may include, for example, audit partners responsible for significant subsidiaries or divisions.*” The IESBA Code requires a threats and safeguards analysis for other members of the “audit team” who are compensated for selling non-assurance services to their audit client. (§290.228-.229, Definitions – pg. 125)

**Comparison:** Effective January 1, 2012, the IESBA Code, which will prohibit key audit partners from being evaluated or compensated based on the partner’s success in selling non-assurance services to his or her audit or review client, will be more restrictive than the AICPA Code.

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## II – Related Entities

**AICPA Code:** Other than a few ethics rulings (e.g., §191.196-.197) and an interpretation (i.e., ET§101.10), the AICPA Code does not *specifically* require members to consider related entities of their attest clients when making independence determinations. Members should apply the AICPA Conceptual Framework (ET§101.01) for matters not addressed in the Code whenever the appearance of independence might be affected by a matter involving a related entity.

**IESBA Code:** For entities other than listed entities, the term “audit client” includes related entities controlled (directly or indirectly) by the audit client. In addition, if the audit team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the firm’s evaluation of independence of its client, the audit team should consider the related entity in its evaluation of independence. (§290.27)

**Comparison:** In certain circumstances (e.g., matters involving an entity that is under an audit client’s direct or indirect control), the IESBA Code may be more restrictive than the AICPA Code because IESBA independence requirements automatically apply to those entities while, lacking a specific requirement, AICPA members could apply the AICPA Conceptual Framework and potentially apply safeguards that would eliminate or sufficiently mitigate a threat(s) to independence.

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### III – Documentation

**AICPA Code:** If in applying the AICPA Conceptual Framework, a member identifies threats that are not at an acceptable level, as well as safeguards that will eliminate those threats or reduce them to an acceptable level, the member should document this information. (ET§101.02 – *Other Considerations* section)

**IESBA Code:** IESBA §290.29(a) is consistent with AICPA ET§101.01 – *Other Considerations* (see above). In addition, §290.29(b) requires a professional accountant who determines after significant analysis that the application of safeguards is unnecessary because a threat is already at an acceptable level, to document the nature of the threat and the rationale for the conclusion.

**Comparison:** IESBA §290.29(b) exceeds the AICPA documentation requirement, which does not apply if the member has concluded that threats to independence do not rise to an unacceptable level.

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### IV – Gifts and Entertainment

**AICPA Code:** Independence would be considered to be impaired if the member's firm or a member on the attest engagement team or in a position to influence the attest engagement accepted a gift from an attest client, unless the value of the gift was clearly insignificant. In addition, independence would be impaired if a covered member accepted entertainment from an attest client (e.g. show tickets), *unless* the entertainment was reasonable in the circumstances. (§191.228-.229)

**IESBA Code:** Firms and audit teams, which include persons who can directly influence the outcome of the audit engagement, are prohibited from accepting gifts or entertainment from audit clients unless the value is trivial and inconsequential. (§290.230)

**Comparison:** The IESBA standard of “trivial and inconsequential” may be deemed a lower threshold than the AICPA standard for gifts, i.e., “clearly insignificant” or, for entertainment, “reasonable in the circumstances.”

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### V – Corporate Finance Services

**AICPA Code:** Certain general requirements for performing nonattest services for an attest client are addressed in ET§101.05, *Performance of Nonattest Services*. In addition, the standard broadly describes allowable and prohibited corporate finance services.

**IESBA Code:** Under the following scenario, professional accountants are prohibited from performing corporate finance services: (1) the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements; (2) the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and (3) the outcome or consequences of the advice will have a material effect on the financial statements on which the firm will express an opinion. (§290.218)

**Comparison:** Though an AICPA member encountering the scenario described in IESBA §290.218 (above) may apply the AICPA Conceptual Framework and conclude that the corporate finance services should not be performed, the IESBA Code is more restrictive than the AICPA Code because it prohibits the services under these circumstances regardless of available safeguards that may be applied to mitigate the threat(s) to independence.

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## VI - Illustration: Application of the AICPA Conceptual Framework vs. Certain Comparable Provisions in the IESBA Code

*The brief case study illustrates how proper application of the AICPA Conceptual Framework should provide similar results as the application of a comparable provision in the IESBA Code:*

Partner A has been the lead partner on the audit of Company Z, a privately-owned manufacturer, for eight years. Given her tenure as Company Z's auditor and long association with its management, Partner A was concerned about the possible impact on the appearance of her independence. She researched the AICPA Code, but found no specific independence rule that addressed her concern. Thus, as required under ET§101.02, Partner A applied the AICPA Conceptual Framework (ET§101.01). In the Framework, she learned that prolonged association with an attest client may cause a familiarity threat to the appearance of independence (ET§101.01.16(b)). She believed the threat was at an unacceptable level and required the application of safeguards. Partner A and her firm agreed that the following safeguards would sufficiently mitigate the threat to independence: (i) have an independent partner in the firm who was not associated with the engagement perform a pre-issuance review of the engagement (ET§101.01.26(p)), and (ii) identify the engagement in the firm's peer review taking place later that year. They also put plans in place to replace Partner A on the audit of Company Z after next year's audit (ET§101.01.26(r)).

Both the AICPA and the IESBA Code allow professional accountants to apply judgment in determining whether threats require the application of safeguards, and if they do, to determine whether (and which) safeguards would effectively reduce or eliminate those threats. While the IESBA Code provides factors to consider and examples of safeguards that may mitigate threats to independence, the AICPA Conceptual Framework also provides general guidance on the types of relationships that cause familiarity and other threats to independence (e.g., ET§101.01.12 through .19) and safeguards that may mitigate or eliminate threats (e.g., ET§101.01.24 through .26). Thus, whether Partner A applies the AICPA or the IESBA Code to these facts, the outcome likely should be similar. Relevant excerpts are provided below.

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### Excerpts: AICPA Code ET§100.01

.16 *Familiarity threat*—Members having a close or longstanding relationship with an attest client or knowing individuals or entities (including by reputation) who performed nonattest services for the client.

- a. A member of the attest engagement team whose spouse is in a key position at the client, such as the client's chief executive officer
- b. A partner of the firm who has provided the client with attest services for a prolonged period

.26 *Examples of safeguards implemented by the firm*

- p. The involvement of another professional accountant who (1) reviews the work that is done for an attest client or (2) otherwise advises the attest engagement team (This individual could be someone from outside the firm or someone from within the firm who is not otherwise associated with the attest engagement.)
- r. Rotation of senior personnel who are part of the attest engagement team

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## Excerpts: IESBA Code §290.150

### Long Association of Senior Personnel (Including Partner Rotation) with an Audit Client

#### *General Provisions*

290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the audit team;
- The role of the individual on the audit team;
- The structure of the firm;
- The nature of the audit engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the senior personnel off the audit team;
  - Having a professional accountant who was not a member of the audit team review the work of the senior personnel; or
  - Regular independent internal or external quality reviews of the engagement.
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