

Ken Lawson, Secretary

Rick Scott, Governor

**COMMITTEE ON CONTINUING PROFESSIONAL EDUCATION
TELEPHONE CONFERENCE CALL**

March 13, 2017 at 9:00 am

**Conference Number: 888-670-3525
Conference Code: 4694532213**

AGENDA

1. Call to order 9:00 a.m.
2. Ratify Minutes, July 13, 2016 meetings.
3. Review Ethics Provider and Course Applications
 - A. PDH Academy
 1. Professional Ethics for CPAs – Self-Study – 4 CPE hours
4. Review Renewal Ethics Provider and Course Applications.
 - A. Master CPE LLC
 1. Ethics for Florida CPAs – Self-Study – 4 CPE hours
5. Reports
 - A. Review CPE Audit Report.
 - B. Review of Department Approved Sponsors.
6. Administrative
 - A. 473.312 FS and Chapter 61H1-33 (informational)
 - B. Executive Director and/or Licensing Supervisor Remarks.
7. Set Future Meeting Date.

**DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION
FLORIDA BOARD OF ACCOUNTANCY
COMMITTEE ON CONTINUING PROFESSIONAL EDUCATION**

July 13, 2016

CONFERENCE CALL

MINUTES

The meeting was called to order at 9:29 a.m. by Maria Caldwell, Chair. The roll was called by Karan Lee reflecting the following:

Committee members present:

Maria Caldwell
Madeline Domino
Dr. M. G. Fennema
Dr. Gary Laursen
Eric Robinson

Committee members absent:

Jeffrey Haller
Bill Michaelson
Johnny Session – Mr. Session was noticed for the meeting.

Staff members present:

Veloria Kelly, Director
Rich Evans
Karan Lee
Trecia Jenkins
Barbara Whitney

Others present:

Mary Ellen Clark, Senior Assistant Attorney General and Board Counsel
Brenda Hubbard, FICPA

RATIFY MINUTES, DECEMBER 22, 2015 MEETING

Motion was made by Dr. Fennema and seconded by Mrs. Domino to approve the minutes from the April 20, 2016 meeting. Upon vote, motion passed unanimously.

ETHICS

Review Ethics Provider and Course Application for:

A. Proformative, Inc.

1. Ethics and the CPA Profession – Self-Study – 4 CPE hours

Motion was made by Dr. Laursen and seconded by Mrs. Domino to approve the ethics course application as listed above. Upon vote, the motion passed unanimously.

REPORTS

A. Review of Department Approved Sponsors.

This was an informational item.

ADMINISTRATIVE

A. 473.312, F.S. and Chapter 61H1-33, F.A.C.

This was an informational item.

B. Executive Director and/or Licensing Supervisor Remarks.

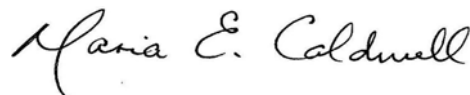
Director Kelly informed the Committee that she met with Gus Ashoo, Bureau Chief of Education and Testing last week and they are in the process to begin the start of the audit for those licensees who renewed in 2015. She informed them that they requested an audit sample of ten percent. She informed them that the licensees will be able to use the CPE Tracking Audit tool through NASBA or send in a hard copy of the reporting form.

Director Kelly informed the Committee that board staff has been working on a video project to remind our licensees of their CPE requirements and obligations.

FUTURE MEETING DATE

October 5, 2016 at 9:00 a.m.

Meeting adjourned at 9:37 a.m.



Maria Caldwell, Chair

Matilde Miller, Interim Secretary

Rick Scott, Governor

February 24, 2017

PDH Academy
Attn: Heidi Brock
PO Box 449
Pewaukee, WI 53072

Re: Board of Accountancy
Ethics Course Application Number: 194, Profession: 0106

Dear Heidi Brock:

The Committee on Continuing Professional Education will review your application at the following date, time and place:

DATE AND TIME: Monday, March 13, 2017 at 9:00 A.M.
or as soon thereafter as can be heard

PLACE: Telephone Conference Call
Conference Number: 888-670-3525
Conference Code: 4694532213

This is an open meeting and you are welcome to attend.

If you have any questions, please call the number above.

State of Florida
Department of Business and Professional Regulation
Board of Accountancy
Continuing Education Ethics Provider Approval Application
Form # DBPR CPA 10

RECEIVED
CIU Mail Intake
Stamp #3

NOV 21 2016

If you have any questions or need assistance in completing this application, please contact the Department of Business and Professional Regulation, Customer Contact Center, at 850.487.1395.

For additional information see the Instructions at the end of this application.

Section I – Application Types

CHECK ONE OF THE APPLICATION TYPES	
<input type="checkbox"/>	Continuing Education Ethics Provider – Individual [0106/1030]
<input checked="" type="checkbox"/>	Continuing Education Ethics Provider – Organization [0106/1030]
<input type="checkbox"/>	Continuing Education Ethics Provider Renewal [0106/2020]

Section II – Applicant Information

PERSONAL INFORMATION (Provider/Owner)				
Last Name Newcomer	First Mark	Middle	Title	Suffix
Company/Organization Name PDH Academy				
Social Security Number (if applying as an Individual)*				
Federal Employer ID Number (if applying as an Organization) 46-2477872				
GENERAL IDENTIFICATION				
Select one of the following:				
<input type="checkbox"/> Individual seeking provider status				
<input checked="" type="checkbox"/> Organization seeking provider status				
<input type="checkbox"/> Provider seeking renewal – Provider Number: _____				
Is Provider approved by any other board within the Department of Business and Professional Regulation to provide continuing education?				
<input checked="" type="checkbox"/> Yes				
<input type="checkbox"/> No				
If yes, what is the provider approval number? 0006230; 000006305; PVD1314; PVD421				
MAILING ADDRESS				
Company Name PDH Academy				
Street Address or P.O. Box PO Box 449				
City Pewaukee		State WI	Zip Code (+4 optional) 53072	
County (if Florida address)		Country USA		
BUSINESS LOCATION ADDRESS (IF DIFFERENT THAN MAILING ADDRESS)				
Street Address N16W23217 Stoneridge Drive				
Suite 290				
City Waukesha		State WI	Zip Code (+4 optional) 53188	
County (if Florida address)		Country USA		

Section II – Applicant Information- continued

CONTACT INFORMATION			
Last Name (Authorized Representative) First Brock	Middle Heidi	Title	Suffix
Primary Phone Number 262-409-4275	Primary E-Mail Address brock.pdhacademy@gmail.com		
ADDITIONAL CONTACT INFORMATION (OPTIONAL)			
Alternate Phone Number 888-564-9098	Fax Number 888-564-9098		
Alternate E-Mail Address			

* The disclosure of your social security number is mandatory on all professional and occupational license applications, is solicited by the authority granted by 42 U.S.C. §§ 653 and 654, and will be used by the Department of Business & Professional Regulation pursuant to §§ 409.2577, 409.2598, 455.203(9), and 559.79(3), Florida Statutes, for the efficient screening of applicants and licensees by a Title IV-D child support agency to assure compliance with child support obligations. It is also required by § 559.79(1), Florida Statutes, for determining eligibility for licensure and mandated by the authority granted by 42 U.S.C. § 405(c)(2)(C)(i), to be used by the Department of Business & Professional Regulation to identify licensees for tax administration purposes.

Section III – Provider Eligibility Status

PROVIDER ELIGIBILITY STATUS	
<input type="checkbox"/> Regionally Accredited Educational Institution	
<input checked="" type="checkbox"/> Commercial Educator	
<input type="checkbox"/> Governmental Agency	
<input type="checkbox"/> State or National Certified Public Accounting Professional Association	
<input type="checkbox"/> Certified Public Accountant	License Number:
<input type="checkbox"/> Certified Public Accounting Firm	License Number:

Section IV– Additional Materials

Applicants must submit the following additional materials:	
<input checked="" type="checkbox"/> A description of the ethics course;	
<input checked="" type="checkbox"/> A description of staffing capabilities;	
<input checked="" type="checkbox"/> A sample of intended course materials;	
<input checked="" type="checkbox"/> A list of anticipated locations to conduct the courses;	
<input checked="" type="checkbox"/> A complete course curriculum;	
<input checked="" type="checkbox"/> A description of how the applicant will update the course in response to rule or law changes;	
<input checked="" type="checkbox"/> Documentation that ethics course instructors will notify the ethics course provider of any disciplinary action taken against the instructor by the Board.	

Section V – Affirmation by Written Declaration

AFFIRMATION BY WRITTEN DECLARATION	
<p>I certify that I am empowered to execute this application as required by Section 559.79, Florida Statutes. I understand that my signature on this written declaration has the same legal effect as an oath or affirmation. Under penalties of perjury, I declare that I have read the foregoing application and the facts stated in it are true. I understand that falsification of any material information on this application may result in criminal penalty or administrative action, including a fine, suspension or revocation of the license.</p>	
Signature: <i>Heidi L Brock</i>	Date: <i>11-16-16</i>
Print Name: Heidi L. Brock	

Professional Ethics for CPAs

Course Description

This course provides an in-depth overview of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct. The Code of Professional Conduct is a set of principles, rules and interpretations that guides CPAs in the performance of their professional responsibilities. The course includes a discussion of those principles applicable to all members, but also addresses those requirements for members in business, members in public practice, and members in neither business nor public practice. There is also a Florida Statutes 455 & 473 Highlights review section. A full copy of the most recent AICPA Code of Professional Conduct is available on the AICPA website.

PDH Staffing Capabilities

PDH Academy is a national continuing education training provider for licensed professionals. Our mission is to provide hassle free, cost-effective continuing education that will allow you to renew your license and continue your career. We offer continuing education for architects, contractors, cosmetologists, funeral directors, real estate agents, CPA's and many other occupations.

Our customer service department is available by phone at (888) 564-9098 or email at pdhacademy@gmail.com

Most inquiries are responded to immediately (during norm business hours, Central Time) and all inquiries, whether by phone or email, are handled within 24 business hours.

Professional Ethics for Florida CPAs

Kelen F. Camehl, CPA, MBA

Field of Study	Professional Ethics
Level of Knowledge	Overview
Prerequisite:	Knowledge of AICPA Code of Professional Conduct
Advanced Preparation	None
Recommended CPE hours	4
Course Qualification	Qualifies for National Registry of CPE Sponsors QAS Self-Study credit
CPE Sponsor Information	NASBA Registry Sponsor #: 138298
Publication Date:	September 15, 2016
Expiration Date	September 15, 2017
Deadline to Complete the Course	One year from the date of purchase to complete the examination and submit it to our office for grading

Contact customer service within five business days of your course purchase date for assistance with returns and cancellations. Customers who cancel orders within five business days of the course purchase date will receive a full refund. After five business days all sales are final and no refunds will be provided.

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Professional Ethics for CPAs

Course Overview

This course provides an in-depth overview of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct. The Code of Professional Conduct is a set of principles, rules and interpretations that guides CPAs in the performance of their professional responsibilities. The course includes a discussion of those principles applicable to all members, but also addresses those requirements for members in business, members in public practice, and members in neither business nor public practice. There is also a Florida Statutes 455 & 473 highlights review section. A full copy of the most recent AICPA Code of Professional Conduct is available on the AICPA website.

Learning Objectives

Upon completion of this course, you will be able to:

- Identify the different parts of the AICPA Code of Professional Conduct
- List the steps within the conceptual framework approach
- Differentiate between various threats for both members in public practice and members in business
- Recognize examples of threats for both members in public practice and members in business
- Identify safeguards to be applied to various identified threats
- Differentiate between the various principles, rules, and interpretations within the Code
- Identify those activities that would and would not impair a member's independence
- Differentiate between interpretations applicable to members in public practice, members in business, and other members

Introduction

As noted in the course overview, the AICPA Code of Professional Conduct (herein referred to simply as the Code) is a set of principles, rules and interpretations that guides CPAs in the performance of their professional responsibilities. For over 100 years, CPAs across the country have voluntarily adhered to the Code in recognition of the accounting profession's dedication to integrity, objectivity, and independence.¹

The AICPA notes that a national effort is underway to encourage more state boards of accountancy to adopt standards prescribed within the Code. The AICPA further notes that twenty states and jurisdictions already have adopted the Code as a requirement for CPAs to practice in their states. In all, over 412,000 AICPA members adhere to the code as part of their AICPA membership. The CPA profession has long been bound by a distinctive ethical code that is based on the fundamental principles of integrity, objectivity, independence, due care and serving the public interest. Each of these topics above will be discussed extensively throughout this course.

Organization of the Code

The Code is organized primarily into three different parts as follows:

- Part 1: Applies to members in public practice
- Part 2: Applies to members in business
- Part 3: Applied to member who are not in public practice or business

These three parts form the primary framework for the AICPA Code of Professional Conduct. In addition to these parts listed above, there is also a Preface section within the Code. This Preface includes principles and

¹ AICPA Publication "*The AICPA Code of Professional Conduct: Protecting the Public Interest*".

rules that are applicable to all members, whether they be in public practice and business. So for example, a member in public practice would need to adhere to the rules and principles included in both the Preface and Part 1 of the code. Similarly, a member in business would need to adhere to the rules and principles included in both the Preface and Part 2 of the code. It's important to note that in certain circumstances, a member may have multiple roles (i.e. both in business and in public practice) in which case they would need to adhere to both Parts 1 and 2, along with the Preface.

Specific to organization of the Code, each part noted above contains certain topics, subtopics, and one or more sections. As a result, parenthetical references will be made as appropriate to the Code throughout this course where content is referenced verbatim. As an example, Section 1.100.001.01 relates to the integrity and objectivity rule for members in public practice where "1" relates to the Part, "100" relates to Integrity and Objectivity, and "001" relates to the Integrity and Objectivity Rule, and "01" is the actual text of interpretation that a member would need to follow. This organization and method of reference will be apparent when the user reviews the table of contents included within the first few pages of the Code.

Evolution of the Code

The Code was originally adopted on January 12, 1988, and has been periodically revised and updated through June 1, 2014. Similar to the codification of U.S. Generally Accepted Accounting Principles (GAAP) by the Financial Accounting Standards Board (FASB) effective July 1, 2000, the Code also underwent a similar codification project. Prior to the codification, the Code was not structured for quick and easy navigation. For example, the Code at the time was not topically organized and as a result, was difficult to navigate.

The primary objectives of the Ethics Codification Project, as noted by the AICPA in its project overview presentation available on www.aicpa.org, was the following:

- Create a user friendly, intuitively arranged Code
- Revise without making significant changes to existing requirements and restrictions
- Incorporate conceptual framework approach
- Incorporate references to division's nonauthoritative guidance
- Include separate parts for members in public practice, business and all other members
- Create an online codification with enhanced functionality

While intent of the codification project primarily was to reorganize and clarify certain aspects of the Code, certain substantive changes were made during the project. This included the incorporation of two new conceptual frameworks (discussed further below) as well as other substantive changes to include, but not limited to, discussions of ethical conflicts, definitions of attest client, and expanded application of certain independence situations.

The revised Code is effective December 15, 2014, excluding the Conceptual Framework sections which are effected a year later on December 15, 2015. While members were allowed to early implement the revised Code prior to the effective date, a member was not allowed to implement the Conceptual Framework prior to implementing the entire revised Code (0.200.020.01).

Conceptual Frameworks

The AICPA notes in its AICPA Conceptual Framework Approach discussion on its website that the most significant change to the content in the revised AICPA Code is the incorporation of two conceptual frameworks, one for members in public practice and one for members in business. The conceptual framework approach included in these two frameworks, the AICPA notes, is a way of identifying, evaluating and addressing threats to compliance with the rules resulting from a specific relationship or circumstance that is not otherwise addressed in the code.

Scope and Application of the Code

The rules of conduct included within the Code applies to all professional services with certain exceptions.

However, before discussing these exceptions, it's important to fully understand what is meant by the term "professional services". Refer to Exhibit 1-1 below for an overview of the definition of professional services as referenced in the Code.

Exhibit 1-1: Professional Services Definition (0.400.40)

Includes all services requiring accountancy or related skills that are performed by a member for a client, an employer, or on a volunteer basis. These services include, but are not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by bodies designated by Council.

Now that you understand the scope of the Code is applicable to all professional services, the Code does specifically prescribe a listing of certain instances where the rules of conduct do not apply, or in other words, a situation when a member would not be violation of the rules of conduct if they did not perform in accordance with the Code. These include the following situations (0.200.020.03):

- When a member is practicing outside the United States as long as the member's conduct is in accordance with the rules of the organized accounting profession in the country in which he or she is practicing
- When a member is a member of a group engagement team, and a foreign component auditor departs from any of the rules of conduct, so long as the foreign component auditor's conduct, at a minimum, is in accordance with the ethics and independence requirements in the International Ethics Standards Bards for Accountants (IESBA's) Code of Ethics for Professional Accountants.
- A member firm's independence will not be impaired if another firm or entity outside the United States that is within the member firm's network departed from any of the rules of conduct, so long as the other firm's conduct, at a minimum, is in accordance with the independence requirements in the IESBA's Code of Ethics for Professional Accountants.

While the above scope exceptions may seem complex, you're right in thinking so. The main takeaway is to simply note that in certain situations, especially when professional services involve participation in international engagements or the use of component auditors in foreign jurisdictions, members should well attune to the respective requirements and when the Code is applicable to a particular engagement and when it is not.

Principles of Professional Conduct

Included within the Code is a set of overarching principles which govern all members, not just those in business or those in public practice. A summary of the AICPA's view of these principles is outlined in Exhibit 1-2 below.

Exhibit 1-2: Principles of Professional Conduct (0.300.010.02)

These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

So what are the principles of professional conduct referenced above? Simply put, these include the following seven principles, each of which are discussed in further detail in the following sections:

- Responsibilities principle
- Public interest principle

- Integrity principle
- Objectivity and independence principle
- Due care principle
- Scope and nature of services principle

Responsibilities Principle

The overall belief related to this principle is that a member should exercise sensitive professional and moral judgment in all of their activities (0.300.030.01). The Code further notes the following with respect to this principle (0.300.020.02):

“As professionals, members perform an essential role in society. Consistent with that role, members of the American Institute of Certified Public Accountants have responsibilities to all those who use their professional services. Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public’s confidence, and carry out the profession’s special responsibilities for self-governance. The collective efforts of all members are required to maintain and enhance the traditions of the profession.”

Public Interest Principle

While the Code does not specify any order of importance or note that one principle is more important than the other, the public interest principle would undoubtedly rank high if it were assessed against other principles (not to discount the other principles by no means). The overall belief with respect to this principle is that member should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism (0.300.030.01). Exhibit 1-3 below provides additional information and clarifications with respect to this principle.

Exhibit 1-3: Public Interest Principle (0.300.030.02 thru .04)

A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession’s public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of members to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on members. The public interest is defined as the collective well-being of the community of people and institutions that the profession serves.

In discharging their professional responsibilities, members may encounter conflicting pressures from each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients’ and employers’ interests are best served.

Those who rely on members expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services—all in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct.

Integrity Principle

The term integrity is thrown out frequently in everyday business. But what is exactly meant by the term integrity? The Code notes that integrity is an element of character fundamental recognition and is the quality from which the public trust derives, in other words, the benchmark which a member must ultimately test all decisions (0.300.040.02). Furthermore, integrity commonly includes the traits of honesty and candor within the constraints of client confidentiality. To that end, public trust should not be subordinated to personal gain, deceit, or subordination of principle (0.300.040.03).

How is integrity tested? This is one of the key fundamental questions that are routinely asked. The simple answer is that a member should ask some of the following questions to assist in this determination:

- Am I doing what a person of integrity would do?
- Have I retained my integrity?

Often times, the answer to these questions will likely be apparent in a given situation. In other times, however, the answers may not be. The key takeaway is that a member should perform all professional responsibilities with the highest sense of integrity.

Objective and Independence Principle

This principle is one of the hallmarks of the accounting profession. Let's look at each term independently though. What is objectivity? Objectivity is a state of mind that lends value to a member's services and imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest (0.300.050.02). Independence, on the other hand, consists of two elements defined as follows (0.400.21):

- Independence of mind is the state of mind that permits a member to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including the safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or member of the attest engagement team is compromised.

These two elements noted above are commonly referred to as independence in fact and appearance. So how does independence relate to objectivity? Well, it's important to note that independence precludes relationships that may appear to impair a member's objective in rendering attestation services (0.300.050.02). Said another way, a member likely cannot be objective (i.e. impartial) if that member is not independent of the client.

As you have likely inferred at this point, independence is generally only applicable to those members in public practice. In other words, those members performing services such as audits and other attestation engagements. For members in business, this cannot be accomplished given the member's role in the client/organization. So while members in business cannot maintain independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services (0.300.050.05). Exhibit 1-4 below summarizes some of the overall key points with respect to this principle for both members in business and members in public practice.

Exhibit 1-4: Objectivity and Independence (0.300.050.03)

Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare financial statements in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.

Due Care Principle

The due care principle states in part that a member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability (0.300.060.01). But what specifically is meant by the term due care? Due care requires that a member perform with both competence and diligence. An expansive discussion of these two components of due care is included in Exhibit 1-5 below.

Exhibit 1-5: Competence & Diligence (0.300:0060.03 thru .05)

Competence

Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.

Diligence

Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.

Scope and Nature of Services Principle

The final principle of professional conduct addressed within the Code relates to the scope and nature of services. This principle requires that a member in public practice should observe the other principles within the Code in determining the scope and nature of services to be provided within an engagement (0.300.070.01). As you can note, this principle essentially ties it all together and requires each member's service performed be consistent with the previously addressed principles. In the end, the assessment of these principles assist members in making the determination of whether or not to provide a specific service in their individual circumstances (0.300.070.03).

Furthermore, the AICPA notes that there are no hard-and-fast rules for members to use to reach a judgment on whether or not a service can be provided, but instead, a member must be satisfied that they are meeting the spirit of the principles (0.300.070.03). In order to accomplish this, the Code prescribes three steps that should be performed (0.300.070.04):

- Practice in firms that have in place internal quality control procedures to ensure that services are competently delivered and adequately supervised
- Determine, in their individual judgments, whether the scope and nature of other services provided to an audit client would create a conflict of interest in the performance of the audit function for that client
- Assess, in their individual judgments, whether an activity is consistent with their role as professionals

Review Questions

1. Which of the following parts within the Code prescribes the professional conduct requirements required by both members in business and members in public practice?
 - a. Preface.
 - b. Part 1.
 - c. Part 2.
 - d. Part 3.
2. Which of the following identifies a professional service performed by a member where the requirements prescribed by the Code would not be applicable?

- a. A member in public practice is performing a management consulting engagement for a nonpublic entity.
 - b. A member in business is performing litigation support services for his or her employing organization.
 - c. A member practicing outside the United States as long as the member's conduct is in accordance with that country's rules of the organized accounting profession.
 - d. A member in public practice is performing personal financial planning in the United States for an individual who holds international assets.
3. Which of the following principles outlined within the Code states in part that a member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability?
- a. Due care principle.
 - b. Integrity principle.
 - c. Scope and nature of services principle.
 - d. Responsibilities principle.

Members in Public Practice

As we've noted throughout the course so far, the Code is organized into parts, with parts applicable to members in public practice, members in business, and all others. In this section of the course we focus primarily on members in public practice. This part, which includes rules and interpretations with respect to independence considerations, constitutes a significant majority of the Code.

Fundamentally, what is meant by the term public practice? Quite simply, the Code defines public practice as the performance of professional services for a client by a member or member's firm (0.400.42). However, these leads to another fundamental question of what is a client? A client, as defined by the Code, is any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services and, if different, the person or entity with respect to which professional services are performed. It's also important to note that government auditors within a governmental audit organization who audit federal, state, or local governments or component units, that are structurally located within the governmental audit organization, are considered to be in public practice.

Conceptual Framework

As noted in an earlier part of this course, we introduced the concept of the conceptual framework that was included within the Code as a result of the codification project. Before reviewing and applying the conceptual framework, it's important to have an understanding of some of the terms included within the conceptual framework. Refer to Exhibit 1-6 below for an overview three key terms (threats, safeguards, and acceptable level) included within the conceptual framework.

Exhibit 1-6: Conceptual Framework Definitions (1.000.010.04 thru .06)

Threats

Relationships or circumstances that could compromise a member's compliance with the rules.

Safeguards

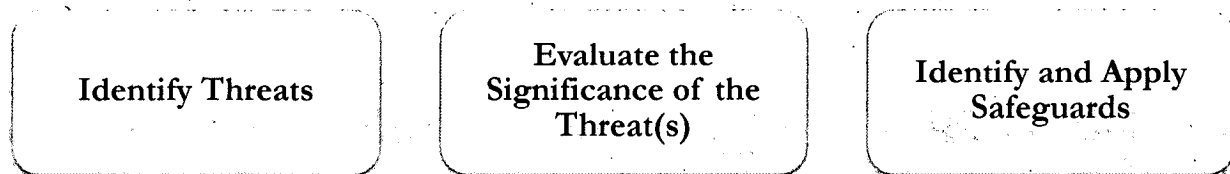
Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.

Acceptable Level

A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's compliance with the rules is not compromised.

With an understanding of these key terms, it's now possible to explore the conceptual framework further for those members in public practice. The overall need for the conceptual framework is that members may encounter various relationships or circumstances that create threats to the member's compliance with the rules (1.000.010.01). As a result, the rules and interpretations included within the Code were developed to address these situations. As you can imagine though, there are only so many rules and interpretations that it is near impossible to prescribe specific guidance to address all situations a member may encounter in public practice. As a result, a certain level of professional judgment and assessment of the particular facts and circumstances of the situations is an obvious requirement. In other words, a member should put themselves in the shoes of an external informed third party to assess whether a particular threat to a member's compliance is or is not at an acceptable level.

With respect to the actual application of the conceptual framework process, members should identify threats (both individually and in the aggregate) to compliance with the rules and evaluate the significance of those threats (1.000.010.07). More specifically, there are three primary steps to applying this conceptual framework process as noted in the illustration below. Each of the three steps are discussed in additional detail in the following sections.



Step 1 - Identify Threats

We previously defined threats as anything, such as relationships or circumstances that could compromise a member's compliance with the rules within the Code. Note, emphasis should be added on the word "could" in the preceding sentence. It's important to note that a threat could, instead of would, compromise a member's compliance with the rules within the Code.

The AICPA notes that threats generally fall into one of more seven broad categories as follows (1.000.010.08):

- Adverse interest threats
- Advocacy threats
- Familiarity threats
- Management participation threat
- Self-interest threat
- Self-review threat
- Undue influence threat

Each of the above threats, including examples of each, are included in the following sections. It's important to note that while the Code does provide a fairly descriptive list of examples of each of the above threats (with the exception of management participation threats), the examples are not all-inclusive and should not be construed as such.

Adverse Interest Threat

The Code defines this type of threat as a situation where a member will not act with objectivity because the member's interests are opposed to the client's interests (1.000.010.10). Examples of adverse interest threats, as defined by the Code, include the following:

- The client has expressed an intention to commence litigation against the member.
- A client or officer, director, or significant shareholder of the client participates in litigation against the firm.
- A subrogee asserts a claim against the firm for recovery of insurance payments made to the client.
- A class action lawsuit is filed against the client and its officers and directors and the firm and its professional accountants

Advocacy Threat

The Code defines this type of threat as a situation where a member will promote a client's interests or positions to the point that his or her objectivity or independence is compromised (1.000.010.11). Examples of this type of threat, as defined by the Code, include the following:

- A member provides forensic accounting services to a client in litigation or a dispute with third parties.
- A firm acts as an investment adviser for an officer, a director, or a 10 percent shareholder of a client.
- A firm underwrites or promotes a client's shares.
- A firm acts as a registered agent for a client.
- A member endorses a client's services or products.

Familiarity Threat

The Code defines this type of threat as a situation where a member will become too sympathetic to a client's interest or too accepting of a client's work or product given a long or closer relationship with the client (1.000.010.12). Examples of this type of threat, as defined by the Code, include the following:

- A member's immediate family or close relative is employed by the client.
- A member's close friend is employed by the client.
- A former partner or professional employee joins the client in a key position and has knowledge of the firm's policies and practices for the professional services engagement.
- Senior personnel have a long association with a client.
- A member has a significant close business relationship with an officer, a director, or a 10 percent shareholder of a client.

Management Participation Threat

The Code defines this type of threat as a situation where a member will take on the role of client management or otherwise assume management responsibilities during an engagement to provide nonattest services (1.000.010.13). Compared to the other types of threats previously listed, the Code does not provide examples of this situation. Instead, given the relative simplicity of identifying this type of threat, no examples are necessary to further describe this type of threat.

Self-Interest Threat

The Code defines this type of threat as a situation where a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client (1.000.010.14). Examples of this type of threat, as defined by the Code, include the following:

- The member has a financial interest in a client, and the outcome of a professional services engagement may affect the fair value of that financial interest.
- The member's spouse enters into employment negotiations with the client.

- A firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee.
- Excessive reliance exists on revenue from a single client.

Self-Review Threat

The Code defines this type of threat as a situation where a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the member's firm and that the member will rely on that service in forming a judgment as part of another service (1.000.010.15). Examples of this type of threat, as defined by the Code, include the following:

- The member relies on the work product of the member's firm.
- The member performs bookkeeping services for a client.
- A partner in the member's office was associated with the client as an employee, an officer, a director, or a contractor.

Undue Influence Threat

The final threat, of the seven broad categories noted previously, is defined by the Code as a situation where a member will subordinate his or her judgment to an individual associated with a client 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 the member (1.000.010.15). Examples of this type of threat, as defined by the Code, include the following:

- The firm is threatened with dismissal from a client engagement.
- The client indicates that it will not award additional engagements to the firm if the firm continues to disagree with the client on an accounting or tax matter.
- An individual associated with a client or any relevant third party threatens to withdraw or terminate a professional service unless the member reaches certain judgments or conclusions.

Step 2 – Evaluate the Significance of the Threat(s)

The next step in the process relates to a member's evaluation of the significance of an identified threat. For example, if a member has identified that a self-interest or undue influence threat exists during a professional service for a client, the member should assess and evaluate the significance of the threat.

But what is exactly meant by assessing the significance? Clearly one member can very easily come to a different conclusion about the significance of an identified threat compared to another member and whether or not that threat would prevent the member from complying with the rules within the Code. For starters, a member should determine whether the threat is at an acceptable level. Recall from Exhibit 1-6 that an acceptable level is one in which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. In other words, if a reasonable and informed third party does not take issue with a given situation/arrangement (i.e. a threat), then it's likely that a member can safely conclude that the threat is at an acceptable level. Refer to Exhibit 1-7 below which provides some expanded information with respect to this step in the process.

Exhibit 1-7: Evaluating Significance of a Threat (1.000.010.07b)

Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member's compliance with the rules, the threat is at an acceptable level, and the member is not required to evaluate the threat any further under this conceptual framework approach.

Step 3 – Identify and Apply Safeguards

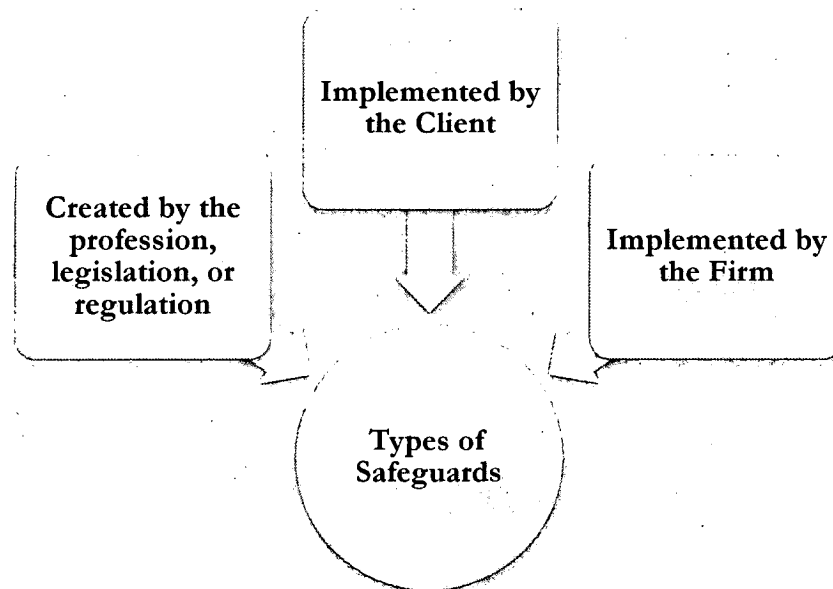
In the previous step, it was noted that a member should evaluate the significance of an identified threat and determine whether the threat is at an acceptable level. In situations where a member concludes that the threat is in fact at an acceptable level, the conceptual framework process ends. In other words, the member is not precluded from performing the professional service for the client, even if there is a threat, because a reasonable and informed third party would not take exception to the identified threat. However, what if it were the case where the identified threat was not at an acceptable level? In this instance, a member would proceed to the third and final step of the conceptual framework process – identifying and applying safeguards.

Recall from Exhibit 1-6 that a safeguard is an action or other measure that may eliminate a threat or reduce a threat to an acceptable level. In other words, while a threat may be identified and it may not be at an acceptable level, a member can perform an action (think of it as a type of compensating control) to reduce the threat to an acceptable level. In short, a member is recognizing that a significant threat exists but they are taking certain actions to reduce that threat to an acceptable level.

The Code notes that safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat (1.000.010.17). The nature and extent of the safeguards applied will depend on many factors, however, the important point to note with respect to safeguards is that the goal is to reduce a threat to an acceptable level (i.e. an effective safeguard). To that end, the effectiveness of a safeguard depends on many factors, including the following (1.000.010.19):

- The facts and circumstances specific to a particular situation
- The proper identification of threats
- Whether the safeguard is suitably designed to meet its objectives
- The party(ies) who will be subject to the safeguard
- How the safeguard is applied
- The consistency with which the safeguard is applied
- Who applies the safeguard
- How the safeguard interacts with a safeguard from another category
- Whether the client is a public interest entity

Similar to how there were seven broad categories of threats previously discussed, the Code identifies three different types of safeguards. These types of safeguards are provided in the illustration below and discussed in additional detail in the following sections.



Safeguards Created by the Profession, Legislation, or Regulation

As noted in the illustration above, there are three types of safeguards. Within the Code, several examples of the various types of safeguards are included for members to review. Important to note however, like the previously examples listed for threats, the examples of safeguards are also not all-inclusive. The first type of safeguards as noted above is one that is created by either the profession, legislation, or regulation. The Code notes the following as examples of this type of safeguard (1.000.010.21):

- Education and training requirements on independence and ethics rules
- Continuing education requirements on independence and ethics
- Professional standards and the threat of discipline
- External review of a firm's quality control system
- Legislation establishing prohibitions and requirements for a firm or a firm's professional employees
- Competency and experience requirements for professional licensure
- Professional resources, such as hotlines, for consultation on ethical issues

Safeguards Implemented by the Client

The second type of safeguard is one that is implemented by the client which serves to reduce a threat to an acceptable level. Similar to those safeguards created by the profession, legislation, or regulation discussed above, the Code also provides a listing of examples of these type of safeguards. This includes the following (1.000.010.22):

- The client has personnel with suitable skill, knowledge, or experience who make managerial decisions about the delivery of professional services and makes use of third-party resources for consultation as needed.
- The tone at the top emphasizes the client's commitment to fair financial reporting and compliance with the applicable laws, rules, regulations, and corporate governance policies.
- Policies and procedures are in place to achieve fair financial reporting and compliance with the applicable laws, rules, regulations, and corporate governance policies.
- Policies and procedures are in place to address ethical conduct.
- A governance structure, such as an active audit committee, is in place to ensure appropriate decision making, oversight, and communications regarding a firm's services.

- Policies are in place that bar the entity from hiring a firm to provide services that do not serve the public interest or that would cause the firm's independence or objectivity to be considered impaired.

Safeguards Implemented by the Firm

Turning our attention now to the final type of safeguards prescribes within the Code, we now discuss those safeguards implemented by the firm. You will note that the listing of examples within the Code for these type of safeguards is extensive, granted they are still not all-inclusive. However, given the importance of understanding the types of safeguards that can be implemented by a firm to reduce a threat to an acceptable level, these examples are presented in their entirety for your review. This includes the following examples (1.000.010.23):

- Firm leadership that stresses the importance of complying with the rules and the expectation that engagement teams will act in the public interest.
- Policies and procedures that are designed to implement and monitor engagement quality control.
- Documented policies regarding the identification of threats to compliance with the rules, the evaluation of the significance of those threats, and the identification and application of safeguards that can eliminate identified threats or reduce them to an acceptable level.
- Internal policies and procedures that are designed to monitor compliance with the firm's policies and procedures. Policies and procedures that are designed to identify interests or relationships between the firm or its partners and professional staff and the firm's clients.
- The use of different partners, partner equivalents, and engagement teams from different offices or that report to different supervisors.
- Training on, and timely communication of, a firm's policies and procedures and any changes to them for all partners and professional staff.
- Policies and procedures that are designed to monitor the firm's, partner's, or partner equivalent's reliance on revenue from a single client and that, if necessary, trigger action to address excessive reliance.
- Designation of someone from senior management as the person responsible for overseeing the adequate functioning of the firm's quality control system.
- A means for informing partners and professional staff of attest clients and related entities from which they must be independent.
- A disciplinary mechanism that is designed to promote compliance with policies and procedures.
- Policies and procedures that are designed to empower staff to communicate to senior members of the firm any engagement issues that concern them without fear of retribution.
- Policies and procedures relating to independence and ethics communications with audit committees or others charged with client governance.
- Discussion of independence and ethics issues with the audit committee or others responsible for the client's governance.
- Disclosures to the audit committee or others responsible for the client's governance regarding the nature of the services that are or will be provided and the extent of the fees charged or to be charged.
- The involvement of another professional accountant who (a) reviews the work that is done for a client or (b) otherwise advises the engagement team. This individual could be someone from outside the firm or someone from within the firm who is not otherwise associated with the engagement.
- Consultation on engagement issues with an interested third party, such as a committee of independent directors, a professional regulatory body, or another professional accountant.
- Rotation of senior personnel who are part of the engagement team.
- Policies and procedures that are designed to ensure that members of the engagement team do not make or assume responsibility for management decisions for the client.
- The involvement of another firm to perform part of the engagement.

- Having another firm to reperform a nonattest service to the extent necessary for it to take responsibility for that service.
- The removal of an individual from an attest engagement team when that individual's financial interests or relationships pose a threat to independence or objectivity.
- A consultation function that is staffed with experts in accounting, auditing, independence, ethics, and reporting matters who can help engagement teams assess issues when guidance is unclear or when the issues are highly technical or require a great deal of judgment and resist undue pressure from a client when the engagement team disagrees with the client about such issues.
- Client acceptance and continuation policies that are designed to prevent association with clients that pose a threat that is not at an acceptable level to the member's compliance with the rules.
- Policies that preclude audit partners or partner from being directly compensated for selling nonattest services to the attest client.
- Policies and procedures addressing ethical conduct and compliance with laws and regulations.

Summarizing the Conceptual Framework Process

Included within the Code is a link to a nonauthoritative Conceptual Framework toolkit for Members in Public Practice published by the AICPA. The purpose of the toolkit is to provide the following:²

- Steps of the conceptual framework to provide members with 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. A worksheet to aid members with applying the steps of the conceptual framework. An example of how to use this worksheet is included in the toolkit.
- Examples of relationships or circumstances that are not addressed in the AICPA code and how the conceptual framework may be applied in such situations.

While the toolkit presents much of the same information as prescribed by the Code, notably the three steps described in detail previously, the toolkit takes the application of the conceptual framework to another level. Notably, the toolkit prescribes the use of two additional steps in applying the conceptual framework. This includes the following steps:

- Step 4: Evaluate the Effectiveness of Safeguards
- Step 5: Document Threats and Safeguards

Step 4: Evaluation of the Effectiveness of Safeguards

Previously, we addressed several factors that influence the effectiveness of a given safeguard. Recall, this included factors such as whether the safeguard is suitably designed to meet its objectives, the consistency with which the safeguard is applied, who applies the safeguard, how the safeguard interacts with a safeguard from another category, and so on. Similar to how threats were evaluated for significance, so to should the effectiveness of safeguards be measured. Refer to Exhibit 1-8 which provides expanded guidance with respect to evaluating safeguards as noted within the toolkit.

² Source: AICPA Publication, *Conceptual Framework Toolkit for Members in Public Practice*, Introduction section.

Exhibit 1-8: Evaluating Effectiveness of Safeguards (AICPA Toolkit)

If the member concludes that threats are at an acceptable level after applying the identified safeguards, then the member may proceed with the professional service. However, if there are no safeguards that would eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the circumstance or relationship creating the threat should be changed, or the member should decline or terminate the professional engagement. If the member provides professional services under such circumstances, the member would compromise his or her compliance with the rules.

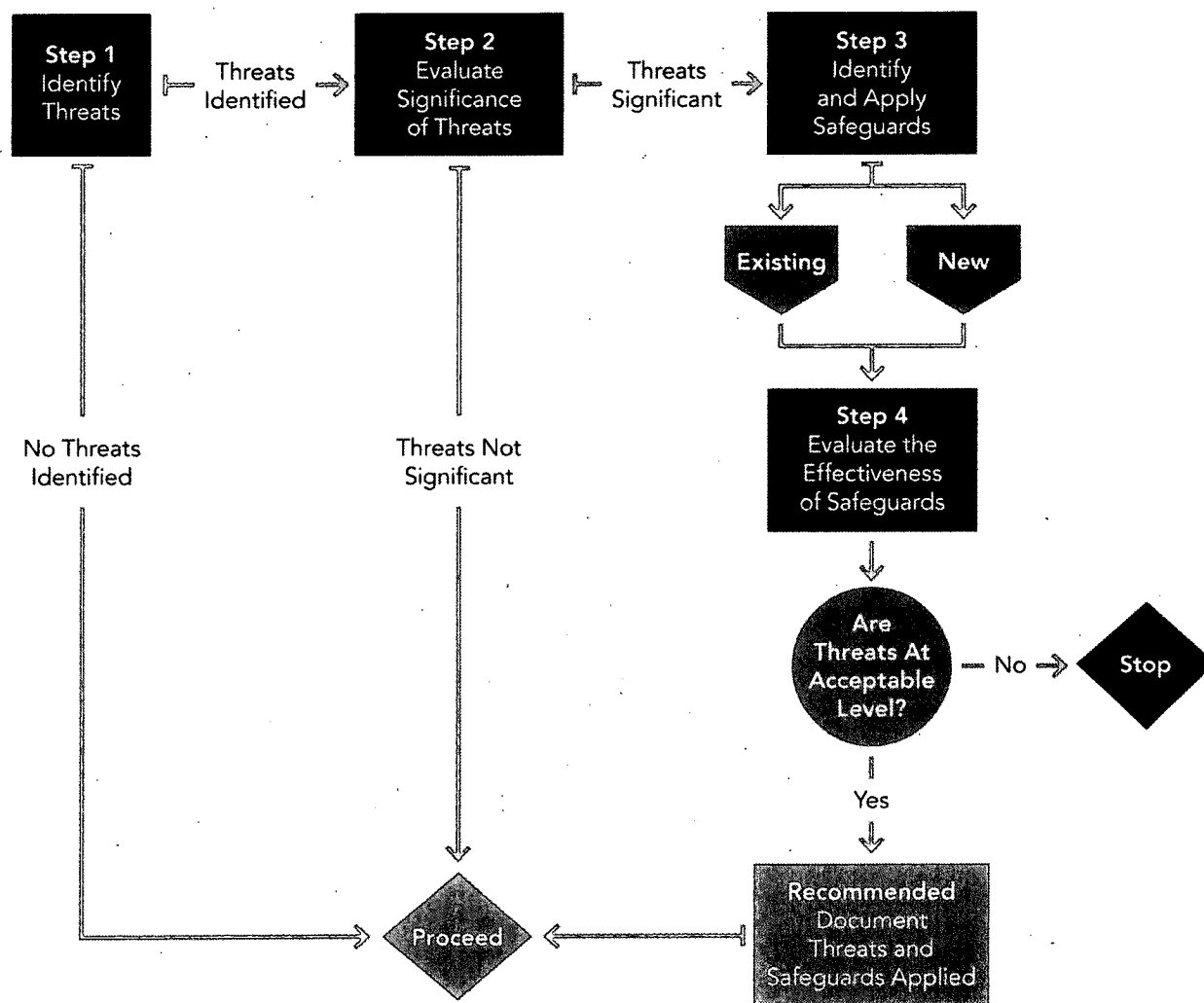
Step 5: Documentation

The final step in the conceptual framework process, as noted in the toolkit, relates to the documentation of both the threats and safeguards. As a result, the toolkit recommends the following:

“When safeguards are applied to eliminate or reduce significant threats to an acceptable level, the member is encouraged to document the identified threats and safeguards applied.”

Conceptual Framework Flowchart

As a complement to the information presented thus far in several of the previous sections of this course, the AICPA, within the referenced toolkit, provides a helpful flowchart which summarize the process. As you’ll note in the illustration below, the three main steps discussed extensively earlier are discussed, along with Steps 4 and 5 specific to the toolkit. The end result, ultimately, is whether or not a member should proceed with a certain professional service or stop.



Illustrative Examples

Also included within the toolkit are three illustrative examples which assist members in understanding how the conceptual framework is actually applied in practice. These illustrative examples are helpful because up until this point, the Code generally provides only concepts (hence the term “conceptual”), but the actual application of these concepts is something the Code lacks. Admittedly, this is not surprising because in order to address various situations a member would encounter in practice, the Code would undoubtedly have to be much lengthier of a document compared to its current state.

To this end, we provide three examples of situations (sourced from the toolkit) where a member applies the conceptual framework, including identifying threats as and the application of possible safeguards. Each of these examples are presented in the following three exhibits and include consideration of the following example situations:

- Contingent fee arrangement for a consulting engagement
- Commission received by a partner’s son
- Assisting with the sale of a client’s business

It’s important to note that some of the rules/interpretations included within these examples will be discussed

more extensively throughout the remainder of this course, but for now, these examples serve to illustrate the practical application of the conceptual framework that has been extensively discussed.

Exhibit 1-9: Contingent Fee Arrangement for a Consulting Engagement

Facts

A furniture manufacturer has a program that reimburses retailers a portion of the amount paid for advertisements placed in newspapers, 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 the member to perform a consulting engagement whereby the member would review and confirm the accuracy of the information the retailers submit. The manufacturer agrees to pay the member 25 percent of any costs it recoups as a result of erroneous reimbursements.

The member understands that there is not a direct prohibition for entering into a contingent fee arrangement with a nonattest client but decides to consider the matter under the conceptual framework to determine whether such a contingent fee arrangement may threaten his compliance with the rules. In doing so, the member identifies the following threats and safeguards that he will evaluate.

Identified Threats

Self-interest threats to compliance with the "Contingent Fees Rule" and the "Integrity and Objectivity Rule" (AICPA, Professional Standards, ET secs. 1.510.001 and 1.100.001) are present. Specifically, so that the member might maximize the fees earned, the member may act in his or her own self-interest by seeking to obtain a larger refund claim from the manufacturer's retailers than might otherwise be appropriate in order to generate a larger contingent fee, which may compromise the member's objectivity and integrity.

Possible Safeguards

If the member concludes that the threats to compliance with the rules are significant, examples of safeguards the member may consider include the following:

- Have the work reviewed by an individual within (or outside) the firm who is not associated with the consulting engagement.
- The retailer will receive specific information from the manufacturer permitting it to review the validity of the remuneration claims.

Exhibit 1-10: Commission Received by a Partner's Son

Facts

A partner's nondependent son is a full-time broker and earned a significant commission for securing a prime rental property for a large local retailer. The retailer has now contacted the partner's firm to ask if the firm would perform its year-end financial statement audit.

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 (AICPA, Professional Standards, ET sec. 1.520.030), the member found no guidance on commissions earned by nondependent children.

Conclusion

Because the fee earned by the son was significant, the member decided to consider the matter under the conceptual framework to determine whether the receipt of his son's commission may threaten his compliance with the rules. In doing so, the member concludes that no threats are present because (1) the commission was already paid to his son before the firm was contacted about the potential audit services, and (2) the son has no involvement in the firm's business or activities. Although no threats were identified, the member has decided to disclose the parental relationship to the prospective client to confirm that the retailer does not have any concerns.

Exhibit 1-11: Assisting with the Sale of a Client's Business

Facts

A business-consulting client approaches the member 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 provides 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, the member cannot locate specific guidance on such services and contingent fee arrangements when the client is a nonattest client. The member decides to consider the matter under the conceptual framework to determine whether providing such services may threaten her compliance with the rules. In doing so, the member identifies the following possible threats and safeguards that she will evaluate.

Identified Threats

The self-interest and advocacy threats to compliance with the "Integrity and Objectivity Rule" and the "Contingent Fees Rule" are present because the member may promote the client to the point that her objectivity is compromised in order to obtain a potential buyer and negotiate a purchase price that maximizes the success fee.

Possible Safeguards

If the member concludes that the threats to compliance with the rules are significant, examples of safeguards the member may consider include the following:

- Have the work reviewed by an individual within (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.

Ethical Conflicts

One of the other key areas discussed within the Code relates to ethical conflicts, both how these conflicts are identified and the specific steps to perform when an ethical conflict in fact arises. For starters, let's define what is meant by the term ethical conflict. To this end, an ethical conflict arises when a member encounters one of the following (1.000.020.01):

- Obstacles to following an appropriate course of action due to internal or external pressures
- Conflicts in applying relevant professional standards or legal standards

The Code references the situation of fraud as one potential ethical conflict. For example, when a member suspects fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain client confidentiality (1.000.020.01). So what should a member do when they encounter an ethical conflict? Firstly, the member should consider all the factors involved in the situation to include, but not limited to, the following (1.000.020.02):

- Relevant facts and circumstances, including applicable rules, laws, or regulations
- Ethical issues involved
- Established internal procedures

It's also important to note that a member should be prepared to justify any departure that a member believes

were appropriate in applying the relevant rules and law (1.000.020.03). To that end, if a member cannot justify the departure, the member will undoubtedly put themselves in a precarious position and may have to address the consequences of any associated violations. Furthermore, a member should consult with appropriate persons within the firm and may include additional consultations with legal counsel. Important also to note is that the member should document the substance of the issue as well as the parties the member discussed the situation with and any decisions made (1.000.020.05).

Review Questions

4. Which of the following steps identifies the first step in the conceptual framework process?
 - a. Identify and apply safeguards.
 - b. Identify threats.
 - c. Evaluate the effectiveness of safeguards.
 - d. Document threats and safeguards applied.
5. A client expressing an intention to commence litigation against a member in public practice is an example of which of the following types of threats?
 - a. Adverse interest threat.
 - b. Familiarity threat.
 - c. Self-interest threat.
 - d. Undue influence threat.
6. If an officer, director, or significant shareholder of a client participates in litigation against a member's firm, then this is an example of which of the following types of threats for a member in public practice?
 - a. Undue influence threat.
 - b. Self-interest threat.
 - c. Adverse interest threat.
 - d. Advocacy threat.
7. If a member in public practice provides forensic accounting services to a client in litigation or a dispute with third parties is an example of which of the following types of threats?
 - a. Advocacy threat.
 - b. Undue influence threat.
 - c. Self-interest threat.
 - d. Familiarity threat.
8. Which of the following identifies a safeguard implemented by a client?
 - a. Policies and procedures are in place to address ethical conflicts.
 - b. External review of a firm's quality control system.
 - c. Professional resources, such as hotlines, for consultation on ethical issues.
 - d. Policies and procedures that are designed to implement and monitor engagement quality control.

Rules for Members in Public Practice

Throughout the previous sections of this course, we have extensively discussed the conceptual framework approach and have also introduced several of the key principles addressed within the Code. In this section of the course, we turn our attention to a more detailed analysis of the key topics addressed within Part 1 for members in public practice and discuss the actual rules and interpretations for members in public practice (our discussion up to this point has been focused primarily on some of the key principles). This includes a discussion of the following rules along with their placement within the Code:

- Integrity and Objectivity (1.100)
- Independence (1.200)

- General Standards (1.300)
- Compliance with Standards (1.310)
- Accounting Principles (1.320)
- Acts Discreditable (1.400)
- Contingent Fees Rule (1.510)
- Advertising and Other Forms of Solicitations (1.600)
- Confidential Information (1.700)
- Form of Organization and Name (1.800)

Included within each rule prescribed above are additional interpretations (which make up the majority of the volume of content included within the Code) that members should review when assessing their compliance with the rules. An interpretation, as defined by the Code, is pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct. Simply put, while interpretations are not rules per se, a member who departs from the interpretations shall have the burden of justifying such departure in any disciplinary hearing (0.100.020.01).

Integrity and Objectivity Rule

Earlier in this course, we introduced both the integrity principle and the objectivity principle outlined within the Preface to the Code (i.e. the part of the Code applicable to members in public practice, members in business, and all others). Here we turn our attention to the actual rule with respect to integrity and objectivity. An overview of the integrity and objectivity rule is included in Exhibit 1-12 below.

Exhibit 1-12: Integrity and Objectivity Rule (1.100.001.01)

In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

As you will note for this discussion, as well as the discussion of subsequent rules, the integrity and objective rule has several subtopics that are discussed. This includes each of the five following topics:

- Conflicts of Interest (1.110)
- Gift and Entertainment (1.120)
- Preparing and Reporting Information (1.130)
- Client Advocacy (1.140)
- Use of a Third-Party Service Provider (1.150)

Each of these above subtopics are discussed in additional detail in the following sections.

Conflicts of Interest

Conflicts of interest, including examples, identification, evaluation, and disclosure, are discussed extensively within the Code. But for starters, what specifically is a conflict of interest? Simply put, a conflict of interest arises when a member is involved in multiple interests with a client which could possibly alter their motivation. Specific to the Code, a conflict of interest creates adverse interest and self-interest threats to a member's compliance with the integrity and objective rule discussed in Exhibit 1-12. For example, these threats can be created by either of the following (1.110.010.02):

- The member or the member's firm provides a professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict, or

- The interests of the member or the member's firm with respect to a particular matter and the interests of the client for whom the member or the member's firm provides a professional service related to that matter are in conflict.

Again, we fall back on this more conceptual type guidance on what a conflict of interest is, but have not discussed actual examples of situations of a conflict of interest. Fortunately, the Code provides a pretty extensive listing of examples of situations in which conflicts of interest arise. These include the following (1.110.010.04):

- Providing corporate finance services to a client seeking to acquire an audit client of the firm, when the firm has obtained confidential information during the course of the audit that may be relevant to the transaction
- Advising two clients at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
- Providing services to both a vendor and a purchaser who are clients of the firm in relation to the same transaction
- Preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
- Representing two clients at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
- Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
- Advising a client to invest in a business in which, for example, the immediate family member of the member has a financial interest in the business
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a competitor of the client
- Advising a client on the acquisition of a business which the firm is also interested in acquiring
- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
- Providing forensic investigation services to a client for the purpose of evaluating or supporting contemplated litigation against another client of the firm
- Providing tax or personal financial planning services for several members of a family whom the member knows to have opposing interests

While you should have a good understanding now of examples of conflicts of interest and how they create both adverse interest and self-interest threats, the important point to note is that before accepting a new client engagement or other type of business relationship, a member should take certain steps to identify circumstances that may create a conflict to interest (1.100.010.05). Furthermore, a member should be attune to the fact that the relevant interests and relationships and the services may in fact change during the course of the engagement (1.100.010.06).

Identification of a potential conflict of interest is paramount, but the Code also recognizes that the process to identify actual or potential conflicts of interest will depend on several factors such as the following (1.110.010.07):

- The nature of the professional services provided
- The size of the firm
- The size and nature of the client base
- The structure of the firm, for example the number and geographic location of offices

Consistent with the processes described with respect to the conceptual framework around the significance of threats, so to should a member evaluate the significance of the threat created by the conflict of interest. The goal being, you guessed it, to determine if the threat is at an acceptable level. If a member concludes it is at an acceptable level, then the member can proceed with the engagement. However, if it's not at an acceptable level, then certain safeguards have to be applied to reduce the threat to an acceptable level. A detailed discussion of

all the safeguards that can be applied is outside the scope of this course, but the Code does include examples of safeguards that can be applied. Refer to Exhibit 1-13 below for a few examples of the types of safeguards that can be applied to certain conflicts of interest.

Exhibit 1-13: Conflicts of Interest Safeguard Examples (1.100.010.10)

Example 1

Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include the following:

- Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality
- Creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm
- Establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners

Example 2

Regularly reviewing the application of safeguards by a senior individual not involved with the client engagement or engagements.

Example 3

Having a member of the firm who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.

One of the final important points to be made with respect to conflicts of interests is the related disclosure. To this end, when a conflict of interest exists, the member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their consent to perform the professional Services. Additionally, the member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

Gifts and Entertainment

In general, when a member either offers to a client or accepts certain gifts and entertainment from a client, certain threats may be created as a result. This includes self-interest, familiarity, or undue influence threats (1.120.010.02). Similar to previous discussions, a member should evaluate the facts and circumstances of the situation to determine if the associated threat is at an acceptable level. In certain circumstances, these threats will generally be at an acceptable level when the associated gifts or entertainment are reasonable (1.120.010.04). Other times, however, threats cannot be reduced to an acceptable level even with the application of certain safeguards. Such is the case when a member offers or accepts gifts or entertainment from a client that violates the member's or client's policies or applicable laws, rules, and regulations, and the member knows of the violation, or demonstrates recklessness in not knowing (1.120.010.03).

So what specifically should a member evaluate when faced with the situation where a client offers certain gifts or entertainment? The Code notes the following as relevant factors to consider (1.120.010.04):

- The nature of the gift or entertainment
- The occasion giving rise to the gift or entertainment
- The cost or value of the gift or entertainment
- The nature, frequency, and value of other gifts and entertainment offered or accepted

- Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
- Whether other clients also participated in the entertainment
- The individuals from the client and member's firm who participated in the entertainment

One final point to note is just simply to emphasize the use of the word "reasonable" within the Code as it relates to gifts or entertainment. In summary, generally when a gift or entertainment is considered reasonable, a member can usually reduce the possible threat to an acceptable level. However, no amount of safeguards can be applied to reduce the threat created by a gift or entertainment that is not considered reasonable (1.120.010.05). In other words, when a gift or entertainment is not considered reasonable in light of the circumstances, a member is presumed to lack objectivity (i.e. the member violates the integrity and objectivity rule).

Preparing and Reporting Information

The Code prescribes three specific situations where threats to compliance with the integrity and objectivity rule cannot be reduced to an acceptable level, nor can these threats be reduced to an acceptable level through the application of safeguards. This includes the following three situations (1.130.010.01):

- If a member makes, or permits or directs another to make, materially false and misleading entries in an entity's financial statements or records
- If a member fails to correct an entity's financial statements or records that are materially false and misleading when the member has the authority to record the entries
- If a member signs, or permits or directs another to sign, a document containing materially false and misleading information

While the situations above discuss those instances of noncompliance related to misrepresentations in the preparation of financial statements, members should also be attune to potential issues with respect to subordination of judgment. In other words, threats such as self-interest, familiarity, and undue influence may exist when a member and his or her supervisor (or any other person with the member's firm) have a difference of opinion relating to the application of accounting principle, auditing standards, or other relevant standards (1.130.020.02). The critical point to be aware of in this situation is that a member should make a determination of whether the position taken results in a material misrepresentation of fact or a violation of applicable laws or regulations (1.130.020.03). If it does not, then the threats can be concluded to be at an acceptable level. If it is material though, the threats are not at an acceptable level and additional evaluations and/or consultations should be performed by the member. In summary, a member should discuss their concerns with their supervisor, or higher-level management as appropriate. Potentially, if the situation is not resolved and a member concludes that threats continue to not be at an acceptable level, the member may potentially consider resigning from the organization as a result.

Client Advocacy

Recall from our previous discussions that an advocacy threat exists when a member promotes a client's interests or positions to the point that his or her objective or independence is compromised. Specifically, this may be the case when a member is engaged to perform nonattest services (i.e. tax or consulting) that involve acting as an advocate for the client or to support a client's position on accounting or financial reporting issues with standard setters or regulators (1.140.010.01). Refer to Exhibit 1-14 below which provides some additional guidance with respect to this situation as noted by the Code.

Exhibit 1-14: Client Advocacy (1.140.010.03)

Some professional services involving client advocacy may stretch the bounds of performance standards, go beyond sound and reasonable professional practice, or compromise credibility, thereby creating threats to the member's compliance with the rules and damaging the reputation of the member and the member's firm. If such circumstances exist, the member and member's firm should determine whether it is appropriate to perform the professional services.

Use of a Third-Party Service Provider

The final subtopic discussed with respect to the integrity and objectivity rule relates to a member's use of a third-party service provider. By definition, a third-party service provider is an entity the member does not control (individually or collectively) and assists the member in providing professional services clients (e.g. bookkeeping, tax return preparation, consulting, etc.).

Simply put, while a member may routinely engage third-party service providers to assist in certain professional services for various clients, those client may not have an expectation that the member is using these third-party service providers. Accordingly, the important point to note is that before disclosing confidential client information to a third-party service provider, the member should inform the client, preferably in writing, that the member may use a third-party service provider (1.150.040.02). However, there's one important exception to this rule – a member is not required to inform a client when he or she uses a third-party service provider to provide certain administrative support service, such as record storage, software application hosting, or authorized e-file tax transmittal services (1.150.040.03).

So what happens if a client objects to the use of third-party service provider? One of two options are available to the member. The member can either 1) choose not to use the third-party service provider, or 2) decline to perform the engagement for the client.

Independence Rule

Independence, undoubtedly, is one of the cornerstones of a member's compliance with the Code. As a result, a significant amount of content within the Code is dedicated to the topic of independence. For example, of the more than 150 pages of text within the Code (not including table of contents and other administrative pages), roughly 67 pages are dedicated to independence interpretations. While the independence topic will be discussed extensively in the following sections, a comprehensive review of the interpretations with respect to independence is simply outside the scope of this course.

The independence rule within the Code states that a member in public practice should be independent in the performance of professional services as required by the respective standards (1.200.001.01). Refer to Exhibit 1-15 for an expanded discussion of the independence interpretations included within the Code.

Exhibit 1-15: Independence Interpretations (1.210.010.01)

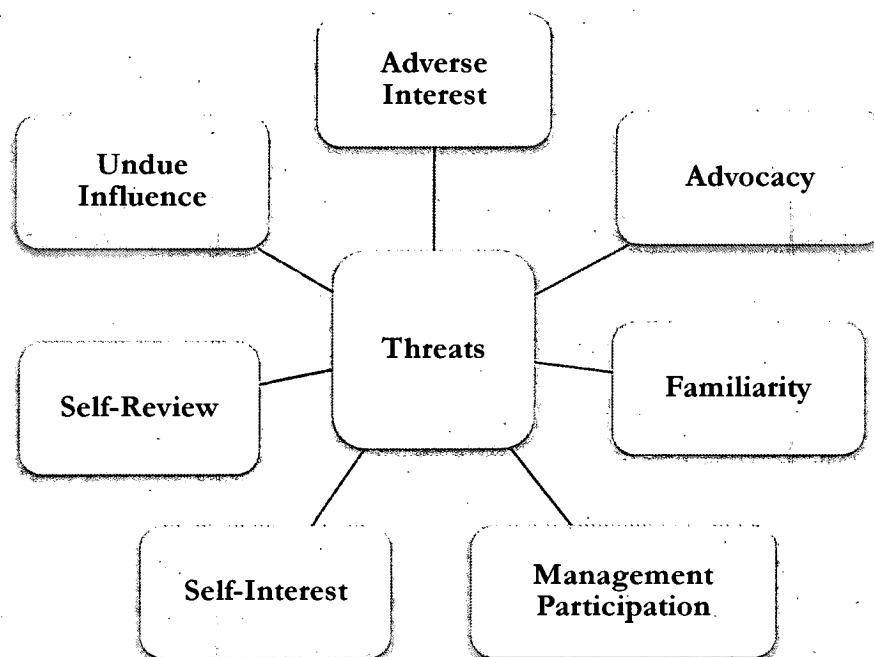
It is impossible to enumerate all relationships or circumstances in which the appearance of independence might be questioned. Thus, in the absence of an independence interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to either the member's or firm's independence, or both, that is not at an acceptable level. When making that evaluation, a member should apply the conceptual framework approach as outlined in this interpretation to analyze independence matters. A member may also wish to consider the conceptual framework approach described in this interpretation to gain a better understanding of the conclusions reached in other interpretations in ET section 1.200, "Independence."

The code specifies that in some circumstances no safeguards can reduce an independence threat to an acceptable level. For example, the code specifies that a covered member may not own even an immaterial direct financial interest in an attest client because there is no safeguard to reduce the self-interest threat to an acceptable level. A member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in an independence interpretation.

Conceptual Framework Approach for Independence

Earlier in the course, we discussed the conceptual framework approach. You'll recall that this framework approach entails identifying and evaluating threats along with applying safeguards with the goal of reducing the identified threats to an acceptable level. Recall also that this conceptual framework approach included a reference to an acceptable level as one in which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member's compliance with the rules. The conceptual framework approach, specific to independence, adopts this same approach but instead of making reference to the compliance with the rules, reference is made to whether or not this same third party would perceive a member as being independent.

Also included within the discussion of the conceptual framework approach was the identification, definition, and examples of the various threats. While a description of these threats will not be repeated here, it's important to recall the various types of threats as noted in the illustration below.



While each of the above threats were discussed from a general standpoint in a previous section of this course, additional examples of each as it relates more specifically to independence are included within the Code. As an example, in the initial discussion of the conceptual framework approach, management participation threat was simply described as the threat a member will take on a role of client management or assume management responsibilities. However, no specific examples were provided to assist members. In the independence interpretations section of the Code, three specific examples are provided and each example is cross-referenced to a subtopic section within the independence section where specific application guidance is provided. As a result, the discussion of threats as it relates to independence is much more extensive. Exhibit 1-16 below provides additional detail regarding the organization of the code with respect to independence.

Exhibit 1-16: Conceptual Framework Approach for Independence (1.210.010.10 thru 11)

Many different relationships or circumstances (or combinations of relationships or circumstances) can create threats to compliance with the “Independence Rule” [1.200.001]. It is impossible to identify every relationship or circumstance that creates a threat. Many threats fall into one or more of the following seven broad categories: adverse interest, advocacy, familiarity, management participation, self-interest, self-review, and undue influence.

In certain circumstances, the code specifies that because of the type of threat and its potential effect, either no safeguards can eliminate or reduce the threat to an acceptable level, or a member would need to apply specific safeguards to eliminate or reduce an independence threat to an acceptable level. When independence interpretations in the code address one of these examples, a specific reference to the independence interpretation is provided in brackets after that example. If an example does not contain a specific reference to an independence interpretation, a member should use this “Conceptual Framework for Independence” interpretation to evaluate whether a threat is significant.

As you can note from Exhibit 1-16, there are times when the Code prescribes specific application guidance with respect to an example of a given threat, and other times, the Code does not. When it does not, the member should default to the overall conceptual framework approach to independence.

In the following sections of this course, we dive back into the various categories of threats and discuss the specific interpretive guidance applicable to situations where that type of threat is identified and what steps are required to be taken by a member to avoid being reviewed as not independent. A full discussion of all threats, examples, and interpretive guidance is outside the scope of this course given the extensive requirements found within the Code, however, some of the key areas are presented and should help users better understand the requirements when faced with certain independence situations.

Adverse Interest Threat

This type of threat, specific to independence considerations, relates to a situation where either an attest client or the member commences litigation (or expresses the intent to) against the other. It's important to further emphasize here the organization of the Code and how this discussion directs the user to the specific guidance with respect to litigation. Refer to the illustration (screen shot from the Code) which provides this cross-referencing.

.12 *Adverse interest threat. The threat that a member will not act with objectivity because the member's interests are in opposition to the interests of an attest client. An example is either the attest client or the member commencing litigation against the other or expressing the intent to commence litigation. [1.290.010]*

Note from the illustration above that the member is directed to 1.290.010 within the Code, which discusses actual or threatened litigation, as discussed in the following sections. This type of cross referencing is also used for the other six categories of threats identified in the Code where the threat includes related interpretations.

Simply put, when an attest client's present management commences, or expresses an intention to commence, legal action against a covered member, the covered member and the attest client's management may be placed in adversarial positions in which self-interest may affect the covered member's objectivity and management's willingness to make complete disclosures (1.290.010.04). On account of this, independence may be impaired whenever the covered member and the covered member's attest client or its management are in threatened or actual positions of material adverse interests due to threatened or actual litigation (1.290.010.05). Refer to Exhibit 1-17 below which provides additional discussion with respect to threatened or actual litigation.

Exhibit 1-17: Litigation between the Attest Client and Member (1.290.010.06)

Situations involving threatened or actual litigation are complex and diverse, making it difficult to identify precise points at which threats to the covered member's compliance with the "Independence Rule" [1.200.001] would be at an acceptable level. There are situations regarding litigation between covered members and attest clients in which threats to the covered member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by safeguards and independence would be impaired. Examples of these situations are:

- An attest client's present management commences litigation alleging deficiencies in audit work performed for the attest client or expresses its intention to commence such litigation, and the covered member concludes that it is probable that such a claim will be filed.
- A covered member commences litigation against an attest client's present management alleging management fraud or deceit.

As noted in Exhibit 1-17 above, there are certain situations wherein the significance of the actual or threatened litigation is so severe that no safeguard can be applied to reduce the threat to an acceptable level. Conversely, in situations wherein the actual or threatened is not significant, a member would be considered to be independent because the threat is at an acceptable level.

In addition to actual or threatened litigation between an attest client and a member, there are also situations where a covered member and the client are defendants in litigation. As example, this may be the case where one or more stockholders bring a derivative action or class-action lawsuit against the attest client or its management, and may include covered members on the engagement (1.290.010.08). In these potential situations, this type of litigation by itself would not threaten the covered member's independence (1.290.010.09).

You will note, in the preceding section, the use of the term "covered member" as opposed to simply "member" as used previously. Let's clarify what is meant by this term before proceeding further. A covered member is any of the following (0.400.12):

- An individual on the attest engagement team
- An individual in a position to influence the attest engagement
- Partner, partner equivalent, or manager who provides more than 10 hours of nonattest services to the attest client within any fiscal year. Designation as covered member ends on the later of (i) the date that the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) the date he or she no longer expects to provide 10 or more hours of nonattest services to the attest client on a recurring basis
- A partner or partner equivalent in the office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement
- The firm, including the firm's employee benefit plans
- An entity who's operating, financial, or accounting policies can be controlled by any of the individuals or entities described above or two or more such individuals or entities if they act together

Advocacy Threat

In certain situations, a member will promote an attest client's interests or position to the point that the member's independence may be compromised. This is an example of an advocacy threat. With respect to the guidance around independence, the Code cites the following three examples of an advocacy threat to independence (1.210.010.13):

- A member promotes the attest client's securities as part of an initial public offering (IPO)
- A member provides expert witness services to an attest client
- A member represents an attest client in U.S. tax court or other public forum

Before embarking on a more expansive discussion of some of the examples above, we need to spend some time understanding the general requirements for a member performing nonattest services for an attest client. Given the nature of certain nonattest services, this introduces potential risks to a member's compliance with independence requirements.

Included within the independence topic within the Code is a subtopic that discusses the general requirements for performing nonattest services (1.295.040). Specifically, these rules state that unless a specific interpretation states otherwise, threats to independence would be considered to be at an acceptable level (i.e. independence would not be impaired) when a member obtains agreement that the attest client and its management agree to assume all management responsibilities (i.e. the member should have no management responsibility), oversee the service, evaluate the adequacy and results of the services performed, and accept responsibility for the results of the services (1.295.040.01). In addition, before performing the nonattest service, the member is required to establish in writing his or her understanding with the client regarding the following:

- Objective of the engagement
- Services to be performed
- Attest client's acceptance of its responsibilities
- Member's responsibilities
- Any limitations of the engagement

So what happens if the attest client is unable or unwilling to assume this responsibility noted above? Simply put, in this situation a member's independence would be impaired if the member continues with the nonattest service. There is really no flexibility here.

Promoting Securities as part of IPO

When a member promotes a client's securities during an IPO, along with other corporate finance consulting arrangements, certain threats to a member's independence may exist. Accordingly, it's important to distinguish between those activities that would be acceptable and not impair independence and those activities that would not be acceptable and would in turn impair a member's independence. Refer to Exhibit 1-18 below which identifies the activities that would and would not impair independence. However, it's important to note that for the activities that would not impair independence, these are only permissible (i.e. would not impair independence) if a member adheres to the general requirements for nonattest services as discussed prior.

Exhibit 1-18: Corporate Finance Consulting Activities (1.295.130.02 thru .03)

Activities That Would Not Impair Independence

- Assist management in developing its corporate strategies
- Assist management in identifying possible sources of capital that meet the attest client's specifications or criteria
- Introduce management to possible sources of capital that meet the attest client's specifications or criteria
- Assist management in analyzing the effects of proposed transactions with potential buyers, sellers, or capital sources
- Advise an attest client during its negotiations with potential buyers, sellers, or capital sources
- Assist the attest client in drafting its offering document or memorandum
- Participate with management in its transaction negotiations in an advisory capacity
- Be named as a financial adviser in an attest client's private placement memoranda or offering documents.

Activities That Would Impair Independence

- Commits the attest client to the terms of a transaction
- Consummates a transaction on behalf of the attest client
- Acts as a promoter, an underwriter, a broker-dealer, or a guarantor of an attest client's securities or as a distributor of private placement memoranda or offering documents
- Maintains custody of an attest client's securities

You will note based on review of the activities noted in Exhibit 1-18 that a majority of the activities that are permissible use terminology such as assist, advise, participate, etc. This is compared to the terminology used in the activities that would impair independence where it would suggest the member is taking on more of an active management type role related to these activities.

Expert Witness Services to a Client

A member who is engaged to be an expert witness for an attest client is considered to be a type of forensic accounting service. By definition, a forensic accounting service is a nonattest service that involves the application of special skills in either accounting, auditing, quantitative methods, etc. along with investigative skills to collect, analyze, and evaluate evidential matter (1.295.140.01). The goal of this service is for the member to interpret and communicate findings as necessary to a client.

Specifically to expert witness type activities, this is a situation where a member is engaged to render an opinion before a tier of fact about certain matters in dispute based on the member's expertise, rather than their direct

knowledge of the facts or events (1.295.140.04). With respect to independence, because being an expert witness would create the appearance that a member is advocating or promoting an attest client's position, this advocacy threat cannot be reduced to an acceptable level even with the application of certain safeguards (1.295.140.04). As a result independence would be impaired in this situation.

However, there is an exception to this rule wherein independence would not be impaired if specific requirements are met. Accordingly, independence would not be impaired (i.e. the threat would be at an acceptable level) if a member provides expert witness services for a large group of plaintiffs that includes one or more attest clients of the firm and each of the following true (1.295.140.04):

- The member's attest clients constitutes less than 20 percent of the members of the group, voting interests of the group, and the claim
- No attest client within the group is designated as the lead plaintiff or defendant of the group
- No attest client has the sole-decision making power to select or approve the selection of the expert witness

Familiarity Threat

A familiarity threats exists when, because of a long or close relationship with an attest client, a member may become too sympathetic to the attest client's interest or too accepting of the attest client's work on a product (1.210.010.14). Specific to the interpretations around independence, the Code includes the following examples of situations when a familiarity threat may exist. These include the following (1.210.010.14):

- A member of the attest engagement team has an immediate family member or close relative in a key position at the attest client, such as the attest client's CEO
- A partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period
- A member of the firm has recently been a director or an officer of the attest client
- A member of the attest engagement team has a close friend who is in a key position at the attest client

Family Members in Key Positions at Attest Client

In certain situations, a member of an attest engagement team may have a family member or close relative who works at the client. Take for example a covered member of an attest engagement team for a client who employs his or her dad as the assistant controller. The rules with respect to these types of situations are pretty clear cut within the interpretations. Accordingly, the primary consideration comes down to whether or not the family member is in a key position.

Fortunately, the Code provides a fairly clear definition of what is meant by the term key position. A key position is when the individual has any of the following responsibilities (0.400.27):

- Primary responsibility for significant accounting functions that support material components of the financial statements
- Primary responsibility for the preparation of the financial statements
- The ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

Now that we have an understanding of what does and does not constitute a position being key, let's address the considerations with respect to independence. First off, if a covered member's immediate family member is employed by an attest client, but it is determined that that person is not in a key position, then the covered member's independence would not be impaired (i.e. the threats to independence would be at an acceptable level). Conversely, if an immediate family member of a covered member is in fact employed by the attest client in that of a key position (for example, as the Controller or CFO), then independence would be impaired.

Furthermore, given these situations where the immediate family member is determined to be in a key position, no amount of safeguards can be applied to reduce threat to an acceptable level.

Former Employment or Association with an Attest Client

There may also be situations where a covered member on an attest engagement was formerly employed by the client, or associated with it in the capacity of an officer, director, promoter, underwriter, etc. As a result, this type of past association undoubtedly calls into question whether or not a familiarity threat exists as a result. Exhibit 1-19 below provides an overview of the interpretations with respect to this situation.

Exhibit 1-19: Litigation between the Attest Client and Member (1.290.010.06)

If a covered member participates on the client's attest engagement or is an individual in a position to influence the attest engagement covering any period that includes the covered member's former employment or association with the attest client, threats to the member's compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

Additional consideration with respect to former associations relate to situation where a covered member may fail to dissociate from the attest client before becoming a covered member on the attest engagement. Simply put, if a member fails to disassociate from the attest client before becoming a covered member, threats to the member's compliance with the independence rule would not be at an acceptable level and independence would be impaired unless all of the following safeguards are met (1.277.010.04):

- The covered member ceases to participate in all employee health and welfare plans sponsored by the attest client, unless the attest client is legally required to allow the member to participate in the plan (for example, the Consolidated Omnibus Budget Reconciliation Act [COBRA]) and the member pays 100 percent of the member's portion of the cost of participation on a current basis
- The covered member ceases to participate in all other employee benefit plans by liquidating or transferring, at the earliest date permitted under the plan, all vested benefits in the attest client's defined benefit plans, defined contribution plans, share-based compensation arrangements, deferred compensation plans, and other similar arrangements
- The covered member disposes of any direct financial interest or material indirect financial interests in the attest client
- The covered member collects or repays any loans to or from the attest client, except for loans specifically permitted or grandfathered
- Covered members should evaluate whether other relationships with the attest client create threats that require the member to apply safeguards to reduce those threats to an acceptable level

Management Participation Threat

As is evident from the description of this threat, along with the previous definition presented earlier in the course, this threat exists when a member will take on the role of an attest client management or otherwise assume management responsibilities for an attest client. The Code includes three examples that should be specifically considered as it relates to independence assessments (1.210.010.15):

- A member serves as an officer or a director of the attest client
- A member accepts responsibility for designing, implementing, or maintaining internal controls for the attest client
- A member hires, supervises, or terminates the attest client's employees

Simultaneous Employment or Association with an Attest Client

Undoubtedly, when a partner or professional employee of the member's firm is simultaneously employed or associated with an attest client, there are potentially multiple threats that a member's compliance with the independence rule. While this section is specific to management participation threats, in this situation, other

threats such as familiarity, advocacy, and self-review threats may be present. On account of the presence of multiple threats to a member's independence given the simultaneous employee or association with an attest client, a member's independence would be impaired (i.e. not at an acceptable level) and could not be resolved even with the application of safeguards (1.275.005.02).

However, there is one specific exception outlined within the Code where a member's independence would not be impaired on account of this employment or association with an attest client. This exception relates to situations where a partner or professional employee of a firm serves as an adjunct faculty member of an educational institution that is also an attest client of the firm. However, this is not a default exception. In other words, there are additional safeguards that must be met in order for independence to not be impaired. These are summarized in Exhibit 1-20 below.

Exhibit 1-20: Adjunct Faculty Member Exception (1.275.005.03)

Threats will be at an acceptable level and independence will not be impaired if a partner or professional employee of a firm serves as an adjunct faculty member of an educational institution that is an attest client of the firm, provided that the partner or professional employee meets all of the following safeguards:

- Does not hold a key position at the educational institution
- Does not participate on the attest engagement team
- Is not an individual in a position to influence the attest engagement
- Is employed by the educational institution on a part-time and non-tenure basis
- Does not participate in any employee benefit plans sponsored by the educational institution, unless participation is required
- Does not assume any management responsibilities or set policies for the educational institution

Accepting Responsibility for Internal Controls for an Attest Client

In general, when a member assumes any form of management responsibility or an attest client, the management participation threat is so significant that no amount of safeguards can be applied to reduce the threat to an acceptable level and prevent independence from being impaired (1.295.030.01). While the Code notes that it is not possible to identify every potential situation involving management participation, it does identify several examples where certain activities would be considered management activities, and in turn, would impair independence. These include the following examples (1.295.030.02):

- Setting policy or strategic direction for the attest client
- Directing or accepting responsibility for actions of the attest client's employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards
- Authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so
- Preparing source documents, in electronic or other form, that evidence the occurrence of a transaction
- Having custody of an attest client's assets
- Deciding which recommendations of the member or other third parties to implement or prioritize
- Reporting to those charged with governance on behalf of management
- Serving as an attest client's stock transfer or escrow agent, registrar, general counsel or equivalent
- Accepting responsibility for the management of an attest client's project
- Accepting responsibility for the preparation and fair presentation of the attest client's financial statements in accordance with the applicable financial reporting framework
- Accepting responsibility for designing, implementing, or maintaining internal control

- Performing ongoing evaluations of the attest client's internal control as part of its monitoring activities

You will note that the second to last example in the listing above clearly specifies that a member accepting any form of responsibility for designing, implementing, or maintaining control for an attest client is a situation in which the member's independence would absolutely be impaired. As a reminder, no safeguards can be applied in this situations, or any other situation identified above, that would prevent independence of the member from being impaired.

Self-Interest Threat

As you recall, a self-interest threat relates to a situation in which a member could benefit financially (or by other means) from an attest client. The Code identifies the following as examples of a self-interest threat as it relates to independence (1.210.010.16):

- A member has a direct financial interest or material indirect financial interest in the attest client
- A member has a loan from the attest client, an officer or a director of the attest client, or an individual who owns 10 percent or more of the attest client's outstanding equity securities
- A member or his or her firm relies excessively on revenue from a single attest client
- A member or member's firm has a material joint venture or other material joint business arrangement with the attest client

Financial Interest in Attest Client

On this topic, if a covered member has, or commits to acquire, a direct financial interest in an attest client during the period of the engagement, the self-interest threat would not be able to be reduced to an acceptable level. Furthermore, even with the application of safeguards, independence would still be impaired (1.240.010.01). Additionally, this same principle holds true for material indirect financial interests. Refer to Exhibit 1-21 below which provides additional clarifications between that of direct financial interests and indirect financial interests.

Exhibit 1-21: Direct vs. Indirect Financial Interests

Direct Financial Interest

A financial interest that is

- Owned directly by an individual or entity, including those managed on a discretionary basis by others
- Under the control of an individual or entity, including those managed on a discretionary basis by others
- Beneficially owned through an investment vehicle, estate, trust, or other intermediary when the beneficiary
 - Controls the intermediary or
 - Has the authority to supervise or participate in the intermediary's investment decisions.

Indirect Financial Interest

A financial interest beneficially owned through an investment vehicle, an estate, a trust, or another intermediary when the beneficiary neither controls the intermediary nor has the authority to supervise or participate in the intermediary's investment decisions. When used in this definition, control includes situations in which the covered member has the ability to exercise such control, either individually or acting together with his or her firm or other partners or professional employees of his or her firm.

Loans and Leases with Lending Institutions

In general, a covered member's independence would be impaired if the covered member has a loan from an attest client, from any officer or director of the attest client, or any individual owning 10 percent or more of the attest client's outstanding securities (1.260.020.01). However, like other interpretations discussed so far, there are certain exceptions to this general rule. Primarily, this relates to home mortgages, secured loans, and other immaterial unsecured loans a covered member may have with a financial institution. In order for independence to not be impaired, the home mortgage, secured loan, or immaterial unsecured loan by a covered member must be covered by all of the following safeguards (1.260.020.02):

- The home mortgage, secured loan, or immaterial unsecured loan was obtained under the lending institution's normal lending procedures, terms, and requirements. In determining when the home mortgage, secured loan, or immaterial unsecured loan was obtained, the date a commitment or line of credit is granted must be used, rather than the date a transaction closes or funds are obtained
- The home mortgage, secured loan, or immaterial unsecured loan was obtained
 - From the lending institution prior to its becoming an attest client
 - From a lending institution for which independence was not required and was later sold to an attest client
 - After May 31, 2002, from a lending institution attest client by a borrower prior to his or her becoming a covered member with respect to that attest client, or
 - Prior to May 31, 2002 with certain requirements of the loan transition provision met by the member
- After becoming a covered member, any home mortgage, secured loan, or immaterial unsecured loan must be kept current regarding all terms at all times, and the terms may not change in any manner not provided for in the original agreement. Examples of changed terms are a new or extended maturity date, a new interest rate or formula, revised collateral, and revised or waived covenants.
- The estimated fair value of the collateral for a home mortgage or other secured loan must equal or exceed the outstanding balance during the term of the home mortgage or other secured loan. If the estimated fair value of the collateral is less than the outstanding balance of the home mortgage or other secured loan, the portion that exceeds the estimated fair value of the collateral may not be material to the covered member's net worth.

In addition to the types of loan included above, other loans and leases, assuming they are under the lending institution's normal lending procedures, terms, and requirements, would not impair a covered member's independence. These include the following (1.260.020.04):

- Automobile loans and leases collateralized by the automobile
- Loans fully collateralized by the cash surrender value of an insurance policy
- Loans fully collateralized by cash deposits at the same lending institution (for example, passbook loans)
- Aggregate outstanding balances from credit cards and overdraft reserve accounts that have a balance of \$10,000 or less after payment of the most recent monthly statement made by the due date or within any available grace period

With respect to leases, this is another type of transaction that would not impair the independence of a covered member so long as certain safeguards are appropriately applied. Specifically, if a covered member enters into a leasing agreement with an attest client during the period of an engagement, independence would not be impaired if all of the following safeguards are met (1.260.040.01):

- The lease meets the criteria of an operating lease (as described in GAAP)
- The terms and conditions set forth in the lease agreement are comparable with other leases of a similar nature
- All amounts are paid in accordance with the lease terms or provisions

Self-Review Threat

A self-review threat exists when a member may not appropriately evaluate the results of a previous judgment made, or service performed or supervised by the member, and that member will rely on that service in forming a judgment as part of an attest engagement. An example of this situation relates to a situation where a member prepares source documents used to generate the attest client's financial statements. In this situation, no safeguards can be applied to reduce the threat to an acceptable level and as a result, independence would be impaired in this situation.

It's important to distinguish, however, between those types of activities that would pose a significant self-review threat (one which could not be reduced to an acceptable level) and those that pose a threat but can be reduced to an acceptable level if a member applies the requirements for performing nonattest services (previously discussed). Exhibit 1-22 below provides an overview of those activities that would and would not impair independence.

Exhibit 1-22: Self-Review Threat Examples (1.295.120.02 thru .03)

Activities That Would NOT Impair Independence

- Recording transactions to an attest client's general ledger when management has determined or approved the account classifications for the transaction
- Posting client-coded transactions to an attest client's general ledger
- Preparing financial statements based on information in the attest client's trial balance
- Posting client-approved journal or other entries to an attest client's trial balance
- Proposing standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the attest client. Prior to the member posting these journal entries or changes, the member should be satisfied that management has reviewed the entries and understands the nature of the proposed entries and the effect the entries will have on the attest client's financial statements
- Generating unsigned checks using source documents or other records provided and approved by the attest client
- Processing an attest client's payroll using payroll time records that the attest client has provided and approved
- Transmitting client-approved payroll or other disbursement information to a bank or similar entity subsequent to the attest client's review and authorization for the member to make the transmission. Prior to such transmission, the attest client is responsible for making the arrangements with the bank or similar entity to limit the corresponding individual payments regarding the amount and payee. In addition, once transmitted, the attest client must authorize the bank or similar entity to process the payroll information.
- Preparing a reconciliation (for example, bank and accounts receivable) that identifies reconciling items for the client's evaluation.

Activities That Would Impair Independence

- Determining or changing journal entries, any account coding or classification of transactions, or any other accounting records without first obtaining the attest client's approval.
- Authorizing or approving transactions.
- Preparing source documents.
- Making changes to source documents without the attest client's approval.
- Accepting responsibility to authorize payment of attest client funds, electronically or otherwise, except for electronic payroll tax payments when the member complies with the requirements of the "Tax Services" interpretation [1.295.160] of the "Independence Rule."
- Accepting responsibility to sign or cosign an attest client's checks, even if only in emergency situations.
- Maintaining an attest client's bank account or otherwise has custody of an attest client's funds or makes credit or banking decisions for the attest client.
- Approving vendor invoices for payment.

Undue Influence Threat

The final threat with respect independence considerations relates to that of undue influence. This type of threat occurs when a member subordinates his or her judgment to that of an individual associated with an attest client or any relevant third party due to that individual's reputation expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member (1.210.010.18). Examples cited within the Code related to this type of threat include the following:

- Management threatens to replace the member or member's firm over a disagreement on the application of an accounting principle
- Management pressures the member to reduce necessary audit procedures in order to reduce audit fees
- The member receives a gift from the attest client, its management, or its significant shareholders

Offering or Accepting Gifts or Entertainment

Of the three examples prescribed above and included within the Code, the last example is the only one that cross references to specific interpretive guidance. The general principle with respect to accepting a gift from a client is that unless the gift is clearly insignificant, independence would be impaired. This is true whether a member's firm, a member of the attest engagement team, or an individual in a position to influence the engagement accepts the gift. This same overall principle holds true for that of entertainment. Refer to Exhibit 1-23 below which discusses the guidance with respect to entertainment.

Exhibit 1-23: Accepting Entertainment (1.285.010.03)

Accepting entertainment from an attest client during the period of the professional engagement may create undue influence or self-interest threats to a member's compliance with the "Independence Rule" [1.200.001]. If a covered member accepts entertainment from an attest client that is not reasonable in the circumstances, the threats to the member's compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards. Accordingly, independence would be impaired.

In addition to accepting gifts or entertainment, a member should also consider the implications on independence with respect to offering gifts or entertainment to a client. Similarly, if a covered member offers a gift or entertainment to an attest client that is not reasonable in the circumstances, independence would be impaired and no application of safeguard could prevent this (1.285.010.04).

So what is considered reasonable you may be asking? Fortunately, the Code provides examples of relevant facts and circumstances that should be considered. This includes the following (1.285.010.05):

- The nature of the gift or entertainment
- The occasion giving rise to the gift or entertainment
- The cost or value of the gift or entertainment
- The nature, frequency, and value of other gifts and entertainment offered or accepted
- Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
- Whether other attest clients also participated in the entertainment
- The individuals from the attest client's and member's firm who participated in the entertainment

Review Questions

- Which of the following situations identify a familiarity threat with respect to a member's independence?
 - A member promotes an attest client's securities as part of an initial public offering.
 - A member represents an attest client in U.S. tax court or other public forum.
 - A member has a direct financial interest in the attest client.
 - A member of an attest engagement team has a close friend who is in a key position at the attest client.
- Which of the following activities, if performed by a member of an attest engagement team for the attest client, would impair the member's independence?
 - Posting client-coded transactions to the attest client's general ledger.
 - Changing journal entries without first obtaining the client's approval.

- c. Preparing financial statements based on information in the attest client's trial balance.
- d. Processing the attest client's payroll using records approved by the client.

General Standards Rule

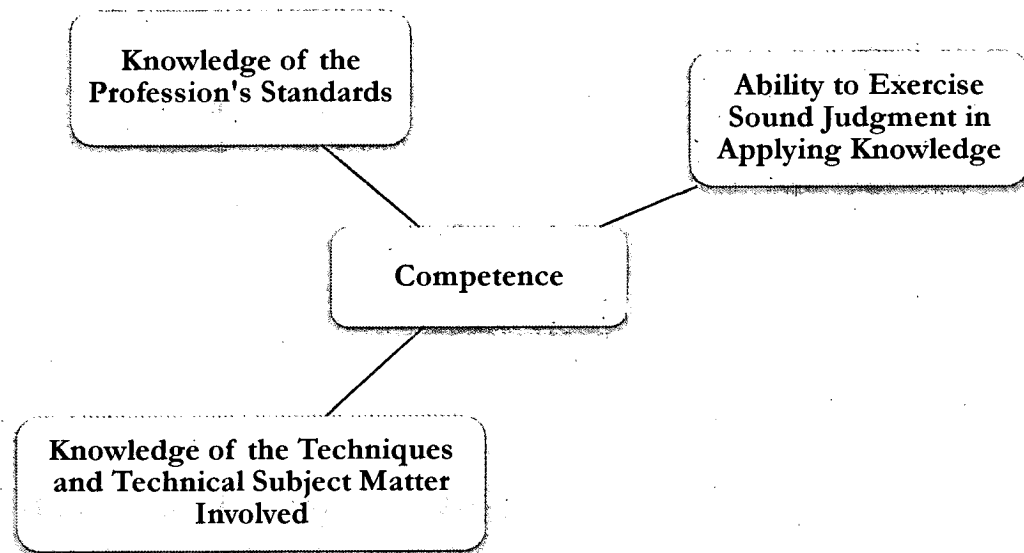
In previous section of the course, we focused primarily on various independence interpretations that related to the overall independence rule prescribed within the Code. Now we shift gears to discuss the General Standards rules found within Code related to members in public practice.

The General Standards rule states simply that a member should comply with the following standards and with any related interpretations of the following (1.300.001):

- Professional Competence
- Due Professional Care
- Planning and Supervision
- Sufficient Relevant Data

Competence

In its simplest form, competence implies that a member (or their staff) possesses the appropriate technical qualifications to perform certain professional services and that member, if required, supervises and evaluates the quality of work performed (1.300.010). Competence can be summarized as illustrated in the figure below.



The important point to note is that a member's agreement to perform professional services implies that the member has the necessary competence to complete the services according to the professional standards and to apply the member's knowledge and skill with reasonable care and diligence (1.300.010.02). Furthermore, if a member does not have this knowledge, and is unable to gain the sufficient competence as a result, the member should suggest another competence member/firm to perform the professional service (1.300.010.04).

Compliance with Standards Rule

Where the previous section touched on a member's awareness of the standards with which they are held accountable, and the related competence considerations, the next rule addresses the actual compliance aspect. In short, the Compliance with Standards Rule states that a member who performs auditing, review, compilation,

management consulting, tax, or other professional services are required to comply with the applicable standards (1.310.001.01).

This particular rule, contrasted with that of the Independence Rule previously discussed, does not contain significant interpretive guidance. In fact, the interpretive guidance section with respect to this rule only contains three paragraphs and primarily addresses the member's use of the conceptual framework and consideration of ethical conflicts. Given the brevity of this guidance, it is presented in full in Exhibit 1-24 below.

Exhibit 1-24: Interpretations under the Compliance with Standards Rule (1.310.005.01 thru .03)

.01 In the absence of an interpretation of the "Compliance With Standards Rule" [1.310.001] that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Public Practice" [1.000.010].

.02 A member would be considered in violation of the "Compliance With Standards Rule" [1.310.001] if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

.03 A member should consider the guidance in "Ethical Conflicts" [1.000.020] when addressing ethical conflicts that may arise when the member encounters obstacles to following an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional or legal standards, or both.

Accounting Principles Rule

The Accounting Principles Rule states in part that a member should not do either of the following if statements or data contain any departure from an accounting principle prescribed by a recognized accounting body (1.320.001.01):

- Express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles, or
- State that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles

Further to the points above, the recognized accounting bodies include each of the following (1.320.040.01):

- Financial Accounting Standards Advisory Board (FASAB)
- Financial Accounting Standards Board (FASB)
- Governmental Accounting Standards Board (GASB)
- International Accounting Standards Board (IASB)

Departures from GAAP

There is a presumption that when an entity adheres to GAAP, the risk that an entity's financial statements would be misleading is very minimal. However, the Accounting Principles Rule noted above recognizes that, on certain occasions, there may be unusual circumstances when the literal application of GAAP would have the effect of rendering financial statements misleading (1.320.030.01). In this situation, the question of what constitutes these unusual circumstances is undoubtedly a matter of professional judgment.

Financial Statements Prepared Under Frameworks other than GAAP

The Accounting Principles Rule does not preclude a member from preparing or reporting on client financial statements that have been prepared pursuant to financial reporting frameworks other than GAAP (1.320.040.03). This would be the case with any of the following:

- Financial reporting frameworks generally accepted in another country, including jurisdictional variations of IFRS such that the client's financial statements do not meet the requirements for full compliance with IFRS, as promulgated by the IASB
- Financial reporting frameworks prescribed by an agreement or a contract
- Other special purpose frameworks, including statutory financial reporting provisions required by law or a U.S. or foreign governmental regulatory body to whose jurisdiction the entity is subject

Acts Discreditable Rule

This rule states simply that a member should not commit an act discreditable to the profession. So the next obvious question is, what is a discreditable act? There unfortunately is not a very specific listing of those acts that are discreditable. Instead, a member must review all the interpretations under 1.400.001 included within the Code to determine where a member's act would be considered discreditable.

There are several discreditable acts that are prescribed within the Code. These are summarized in the following listing:

- A member has violated any antidiscrimination laws of the United States, a state, or a municipality, including those related to sexual and other forms of harassment (assuming it is no longer subject to appeal)
- A member who solicits or knowingly discloses the Uniform CPA Examination questions or answers without the AICPA's written authorization
- A member who fails to comply with applicable federal, state, or local laws or regulations regarding (a) the timely filing of the member's personal tax returns or tax returns of the member's firm that the member has the authority to timely file or (b) the timely remittance of all payroll and other taxes collected on behalf of others
- A member makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity
- A member fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry
- A member signs, or permits or directs another to sign, a document containing materially false and misleading information
- A member materially departs from the standards of governmental bodies or other regulatory agencies and does not make appropriate disclosure regarding the departure
- A member accepts a governmental audit engagement and fails to follow specified government audit standards, guides, procedures, statutes, rules, and regulations the member is obligated to follow
- A member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information
- A member promotes or markets the member's abilities to provide professional services or makes claims about the member's experience or qualifications in a manner that is false, misleading, or deceptive
- A member fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices
- A member fails to comply with records requests rules and interpretations
- A member discloses confidential information obtained from a prospective client without consent

Contingent Fees Rule

Different types of payment arrangements are made routinely within professional services performed by members. However, it is important to distinguish between those types of activities where a member can accept a contingent fee and where they cannot. For starters, refer to Exhibit 1-25 below which provides additional

context on what is meant by a contingent fee.

Exhibit 1-25: Contingent Fee (1.510.001.03)

A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

For starters, a member in public practice is not allowed to accept a contingent fee for any professional service for, or receive such a fee from a client for whom the member or the member's firm perform any of the following (1.510.001.01):

- An audit or review of a financial statement
- A compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence
- An examination of prospective financial information

In addition to the above, a member is also precluded from preparing an original or amended tax return or claim for a tax refund for a contingent fee for any client (1.510.001.01). However, the Code also prescribes certain services that can be performed for a contingent fee. These include the following (1.510.010.04):

- Representing a client in connection with a revenue agent's examination of the client's federal or state income tax return
- Filing an amended federal or state income tax return claiming a tax refund based on a tax issue that is the subject of a test case involving a different taxpayer or with respect to which the taxing authority is developing a position
- Filing an amended federal or state income tax return (or refund claim) claiming a tax refund in an amount greater than the threshold for review by the Joint Committee on Taxation or state taxing authority
- Requesting a refund of either overpayments of interest or penalties charged to a client's account or tax deposits that a federal or state taxing authority improperly accounted for in circumstances in which the taxing authority has established procedures for the substantive review of such refund requests
- Requesting, by means of a protest or similar document, the state or local taxing authority's consideration of a reduction in a property's assessed value under an established taxing authority's review process for hearing all taxpayer arguments relating to assessed value
- Representing a client in connection with obtaining a private letter ruling or influencing the drafting of a regulation or statute

Advertising and Other Forms of Solicitation Rule

This rule prescribes that a member in public practice should not seek to obtain clients by using any form of advertising that is false, misleading, or deception (1.600.001). Equally, solicitation by the use of coercion, harassing conduct, and over-reaching is also strongly prohibited by this rule.

In general, promotional efforts would be considered misleading, or deceptive, if they do any of the following (1.600.010.02):

- Create false or unjustified expectations of favorable results
- Imply the ability to influence any court, tribunal, regulatory agency, or similar body or official

- Contain a representation that the member will perform specific professional services in current or future periods for a stated fee, estimated fee, or fee range when it was likely at the time of the representation that such fees would be substantially increased and the member failed to advise the prospective client of that likelihood
- Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived

Confidential Client Information Rule

The overall rule is that a member in public practice should not disclose any confidential client information without the specific consent of the client (1.700.001.01). Refer to Exhibit 1-26 below for an expansive discussion of this rule and how it relates to other previously discussed rules.

Exhibit 1-26: Confidential Client Information Rule (1.700.001.02)

This rule shall not be construed (1) to relieve a member of his or her professional obligations of the “Compliance With Standards Rule” [1.310.001] or the “Accounting Principles Rule” [1.320.001], (2) to affect in any way the member’s obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member’s compliance with applicable laws and government regulations, (3) to prohibit review of a member’s professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member’s confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members’ exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

In addition to the guidance above, this section of Code includes interpretations and related guidance with respect to disclosing the following:

- Client competitors
- Information from previous engagements
- Information to persons or entities associated with clients
- Information to a third-party service provider
- Client information in connection with a review of a member’s practice
- Client information to third parties, disclosing client information during litigation
- Client information in director positions
- Client names
- Confidential client information as a result of a subpoena or summons

A detailed discussion of each of the above subtopics is outside the scope of this course, however, it is encouraged that members understand and review the related interpretations and ensure compliance as appropriate.

Form of Organization and Name Rule

The final rule included within the members in public practice section of the Code relates to rules and interpretations as it relates to form of organization and the related naming conventions (1.800.001.01-02). To this end, a member may practice public accounting only in a form of organization permitted by law or regulation

and under a firm name that is not misleading. Select subtopics under this rule are discussed in additional detail in the following sections.

Partner Designation

The Code requires that only members of a firm who are legally partners should use the designation of partner (1.810.020.01). Accordingly, members who are not parties to the firm's partnership agreement should not hold themselves out in any manner that might lead clients or the public to believe that they are partners (1.810.00.01).

Firm Name

For starters, the Code allows the use of the names of former partners in a firm's name (1.820.010.01). Additionally, unless there are laws, rules, or regulation that are applicable to the member that conclude otherwise, a CPA member who is in a partnership with non-CPAs may sign reports in the firm's name and also affix the CPA designation to the member's signature if it is clear that the partnership itself is not being held out as entirely comprising CPAs (1.820.020.01).

Members in Business

Up to this point in the course, we have focused the discussion on members in public practice. Rightfully so, as the members in public practice guidance accounts for a significant majority of the rules and interpretations included within the Code. However, it's important that we address at a high level some of requirements for members in business. You will note when reviewing the table of contents of the Code that Part 2 (members in business) includes much of the same information that is extensively discussed within the members in public practice section. For example, the primary topics (rules and interpretations) under Part 2 includes the following:

- Integrity and Objectivity
- General Standards
- Compliance With Standards
- Accounting Principles
- Acts Discreditable

As you can note from the list above, all of these topics are included in the members in public practice part of the Code. However, the following sections are not discussed within Part 2 as they are only applicable to members in public practice:

- Independence
- Fees and Other Types of Remuneration
- Advertising and Other Forms of Solicitation
- Confidential Information
- Form of Organization and Name

Given the rules and interpretations included within the members in business part of the Code are very similar in principle to those presented in the members in public practice part, we will not repeat information already presented. Instead, select topics will be addressed to highlight some of the differences where apparent between members in public practice and members in business.

Conceptual Framework - Threats

The conceptual framework approach for members in business is very similar to that of members in public practice. For example, the same three step process as previously presented is also applicable to members in business. However, there are subtle differences included within the Code with respect to the examples presented for each of the categories of threats. For starters, the members in business section only contains six, not seven, primary categories of threats as there are no threats of management participation for members in business. Each of the six threats are described below and include examples of each. Note the subtle, yet

important differences in wording in the descriptions and examples of each threat compared to those presented previously for members in public practice.

Adverse Interest Threat

An adverse interest threat for a member in business is a threat that a member will not act with objectivity because the member's interests are opposed to the interests of the employing organization (2.000.010.09). While this definition may appear very similar to that of the adverse interest threat for a member in public practice, there is a subtle, yet important distinction between the two. Swap out the term "employing organization" above with "client" and you would have the definition for an adverse interest threat for a member in public practice. This type of substitution, as you read the Code in more detail, is one of the common differences between the two types of members and the associated threats to their compliance with the Code.

Further to this point, the following are identified as examples of an adverse interest threat for a member in business (2.000.010.09):

- A member has charged, or expressed an intention to charge, the employing organization with violations of law
- A member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organization
- A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees

Advocacy Threat

The threat that a member will promote an employing organization's interests or position to the point that his or her objectivity is compromised is the textbook definition of an advocacy threat. And you guessed it, swap out employing organization with client and you would have the definition for an advocacy threat for a member in public practice. Examples of this threat include the following (2.000.010.10):

- Obtaining favorable financing or additional capital is dependent upon the information that the member includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing
- The member gives or fails to give information that the member knows will unduly influence the conclusions reached by an external service provider or other third party

As you will note from the examples above for advocacy threat, as well as those presented previously for adverse interest, the examples for members in public practice and members in business are distinctly different. Eventhough definition wise the threats are very similar, it's clear that members in public practice and members in business encounter different types of threats.

Familiarity Threat

Given the definition of this threat mirrors that of a member in public practice (exception being the use of the term "employing organization"), it need not be presented here. However, the examples of this threat are different and warrant mention below. These include the following (2.000.010.11):

- A member uses an immediate family's or a close relative's company as a supplier to the employing organization
- A member may accept an individual's work product with little or no review because the individual has been producing an acceptable work product for an extended period of time
- A member's immediate family or close relative is employed as a member's subordinate
- A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization

Self-Interest Threat

Similar to the familiarity threat, the definition of this threat is the same as that of a member in public practice with the exception of being tailored to a member in business. Examples of this threat include the following (2.000.010.12):

- A member's immediate family or close relative has a financial interest in the employing organization
- A member holds a financial interest (for example, shares or share options) in the employing organization, and the value of that financial interest is directly affected by the member's decisions
- A member is eligible for a profit or other performance-related bonus, and the value of that bonus is directly affected by the member's decisions

Self-Review Threat

Examples of self-review threats for a member in business include the following (2.000.010.13):

- When performing an internal audit procedure, an internal auditor accepts work that he or she previously performed in a different position
- The member accepts the work previously performed by the member, alone or with others that will be the basis for providing another professional service

Undue Influence Threat

The sixth and final threat (recall there were seven threats for members in public practice) relates to undue influence. Similar to the definition of this threat for a member in public practice, this is the threat that a member will subordinate his or her judgment to that of an individual associated with the employing organization or any relevant third party due to that individual's position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member (2.000.010.14). Examples of this type of threat include the following (2.000.010.14):

- A member is pressured to become associated with misleading information
- A member is pressured to deviate from a company policy
- A member is pressured to change a conclusion regarding an accounting or a tax position
- A member is pressured to hire an unqualified individual

Conceptual Framework - Safeguards

Recall that the discussion of safeguards for members in public practice involved the following three categories:

- Safeguards created by the profession, legislation, or regulation
- Safeguards implemented by the client
- Safeguards implemented by the firm

With respect to members in business, there are only two categories as follows (2.000.010.16):

- Safeguards created by the profession, legislation, or regulation
- Safeguards implemented by the employing organization

As you will note, rightfully so there are no safeguards implemented by the client related to members in business. Similarly, there are safeguards implemented by the employing organization (instead of the firm). Given that the safeguards created by the profession, legislation, or regulation are very similar for members in public practice and members in business (with the exception of the external review of a firm's quality control system is not applicable to members in business), these will not be repeated. However, we will focus specifically on examples of safeguards that are implemented by the employing organization.

The examples of safeguards implemented by an employing organization for members in business is fairly extensive, but is not meant to be exhaustive. Refer to these examples presented within Exhibit 1-27 below.

Exhibit 1-27: Safeguards Implemented by the Employing Organization (2.000.010.20)

- A tone at the top emphasizing a commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies
- Policies and procedures addressing ethical conduct and compliance with laws, rules, and regulations
- Audit committee charter, including independent audit committee members
- Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organization, its directors or officers, and vendors, suppliers, or customers
- Internal policies and procedures related to purchasing controls
- Internal policies and procedures related to customer acceptance or credit limits
- Dissemination of corporate ethical compliance policies and procedures, including whistle-blower hotlines, the reporting structure, dispute resolution, or other similar policies, to promote compliance with laws, rules, regulations, and other professional requirements
- Human resource policies and procedures safeguarding against discrimination or harassment, such as those concerning a worker's religion, sexual orientation, gender, or disability
- Human resource policies and procedures stressing the hiring and retention of technically competent employees
- Policies and procedures for implementing and monitoring ethical policies
- Assigning sufficient staff with the necessary competencies to projects and other tasks
- Policies segregating personal assets from company assets
- Staff training on applicable laws, rules, and regulations
- Regular monitoring of internal policies and procedures
- A reporting structure whereby the internal auditor does not report to the financial reporting group
- Policies and procedures that do not allow an internal auditor to monitor areas where the internal auditor has operational or functional responsibilities
- Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity
- Use of third-party resources for consultation as needed on significant matters of professional judgment

Other Members

As was noted in the introduction to this course, the Code is segregated between that of members in public practice, members in business, and all others. All others, as you recall, is simply those members that are not in either business or public practice.

As you can note from a quick review of the table of contents of the Code, this section of the Code (Part 3) is very short. In fact, the only rules prescribed specifically to these members relates to discreditable acts. However, it's important to note that this is not the only requirement applicable to these other members. Recall that the Preface to the Code prescribes requirements that are applicable to all members, whether they be in public practice, in business, or neither.

Acts Discreditable Rule

The various subtopics included within the Acts Discreditable Rule for other members is very similar to that of members in public practice and members in business. In short, the listing of subtopics is simply trimmed down. For example, there are no interpretations for subtopics relating to records request or removing client files or proprietary information from a firm such is the case with members in public practice. Instead, the Acts Discreditable Rule related to other members includes the following interpretations:

- Discrimination and Harassment in Employment

- Solicitation or Disclosure of CPA Examination Questions and Answers
- Failure to File a Tax Return or Pay a Tax Liability
- Confidential Information Obtained from Former Employment or Previous Volunteer Activities
- False, Misleading, or Deceptive Act in Promoting or Marketing Services
- Use of the CPA Credential

Review Questions

11. Which of the following rules prescribes that a member in public practice should not state affirmatively that the financial statements of any entity are presented in conformity with GAAP if those financial statements contain a material departure from GAAP?
 - a. Accounting Principles Rule.
 - b. Act Discreditable Rule.
 - c. General Standards Rule.
 - d. Compliance with Standards Rule.
12. Which of the following identifies an example of an advocacy threat for a member in business?
 - a. A member is pressured to become associated with misleading information.
 - b. A member is pressured to change a conclusion regarding an accounting or tax policy position.
 - c. An internal auditor accepts work that he or she previously performed in a different position.
 - d. A member gives information that the member knows will unduly influence the conclusions reached by an external service provider.

Florida Ethics Review

Now that we have taken a look at the AICPA Code of Ethics, let us take a closer look at the 2016 Florida Statutes 455 and 473. We will see what is addressed regarding some of the ethical issues & subsequent disciplinary actions.

Chapter 473 Highlights

473.315 Independence, technical standards.

- (1) A certified public accountant shall not express an opinion on the financial statements of an enterprise unless she or he and her or his firm are independent with respect to such enterprise.
- (2) A certified public accountant shall not undertake any engagement in the practice of public accounting which she or he or her or his firm cannot reasonably expect to complete with professional competence.
- (3) The board shall adopt rules establishing the standards of practice of public accounting, including, but not limited to, independence, competence, and technical standards.
- (4) Attorneys who are admitted to practice law by the Supreme Court of Florida are exempt from the standards of practice of public accounting as defined in s. 473.302(8)(b) and (c) when such standards conflict with the rules of The Florida Bar or orders of the Florida Supreme Court.

473.318 Ownership of working papers.

All statements, records, schedules, working papers, and memoranda made by a certified public accountant or firm or her or his employee incident to, or in the course of, professional services to a client, except the reports submitted by the certified public accountant or firm to the client and except for records which are part of the client's records, shall be and remain the property of the certified public accountant or firm in the absence of an express agreement between the certified public accountant or firm and the client to the contrary.

473.319 Contingent fees.

Public accounting services as defined in s. 473.302(8)(a) and (c), and those that include tax filings with federal, state, or local government, shall not be offered or rendered for a fee contingent upon the findings or results of such service. This section does not apply to services involving federal, state, or other taxes in which the findings are those of the tax authorities and not those of the certified public accountant or firm. Fees to be fixed by courts or other public authorities, which are of an indeterminate amount at the time a public accounting service is undertaken, shall not be regarded as contingent fees for purposes of this section.

473.3205 Commissions or referral fees.

A certified public accountant or firm may not accept or pay a commission or referral fee in connection with the sale or referral of public accounting services as defined in s. 473.302(8)(a) and (c). Any certified public accountant or firm that is engaged in the practice of public accounting and that accepts a commission for the sale of a product or service to a client must disclose that fact to the client in writing in accordance with rules adopted by the board. However, this section shall not prohibit:

- (1) Payments for the purchase of an accounting practice;
- (2) Retirement payments to individuals formerly engaged in the practice of public accounting or payments to their heirs or estates; or
- (3) Payment of fees to a referring certified public accountant or firm for public accounting services to the successor certified public accountant or firm or the client in connection with an engagement.

473.321 Fictitious names.

(1) A certified public accountant, partnership, corporation, or limited liability company may not practice public accountancy in this state under any name that is misleading or deceptive as to the legal form; as to persons who are partners, officers, shareholders, or members of the firm; or as to any other matter. However, a firm name may include the names of retired or deceased persons who were active partners, shareholders, or members of the firm.

(2) This section does not prohibit any certified public accountant or firm from practicing public accounting under a fictitious name that is not misleading or deceptive as to the persons who are partners, officers, shareholders, or members.

(3) The board shall adopt rules for interpretation of this section.

473.322 Prohibitions; penalties.

(1) A person may not knowingly:

(a) Practice public accounting unless the person is a certified public accountant or a public accountant;

(b) Assume or use the titles or designations "certified public accountant" or "public accountant" or the abbreviation "C.P.A." or any other title, designation, words, letters, abbreviations, sign, card, or device tending to indicate that the person holds a license to practice public accounting under this chapter or the laws of any other state, territory, or foreign jurisdiction, unless the person holds an active license under this chapter or has the practice privileges pursuant to s. 473.3141;

(c) Perform or offer to perform any services described in s. 473.302(8)(a) unless such person holds an active license under this chapter and is a licensed firm, provides such services through a licensed firm, or complies with ss. 473.3101 and 473.3141. This paragraph does not prohibit the performance by persons other than certified public accountants of other services involving the use of accounting skills, including the preparation of tax returns and the preparation of financial statements without expression of opinion thereon;

(d) Present as her or his own the license of another;

(e) Give false or forged evidence to the board or a member thereof;

(f) Use or attempt to use a public accounting license that has been suspended, revoked, or placed on inactive or delinquent status;

(g) Employ unlicensed persons to practice public accounting; or

(h) Conceal information relative to violations of this chapter.

(2) Any person who violates any provision of this section commits a misdemeanor of the first degree, punishable as provided in s. 775.082 or s. 775.083.

473.323 Disciplinary proceedings.

(1) The following acts constitute grounds for which the disciplinary actions in subsection (3) may be taken:

- (a) Violation of any provision of s. 455.227(1) or any other provision of this chapter.
- (b) Attempting to procure a license to practice public accounting by bribery or fraudulent misrepresentations.
- (c) Having a license to practice public accounting revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of another state, territory, or country.
- (d) Being convicted or found guilty of, or entering a plea of nolo contendere to, regardless of adjudication, a crime in any jurisdiction which directly relates to the practice of public accounting or the ability to practice public accounting.
- (e) Making or filing a report or record that the certified public accountant or firm knows to be false, willfully failing to file a report or record required by state or federal law, willfully impeding or obstructing such filing, or inducing another person to impede or obstruct such filing. Such reports or records include only those that are signed in the capacity of a certified public accountant.
- (f) Advertising goods or services in a manner that is fraudulent, false, deceptive, or misleading in form or content.
- (g) Committing an act of fraud or deceit, or of negligence, incompetency, or misconduct, in the practice of public accounting.
- (h) Violation of any rule adopted pursuant to this chapter or chapter 455.
- (i) Practicing on a revoked, suspended, inactive, or delinquent license.
- (j) Suspension or revocation of the right to practice before any state or federal agency.
- (k) Performance of any fraudulent act in any jurisdiction while holding a license to practice public accounting in this state or using practice privileges in this state.
- (l) Failing to maintain a good moral character as provided in s. 473.308 while applying for licensure, or while licensed in this state or using practice privileges pursuant to s. 473.3141.
- (m) Failing to provide any written disclosure to a client or the public which is required by this chapter or rule of the board.
- (n) Having the same or equivalent practice privileges of a Florida certified public accountant or firm revoked, suspended, or otherwise acted against by the licensing authority of another state, territory, or country as a result of activity in that jurisdiction which would have subjected the Florida certified public accountant or firm to discipline in this state.

(2) The board shall specify, by rule, what acts or omissions constitute a violation of subsection (1).

(3) When the board finds any certified public accountant or firm guilty of any of the grounds set forth in subsection (1), it may enter an order imposing one or more of the following penalties:

- (a) Denial of an application for licensure.

- (b) Revocation or suspension of the certified public accountant or firm's license or practice privileges in this state.
- (c) Imposition of an administrative fine not to exceed \$5,000 for each count or separate offense.
- (d) Issuance of a reprimand.
- (e) Placement of the certified public accountant on probation for a period of time and subject to such conditions as the board may specify, including requiring the certified public accountant to attend continuing education courses or to work under the supervision of another licensee.
- (f) Restriction of the authorized scope of practice by the certified public accountant.
- (4) The department shall reissue the license of a disciplined licensee upon certification by the board that the disciplined licensee has complied with all of the terms and conditions set forth in the final order.

Chapter 455 Highlights

455.227 Grounds for discipline; penalties; enforcement.

- (1) The following acts shall constitute grounds for which the disciplinary actions specified in subsection (2) may be taken:

- (a) Making misleading, deceptive, or fraudulent representations in or related to the practice of the licensee's profession.
- (b) Intentionally violating any rule adopted by the board or the department, as appropriate.
- (c) Being convicted or found guilty of, or entering a plea of guilty or nolo contendere to, regardless of adjudication, a crime in any jurisdiction which relates to the practice of, or the ability to practice, a licensee's profession.
- (d) Using a Class III or a Class IV laser device or product, as defined by federal regulations, without having complied with the rules adopted pursuant to s. 501.122(2) governing the registration of such devices.
- (e) Failing to comply with the educational course requirements for human immunodeficiency virus and acquired immune deficiency syndrome.
- (f) Having a license or the authority to practice the regulated profession revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of any jurisdiction, including its agencies or subdivisions, for a violation that would constitute a violation under Florida law. The licensing authority's acceptance of a relinquishment of licensure, stipulation, consent order, or other settlement, offered in response to or in anticipation of the filing of charges against the license, shall be construed as action against the license.
- (g) Having been found liable in a civil proceeding for knowingly filing a false report or complaint with the department against another licensee.
- (h) Attempting to obtain, obtaining, or renewing a license to practice a profession by bribery, by fraudulent misrepresentation, or through an error of the department or the board.

(i) Failing to report to the department any person who the licensee knows is in violation of this chapter, the chapter regulating the alleged violator, or the rules of the department or the board.

(j) Aiding, assisting, procuring, employing, or advising any unlicensed person or entity to practice a profession contrary to this chapter, the chapter regulating the profession, or the rules of the department or the board.

(k) Failing to perform any statutory or legal obligation placed upon a licensee.

(l) Making or filing a report which the licensee knows to be false, intentionally or negligently failing to file a report or record required by state or federal law, or willfully impeding or obstructing another person to do so. Such reports or records shall include only those that are signed in the capacity of a licensee.

(m) Making deceptive, untrue, or fraudulent representations in or related to the practice of a profession or employing a trick or scheme in or related to the practice of a profession.

(n) Exercising influence on the patient or client for the purpose of financial gain of the licensee or a third party.

(o) Practicing or offering to practice beyond the scope permitted by law or accepting and performing professional responsibilities the licensee knows, or has reason to know, the licensee is not competent to perform.

(p) Delegating or contracting for the performance of professional responsibilities by a person when the licensee delegating or contracting for performance of such responsibilities knows, or has reason to know, such person is not qualified by training, experience, and authorization when required to perform them.

(q) Violating any provision of this chapter, the applicable professional practice act, a rule of the department or the board, or a lawful order of the department or the board, or failing to comply with a lawfully issued subpoena of the department.

(r) Improperly interfering with an investigation or inspection authorized by statute, or with any disciplinary proceeding.

(s) Failing to comply with the educational course requirements for domestic violence.

(t) Failing to report in writing to the board or, if there is no board, to the department within 30 days after the licensee is convicted or found guilty of, or entered a plea of nolo contendere or guilty to, regardless of adjudication, a crime in any jurisdiction. A licensee must report a conviction, finding of guilt, plea, or adjudication entered before the effective date of this paragraph within 30 days after the effective date of this paragraph.

(u) Termination from a treatment program for impaired practitioners as described in s. 456.076 for failure to comply, without good cause, with the terms of the monitoring or treatment contract entered into by the licensee or failing to successfully complete a drug or alcohol treatment program.

(2) When the board, or the department when there is no board, finds any person guilty of the grounds set forth in subsection (1) or of any grounds set forth in the applicable practice act, including conduct constituting a substantial violation of subsection (1) or a violation of the applicable practice act which

occurred prior to obtaining a license, it may enter an order imposing one or more of the following penalties:

- (a) Refusal to certify, or to certify with restrictions, an application for a license.
- (b) Suspension or permanent revocation of a license.
- (c) Restriction of practice.
- (d) Imposition of an administrative fine not to exceed \$5,000 for each count or separate offense.
- (e) Issuance of a reprimand.

(f) Placement of the licensee on probation for a period of time and subject to such conditions as the board, or the department when there is no board, may specify. Those conditions may include, but are not limited to, requiring the licensee to undergo treatment, attend continuing education courses, submit to be reexamined, work under the supervision of another licensee, or satisfy any terms which are reasonably tailored to the violations found.

- (g) Corrective action.

(3)(a) In addition to any other discipline imposed pursuant to this section or discipline imposed for a violation of any practice act, the board, or the department when there is no board, may assess costs related to the investigation and prosecution of the case excluding costs associated with an attorney's time.

(b) In any case where the board or the department imposes a fine or assessment and the fine or assessment is not paid within a reasonable time, such reasonable time to be prescribed in the rules of the board, or the department when there is no board, or in the order assessing such fines or costs, the department or the Department of Legal Affairs may contract for the collection of, or bring a civil action to recover, the fine or assessment.

(c) The department shall not issue or renew a license to any person against whom or business against which the board has assessed a fine, interest, or costs associated with investigation and prosecution until the person or business has paid in full such fine, interest, or costs associated with investigation and prosecution or until the person or business complies with or satisfies all terms and conditions of the final order.

(4) In addition to, or in lieu of, any other remedy or criminal prosecution, the department may file a proceeding in the name of the state seeking issuance of an injunction or a writ of mandamus against any person who violates any of the provisions of this chapter, or any provision of law with respect to professions regulated by the department, or any board therein, or the rules adopted pursuant thereto.

(5) In the event the board, or the department when there is no board, determines that revocation of a license is the appropriate penalty, the revocation shall be permanent. However, the board may establish, by rule, requirements for reapplication by applicants whose licenses have been permanently revoked. Such requirements may include, but shall not be limited to, satisfying current requirements for an initial license.

Glossary

Acceptable level

In connection with independence, an acceptable level is a level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's independence is not impaired.

Adverse interest threat

The threat that a member will not act with objectivity because the member's interests are opposed to the client's interests.

Advocacy threat

The threat that a member will promote a client's interests or position to the point that his or her objectivity or independence is compromised.

Attest client

A client that engages a member to perform an attest engagement or with respect to which a member performs an attest engagement

Client

Any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services and, if different, the person or entity with respect to which professional services are performed.

Covered member

All of the following: a. an individual on the attest engagement team. b. an individual in a position to influence the attest engagement. c. a partner, partner equivalent, or manager who provides more than 10 hours of nonattest services to the attest client within any fiscal year. Designation as covered member ends on the later of (i) the date that the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) the date he or she no longer expects to provide 10 or more hours of nonattest services to the attest client on a recurring basis. d. a partner or partner equivalent in the office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement. e. the firm, including the firm's employee benefit plans. f. an entity whose operating, financial, or accounting policies can be controlled by any of the individuals or entities described in items a–e or two or more such individuals or entities if they act together.

Familiarity threat

The threat that, due to a long or close relationship with a client, a member will become too sympathetic to the client's interests or too accepting of the client's work or product.

Firm

A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council and that is engaged in public practice.

Interpretation

Pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct.

Key position

A position in which an individual has a. primary responsibility for significant accounting functions that support material components of the financial statements; b. primary responsibility for the preparation of the financial statements; or c. the ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

Management participation threat

The threat that a member will take on the role of client management or otherwise assume management responsibilities, such may occur during an engagement to provide nonattest services.

Member

A member, associate member, affiliate member, or international associate of the AICPA.

Member(s) in business

A member who is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, and regulatory or professional bodies.

Professional services

Include all services requiring accountancy or related skills that are performed by a member for a client, an employer, or on a volunteer basis.

Safeguards

Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.

Self-interest threat

The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client.

Self-review threat

The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the member's firm and that the member will rely on that service in forming a judgment as part of another service.

Threats

In connection with independence, threats are relationships or circumstances that could impair independence.

Undue influence threat

The threat that a member will subordinate his or her judgment to an individual associated with a client 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 the member.

Solutions to Review Questions

1. Which of the following parts within the Code prescribes the professional conduct requirements required by both members in business and members in public practice?
 - a. Preface.
Correct. This Preface includes principles and rules that are applicable to all members, whether they be in public practice or in business. For example, a member in public practice would need to adhere to the rules and principles included in both the Preface and Part 1 of the code.
 - b. Part 1.
Incorrect. While Part 1 is applicable to members in public practice, it does not prescribe those requirements that should also be followed by members in business.
 - c. Part 2.
Incorrect. While Part 2 is applicable to members in business, it does not prescribe those requirements that should also be followed by members in public practice.
 - d. Part 3.
Incorrect. Part 3 prescribes the specific requirements with respect to members that are not in public practice or in business. As a result, this part of the Code does not prescribe requirements for either members in business or those members in public practice.
2. Which of the following identifies a professional service performed by a member where the requirements prescribed by the Code would not be applicable?
 - a. A member in public practice is performing a management consulting engagement for a nonpublic entity.
Incorrect. A member in public practice performing a management consulting engagement, whether it be for a public business entity or a nonpublic entity, is required to follow the rules of professional conduct. Other professional services where the member must follow the Code is for auditing engagements.
 - b. A member in business is performing litigation support services for his or her employing organization.
Incorrect. A member in public practice performing a litigation support services is required to follow the rules of professional conduct. Other professional services where the member must follow the Code is for tax or bookkeeping services.
 - c. A member practicing outside the United States as long as the member's conduct is in accordance with that country's rules of the organized accounting profession.
Correct. The rules of professional conduct prescribed by the Code do not apply to a member is practicing outside the United States as long as the member's conduct is in accordance with the rules of the organized accounting profession in the country in which he or she is practicing. However, when a member is associated with financial statements under circumstances that would lead the reader to assume that practices of the United States were followed, the member must comply with the Code.
 - d. A member in public practice is performing personal financial planning in the United States for an individual who holds international assets.
Incorrect. A member in public practice performing personal financial planning in the United States for an individual who holds international assets is required to follow the rules of professional conduct. Other professional services where the member must follow the Code is for other accounting or attest services.
3. Which of the following principles outlined within the Code states in part that a member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability?

- a. Due care principle.
Correct. The due care principle requires that a member perform with both competence and diligence. Competence is derived from a synthesis of education and experience whereas diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.
 - b. Integrity principle.
Incorrect. The integrity principles notes that integrity is an element of character fundamental recognition and is the quality from which the public trust derives. In other words, it is the benchmark which a member must ultimately test all decisions. Furthermore, integrity commonly includes the traits of honesty and candidness within the constraints of client confidentiality.
 - c. Scope and nature of services principle.
Incorrect. The scope of nature of services principle requires that a member in public practice should observe the other principles within the Code in determining the scope and nature of services to be provided within an engagement. This principle essentially ties all the other principles together and requires each member's service performed be consistent with all principles.
 - d. Responsibilities principle.
Incorrect. The overall belief related to this principle is that a member should exercise sensitive professional and moral judgment in all of their activities. Consistent with that role, members of the American Institute of Certified Public Accountants have responsibilities to all those who use their professional services.
4. Which of the following steps identifies the first step in the conceptual framework process?
- a. Identify and apply safeguards.
Incorrect. Identifying and applying safeguards is the third step in the conceptual framework process. A safeguard is an action or other measure that may eliminate a threat or reduce a threat to an acceptable level. In order words, while a threat may be identified and it may not be at an acceptable level, a member can perform an action (think of it as a type of compensating control) to reduce the threat to an acceptable level.
 - b. Identify threats.
Correct. Identifying threats is the first step in the conceptual framework process. Threats are anything, such as relationships or circumstances that could compromise a member's compliance with the rules within the Code. Note, emphasis should be added on the word "could" in the preceding sentence. It's important to note that a threat could, instead of would, compromise a member's compliance with the rules within the Code.
 - c. Evaluate the effectiveness of safeguards.
Incorrect. The evaluation of the effectiveness of safeguards is not the first step in the conceptual framework process. If the member concludes that threats are at an acceptable level after applying the identified safeguards, then the member may proceed with the professional service. However, if there are no safeguards that would eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the circumstance or relationship creating the threat should be changed, or the member should decline or terminate the professional engagement.
 - d. Document threats and safeguards applied.
Incorrect. Documentation of the threats and safeguards applied is the final step in the conceptual framework approach. Simply put, when safeguards are applied to eliminate or reduce significant threats to an acceptable level, the member is encouraged to document the identified threats and safeguards applied.
5. A client expressing an intention to commence litigation against a member in public practice is an example of which of the following types of threats?
- a. Adverse interest threat.
Correct. A client that has commenced, or has expressed an intention to commence, litigation against a member is an example of an adverse interest threat. Another example of an adverse

interest threat is a class action lawsuit being filed against the client and its officers and directors and the firm and its professional accountants.

b. Familiarity threat.

Incorrect. A familiarity threat is a situation where a member will become too sympathetic to a client's interest or too accepting of a client's work or product given a long or closer relationship with the client. An example of this type of threat is a member's close friend being employed by the client.

c. Self-interest threat.

Incorrect. A self-interest threat is a situation where a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client. An example of this type of threat is excess reliance on revenue from a single client.

d. Undue influence threat.

Incorrect. An undue influence threat is a situation where a member will subordinate his or her judgment to an individual associated with a client 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 the member. An example of this type of threat includes a firm being threatened with dismissal from a client engagement.

6. If an officer, director, or significant shareholder of a client participates in litigation against a member's firm, then this is an example of which of the following types of threats for a member in public practice?

a. Undue influence threat.

Incorrect. An undue influence threat is a situation where a member will subordinate his or her judgment to an individual associated with a client 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 the member. An example of this type of threat includes a firm being threatened with dismissal from a client engagement.

b. Self-interest threat.

Incorrect. A self-interest threat is a situation where a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client. An example of this type of threat is excess reliance on revenue from a single client.

c. Adverse interest threat.

Correct. An adverse interest threat occurs in situations where a member will not act with objectivity because the member's interests are opposed to the client's interest. As a result, if an officer, director, or significant shareholder of a client participates in litigation against the member's firm, this is an example of an adverse interest threat.

d. Advocacy threat.

Incorrect. An advocacy threat occurs in situations where a member will promote a client's interests or positions to the point that his or her objectivity or independence is compromised. An example of this type of threat is if a member underwrites or promotes a client's shares.

7. If a member in public practice provides forensic accounting services to a client in litigation or a dispute with third parties is an example of which of the following types of threats?

a. Advocacy threat.

Correct. An advocacy threat occurs in situations where a member will promote a client's interests or positions to the point that his or her objectivity or independence is compromised. Another example of this type of threat is if a member acts as a registered agent for a client.

b. Undue influence threat.

Incorrect. An undue influence threat is a situation where a member will subordinate his or her judgment to an individual associated with a client 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 the member. An example of this type of threat is if a client indicates that

it will not award additional engagements to the firm if the firm continues to disagree with the client on an accounting or tax matter.

- c. Self-interest threat.

Incorrect. A self-interest threat is a situation where a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client. An example of this type of threat is if a firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee.

- d. Familiarity threat.

Incorrect. A familiarity threat occurs in situations where a member will become too sympathetic to a client's interest or too accepting of a client's work or product given a long or closer relationship with the client. An example of this type of threat is if a member has a significant close business relationship with an officer, a director, or a 10 percent shareholder of a client.

8. Which of the following identifies a safeguard implemented by a client?

- a. Policies and procedures are in place to address ethical conflicts.

Correct. Policies and procedures that are in place to address ethical conflicts is an example of a safeguard implemented by a client. An additional example of a safeguard implemented by a client includes the tone at the top emphasizing the client's commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies.

- b. External review of a firm's quality control system.

Incorrect. External review of a firm's quality control system is an example of a safeguard created by the profession, legislation, or regulation. An additional example of this type of safeguard includes legislation establishing prohibitions and requirements for a firm or a firm's professional employees.

- c. Professional resources, such as hotlines, for consultation on ethical issues.

Incorrect. Professional resources, such as hotlines, for consultation on ethical issues is an example of a safeguard created by the profession, legislation, or regulation. An additional example of this type of safeguard includes competency and experience requirements for professional licensure.

- d. Policies and procedures that are designed to implement and monitor engagement quality control.

Incorrect. These types of procedures that are designed to implement and monitor engagement quality control is an example of a safeguard implemented by a firm. An additional example of this type of safeguard is the use of different partners, partner equivalents, and engagement teams from different offices or that report to different supervisors.

9. Which of the following situations identify a familiarity threat with respect to a member's independence?

- a. A member promotes an attest client's securities as part of an initial public offering.

Incorrect. This is an example of an advocacy threat, not a familiarity threat. An additional example of this type of threat is if a member provides expert witness services to an attest client.

- b. A member represents an attest client in U.S. tax court or other public forum.

Incorrect. This is an example of an advocacy threat, not a familiarity threat. An example of a familiarity threat is if a partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period of time.

- c. A member has a direct financial interest in the attest client.

Incorrect. This is an example of a self-interest threat, not a familiarity threat. An additional example of this type of threat is if a member has a material indirect financial interest in the attest client.

- d. A member of an attest engagement team has a close friend who is in a key position at the attest client.

Correct. A member of the attest engagement team that has a close friend who is in a key position at the attest is an example of a familiarity threat with respect to a member's independence. Another example of this type of threat is if a member of the firm has recently been an officer or director of an attest client.

10. Which of the following activities, if performed by a member of an attest engagement team for the attest client, would impair the member's independence?

a. Posting client-coded transactions to the attest client's general ledger.

Incorrect. This is an example of an activity that would not impair a member's independence. An additional example of an activity that would not impair independence is generating unsigned checks using source documents or other records provided and approved by the attest client.

b. Changing journal entries without first obtaining the client's approval.

Correct. This is an example of an activity that impairs a member's independence. An additional example of an activity that would impair independence would be if a member accepted responsibility to sign or cosign the attest client's checks, even if only in emergency situations.

c. Preparing financial statements based on information in the attest client's trial balance.

Incorrect. This is an example of an activity that would not impair a member's independence. An additional example of an activity that would not impair independence is transmitting client-approved payroll or other disbursement information to a bank or similar entity subsequent to the attest client's review and authorization.

d. Processing the attest client's payroll using records approved by the client.

Incorrect. This is an example of an activity that would not impair a member's independence. An additional example of an activity that would not impair independence is preparing a reconciliation that identifies reconciling items for the client's evaluation.

11. Which of the following rules prescribes that a member in public practice should not state affirmatively that the financial statements of any entity are presented in conformity with GAAP if those financial statements contain a material departure from GAAP?

a. Accounting Principles Rule.

Correct. The Accounting Principles Rule states in part that a member should not do either of the following if statements or data contain any departure from an accounting principle prescribed by a recognized accounting body: 1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles; or 2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles.

b. Act Discreditable Rule.

Incorrect. This rule states simply a member should not commit an act discreditable to the profession. Example of these types of act include, but are not limited to, a member violating any antidiscrimination laws of the United States, a state, or a municipality, including those related to sexual and other forms of harassment (assuming it is no longer subject to appeal) and a member who solicits or knowingly discloses the Uniform CPA Examination questions or answers without the AICPA's written authorization.

c. General Standards Rule.

Incorrect. The General Standards rule states simply that a member should comply with the following standards and with any related interpretations of the following: professional competence, due professional care, planning and supervision, and sufficient relevant data.

d. Compliance with Standards Rule.

Incorrect. The Compliance with Standards Rule states that a member who performs auditing, review, compilation, management consulting, tax, or other professional service are required to comply with the applicable standards. This particular rule does not contain significant interpretive guidance. In fact, the interpretive guidance section with respect to this rule only contains three paragraphs and primarily addresses the member's use of the conceptual framework and consideration of ethical conflicts.

12. Which of the following identifies an example of an advocacy threat for a member in business?

- a. A member is pressured to become associated with misleading information.
Incorrect. This is an example of an undue influence threat. An additional example of an undue influence threat is a member being pressured to deviate from a company policy.
- b. A member is pressured to change a conclusion regarding an accounting or tax policy position.
Incorrect. This is an example of an undue influence threat. An additional example of an undue influence threat is a member being pressured to hire an unqualified individual.
- c. An internal auditor accepts work that he or she previously performed in a different position.
Incorrect. This is an example of a self-review threat. An additional example of a self-review threat is a member accepting work previously performed by the member, alone or with others, which will be the basis for providing another professional service.
- d. A member gives information that the member knows will unduly influence the conclusions reached by an external service provider.
Correct. This is an example of an advocacy threat for a member in business. An additional example includes obtaining favorable financing or additional capital that is dependent upon the information that the member includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing.

Final Exam Questions

1. Which of the following parts within the Code prescribes the professional conduct requirements required by only members in business?
 - a. Preface.
 - b. Part 1.
 - c. Part 2.
 - d. Part 3.
2. Which of the following parts within the Code prescribes the professional conduct requirements required by only members in public practice?
 - a. Preface.
 - b. Part 1.
 - c. Part 2.
 - d. Part 3.
3. Which of the following principles outlined within the Code states in part that a member should perform all professional responsibilities with the highest sense of integrity.
 - a. Objectivity and independence principle.
 - b. Public interest principle.
 - c. Due care principle.
 - d. Integrity principle.
4. Which of the following terms represent the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen?
 - a. Independence.
 - b. Integrity.
 - c. Competence.
 - d. Due care.
5. Which of the following identifies the second step in the conceptual framework process?
 - a. Identify and apply safeguards.
 - b. Evaluate significance of threats.
 - c. Evaluate the effectiveness of safeguards.
 - d. Document threats and safeguards applied.
6. If a class action lawsuit is filed against the client and its officers and directors and the firm and its professional accountants, then this is an example of the following types of threats?
 - a. Adverse interest threat.
 - b. Advocacy threat.
 - c. Familiarity threat.
 - d. Self-interest threat.
7. Which of the following is an example of a familiarity threat?
 - a. A firm acts as an investment adviser for an officer, a director, or a 10 percent shareholder of a client.
 - b. A firm underwrites or promotes a client's shares.
 - c. A firm acts as a registered agent for a client.
 - d. A member has a significant close business relationship with an officer, a director, or a 10 percent shareholder of a client.

8. If an individual associated with a client or any relevant third party threatens to withdraw or terminate a professional service unless the member reaches certain judgments or conclusions, then this is an example of which of the following types of threats?
- Undue influence threat.
 - Management participation threat.
 - Advocacy threat.
 - Familiarity threat.
9. Which of the following is an example of a safeguard created by the professional, legislation, or regulation?
- Policies and procedures that are designed to implement and monitor engagement quality control.
 - Documented policies regarding the identification of threats to compliance.
 - Competency and experience requirements for professional licensure.
 - The client has personnel with suitable skill, knowledge, or experience.
10. Which of the following identifies an example of a safeguard implemented by a client?
- Education and training requirements on independence and ethics rules.
 - External review of a firm's quality control system.
 - Policies and procedures in place to address ethical conflicts.
 - Firm leadership that stresses the importance of complying with the rules.
11. Which of the following rules prescribe that a member in public practice be free of conflicts of interest and not knowingly misrepresent facts or subordinate his or her judgment to others?
- Compliance with Standards Rule.
 - Integrity and Objectivity Rule.
 - Independence Rule.
 - Accounting Principles Rule.
12. Which of the following identifies an advocacy threat to independence for a member in public practice?
- A member provides expert witness services to an attest client.
 - A member of the attest engagement team has an immediate family member or close relative in a key position at the attest client, such as the attest client's CEO.
 - A partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period.
 - A member of the firm has recently been a director or an officer of the attest client.
13. Which of the following identifies a familiarity threat to independence for a member in public practice?
- A member serves as an officer or a director of the attest client.
 - A member accepts responsibility for designing, implementing, or maintaining internal controls for the attest client.
 - A member hires, supervises, or terminates the attest client's employees.
 - A member of the attest engagement team has a close friend who is in a key position at the attest client.
14. Which of the following identifies a self-interest threat to independence for a member in public practice?
- A member or his or her firm relies excessively on revenue from a single attest client.
 - Management threatens to replace the member or member's firm over a disagreement on the application of an accounting principle.
 - Management pressures the member to reduce necessary audit procedures in order to reduce audit fees.
 - The member receives a gift from the attest client, its management, or its significant shareholders.

15. Which of the following identifies an exception to the management participation threat to independence that would not impair a member's independence so long as certain conditions are met?
- a. The member is employed as an adjunct faculty member.
 - b. The member is employed as a consultant to the client's chief financial officer.
 - c. The member participates in only non-routine but significant capital decisions by the client.
 - d. The member provides less than 20 hours per week of management oversight of the client.
16. Which of the following rules for a member in public practice state that a member should comply with the standards of professional competence and due professional care?
- a. General Standards Rule.
 - b. Accounting Principles Rule.
 - c. Acts Discreditable Rule.
 - d. Contingent Fees Rule.
17. In which of the following professional services can a member in public practice accept a contingent fee?
- a. Representing a client in connection with a revenue agent's examination of the client's federal income tax return.
 - b. An audit of a client's financial statements.
 - c. A review of a client's financial statements.
 - d. An examination of prospective financial information.
18. Which of the following threats is not applicable to members in business compared to members in public practice?
- a. Adverse interest threat.
 - b. Self-interest threat.
 - c. Management participation threat.
 - d. Familiarity threat.
19. Which of the following identifies an example of an undue influence threat for a member in business?
- a. A member has charged, or expressed an intention to charge, the employing organization with violations of law.
 - b. A member is pressured to change a conclusion regarding an accounting or a tax position.
 - c. A member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organization.
 - d. A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.
20. Which of the following identifies the only rule and related interpretation noted within the Code for other members, in addition to those rule applicable to all members?
- a. Compliance with Standards Rule.
 - b. Independence Rule.
 - c. Acts Discreditable Rule.
 - d. Accounting Principles Rule.
21. The revised Code, excluding the Conceptual Framework sections, is effective on what date?
- a. December 15, 2014.
 - b. December 15, 2015.
 - c. December 15, 2016.
 - d. December 15, 2017.

Course Location

PDH Academy is a self study provider and has been approved as a registered sponsor on the National Registry of CPE Sponsors. The specifics of our membership are as follows:

Sponsor Identification Number: 138298

Delivery Method: QAS Self Study

We offer courses via the internet or correspondence.

Course Curriculum

Learning Objectives

Upon completion of this course, you will be able to:

- Identify the different parts of the AICPA Code of Professional Conduct
- List the steps within the conceptual framework approach
- Differentiate between various threats for both members in public practice and members in business
- Recognize examples of threats for both members in public practice and members in business
- Identify safeguards to be applied to various identified threats
- Differentiate between the various principles, rules, and interpretations within the Code
- Identify those activities that would and would not impair a member's independence
- Differentiate between interpretations applicable to members in public practice, members in business, and other members

Timed Outline:

- Course Overview 5 min
- Learning Objectives..... 5 min
- Introduction..... 5 min
- Organization of the Code..... 5 min
- Evolution of the Code 5 min
- Scope and Application of the Code..... 5 min
- Principles of Professional Conduct..... 10 min
- Review Questions 5 min
- Members in Public Practice..... 20 min
- Review Questions 5 min
- Rules for Members in Public Practice 5 min
- Integrity and Objectivity Rule..... 15 min
- Independence Rule 20 min
- Review Questions 5 min
- General Standards Rule..... 5 min
- Compliance with Standards Rule..... 5 min
- Accounting Principles Rule..... 5 min
- Acts Discreditable Rule..... 5 min
- Contingent Fees Rule 5 min
- Advertising and Other Forms of Solicitation Rule..... 5 min

• Confidential Client Information Rule.....	5 min
• Form of Organization and Name Rule	5 min
• Members in Business.....	15 min
• Other Members	5 min
• Review Questions	5 min
• Florida Statutes 473 & 455 Review	30 min
• Glossary	
• Solutions to Review Questions	
• Final Exam Questions.....	45 min
Total Minutes	240 min

Course Update Policy

At PDH Academy each course is annually reviewed by its instructor, as well as the subject area expert reviewer outside of the development team, to ensure that the course content is up to date and providing the most relevant information.

Standard of Conduct

Ethics course instructors will notify the ethics course provider of any disciplinary action taken against the instructor by the board.

Author Contract states:

In rendering service under this Agreement, author shall conform to high professional Standards of work and business ethics.

Matilde Miller, Interim Secretary

Rick Scott, Governor

February 24, 2017

Mastercpe LLC
7683 SE 27th St
Suite 216
Mercer Island, WA 98040

Re: Board of Accountancy
Ethics Course Application Number: 241, Profession: 0107

To Whom It May Concern:

The Committee on Continuing Professional Education will review your application at the following date, time and place:

DATE AND TIME: Monday, March 13, 2017 at 9:00 A.M.
or as soon thereafter as can be heard

PLACE: Telephone Conference Call
Conference Number: 888-670-3525
Conference Code: 4694532213

This is an open meeting and you are welcome to attend.

If you have any questions, please call the number above.

State of Florida
Department of Business and Professional Regulation
Board of Accountancy
Continuing Education Ethics Provider Approval Application
Form # DBPR CPA 10

RECEIVED
CIU Mail Intake
Stamp #1
JAN 30 2017

If you have any questions or need assistance in completing this application, please contact the Department of Business and Professional Regulation, Customer Contact Center, at 850.487.1395.
For additional information see the Instructions at the end of this application.

Section I – Application Types

CHECK ONE OF THE APPLICATION TYPES
<input type="checkbox"/> Continuing Education Ethics Provider – Individual [0106/1030]
<input type="checkbox"/> Continuing Education Ethics Provider – Organization [0106/1030]
<input checked="" type="checkbox"/> Continuing Education Ethics Provider Renewal [0106/2020]

Section II – Applicant Information

PERSONAL INFORMATION (Provider/Owner)				
Last Name	First	Middle	Title	Suffix
Schulte	Scott	K	President	
Company/Organization Name				
Master CPE LLC				
Social Security Number (if applying as an Individual)*				
Federal Employer ID Number (if applying as an Organization)				
27-1314225				
GENERAL IDENTIFICATION				
Select one of the following:				
<input type="checkbox"/> Individual seeking provider status				
<input type="checkbox"/> Organization seeking provider status				
<input checked="" type="checkbox"/> Provider seeking renewal – Provider Number: 000623				
Is Provider approved by any other board within the Department of Business and Professional Regulation to provide continuing education?				
<input type="checkbox"/> Yes				
<input checked="" type="checkbox"/> No				
If yes, what is the provider approval number?				
MAILING ADDRESS				
Company Name				
Master CPE LLC				
Street Address or P.O. Box				
Suite 216, 7683 SE 27th St				
City		State	Zip Code (+4 optional)	
Mercer Island		WA	98040	
County (if Florida address)		Country		
		USA		
BUSINESS LOCATION ADDRESS (IF DIFFERENT THAN MAILING ADDRESS)				
Street Address				
City		State	Zip Code (+4 optional)	
County (if Florida address)		Country		

Section II – Applicant Information- continued

CONTACT INFORMATION				
Last Name (Authorized Representative)	First	Middle	Title	Suffix
Schulte	Scot	K	President	
Primary Phone Number 800-957-7379		Primary E-Mail Address support @ mastercpe.com		
ADDITIONAL CONTACT INFORMATION (OPTIONAL)				
Alternate Phone Number		Fax Number		
Alternate E-Mail Address				

* The disclosure of your social security number is mandatory on all professional and occupational license applications, is solicited by the authority granted by 42 U.S.C. §§ 653 and 654, and will be used by the Department of Business & Professional Regulation pursuant to §§ 409.2577, 409.2598, 455.203(9), and 559.79(3), Florida Statutes, for the efficient screening of applicants and licensees by a Title IV-D child support agency to assure compliance with child support obligations. It is also required by § 559.79(1), Florida Statutes, for determining eligibility for licensure and mandated by the authority granted by 42 U.S.C. § 405(c)(2)(C)(i), to be used by the Department of Business & Professional Regulation to identify licensees for tax administration purposes.

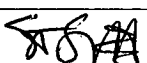
Section III – Provider Eligibility Status

PROVIDER ELIGIBILITY STATUS	
<input type="checkbox"/>	Regionally Accredited Educational Institution
<input checked="" type="checkbox"/>	Commercial Educator
<input type="checkbox"/>	Governmental Agency
<input type="checkbox"/>	State or National Certified Public Accounting Professional Association
<input type="checkbox"/>	Certified Public Accountant License Number:
<input type="checkbox"/>	Certified Public Accounting Firm License Number:

Section IV – Additional Materials

Applicants must submit the following additional materials:	
<input type="checkbox"/>	A description of the ethics course;
<input type="checkbox"/>	A description of staffing capabilities;
<input type="checkbox"/>	A sample of intended course materials;
<input type="checkbox"/>	A list of anticipated locations to conduct the courses;
<input type="checkbox"/>	A complete course curriculum;
<input type="checkbox"/>	A description of how the applicant will update the course in response to rule or law changes;
<input type="checkbox"/>	Documentation that ethics course instructors will notify the ethics course provider of any disciplinary action taken against the instructor by the Board.

Section V – Affirmation by Written Declaration

AFFIRMATION BY WRITTEN DECLARATION	
<p>I certify that I am empowered to execute this application as required by Section 559.79, Florida Statutes. I understand that my signature on this written declaration has the same legal effect as an oath or affirmation. Under penalties of perjury, I declare that I have read the foregoing application and the facts stated in it are true. I understand that falsification of any material information on this application may result in criminal penalty or administrative action, including a fine, suspension or revocation of the license.</p>	
Signature:	
Date:	1/26/17
Print Name:	Scot Schulte

ADDITIONAL MATERIALS

Description of Ethics Course

Please see that enclosed description document entitled "Ethics for Florida CPAs – Course Description".

Description of staffing capabilities

MasterCPE licenses its CPE courses from well-known CPE course authors who have PhDs, CPA and EA licenses. MasterCPE also has both CPAs and Enrolled Agents on staff available to review course material prior to posting on our website. The ethics course was authored by Dr. Jae Shim, a PhD graduate from UC Berkeley who was a professor at Cal State Long Beach for over 30 years and has authored over 50 courses.

A Sample of Intended Course Materials

Please see the enclosed course entitled "Ethics for Florida CPAs - Course", along with the attached final exam.

A List of Anticipated Locations to Conduct the Course

The course will be available at our website: www.MasterCPE.com. Florida CPAs can access the course at our website from anywhere in the United States.

A Complete Course Curriculum

For the Ethics for Florida CPAs course, please see the course description and the enclosed course material.

To see a complete list of all the courses that MasterCPE offers, please visit the website and select the "Browse Courses" button. MasterCPE offers approximately 200 different courses.

A Description of How the Applicant will Update the Course in Response to Rule or Law Changes

MasterCPE will update the material on an annual basis to include any revisions to the Florida State Board rules or laws. The updates will include as necessary changes to both text and questions.

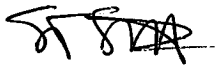
MasterCPE LLC
Suite 216, 7683 SE 27th St
Mercer Island, WA 98040

Dear State of Florida Board of Accountancy,

As per Section IV of the Continuing Education Ethics Provider Application Form:

We state that ethics course instructors will notify the ethics course provider of any disciplinary action taken against the instructor by the Board.

Sincerely,

A handwritten signature in black ink, appearing to read "Scot Schulte", with a horizontal line drawn through the end of the signature.

Scot Schulte
President
MasterCPE LLC

Ethics for Florida CPAs

Course Description

This is an ethics course designed for Florida CPAs covering standards of professional conduct and business practices adhered to by accountants such as CPAs in order to enhance their profession and maximize idealism, justice and fairness when dealing with the public, clients and other members of their profession. It also presents an approach --the threats and safeguards approach --to coping with ethical dilemmas.

Chapter 3 covers Florida Ethics, including a review of key sections within Chapter 61H1: *Administrative Code*, Chapter 473: *Regulation of Professions and Occupations – Public Accountancy*, and Chapter 455: *Business and Professional Regulation: General Provisions*.

Completion Deadline & Exam: This course, including the examination, must be completed within one year of the date of purchase. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

Course Level: Overview. This program is appropriate for professionals at all organizational levels.

CPE Credits: 4 (CPA)

Category: Ethics

Prerequisite: None

Advanced Preparation: None

Course Learning Objectives

Chapter 1: Ethics and Ethical Reasoning

After studying this chapter you will be able to:

1. Recognize ethical reasoning used by accountants.

Chapter 2: AICPA Code of Professional Conduct

After studying this chapter you will be able to:

1. Identify different principles and rules of the AICPA Code of Professional Conduct.
2. Identify independence and objectivity issues.
3. Recognize ethical standards and violations.

Chapter 3: Florida Ethics

After studying this chapter you will be able to:

1. Recognize Florida Administrative Codes for the Public Accounting profession, including key sections from within Chapter 61H1-19 thru 39 Board of Accountancy Rules.
2. Identify key sections of the Florida Statutes, including Chapter 455 *Business and Professional Regulation: General Provisions*, and Chapter 473, *Regulation of Professions and Occupations - Public Accountancy*.

**ETHICS FOR FLORIDA:
FINAL EXAMINATION**

1. What is the main reason for ethical guidelines?

- A. To provide an exact solution to every problem
- B. To set the statutes, rules, and regulations
- C. To aid in the decision-making process
- D. To help attain success in the profession

2. In applying the 6 principles of the AICPA code of professional conduct, which one is especially critical for CPAs when they are providing attest services?

- A. Independence
- B. Scope
- C. Due care
- D. Integrity

3. Which of the following AICPA Rules of Conduct applies only to members in the practice of public accounting?

- A. Compliance with Standards
- B. General Standards
- C. Accounting Principles
- D. Contingent fees

4. Responsibility is a critical principal in the accounting profession. Which of the following statements best explains the term?

- A. Acting to benefit the public interest, honor the public trust and demonstrate commitment to professionalism.
- B. A reputation for competence and character.
- C. Exercising both sensitive professionalism and moral judgments in all their activities.
- D. A requirement for a professional to strive for improved competence and quality service.

5. Which of the following most completely describes how independence has been defined by the accounting profession?

- A. Performing an audit from the viewpoint of the public.
- B. Avoiding the appearance of significant interests in the affairs of an audit client.
- C. Possessing the ability to act with integrity, objectivity, and professional skepticism.
- D. Accepting responsibility to act professionally and in accordance with a professional code of ethics.

6. What type of threat happens when a member promotes a client or employer's position to the point that his or her objectivity is compromised?

- A. Self-interest threat
- B. Familiarity threat
- C. Advocacy threat
- D. Self-review threat

7. When can a CPA subordinate his or her professional judgment to that of others?

- A. Never
- B. In every audit engagement
- C. In every engagement except tax services
- D. In every engagement except management advisory services

8. Mark is the executive partner of Matthews & Co., CPAs. One of its smaller clients is a large nonprofit charitable organization. The organization has asked Mark to be on its board of directors, which consists of a large number of the community's leaders. Membership on the board is honorary. When would Matthews & Co. be considered to be independent?

- A. Under no circumstances
- B. As long as Mark's directorship was disclosed in the organization's financial statements
- C. As long as Mark was not directly in charge of the audit
- D. As long as Mark does not perform or give advice on management functions of the organization

9. According to the profession's ethical standards, an auditor is considered independent in which of the following instances?

- A. The auditor's checking account, which is fully insured by a federal agency, is held at a client financial institution.

- B. The auditor is also an attorney who advises the client as its general counsel.
- C. A member donates service as treasurer of a charitable organization that is a client during the period covered by the financial statements.
- D. The client owes the auditor fees for two consecutive annual audits.

10. A Florida CPA has made a departure in a set of financial statements that does not comply with GAAP. The CPA did this because he believes that the statements would be misleading without the departure. The CPA should disclose all of the following items EXCEPT:

- A. A description of the departure
- B. The approximate effects of the departure in comparison to the application of GAAP
- C. Other examples or rulings where the departure was used and approved by the AICPA
- D. The reasons compliance would have been misleading

11. CPAs must always be aware of confidentiality rules. Which of the following is a situation where a CPA cannot disclose confidential client information WITHOUT the consent of the client?

- A. When disclosure is required by a court order
- B. When requested by the client's financial institution
- C. When the CPA is undergoing a peer review
- D. When required by the state board

12. According to the ethical standards of the profession, which of the following acts is generally prohibited?

- A. Purchasing a product from a third party and reselling it to a client.
- B. Writing a financial management newsletter promoted and sold by a publishing company.
- C. Accepting a commission for recommending a product to an audit client.
- D. Accepting engagements obtained through the efforts of third parties.

13. Which of the following statements is TRUE?

- A. A Florida CPA may receive a contingent fee for an audit.
- B. A Florida CPA may prepare an original tax return for a contingent fee.
- C. A Florida CPA may receive a fee that varies depending on the complexities of the services.
- D. A Florida CPA may compile a financial statement for third party use for a contingent fee.

14. A Florida CPA must comply with all of the following standards for competence EXCEPT:

- A. A CPA must undertake only those engagements which he or his firm can reasonably expect to complete with professional competence.
- B. A CPA must obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations.
- C. A CPA must exercise due professional care in the performance of an engagement.
- D. Senior management must supervise all public accounting services performed by the firm.

15. Which of the following statements about working papers is INCORRECT?

- A. A memorandum written by the CPA's employee is the property of the CPA.
- B. Schedules used by the CPA to analyze the client's information are the property of the CPA.
- C. The CPA is under no obligation to fulfill a client's request for critical supporting records.
- D. The CPA may charge the client a reasonable amount for providing copies of the working papers.

16. Which of the following statements regarding the Florida Board of Accountancy is FALSE?

- A. There are 9 members on the board.
- B. At least one member must be 60 years old.
- C. 7 of the board members must be licensed CPAs in the state of Florida.
- D. Members are appointed by the Senate.

17. Which of the following statements is FALSE?

- A. Only CPA's can own interest in a CPA firm.
- B. A firm may use the designation "& Associates" or "& Company" if there are 2 or more CPAs.
- C. A sole proprietorship is still considered part of a firm.
- D. A firm must not use a misleading or deceptive name.

18. Which of the following statements is FALSE?

- A. Florida CPAs must complete 80 hours of CPE every two years.
- B. Florida CPAs must take an ethics course from a state board approved provider.
- C. Florida CPAs must not take more than 20 hours in behavioral subjects, such oral and written communication, social environment of business, or administration of a public accounting practice.
- D. CPAs must complete at least 30 hours of accounting and auditing related CPE every renewal cycle.

19. A disciplinary action may be taken for all of the following EXCEPT:

- A. Dishonesty in the practice of public accounting.
- B. Misleading advertising.
- C. Tax preparation fees undercutting the local market rates.
- D. Conviction of any crime regarding fraud.

20. All of the following are conduct discreditable to the accounting profession EXCEPT:

- A. Using deceptive representations in connection with the performance of services.
- B. Representing that services are of a particular standard when they are not.
- C. Implying the ability to influence improperly any court, tribunal or other public body or official.
- D. Representing the facts to the best of a CPA's knowledge.

Answer Key (do not distribute)

1	C
2	A
3	D
4	C
5	C
6	C
7	A
8	D
9	A
10	C
11	B
12	C
13	C
14	D
15	C
16	D
17	A
18	D
19	C
20	D

Ethics for Florida CPAs

Ethics for Florida CPAs

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Portions of Chapter 3 are from the Florida State Board Rules and Regulations.

Course Description

This is an ethics course designed for Florida CPAs covering standards of professional conduct and business practices adhered to by accountants such as CPAs in order to enhance their profession and maximize idealism, justice and fairness when dealing with the public, clients and other members of their profession. It also presents an ethical overview, the AICPA Code of Professional Conduct and the threats and safeguards approach to coping with ethical dilemmas.

Chapter 3 covers Florida Ethics, including a review of key sections within Chapter 61H1: *Administrative Code*, Chapter 473: *Regulation of Professions and Occupations – Public Accountancy*, and Chapter 455: *Business and Professional Regulation: General Provisions*.

Field of Study	Ethics
Level of Knowledge	Overview
Prerequisite	None
Advanced Preparation	None
CPE Hours	4

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Chapter 1:

Ethics and Ethical Reasoning

Learning Objectives

After studying this chapter, you will be able to:

- Recognize ethical reasoning used by accountants.
-

Ethics is the “science of morals”. A moral is an accepted rule or standard of human behavior. The understanding of “accepted” is “accepted by society”, and accepted only insofar as the behavior in question being behavior that affects others in the society, even if only indirectly. The implication of this definition is therefore that private actions that have no impact on others are a matter for personal morality, which is not of business or organizational concern.

However, the distinction between personal morality and business morality may not always be so clearly defined. This is because individuals bring personal values to their jobs and to the real or perceived problems of moral choice that confront them at work. Moral choices sometimes must be made because of tensions within individuals, between individuals, or between individuals and what they believe to be the values that drive their organizations.

Furthermore, business organizations do not operate in a social vacuum. Because of the ways business organizations can and do affect the lives and livelihoods of society at large, some would argue that business organizations are kind of “moral agents” in society. Therefore managers and general public alike often wrestle with defining exactly what constitutes the ethical way of doing business, and what constitutes proper constraints on individual self-interests, and by whom shall these constraints be imposed.

A further complexity results from the fact that businesses are increasingly becoming global in nature. Different countries have or seem to have vastly different customs and values. Understanding and assessing whether and how these different cultural and ethical conflicts should be taken into account is often most difficult.

Attitudes toward ethics

AMORAL:	Condone any actions that contribute to the corporate aim. Getting away with it is the key. No set of values other than greed.
LEGALISTIC:	Obey the letter of the law but not the spirit of it, especially if it conflicts with profits. Ethics ignored until it becomes a problem
RESPONSIVE:	Take the view that there is something to gain from ethical behavior, Using ethics as a tool to attain corporate aim.
EMERGING:	Ethical values becoming part of the culture. Codes of ethics being action documents, and likely to contain statements reflecting core value,
ETHICAL:	Total ethical profile. Everything done is ethical, and the right thing always done by everyone. The ideal.

In general, a key focus of ethics is the concept of integrity (or honesty). Integrity in broad terms will imply that no business-persons in the course of their business functions should be party to the falsification of any facts or information or make any statement which knowingly is misleading, false or deceptive in a material particular. Another major focus of ethics is professional competence and due care, which implies that business professionals should always perform their functions in accordance with law and regulations. In other words, business transactions and professional functions should not be undertaken unless one possesses the required competence and technical skills.

A more controversial focus is the area of freedom from conflicts of interests. The preferred position of many is that one should always avoid concurrent involvement in any business, occupation or activity, which might result in the compromising of integrity, objectivity and independence of decision making.

In defining law and ethics and their relationship to each other, it is necessary to distinguish between moral and legal rights and duties. Morally, a person's rights consist of claims that he can justly make to the conditions of well-being; his duties consist of what he can justly contribute to well-being. Legal rights and duties - that is, claims and obligations enforceable at law - may or may not be fully in harmony with prevalent moral opinion systems in which law and ethics and religion are closely interwoven. The impact of moral opinion on law varies with the type of political structure and influence of public opinion.

In free societies, the ultimate justification of law is that it serves moral ends. However, the dependence of law on moral principles must not be taken to imply that there is a set of moral principles, which can be laid down for guidance. However, most free societies are coming to be more or less consistent in principles that draw the line between law and morals. The task of ethics becomes two-fold: to bring out what is involved in the notion of a principle or norm of action and to recognize ideals that serve as agencies of guidance and control.

A number of consistent principles recognized in modern society are the individual, responsibility and equity. The end of law is to secure the greatest possible general individual self-assertion. In the Judeo-Christian ethic, responsibility is a given: the best ordering of human society in which the individual may come to full manhood and satisfying existence. On the basis of equitable doctrine, we can say confidently that morality is inseparable from the legal order; that right and wrong is part of the legal order.

Ethical Reasoning and Accountants

The largest part of the prior research projects which have been done on ethical issues in accounting have generally avoided theoretical discussions about "right and wrong" or "good and bad" choices. Instead, they have focused on determining whether or not accountants are abiding by the rules of professional conduct. There are basically two principles used to resolve ethical dilemmas, related to CPAs, which are utilitarianism and rule deontology.

Utilitarianism (teleological ethics)	The promotion that the best long-term interest of everyone concerned should be the moral standard: one should take those actions that lead to the greatest balance of good versus bad consequences
Deontology (Kantian ethics)	It deals with the concept of duty and the rightness of acts. It emphasizes maxims, duties, rules, and principles that are so important that they should be followed whatever the consequences.

In utilitarian, the focus is based on the consequences of an action rather than abiding by rules. Deontology, on the other hand, focuses on just the opposite. Under Deontology principles, an accountant would be more concerned with abiding by rules of professional conduct no matter what the consequences.

For example, a 2008 study published in *The CPA Journal* attempted to determine how accountants, specifically auditors, used ethical reasoning when confronted with issues related to client confidentiality. Rule 1.700, Confidential Client Information, of the AICPA's Code of Professional Conduct states that a member in public practice cannot disclose confidential client information without the client's consent. However, this Rule does not affect a CPA's obligations:

1. To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations
2. To discharge his/her professional obligations properly under Rules 1.310 and 1.320
3. To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization
4. To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy

In the study, a survey consisting of three different circumstances was sent to 100 randomly selected CPA's. Each CPA was asked to respond to each circumstance described using the following guide:

1. To inform or not inform a third party of confidential client information, and
2. To indicate which response given in 1) was considered "good ethical behavior" if the Code was disregarded. Respondents were also asked to provide justification for their answers.

The following are the circumstances they were given:

"Scenario 1: James Corporation employs the regional CPA firm of Green and Cash to audit its financial statements. The firm has been asked to prepare quarterly financial statements. Bob Ethics, a staff accountant, was assigned to do the work. During the course of preparing the statements, Bob discovered that James Corporation materially understated net income on last year's tax return. Bob informed his supervisor about this and the client is asked to prepare an amended tax return. The client, however, refused to take corrective action.

Scenario 2: Johnson Manufacturing Corporation is a publicly owned company that manufactures equipment used by hospitals and medical laboratories. The company is audited by the national accounting firm of Adams & Pitre. One day, John, the senior in charge of the engagement overheard a conversation between two managers indicating that although they met inspection standards, they were aware of a defect in a particular piece of equipment, but they had not notified any of their customers because they felt the probability of malfunction was low. John takes this information to the controller and is told not to include it in the audit report. He then takes it to the manager on the engagement. The manager informs University Hospital, one of its clients, and also a major customer of Johnson Manufacturing Corporation, not to purchase any more equipment from Johnson. Johnson sues Adams & Pitre for violating the confidentiality rule.

Scenario 3: William Johnson, a CPA, served as a director of Last National Bank for a year. As a director, William may be held liable for damages if he fails to use care and prudence in administering bank affairs and such action causes the bank to suffer a financial loss. In the course of an audit, William discovered a seriously weakened financial position in a client who has a large loan at Last National Bank. Disclosure of

this condition to the other bank directors would minimize the bank's loss, however, since the audit has not been completed, this would represent a violation of Rule 1.700 of the Code.¹

According to the study, the following were the results, conclusions and implications:

Scenario 1: Given a Code, most (78%) respondents would not inform the IRS. This is in agreement with the rule of conduct. Although the variability increased, most CPAs (70%) in this situation would make the same decision without a Code. This is consistent with the justification given that most CPAs perceived themselves to be an advocate of the client in a tax engagement. There was no perceived conflict in the rule of conduct and what most accountants perceived as good ethical behavior.

Scenario 2: Most CPAs (78%) responding in this situation would adhere to the Code and not inform one client of information discovered while auditing another client. A large percentage (52%) of respondents, however, indicated that informing would be the "best ethical behavior." In most instances, "potential safety concerns" were cited as the justification for considering informing as the "best ethical behavior." Thus, there appears to be some conflict in adhering to the Code and the moral value of some CPAs.

Scenario 3: Given a Code, a majority (78%) of CPAs would not inform, which is in agreement with the Code. A lesser percentage (53%), however, feels this is the best ethical behavior.

Conclusions and Implications

The findings of this study indicate that CPAs usually adhere to the Code (rule deontology) in resolving issues involving confidentiality. However, such decisions are not always in accord with what they perceive as "good ethical behavior." The broad principles of the Code indicate that ethical conduct, in the truest sense, means more than abiding by a letter of a rule. It means accepting a responsibility to do what is honorable or doing that which promotes the greatest good to the greatest number of people, even if it results in some personal sacrifice. Somehow, the profession needs to emphasize the "greatest good" criterion more strongly in applying the rules of conduct."

Ethical Dilemmas in Accounting

Deciding how to handle ethical dilemmas is an important part of the accounting profession. Individuals in the accounting profession have a considerable responsibility to the general public. Accountants provide information about companies that allow the public to make investment decisions for retirement, a child's education and major purchases such as a home. For the public to rely on the information provided, there must be a level of confidence

¹ "Ethical reasoning in confidentiality decisions," by Barbara L. Adams, Fannie L. Malone, and Woodrow James, Jr., *The CPA Journal*, July 2008

in the knowledge and behavior of accountants. Ethical behavior is necessary in the accounting profession to prevent fraudulent activities and to gain public trust.

The main reason for ethical guidelines is not to provide an exact solution to every problem, but to aid in the decision-making process. An established set of guidelines provides an accounting professional with a compass to direct him toward ethical behavior. Specific responsibilities of the accounting profession are expressed in the various codes of ethics established by the major organizations such as the American Institute of CPAs. The AICPA Code of Professional Conduct outlines an accountant's responsibilities towards the public interest and emphasizes integrity, objectivity and due care.

The effects of ethical behavior in accounting are far reaching in the economy. Every business entity has an accounting professional provide information at some point in the organization's life cycle. Many accounting professionals are tempted to alter financial results and often rationalize the behavior by calling it creative or aggressive accounting. Aggressive accounting is the process of employing questionable accounting methods to boost results. An accountant may record revenues and expenses in an incorrect manner or omit expenses altogether. Repeated incidences of aggressive accounting are a result of the lack of ethical behavior.

Example

A common example of an ethical dilemma involves management instructing a subordinate employee to record a transaction in an incorrect manner. For instance, a company with a Dec. 31 year-end calendar year, signs contracts with consumers to perform services. The contracts are usually signed Dec. 1 and are a year in length. Accounting principles require the company to record the revenue for the contract for one month only, the month of December. The remainder of the revenue is recognized on next year's financial statements. However, management instructs an employee to record the entire amount of the contract in December to boost revenues for the current year end. Management receives a bonus for the boosted revenue and the subordinate receives recognition in an upcoming performance review.

Solutions

Unfortunately, ethical dilemmas, such as the example provided, are common. To help curb the desire to practice aggressive accounting and ignore ethical behavior, a number of organizations require accounting professionals to complete continuing professional education courses on ethics. In addition, a number of companies establish whistleblower hotlines to encourage employees to demonstrate honesty and integrity in the workplace.

Chapter 1 Review Questions

1. All of the following are a major focus of ethics EXCEPT:

- A. Integrity
- B. The compromising of integrity, objectivity and independence of decision making.
- C. Professional competence and due care
- D. Freedom from conflicts of interest

Chapter 2:

AICPA Code of Professional Conduct

Learning Objectives

After studying this chapter, you will be able to:

- Identify different principles and rules of the AICPA *Code of Professional Conduct*.
 - Identify independence and objectivity issues.
 - Recognize ethical standards and violations.
-

This chapter covers the AICPA's *Code of Professional Conduct*. It presents a condensed but comprehensive summary of the AICPA Code of Conduct, along with summaries of AICPA Ethics Interpretations for the 11 Rules of Conduct. It also explains the *threats and safeguards approach* to resolve ethical dilemmas faced by accountants. The final section illustrates some cases of ethics violations.

AICPA's Code of Professional Conduct

AICPA's *Code of Professional Conduct* consists of four sections:

- Preamble: Applicable to All Members
- Part 1: Members in Public Practice
- Part 2: Members in Business
- Part 3: Other Members

Members in business (not public practice), should review Part 2 of the AICPA code for the subset of requirements.

The code includes the following:

- *Principles*. The 6 principles establish ideal standards of ethical conduct stated in philosophical terms. They express the profession's recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable

behavior, even at the sacrifice of personal advantage. There are *six* principles that are goal-oriented but *nonbinding*.

- *Rules of conduct.* These rules are the minimum standards of ethical conduct stated as specific rules. There are *eleven* rules of conducts that are *enforceable (binding)*.
- *Interpretations.* Interpretations of rules are intended to clarify the rules of conduct. They are not officially enforceable, but a practitioner must justify any departure.

Exhibit 1 - The Six Principles

<i>The Six Principles</i>		
1	0.300.020	Responsibilities
2	0.300.030	The Public Interest
3	0.300.040	Integrity
4	0.300.050	Objectivity and Independence
5	0.300.060	Due Care
6	0.300.070	Scope and Nature of Services

The first five of these principles are equally applicable to all members of the AICPA, regardless of whether they practice in a CPA firm, work as accountants in business or government, are involved in some other aspect of business, or are in education. One exception is the principle of independence. It applies only to members in public practice, and then only when they are providing attestation services such as audits. The sixth principle, scope and nature of services, applies only to members in public practice.

Exhibit 2 - The Eleven Rules of Conduct

<i>The Eleven Rules of Conduct</i>		
1	1.100, 2.100	Integrity and Objectivity
2	1.200	Independence
3	1.300, 2.300	General Standards
4	1.310, 2.310	Compliance with Standards
5	1.320, 2.320	Accounting Principles
6	1.400, 2.400	Acts Discreditable
7	1.510	Contingent Fees
8	1.520	Commissions and Referral Fees
9	1.600	Advertising and Other Forms of Solicitation
10	1.700	Confidential Client Information
11	1.800	Form of Organization and Name

Note: Rules in Chapter 1 (1.xxx) are applicable to members in public practice and Chapter 2 rules (2.xxx) are applicable to members in business.

Summaries of the Six Principles

Responsibilities. In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities. Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance.

The Public Interest. Members should act to benefit the public interest, honor the public trust, and demonstrate commitment to professionalism. The AICPA adopted the ethical standards because a distinguishing mark of a profession is an acceptance of responsibility to the public.

Integrity. Members should perform all professional responsibilities with the highest sense of integrity to maintain public confidence. Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage.

Objectivity and Independence. A member should maintain objectivity and be free of conflicts of interest. A member in public practice should be independent in fact and appearance when providing attestation services. Objectivity is a state of mind, a quality that lends itself to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. *Independence of mind* is the state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. *Independence in fact* is the member's ability to take an unbiased viewpoint in the performance of professional services. *Independence in appearance* is the avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest engagement team had been compromised.

Due Care. A member should follow the profession's technical and ethical standards, strive for improved competence and quality services, and discharge professional responsibility to the best of the member's ability. Members must adequately plan and supervise any activity for which they are responsible.

Scope and Nature of Services. A member in public practice should follow the Principles of the *Code of Professional Conduct* in determining the nature and scope of services.

Conceptual Framework – Threats and Safeguards Approach

The threats and safeguards approach can help members comply with the rules in situations not explicitly addressed in the code. It is an approach that the AICPA's Professional Ethics Executive Committee also uses when developing the code's interpretations and rulings.

The threats and safeguards approach identifies threats to compliance with the rules and evaluates the significance of those threats. If a threat is not at an acceptable level, members should determine whether safeguards can eliminate or reduce the threat to an acceptable level and, if so, apply such safeguards or, if not, avoid the situation that creates the threat. Members should evaluate in-the-aggregate a situation with multiple threats since the cumulative effect could be at an unacceptable level.

Identifying threats. Members often face risks of encountering relationships or circumstances that could compromise compliance with the roles (in other words, threats) in their duties or work environments.

Six threat categories are identified to help members identify and develop sensitivity to potential threats:

1. *Self-review threat.* The threat that a member will not appropriately evaluate the results of prior services performed by the member himself or herself, or by an individual in the member's firm or employing organization.
2. *Advocacy threat.* The threat that a member will promote a client or employer's position to the point that his or her objectivity is compromised.
3. *Adverse interest threat.* The threat that a member will not be objective because his or her interests are in opposition to those of a client or employer.
4. *Familiarity threat.* The threat that because of a long or close relationship with a client or employer, a member will become too sympathetic to their interests or too accepting of their work.
5. *Undue influence threat.* The threat that a member will subordinate his or her judgment to that of an individual associated with a client, employer or other relevant third party because of the individual's (1) reputation or expertise, (2) aggressive or dominant personality, or (3) attempts to coerce or exercise excessive influence over the member.
6. *Self-interest threat.* The threat that a member will act in a manner that is adverse to the interests of his or her firm, employer, client or the public, as a result of the member or his or her close family member's financial interest in or other relationship with a client or the employer.

Examples of Threats to Compliance with AICPA Rules of Conduct

Adverse Interest Threat
a. The client has expressed an intention to commence litigation against the member.

- b. A client or officer, director, or significant shareholder of the client participates in litigation against the firm.
- c. A subrogee asserts a claim against the firm for recovery of insurance payments made to the client.
- d. A class action lawsuit is filed against the client and its officers and directors and the firm and its professional accountants.

Advocacy Threat

- a. A member provides forensic accounting services to a client in litigation or a dispute with third parties.
- b. A firm acts as an investment adviser for an officer, a director, or a 10 percent shareholder of a client.
- c. A firm underwrites or promotes a client's shares.
- d. A firm acts as a registered agent for a client.
- e. A member endorses a client's services or products.

Familiarity Threat

- a. A member's immediate family or close relative is employed by the client.
- b. A member's close friend is employed by the client.
- c. A former partner or professional employee joins the client in a key position and has knowledge of the firm's policies and practices for the professional services engagement.
- d. Senior personnel have a long association with a client.
- e. A member has a significant close business relationship with an officer, a director, or a 10 percent shareholder of a client.

Self-Interest Threat

- a. The member has a financial interest in a client, and the outcome of a professional services engagement may affect the fair value of that financial interest.
- b. The member's spouse enters into employment negotiations with the client.
- c. A firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee.
- d. Excessive reliance exists on revenue from a single client.

Self-Review Threat

- a. The member relies on the work product of the member's firm.
- b. The member performs bookkeeping services for a client.
- c. A partner in the member's office was associated with the client as an employee, an officer, a director, or a contractor.

Undue Influence Threat

- a. The firm is threatened with dismissal from a client engagement.
- b. The client indicates that it will not award additional engagements to the firm if the firm continues to disagree with the client on an accounting or tax matter.
- c. An individual associated with a client or any relevant third party threatens to withdraw or terminate a professional service unless the member reaches certain judgments or conclusions.

Evaluating the significance of a threat. The existence of a threat does not necessarily mean noncompliance with the rules; rather, members should evaluate a threat's significance by considering whether a reasonable and informed third party, weighing all quantitative and qualitative facts and circumstances, would likely conclude that the threat would compromise the member's compliance with the rules. If this evaluation finds that the threat would not compromise a member's compliance, the threat is at an acceptable level, requiring no further evaluation under the guide. If the evaluation finds the threat at an unacceptable level, the member should identify and apply appropriate safeguards.

Identifying and applying safeguards. Safeguards are controls that mitigate or eliminate threats to independence. Required or prohibited actions and internal control measures can serve as safeguards to eliminate or reduce threats to acceptable levels. The profession, legislation and public regulations create some safeguards for all members. Employers implement other safeguards in the specific work environment. Members in public practice also may consider their client's safeguards when evaluating the significance of a threat.

Examples of safeguards and associated threats they might reduce are:

1. Peer reviews (actions required by the profession) that consider appropriate reliance on external evidence in attest engagements reduce undue influence threats.
2. Periodic rotations of senior members on an attest engagement (actions required by Sarbanes-Oxley legislation or a firm's internal controls) reduce familiarity threats.
3. Limitations of services to clients whose billings would be significant to the firm (actions prohibited by a firm's internal controls) reduce undue influence and self-interest threats.
4. Avoiding joint ventures with a client (actions prohibited in a firm's internal controls) reduces advocacy and self-interest threats.
5. Corporate governances that restrict certain services by the corporation's external auditors (actions prohibited by the client's internal controls) reduce self-review threats.
6. Corporate policies that stress ethical behavior and provide channels to discuss ethical issues without fear of retribution (workplace internal controls, "tone at the top") reduce undue influence threats.

Determining which safeguard to apply requires judgment, since a safeguard's effectiveness can vary from one environment to another. Members should analyze a particular situation's facts and circumstances, identify significant threats and then design safeguards, considering:

- The safeguard's objective.
- Parties who will be subject to the safeguard.
- How the safeguard will be applied (for example, uniformly, consistently, objectively).
- Who will apply the safeguard (for example, a third party, a supervisor, a computer).

A threat is reduced to an acceptable level if, after applying safeguards, a reasonable and informed third party would likely conclude that compliance with the rules is not compromised.

What if there are no effective safeguards? A threat may be so significant that no safeguard can eliminate or reduce it to an acceptable level. If so, providing the specific professional or employee service will likely cause noncompliance with the rules. While declining or discontinuing the service would prevent a rules violation, the member should also consider the stronger response of resigning from the client or employment position.

Applying Threats and Safeguards Approach to Ethics Violation Cases

Case 1: Company controller Davidson, CPA, prepared his employers 2007 financial statements knowing that they misstated revenues. The company's CEO, who could fire Davidson at will, "strongly urged" Davidson to record sales at full invoice prices despite customers' fights to return merchandise long after a normal return period. Davidson's brother-in-law, a company in-house lawyer, wrote the sales contracts and assured Davidson that recording the full sales amounts was appropriate. After investigating the misstatement, the Illinois Department of Financial and Professional Regulation revoked Davidson's CPA certificate for "negligence in the preparation of financial statements" and "subordination of judgment" even though he was not in public practice.

Solution: CPA Davidson, whose boss urged him to record transactions contrary to GAAP and whose brother-in-law analyzed GAAP for him, should have referred to subordination interpretation that prescribes potentially confrontational actions when a member's interpretation of GAAP differs from those of his or her supervisors. However, with the "threats and safeguards" approach, the unwelcomed need to invoke the subordination Interpretation might have been avoided, as in this scenario: Davidson recognized the CEO's authority to fire him at-will as an *undue influence threat* and his brother-in-law's legal counsel as a *familiarity threat*. Davidson wrote a memo to his files discussing both threats and his belief that a reasonable and informed third party, weighing all the facts and circumstances, would likely conclude that the threats--separately and in the aggregate--compromise his compliance with rules Integrity and Objectivity, General Standards and Accounting Principles.

He considered actions or policies that might reduce the two threats to acceptable levels and wrote to the company's audit committee suggesting safeguards to protect his objectivity: (1) an officer's employment termination should require a due process hearing before an independent arbitrator, allowing the officer to respond to allegations; and (2) staff preparing financial statements cannot be related to staff generating transactions or related documents. The audit committee adopted the due process personnel policy and assigned Davidson's brother-in-law to other legal matters. Davidson properly deferred revenue recognition on the dubious sales in accordance with the provisions of ASC 605-15-25-1, *Revenue Recognition: Products* (FAS-48, *Revenue Recognition When Right of Return Exists*).

Case 2: The California Board of Accountancy disciplined Norman & Co., CPAs, (the firm's name and other facts have been modified) when it audited a bank's financial statements while the firm's consulting group concurrently

sold the client's debt consolidation services. The Board of Accountancy imposed a three-year CPA license probation plus frequent and costly peer reviews.

Solution: Two audit team members familiar with the AICPA's threats and safeguards approach knew that the firm's consulting group was negotiating a client-firm joint marketing venture and wrote memos identifying a *self-review threat*, *advocacy threat*, *self-interest threat* and independence issues. Their memo labeled the threats severe and urgent. The lead partner found that no safeguards could adequately reduce the threats to acceptable levels, and the firm immediately withdrew from the nonaudit activities.

Ethical Conflicts Unrelated to Threats

Members may confront ethical conflicts due to internal or external work-environment pressures or conflicts within professional standards unrelated to threats described above. For example, a member may encounter a fraud and feel ethically bound to report it; but reporting the fraud could breach Rule 301's mandate to maintain client confidentiality. To resolve such ethical conflicts and comply with the rules, the guide recommends that members:

1. Recognize and consider all relevant facts and circumstances, including applicable rules, laws or regulations,
2. Consider the ethical issues involved,
3. Consider established internal procedures, and then
4. Formulate alternative courses of action.

After weighing the consequences of each course of action, the member should select the course that best enables compliance with the rules. Before pursuing the selected course of action, the member may want to consult with legal counsel, applicable professional bodies and appropriate firm or employer personnel.

If the conflict remains unresolved after pursuing the selected course of action, the member should consider further consultation with those advisers to review the process and reach a different resolution. Members may be well-advised to document the ethical conflict's substance, details of discussions and suggested decisions.

What if there is no effective resolution? If, after exhausting all reasonable possibilities, the ethical conflict remains unresolved, members will probably not be in compliance with the rules if they remain associated with the matter creating the conflict. In this case, members should consider withdrawing from the engagement team or specific assignment, and perhaps consider the stronger response of resigning from the client or employment position.

Summaries of the Eleven Rules

1.100 - Integrity and Objectivity Rule

All members must maintain objectivity and integrity, be free of conflicts of interest, not knowingly misrepresent facts, and not subordinate his/her judgment to others when performing professional services.

Interpretations

1.110 Conflicts of Interest

A member or his or her firm may be faced with a conflict of interest when performing a professional service. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the "Integrity and Objectivity Rule" [1.100.001]. For example, threats may be created when

- a. the member or the member's firm provides a professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict, or
- b. the interests of the member or the member's firm with respect to a particular matter and the interests of the client for whom the member or the member's firm provides a professional service related to that matter are in conflict.

Certain professional engagements, such as audits, reviews and other attest services require independence. Independence impairments under the "Independence Rule" [1.200.001], its interpretations, and rulings cannot be eliminated by the safeguards provided in this interpretation or by disclosure and consent.

When a conflict of interest exists, the Integrity and Objectivity rule will not prohibit the service if disclosure is made to and permission is obtained from the appropriate parties. The member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their permission to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.

The following are examples of situations in which conflicts of interest may arise:

- a. Providing corporate finance services to a client seeking to acquire an audit client of the firm, when the firm has obtained confidential information during the course of the audit that may be relevant to the transaction
- b. Advising two clients at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
- c. Providing services to both a vendor and a purchaser who are clients of the firm in relation to the same transaction
- d. Preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
- e. Representing two clients at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
- f. Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
- g. Advising a client to invest in a business in which, for example, the immediate family member of the member has a financial interest in the business
- h. Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a competitor of the client
- i. Advising a client on the acquisition of a business which the firm is also interested in acquiring
- j. Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
- k. Providing forensic investigation services to a client for the purpose of evaluating or supporting contemplated litigation against another client of the firm
- l. Providing tax or personal financial planning services for several members of a family whom the member knows to have opposing interests
- m. Referring a personal financial planning or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement

Director Positions

When a member serves as a director of an entity, such as a bank, the member's fiduciary responsibilities to the entity may create threats to the member's compliance with the "Integrity and Objectivity Rule" and the "Confidential Client Information Rule".

For example, an adverse interest threat to the member's objectivity may exist if the member's clients are customers of the entity or likely to engage in significant transactions with the entity. A member's general knowledge and experience may be very helpful to an entity in formulating policies and making business decisions. Nevertheless, if the member's clients are likely to engage in significant transactions with the entity, it would be more appropriate for the member to serve as a consultant to the board. Under such an arrangement, the member could limit activities to those that do not threaten the member's compliance with these rules. If, however, the member serves as a board member, the member should evaluate the significance of any threats and apply safeguards, when necessary, to eliminate or reduce the threats to an acceptable level.

1.120 Gifts and Entertainment

When a member offers to a client or accepts gifts or entertainment from a client, self-interest, familiarity, or undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" may exist. Note: a client includes the client, an individual in a key position with the client, or an individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.

A member would be presumed to lack integrity in violation of the "Integrity and Objectivity Rule" in the following circumstances:

- a. The member offers to a client or accepts gifts or entertainment from a client that violate the member's or client's policies or applicable laws, rules, and regulations; and
- b. The member knows of the violation or demonstrates recklessness in not knowing.

Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. If a member offers to a client or accepts gifts or entertainment from a client that is not reasonable in the circumstances, the member would be presumed to lack objectivity in violation of the "Integrity and Objectivity Rule".

1.130 Preparing and Reporting Information

Knowing Misrepresentations in the Preparation of Financial Statements or Records

Threats to compliance with the "Integrity and Objectivity Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the member would be considered to have knowingly misrepresented facts in violation of the "Integrity and Objectivity Rule," if the member:

- a. makes, or permits or directs another to make, materially false and misleading entries in an entity's financial statements or records;
- b. fails to correct an entity's financial statements or records that are materially false and misleading when the member has the authority to record the entries; or
- c. signs, or permits or directs another to sign, a document containing materially false and misleading information.

Subordination of Judgment

The "Integrity and Objectivity Rule" prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services for a client, for an employer, or on a volunteer basis. This interpretation addresses differences of opinion between a member and his or her supervisor or any other person within the member's organization.

There is an old saying that "the boss is not always right but (s)he is always the boss." What must a member do when (s)he disagrees with the boss relative to an accounting matter? If a member and his/her supervisor have a dispute about statement preparation or recording of transactions, the member should do nothing if the supervisor's position is an acceptable alternative and does not materially misrepresent the facts.

1. If the member concludes that a material misstatement would result, (s)he should consult the appropriate higher level(s) of management and should consider documenting relevant matters.
2. If, after such discussions, the member concludes that action was not taken, (s)he should consider the continuing relationship with the employer, the obligation to communicate with third parties, and the desirability of consulting legal counsel.

1.140 Client Advocacy

Some professional services involving client advocacy may stretch the bounds of performance standards, go beyond sound and reasonable professional practice, or compromise credibility, thereby creating threats to the member's compliance with the rules and damaging the reputation of the member and the member's firm. If such circumstances exist, the member and member's firm should determine whether it is appropriate to perform the professional services.

1.150 Use of a Third-Party Service Provider

Clients might not have an expectation that a member would use a third-party service provider to assist the member in providing the professional services. *Therefore, before disclosing confidential client information to a third-party service provider, the member should inform the client, preferably in writing, that the member may use a third-party service provider.* If the client objects to the member's use of a third-party service provider, the member either should not use the third-party service provider to perform the professional services or should decline to perform the engagement.

A member is not required to inform the client when he or she uses a third-party service provider to provide administrative support services to the member (for example, record storage, software application hosting, or authorized e-file tax transmittal services).

1.200 - Independence Rule

A member in public practice should be independent when performing professional services as required by standards-setting bodies.

AICPA professional standards require your firm, including the firm's partners and professional employees, to be independent whenever your firm performs an attest service for a client. Attest services include the following:

- Financial statement audits
- Financial statement reviews
- Other attest services, as defined in Statements on Standards for Attestation Engagements

Performing a compilation of a client's financial statements does not require independence. However, if a nonindependent firm issues such a compilation report, the report should include an indication of the accountant's lack of independence.

You and your firm are not required to be independent to perform services that are not attest services (for example, tax preparation or advice or consulting services, such as personal financial planning) if they are the only services your firm provides to a client.

The AICPA rules apply to covered members. Covered members are defined as:

- a. an individual on the attest engagement team.
- b. an individual in a position to influence the attest engagement.
- c. a partner, partner equivalent, or manager who provides more than 10 hours of nonattest services to the attest client within any fiscal year. Designation as covered member ends on the later of (i) the date that the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) the date he or she no longer expects to provide 10 or more hours of nonattest services to the attest client on a recurring basis.
- d. a partner or partner equivalent in the office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement.
- e. the firm, including the firm's employee benefit plans.
- f. an entity whose operating, financial, or accounting policies can be controlled by any of the individuals or entities described in items a–e or two or more such individuals or entities if they act together.

1.240 Financial Interests

1. *Mutual funds.* Ownership of fund shares is a direct financial interest in the fund. Underlying investments in the fund are indirect interests. Materiality is evaluated if (a) the fund is not diversified, or (b) the covered member holds more than 5% of a diversified fund.
2. *Retirement, savings, or compensation plans.* Participation constitutes a direct financial interest in the plan. Investments of a plan sponsored by the member's firm are direct interests of the firm. Investments of a plan controlled or supervised by the member are the member's direct interests. Otherwise, they are indirect interests of the members. Investments in a defined benefit plan are not financial interests of the plan in the absence of control or supervision.
3. *Unsolicited financial interests.* Independence is not impaired if the interest in the client received (e.g., by gift or inheritance) is disposed of promptly (no more than 30 days after the member has the right of disposal). If the member has no such right, independence is impaired by a direct or material indirect interest unless (s)he (a) does not participate in the engagement and (b) disposes of the interest promptly after the right exists.
4. *Section 529 plans.* These plans are prepaid tuition or savings plans sponsored by states or colleges.
 - a. *Prepaid tuition plans.* The account owner has a direct interest in the plan but an indirect interest in its investments. (S)he does not participate in investment returns.
 - b. *Savings plans.* The account owner has a direct interest in the plan and its investments because (s)he decides in which plan to invest. If the plan subsequently invests in an attest client, the member should transfer the account to another plan or account owner. If transfer incurs a significant penalty

- or tax, it may be delayed if the member does not participate in, or have the ability to influence, the engagement.
- c. A beneficiary of a Section 529 plan has no financial interest in the plan or its investments.
5. *Trusts.* A grantor who can (a) amend or revoke the trust or (b) supervise its investments has a direct interest in both. Otherwise, (s)he has no financial interest in either.
 - a. A beneficiary has a direct interest in the trust. (S)he has an indirect interest in its investments unless (s)he controls the trust or its investments.
 - b. A blind trust and its investments are direct interests of the grantor. The investments will revert to the grantor.
 6. *Partnerships.* A partnership interest is a direct financial interest of the owner. The financial interests of the partnership are direct interests of a general partner. The financial interests of a limited partnership are indirect interests of a limited partner who does not control the entity or supervise investments.
 7. *Limited liability companies.* An owner's interest in an LLC is direct.
 - a. A member-manager has a direct interest in the LLC's financial interests.
 - b. A nonmanager has an indirect interest in the LLC's financial interests unless the operating agreement gives him/her control of the LLC or the right to supervise its investments.
 8. *Insurance products.* If a policy offers no investment option, it is not a financial interest. Thus, independence is not impaired with respect to the insurer if the policy was issued under normal terms, procedures, and requirements. An investment option is a financial interest. Whether it is direct or indirect is determined based on the principles applied throughout this independence rule.

Case Study

Situation: John Woods, a partner of Woods & Costas, CPAs, has an indirect financial interest in the auditor's client, Alpha Manufacturing that is immaterial to John's net worth.

Independent: An immaterial, indirect financial interest does not impair an auditor's independence.

Situation: Kelly Costas, a partner of Woods & Costas, owns a vacation home with Steve Hunter, a principal shareholder of Alpha Manufacturing. The value of the vacation home is material to Kelley Costas.

Not Independent. An auditor's joint interest in a vacation home with a principal shareholder of a client (presumably one able to exercise significant influence over the client) is considered a joint closely held investment that impairs independence if it is material to the auditor.

1.260.020 Loans and Leases with Lending Institution

1. *Grandfathered loans.* Independence is not impaired by (a) unsecured loans that are not material to the covered member's net worth or (b) secured loans (including home mortgages) provided that the loans were obtained from a financial institution under its normal lending procedures, terms, and requirements. However, loans are grandfathered only if:

- a. They were kept fully current at all times after the borrower became a covered member, and the terms did not change in a way not allowed in the original agreement.
- b. They were obtained:
 - a. From a financial institution before it became a client requiring independence;
 - b. From a client not requiring independence and were sold to one requiring independence;
 - c. Prior to February 5, 2001 and satisfied the requirements of the Interpretation then effective;
 - d. During the period from February 5, 2001 through May 31, 2002, and the covered member complied with SEC regulations then effective; or
 - e. After May 31, 2002 from a client requiring independence before the borrower became a covered member relative to the client.
- 2. The date a grandfathered loan is obtained is the date a loan commitment or line of credit was granted.
- 3. The collateral for a secured grandfathered loan must equal or exceed the remaining balance of the loan during its term. If the loan exceeds the value of collateral, this excess must not be material to the covered member's net worth.
- 4. In the case of a limited partnership in which covered members have a combined interest exceeding 50% or a general partnership in which covered members control the partnership, the loan is ascribed to each covered member based on his/her legal liability as a limited or general partner. Even if this amount is zero, renegotiating the loan or entering into a new loan that is not an "other permitted loan" is deemed to impair independence.
- 5. *Other permitted loans.* The following loans are permitted even if the client is one for which independence is required, provided that they are obtained under normal lending procedures, terms, and requirements and are always kept current:
 - a. Automobile loans and leases collateralized by the automobile
 - b. Loans fully collateralized by the cash surrender value of insurance
 - c. Loans fully collateralized by cash deposits
 - d. Credit cards and overdraft reserve accounts with an aggregate outstanding balance of \$10,000 or less on a current basis by the payment due date

Note: Loans from financial institution clients may impact the CPAs objectivity and independence since any kind of favorable treatment by the financial institution would create a financial interest in the institution. Any direct financial interest by the CPA causes him to lose independence.

1.265.010 Cooperative Arrangements with Attest Clients

- 1. Independence is impaired if, during the engagement or at the time of expressing an opinion, a member's firm had any material cooperative arrangement with the client.
 - a. A cooperative arrangement means joint participation in a business activity.
 - b. A cooperative arrangement is not present when (1) the participants are governed by separate understandings, (2) responsibility for the other party's activities does not exist, and (3) neither party is the other's agent.

1.275.010 Honorary Director or Trustee of Not-For-Profit Organizations

A partner or professional employee of a firm holding an honorary position with a not-for-profit organization will sometimes allow his/her name to be used on letterheads and circulated materials to lend prestige to the group. Independence is not impaired if the position is clearly honorary and the individual is not able to vote or participate in board or management decisions. Moreover, (s)he must be identified as an honorary director or trustee.

1.277 Employment or Association with Attest Client

1. A former partner or professional employee of the firm who is employed by or associated with an attest client in a key position impairs the firm's independence unless:
 - a. The covered member ceases to participate in all employee health and welfare plans sponsored by the attest client, unless the attest client is legally required to the member to participate in plan (for example, COBRA), and the member pays 100 percent of the member's portion of the of the cost of participation on a current basis.
 - b. The covered member ceases to participate in all other employee benefit plans by liquidating or transferring, at the earliest date permitted under the plan, all vested benefits in the attest client's defined benefit plans, defined contribution plans, share-based compensation arrangements, deferred compensation plans, and other similar arrangements.
 - c. The covered member disposes of any direct financial interest or material indirect financial interests in the attest client.
 - d. The covered member collects or repays any loans to or from the attest client, except for loans specifically permitted or grandfathered by the interpretations of the "Loans, Leases, and Guarantees" subtopic [1.260] under the "Independence Rule."
 - e. Covered members should evaluate whether other relationships with the attest client create threats that require the member to apply safeguards to reduce those threats to an acceptable level.

1.279 Consideration or Subsequent Employment or Association with Attest Client

1. A team member's consideration of employment or association with the client impairs independence absent prompt reporting to the firm and removal from the team.

1.290 Effect of Actual or Threatened Litigation

1. Effect on independence of litigation between client and member
 - a. Independence is impaired when litigation is begun by
 - i. The present management alleging deficiencies in audit work
 - ii. The member alleging management fraud or deceit
 - b. An expressed intention by the management to litigate against the member for alleged deficiencies in audit work will impair independence if it is probable that the claim will be filed.
 - c. Independence is not impaired when the threatened or actual litigation is not related to the audit and the amount is not material. Examples include disputes over billings for services and results of tax advice.

Situation: The management of Alpha Manufacturing is being sued by shareholders due to some previous irregularities in financial statements audited by Woods & Costas, CPAs. Alpha is likely to file a cross claim against Woods & Costas.

Not Independent. Independence is not necessarily impaired when a client is sued regarding previous financial statements. However, threatened litigation by current client management asserting deficient audit work impairs independence.

2. If a reasonable person would conclude that litigation poses an unacceptable risk of impairment of independence, the member should disengage or disclaim an opinion for lack of independence.

1.295 Nonattest Services

1. Before a member and his or her firm performs nonattest services (such as tax or consulting services) for an attest client, (s)he must comply with Interpretation 1.295 to avoid impairment of independence. If the applicable independence rules of an authoritative body (e.g., the SEC or a state board of accountancy) are more restrictive, the member must comply with them.
2. General Requirements. Performing management functions or making management decisions impairs independence, but providing advice, research, and recommendations does not.
 - a. The member should be satisfied that the client will make an informed judgment about the results of nonattest services and be able to designate a competent employee (preferably a senior manager) to oversee the services; evaluate their adequacy and results; make management decisions and perform management functions; accept responsibility for results; and establish and maintain internal controls.
 - b. The member and client should agree about the objectives and limitations of the engagement, the services to be performed, and mutual responsibilities. The understanding should be documented in writing. This requirement does not apply to routine services, those provided before the client became an attest client, and those performed before 2005.
3. General activities that impair independence include
 - a. Exercise or possession of authority over transactions on a client's behalf
 - b. Preparing source documents evidencing transactions
 - c. Custody of client assets
 - d. Supervision of client employees in normal activities
 - e. Determining member recommendations to be implemented
 - f. Reporting to the board on behalf of management
 - g. Service as a stock transfer or escrow agent, registrar, or general counsel
 - h. Establishing or maintaining controls for a client, such as performing ongoing monitoring.
4. Examples of nonattest services that may not impair independence if the general requirements are met include bookkeeping, disbursement, benefit plan administration (e.g., preparing participant account valuations and statements), investment advisory, finance, executive search, business risk consulting, and IT (but designing a system or operating a network impairs independence).
5. *Tax compliance services.* Preparing a return and transmitting it and the payment does not impair independence if (a) the member does not have control of client funds and (b) the client-designated person

who oversees the process approves the return and, if required, signs it. But a member's signing and filing the return impairs independence unless (a) the taxing authority has a procedure in place for such action or (b) a designated client manager has reviewed the documents and authorized the member to sign and file. Authorized representation of a client in administrative proceedings does not impair independence if the client gives prior agreement to the resolution of the tax matter. But representation in a court or public hearing is an impairment.

6. *An appraisal, valuation, or actuarial service* impairs independence if the results are material to the financial statements and significant subjectivity is involved. For example, a valuation for a business combination, but not an actuarial valuation for a pension liability, usually involves significant subjectivity. Furthermore, appraisal, valuation, and actuarial services not performed for financial statement purposes do not impair independence if the other requirements of Interpretation 1.295 are satisfied. Such services must involve determination of all significant assumptions and matters of judgment by the client. The client also should be able to make informed decisions and accept responsibility.
7. *Forensic accounting services.* Litigation services involve assisting in actual or potential legal or regulatory proceedings. They include expert witness services, that is, the expression of an opinion based on the member's expertise, not his/her knowledge of disputed facts. These services impair independence unless (a) they are rendered to a large group of parties, (b) no attest client is the lead plaintiff or defendant, and (c) other requirements related to the influence of attest clients on the proceedings are met. However, testimony as a fact witness does not impair independence. Litigation consulting services are advisory and do not impair independence as long as expert testimony is not given. Other litigation services involve serving as a trier of fact, arbitrator, etc. If a client is involved in the matter, independence is impaired. But service as a mediator or facilitator without decision-making authority in a dispute resolution procedure is not an impairment. Investigative services do not involve actual or potential litigation, although they may require the same skills needed for litigation services. They do not impair independence.
8. *Internal audit assistance services* impair independence unless the member ensures that the client understands its responsibility for internal control and managing the internal audit function. Accordingly, the member must ensure that the client (a) designates an individual(s) with suitable skill, knowledge, or experience (preferably a senior manager) to oversee internal audit; (b) determines the scope, risk, and frequency of its activities; (c) evaluates its findings; and (d) evaluates the adequacy of its procedures.
 - a. The member should be satisfied that the client's governing body is informed about his/her role so that it can develop proper guidelines.
 - b. The member may assist in preliminary risk assessment, preparation of the audit plan, and recommendation of priorities.
 - c. Independence is impaired if the member, among other things, (1) performs an ongoing monitoring or control function, (2) determines which control recommendations are adopted, (3) reports to the board on behalf of management, (4) approves or is responsible for the overall audit work plan, or (5) is a client employee or manager (or the equivalent).
 - d. Services that are normal extensions of the external audit scope (e.g., confirming receivables or analyzing balances) and engagements under the attestation standards do not impair independence.
9. SEC regulations issued under the Sarbanes-Oxley Act of 2002 prohibit auditors of issuers (public companies) from performing certain nonaudit services:

- a. Appraisal and other valuation services if the results are subject to audit.
- b. Designing and implementing financial information systems if the results are subject to audit.
- c. Actuarial functions if the results are subject to audit.
- d. Management services.
- e. Human resource services.
- f. Bookkeeping if the results are subject to audit.
- g. Legal and other expert services not pertaining to the audit (client advocacy, including internal fact-finding and providing explanations of conclusions).
- h. Investment banking or advisory services.
- i. Broker-dealer services.
- j. Internal audit outsourcing that involves financial accounting controls, systems, or statements.
- k. Tax services not preapproved by the audit committee or that are prohibited nonaudit services.
- l. Any other nonaudit services not preapproved by the audit committee.

Situation: Alpha Manufacturing solicited Woods & Costas, CPAs to perform permitted tax services. Alpha's audit committee approved the arrangement. These services consist of preparing an income tax return. The return is approved and signed by a designated client manager.

Independent: Independence is not impaired if the firm provides tax services as long as the services are not prohibited nonaudit services and the provision of the services has been approved by the client's audit committee. But preparing a tax return could impair independence, e.g., if the member had control of client funds or the return was not approved by a client-designated person.

1.297 Independence Standards and Attest Engagements

1. This interpretation applies only to engagements, other than examinations and reviews, covered by SSAEs when the use of the report is restricted.
2. The following covered members and their immediate families must be independent in relation to the responsible party:
 - a. An individual on the attest engagement team.
 - b. An individual who directly supervises or manages the attest engagement partner.
 - c. Individuals who consult with the attest engagement team about technical or industry-related matters specific to the engagement.
3. Independence is impaired and cannot be reduced to an acceptable level by any safeguards if the firm had a material relationship with the responsible party prohibited under rules covering financial interests, trustees or executors, joint closely held investments, or loans.
4. A firm may provide nonattest services to the responsible party that are prohibited due to an association as an employer, director, officer, promoter, voting trustee, or pension trustee. However, if they do not relate directly to the subject matter of the attest engagement, independence is not impaired. (1.297.020.03)

5. When the party that engages the firm is not the responsible party or associated therewith, individuals on the attest engagement need not be independent of the party that engaged the firm. However, they should consider their responsibilities regarding conflicts of interest.

Other Ethics Rulings on Independence

Independence Not Impaired

1. The member provides advisory services for a client.
2. A member is designated to serve as an executor of an individual's estate that owns the majority of the stock of a corporation. Independence with respect to the corporation is not impaired unless the member serves as executor.
3. A CPA is a director of a federated fund-raising organization, e.g., United Way, and audits local charities receiving funds. Independence with respect to the charities is not impaired unless the organization exercises managerial control over them.
4. A member serves on a citizens' committee advising a county and on another committee advising the state where the county is located.
5. A member and a client bank serve in a co-fiduciary capacity with respect to an estate, provided the estate assets are not material.
6. A client financial services company has custody of a covered member's assets (not in depository accounts); services are provided under its normal procedures, terms, and requirements; and any assets subject to risk of loss are immaterial to the member's net worth.
7. Independence is not impaired if a member audits an employee benefit plan unless a partner or professional employee of the firm had significant influence over the employer(s); was in a key position with the employer; or was associated with the employer as a promoter, underwriter, or voting trustee.
8. The mere servicing of a member's loan by a client financial institution.
9. When a covered member has a checking or savings account, certificate of deposit, or money market account in a client financial institution, provided the amounts are fully insured. Uninsured amounts do not impair independence if they are immaterial or if they are reduced to an immaterial balance within 30 days. A firm's independence is not impaired if the probability is remote that the depository institution will have financial difficulty.
10. A member's service as treasurer of a mayoral campaign organization. Independence is impaired with respect to the organization itself, but not the political party of the candidate or the city.
11. If a member leases property to or from a client under an operating lease with terms comparable to those of similar leases, and all amounts are paid in accordance with the lease. If, however, the lease is a capital lease, independence would be impaired unless the lease is tantamount to a permitted loan.
12. Inclusion of a clause in an engagement letter providing for member indemnification by the client.
13. Performing extended audit services regarding reporting on internal control if management assumes responsibility for control, and management does not rely on the member's work as the primary basis for its assertion.

Situation: Ben Costas, a partner of Woods & Costas, owns the building in which Alpha Manufacturing's corporate offices are located. The lease qualifies as a capital lease but not a grandfathered loan.

Not independent: Leasing property to a client under a capital lease is deemed to be a loan to the client. Independence is impaired unless the loan is a grandfathered loan.

Situation: The engagement letter sent to Alpha Manufacturing by Woods & Costas contains an indemnification clause. It requires Alpha to reimburse Green & Martin for any losses due to a lawsuit based on Alpha's financial statements.

Independent: Inclusion of a clause in the engagement letter providing for indemnification of the firm by the client does not impair independence.

Independence Impaired

1. The member signs or cosigns checks or purchase orders or exercises general supervision to ensure compliance as a representative of a creditors' committee in control of a debtor corporation.
2. With respect to a foundation and an estate if the member is a trustee of the foundation that is the beneficiary of the estate.
3. A CPA serves on the board of directors of a client nonprofit social club.
NOTE: The board of directors has the ultimate responsibility for the affairs of the club
4. A CPA is on a client's committee that administers the deferred compensation program.
5. A CPA is a director of a company and an auditor of the profit sharing and retirement trust.
6. A member of a university's faculty audits the student senate fund (the member will audit functions performed by the university, which is his/her employer).
7. If billed or unbilled fees, or a note arising from the fees, for client services rendered more than 1 year before the current year's report date remain unpaid. (1.230.010.02)
8. Audit fees that are long past due take on the characteristics of a loan under Independence Rule. Not applicable if the client is in bankruptcy. (1.230.010.03)
9. When a CPA is on the board of directors of a fund-raising organization; unless the position is honorary.
10. The use of partners, shareholders, and professional employees from another firm that is not independent of the client. Their work can be used in the same manner as that of internal auditors.
11. A CPA's service on a client's advisory board unless it
 - a. Is in fact advisory.
 - b. Has no authority to make management decisions, and
 - c. Is distinct from the board of directors with few common members.
12. A CPA who is not independent may not express an audit opinion or issue a review report, but (s)he may issue a compilation report after disclosing the lack of independence.
13. A member who is a general partner in a partnership that invests in a client. If the member is a limited partner, independence would not be impaired unless the interest in the client is material.
14. Agreeing to indemnify a client for losses arising from lawsuits, etc., that relate directly or indirectly to client acts impairs independence.
15. When a member has significant influence over an entity with significant influence over a client.

16. With respect to the client and the plan if a member participates in a client's health and welfare plan. But, if participation arises from permitted employment of the immediate family of the covered member, no impairment occurs provided the plan is offered to all employees in equivalent positions.
17. If a member performs investment management or custodial services for an employee benefit plan sponsored by a client, with respect to the plan. Independence is also impaired regarding the client-sponsor of a defined benefit plan if the assets involved are material to the plan or sponsor. Independence is not impaired regarding a client-sponsor a defined contribution plan if the member performs no management functions and does not have custody of the assets.
18. Acceptance of a gift from an attest client by a member on the engagement team or able to influence the engagement unless the value is clearly insignificant. Acceptance of entertainment from the attest client, or the offer of a gift or entertainment to the attest client, does not impair independence if it is reasonable in the circumstances.

Case Study

Situation: Tim Robin is a staff auditor for Woods & Costas, CPAs who is currently working on the Alpha Manufacturing audit engagement. Tim Robin's sister works in the sales department of Alpha Manufacturing.

Independent: Independence is impaired if an individual participating in the audit has a close relative who has a key position with the client. The sales position held by Tim's sister is not a key position. Thus, independence is not impaired. A close relative is defined as a parent, sibling, or nondependent child.

Chapter 2 Review Questions - Section 1

1. Which of the following statements best explains why the CPA profession has found it essential to promulgate ethical standards and to establish means for ensuring their observance?
 - A. A distinguishing mark of a profession is its acceptance of responsibility to the public.
 - B. A requirement for a profession is to establish ethical standards that stress primarily a responsibility to clients and colleagues.
 - C. Ethical standards that emphasize excellence in performance over material rewards establish a reputation for competence and character.
 - D. Vigorous enforcement of an established code of ethics is the best way to prevent unscrupulous acts.

2. The AICPA Code of Professional Conduct states, in part, that a CPA should maintain integrity and objectivity. Objectivity in the Code refers to a CPA's ability _____.
 - A. To maintain an impartial attitude on all matters that come under the CPA's review.
 - B. To independently distinguish between accounting practices that are acceptable and those that are not.
 - C. To be unyielding in all matters dealing with auditing procedures.
 - D. To independently choose between alternate accounting principles and auditing standards.

3. Which of the following reports may be issued only by an accountant who is independent of a client?
 - A. Reviews and audits of financial statements
 - B. Tax service reports approved by the audit committee
 - C. Review of an IT system
 - D. Compilation report of client's financial statements

1.300 - General Standards Rule

A member shall comply with the following:

1. Undertake only those services that the member can reasonably expect to complete with *professional competence*.
2. Exercise *due professional care* when performing professional services.
3. Adequately *plan and supervise* performance of professional services.
4. Obtain *sufficient relevant data* to provide a reasonable basis for conclusions in relation to any professional service.

Interpretations

A member should have the competence to complete professional services according to professional standards and with reasonable care and diligence.

1. Competence involves technical qualifications and the ability to supervise and evaluate the work. It relates to knowledge of standards, techniques, and technical subject matter and to the ability to exercise sound judgment.
2. In some cases, additional research and consultation is a normal part of performing services. However, if a member cannot gain sufficient competence, (s)he should suggest the engagement of someone competent.
3. If a member is unable to gain sufficient competence, the member should suggest, in fairness to the client and public, the engagement of a competent person to perform the needed professional service, either independently or as an associate.
4. A member who employs a specialist to perform consulting services for the member's clients must be qualified to supervise and evaluate the work of that specialist. Although the member is not required to be able to perform each of the specialist's tasks, the member should be able to define the tasks and evaluate the end product.
5. The member has a responsibility to make sure that a subcontractor (s)he has selected has the professional qualifications and skills needed. Use of a third-party to assist in providing professional services does not change the duty to comply with the general and technical standards.
6. If a member submits financial statements in his/her capacity as an officer, shareholder, partner, director, or employee to a third party, the member's relationship to the entity should be clearly communicated. No implication of independence should be made. Rule 1.320 applies if the communication states that the financial statements conform with GAAP. If the member acts as a public practitioner or submits the statements on his/her public practitioner's letterhead, (s)he should comply with applicable standards, including disclosure of lack of independence.

1.310 - Compliance with Standards Rule

A member who performs auditing, review, compilation, management consulting, tax, or other professional services must comply with standards issued by designated bodies (the PCAOB and relevant AICPA committees and boards).

1.320 - Accounting Principle Rule

A member shall not (1) express an opinion, (2) make an affirmative statement about conformity with GAAP, or (3) state that (s)he is not aware of any material modifications that should be made to achieve conformity with GAAP, given any departure from an accounting principle issued by bodies designated to establish such principles by the AICPA Council (the Financial Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board). The departure must have a material effect on the financial statements or data taken as a whole. However, if the member can demonstrate that, due to unusual circumstances, the financial statements or data would have been misleading without a departure from GAAP, the member can comply with the rule by (1) describing the departure; (2) its approximate effects, if practicable; and (3) the reasons compliance with the principle would be misleading.

Interpretations

1. Professional judgment should be used in determining what constitutes unusual circumstances requiring a departure from established principles to prevent the financial statements or data from being misleading. Events that may justify such departures are new legislation or evolution of a new form of business transaction. An unusual degree of materiality or conflicting industry practices ordinarily do not justify departures.
2. The body designated to establish accounting principles for nongovernmental entities is the Federal Accounting Standards Advisory Board (FASAB); FASB; the GASB, with respect to Statements of Governmental Accounting Standards; and IASB.

1.400 - Acts Discreditable Rule

A member shall not commit an act that is discreditable to the profession.

Interpretations

The following list includes Acts Discreditable:

1. Discrimination and Harassment in Employment Practices
2. Solicitation or Disclosure of EPA Questions and Answers

3. Failure to File a Tax Return or Pay a Tax Liability

4. Negligence in the Preparation of Financial Statements or Records

A member shall be considered in violation of the "Acts Discreditable Rule" [1.400.001] if the member, by virtue of his or her negligence, does any of the following:

- a. Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity.
- b. Fails to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry.
- c. Signs, or permits or directs another to sign, a document containing materially false and misleading information.

5. Not Following Requirements of Government Bodies, Commissions or Other Regulatory Agencies.

A member must follow GAAP and the requirements of governing bodies, commissions, or regulatory agencies when preparing financial statements or related information or in performing attest services for entities subject to their jurisdiction. For example, the SEC and PCAOB have created such requirements. If the member performs attest services related to reports to governing bodies, etc., (s)he must follow the requirements of those bodies as well as GAAS. A material departure from the requirements is an act discreditable unless the member discloses the reasons.

6. Not Applying Government Audits Standards

In a governmental audit, failure to adhere to applicable audit standards, guides, procedures, statutes, rules, and regulations is an act discreditable to the profession unless the report discloses the failure and the reasons therefore.

7. Using Indemnification and Limitation of Liability Provisions

Regulators may prohibit regulated entities from entering into certain kinds of indemnification and limitation of liability agreements in connection with attest services. Regulators also may prohibit members from providing services under such agreements. Failing to comply with such prohibitions is an act discreditable.

8. Failing to Maintain Confidential Information Obtained From Employment or Volunteer Activities

A member should maintain the confidentiality of his or her employer's or firm's (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).

9. False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services

10. Failing to Properly Use the CPA Credential

A member who fails to follow the accountancy laws, rules, and regulations on use of the CPA credential in any of the jurisdictions in which the CPA practices would be considered to have used the CPA credential in a manner that is false, misleading, or deceptive and in violation of the "Acts Discreditable Rule" [

11. Ignoring Requests for Records

Client records must be returned after a client demands them even if fees have not been paid. This ethical standard applies even if the state in which the member practices grants a lien on certain records in his/her possession. *Client-provided records* are "accounting or other records belonging to the client that were provided to the member by or on behalf of the client."

However, "a member's working papers include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the member." *Working papers* are the member's property and need not be made available unless required by (a) statute, (b) regulation, or (c) contract.

Client records prepared by the member include accounting and other records (e.g., tax returns, journals, ledgers, and supporting schedules) that the member was engaged to prepare. They may be withheld if fees are due or the engagement is incomplete.

Supporting records contain information not in the client's records, without which its financial information is incomplete. Supporting records, such as entries and related calculations, are produced by the member. They are not otherwise available to the client. Supporting records for an issued work product should be given to the client upon request unless fees are due for that product.

Records also must be given to a client who suffered a loss because of an act of war or natural disaster.

The member may (a) charge a reasonable fee, (b) provide records in any usable form, and (c) retain copies. Moreover, the records provided must be in a requested format only if the engagement was to prepare them in that format.

Compliance with a client's request usually should be within 45 days.

12. Removing Client Files or Proprietary Information From a Firm

A member whose employment was terminated must not take or retain (a) originals or copies (in any format) from the firm's client files or (b) proprietary information without the firm's permission, unless the member has a contractual arrangement with the firm allowing such action.

1.510 - Contingent Fees Rule

Rules on Contingent Fees and Commissions prohibit, among other acts, the receipt of contingent fees by a member in public practice for the performance of certain services and the receipt of a commission for the referral of products or services under certain circumstances. The Code's objective is to keep the CPA that receives a contingent fee or commission from a possible conflict of interest within the service to be performed.

A contingent fee is established as part of an agreement under which the amount of the fee is dependent upon the finding or result.

1. The receipt of contingent fees by a member is prohibited when a member in public practice performs an audit, a review, a compilation when the report will be used by third parties and the report does not disclose the CPA's lack of independence, or an examination of prospective financial information.
2. Fees are not deemed to be contingent if fixed by courts or other public authorities, or in tax matters, if they are based on the results of judicial proceedings or the findings of governmental agencies.

Contingent Fees in Tax Matters. The use of contingent fees is limited to a great degree in accounting practice. The area in which contingent fees situations arise most regularly is the tax area. The following are examples, of circumstances where a contingent fee would be permitted.

1. Representation of a client in an examination by a revenue agent
2. Filing an amended tax return claiming a refund based on a tax issue that is the subject of a test case involving a different taxpayer
3. Representation of a client who is obtaining a private letter ruling

A contingent fee is not permitted for preparing an original or amended tax return or a claim for a tax refund. An example of circumstances in which a contingent fee is not allowed is the preparation of an amended income tax return for a client claiming a refund of taxes because of an inadvertent omission of a proper deduction.

Note:

1. A contingent fee or commission is considered to be received when the performance of related services is complete and the fee or commission is determined.
2. A member who provides investment advisory services for an attest client for a percentage of the investment portfolio violates contingent fee rules unless the fee is a specified percentage of the portfolio, the dollar amount of the portfolio is determined at the beginning of each quarterly (or longer) period and is adjusted only for the client's additions or withdrawals, and the fee arrangement is not renewed more often than quarterly.

1.520 - Commissions and Referral Fee Rule

A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission,

when the member or the member's firm also performs for that client: (a) an audit or review of a financial statement; or (b) a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or (c) an examination of prospective financial information.

Permitted commissions must be disclosed to any person or entity to whom the member recommends a product or service.

Any member who accepts a referral fee for recommending services of a CPA or who pays a referral fee to obtain a client must disclose the arrangement to the client. A referral fee is compensation for recommending or referring any service of a CPA to any person. Referral fees are not considered commissions.

A member's spouse may provide services to the member's attest client for a contingent fee or refer products or services for a commission to or from the member's attest client, provided the spouse's activities are separate from the member's practice and the member is not significantly involved. However, a conflict of interest issue may still arise.

A CPA may not refer for commissions products to clients through distributors and agents when the CPA is performing any of the services described above.

If a member purchases a product, taking title to the product and assuming all the associated risks of ownership, any profit the member receives on reselling it to a client would not constitute a commission.

If, in providing professional services to a client, a member subcontracts the services of another person or entity, any mark-up of the cost of the subcontracted services would not constitute a commission.

1.600 - Advertising and Other Forms of Solicitation Rule

A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation done in a false, misleading, or deceptive manner. Solicitation through coercion, overreaching, or harassing conduct is prohibited.

False, misleading, or deceptive acts are prohibited because they are against public interest. These prohibited activities include:

1. Creating false expectations of favorable results
2. Implying the ability to influence any court, regulatory agency, or similar body
3. Representing that specific services will be performed for a stated fee when it is likely at the time of the representation that the fees will be substantially increased and the client is not advised of the possibility
4. Other representations that would cause a reasonable person to misunderstand or be deceived

Members are permitted to render services to clients of third parties. If the third party obtained its clients through advertising, the members must ascertain that all promotional efforts were within the Rules of Conduct. Members must not do through others what they are prohibited from doing themselves.

1.700 - Confidential Client Information Rule

A member in public practice shall not disclose confidential client information without the client's consent. However, this Rule does not affect a CPA's obligations:

1. To discharge his/her professional obligations properly under General Standards or Accounting Principle rules.
2. To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations
3. To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization
4. To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy

A member who withdrew from an engagement because of fraud on a client's tax return should suggest that the successor obtain permission from the client to reveal the reasons for leaving.

A member who prepares a joint tax return should consider both spouses to be clients. If the spouses are undergoing a divorce, the member will not violate confidentiality rules if (s)he releases information to either spouse. But the legal implications should be discussed with an attorney.

Before use of a third party to assist in providing professional services, the member should (a) have a contract with the provider to protect client confidentiality and (b) be reasonably assured that the provider's procedures are sufficient for this purpose. Absent the contract, specific client consent is needed to disclose confidential client information.

The rule against disclosure of confidential information does not prohibit the review of a member's professional practice pursuant to a purchase, sale, or merger of the practice. However, appropriate precautions (e.g., a written confidentiality agreement) should be taken so that the prospective buyer does not disclose any confidential client information.

A member may give a client's profit and loss percentages to a trade association provided the member has permission from the client.

Knowledge and expertise obtained from a prior engagement may be used on behalf of a current client provided that the details of the other engagement are not revealed without permission.

A member may reveal a client's name without permission unless disclosure would constitute release of confidential information.

1.800 - Form of Organization and Name Rule

A member may practice public accounting only in a form of organization allowed by law or regulation that conforms with resolutions of the AICPA Council.

1. The firm name must not be misleading.
2. Names of past owners may be included in the name of the successor organization.
3. A firm cannot designate itself as "members of the AICPA" unless all CPA owners are members.

Interpretations:

1. Although members may share an office, have the same employees, etc., they should not use a letterhead with both their names unless a partnership exists.
2. CPA firms that wish to form an association are not allowed to use the title of an association (e.g., Smith, Jones & Associates) because the public may believe a true partnership exists instead of an association. Each firm should use its own letterhead indicating the others as correspondents.
3. A CPA and a non-CPA who dissolve their partnership should sign an audit report, after dissolution, in a way not implying a partnership.
4. The title "nonproprietary partner" should not be used by someone who is not a partner because it is misleading.
5. A member may have his/her own CPA practice and be a partner of a public accounting firm all other members of which are noncertified.
6. A partnership may continue to practice using the managing partner's name as the firm name after (s)he withdraws. "And Company" should be added to the partnership name.
7. If a CPA forms a partnership with a non-CPA, the CPA is responsible for the non-CPA's violation of the Code.
8. A firm may use an established firm name in different states even though the roster of partners differs.
9. When two partnerships merge, they may retain a title that includes a retired or former partner's name.
10. A CPA employed by a firm with one or more non-CPA practitioners must obey the Rules of Conduct. If the CPA becomes a partner, (s)he is responsible for compliance with the Rules of Conduct by all associated practitioners.
11. If a CPA in public practice forms a separate business that centralizes billing services for physicians, the CPA must comply with the Rules of Conduct because this service is of a type performed by public accountants.
12. CPA firms that are associated for joint advertising and other purposes should practice under their own names and indicate the association in other ways.
13. A CPA in partnership with non-CPAs may sign the firm name to a report and below it affix his/her name with the CPA designation. However, it must be clear that the partnership does not consist entirely of CPAs.
14. The designation "Personal Financial Specialists" may only be used on a letterhead when all partners or shareholders have the AICPA-awarded designation. However, the individual members holding the designation may use it after their names.

15. A CPA is not required to give the client a prepared tax return if the engagement to prepare the return is terminated prior to completion. Only the records originally provided by the client must be returned.
16. Individuals associated with a client may be involved in an internal dispute, and each may request client records and other information. The CPA is under an obligation to supply certain information specified by Interpretation 501-1. This obligation is satisfied by turning over any required information to the designated client representative.
17. Unless permitted by contract, if the relationship of a member who is not an owner of a firm is terminated, (s)he may not take or retain originals or copies from the firm's client files or proprietary information without permission.

Quick Quiz

Indicate whether each of the following statements is true or false.

1. AICPA's *Code of Professional Conduct* covers principles and rules of conduct.
2. The rules of professional conduct are nonbinding, but the principles are binding.
3. The public interest is not a concern of AICPA members.
4. When performing attestation services, an AICPA member should be independent in both fact and appearance.
5. A member may subordinate his/her judgment to qualified client experts.
6. Professional competence, due professional care, adequate planning and supervision, and obtaining sufficient relevant data are general standards.
7. A member must never accept a departure from GAAP in the financial statements.
8. A member may never reveal a client's confidential information.
9. A member may advertise.
10. The following rules are binding on all members of the AICPA: Integrity and Objectivity, General Standards, Compliance with Standards, Accounting Principles, Acts Discreditable, Commissions and Referral Fees, Form of Organization and Name, and Contingent Fees.
11. All CPA owners of a firm need not be AICPA members for the firm to designate itself as "members of the AICPA."

Answers

1. False. It also covers interpretations and ethical rulings.
2. False. The principles of professional conduct are a nonbinding framework. The rules of professional conduct are mandatory.
3. False. The Public Interest is one of the 6 principles of the AICPA Code of Professional Conduct.
4. True. According to the principles of professional conduct, a member should be independent in fact and appearance when providing attestation services.
5. False. Rule 1.100 states that a member shall maintain objectivity and integrity, be free of conflicts of interest, not knowingly misrepresent facts, and not subordinate his/her judgment to others when performing professional services.
6. True. Professional competence, due professional care, adequate planning and supervision, and obtaining sufficient relevant data are required for member compliance with Rule 1.300.
7. False. According to Rule 1.320, "Accounting Principles," if a member can demonstrate that, due to unusual circumstances, the financial statements or data would be misleading without a departure from GAAP, the member can comply with this rule by describing the departure, its effect, and the reasons compliance with the principle is misleading.
8. False. A client's confidential information may be disclosed when necessary to comply with a CPA's obligations, including: (1) To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations. (2) To discharge his/her professional obligations properly under Conduct Rules 1.310 and 1.320. (3) To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization. (4) To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy.
9. True. Rule 1.600 states that a member in public practice shall not seek to obtain clients by advertising or other forms of solicitation done in a false, misleading, or deceptive manner. Solicitation through coercion, overreaching, or harassing conduct is prohibited.
10. False. The Rule of Conduct regarding Contingent Fees is binding only on members in public practice. Part of Rule 1.520, *Commissions*, also applies only to members in public practice.
11. False. According to Rule 1.800, *Form of Organization and Name*, all CPA owners must be AICPA members for the firm to designate itself "members of the AICPA."

Case Studies of AICPA Ethics Violations

1. The Case of the Almost Stolen Clients

RULES THAT APPLY:

AICPA Rule 1.600, *Advertising or Other Forms of Solicitation*

THE PLAYERS:

Respondent: Mr. Knotmee

Complaint Submitted by: The Firm

CASE DETAILS:

In a letter to the ICPAS**, The Firm indicated that Mr. Knotmee, a former employee, improperly solicited clients of The Firm after his departure. In particular, The Firm stated that:

- At time of Mr. Knotmee's termination, he was asked to return all copies of any client lists and information. However, he failed to comply with this request.
- Prior to Mr. Knotmee's termination, his personnel file disappeared, which contained the non-compete agreement.
- In a solicitation (marketing) letter, Mr. Knotmee claims to employ current employees of The Firm. However, these employees have stated that they indeed do not work for Mr. Knotmee.
- The Firm disputed some of the claims that Mr. Knotmee made in his marketing letter. Among the disputed claims:
 - Mr. Knotmee stated he was a consulting manager at The Firm. - The Firm argued that he was classified as staff.
 - Mr. Knotmee stated that he parted company with The Firm on April 15, 20xx. - The Firm stated that Mr. Knotmee was terminated on March 31 on the same year and that the reasons Mr. Knotmee gave for his dismissal are not representative of reality.
 - Mr. Knotmee stated that many of The Firm's associates worked in conjunction with Mr. Knotmee's company. - The Firm stated that there are NO employees at The Firm who work for Mr. Knotmee's company.
- In Mr. Knotmee's resume, he stated that he is a member of the AICPA. - The Firm knows this to be false.

The ICPAS contacted Mr. Knotmee to inform him of the complaint made by The Firm, and to request a meeting. In the meeting between Mr. Knotmee and the ICPAS, Mr. Knotmee conceded that he should not have claimed to be member of AICPA since he is not. He stated that it was an oversight and he did not attempt to deceive. He also was under the impression that it is the responsibility of The Firm to prove advertising material is false. The Ethics Committee informed him that it is the obligation of the member to verify his own advertising materials. Mr. Knotmee supported his fee claims by presenting invoices by The Firm and by other accounting firms. However,

since that type of information is confidential, it could not be disclosed, otherwise it would violate another ethics rule.

Mr. Knotmee said that although he has no employees now except himself, the persons he listed on his solicitation letter would work with him on his request. Mr. Knotmee did not receive any clients from the marketing letter. He promised to refrain from soliciting The Firm's clients in the future.

CONCLUSION:

The ICPAS found prima facie evidence that Mr. Knotmee had violated Advertising Rule 1.600.

CORRECTIVE ACTION:

The ICPAS and the AICPA instructed Mr. Knotmee to immediately comply with the ICPAS Code of Professional Conduct, to take and pass the AICPA course, Professional Ethics for CPAs, and to submit evidence that he has passed course.

LESSONS LEARNED:

While we all like to make our resumes as informative as possible, make sure the information is correct, and that you don't pretend to be who you are not. Information that is false, misleading, or deceptive can get you into big trouble!

2. The Case of the Harmless Mistakes

RULES THAT APPLY:

AICPA 1.300, *General Standards*

AICPA 1.400, *Acts Discreditable*

THE PLAYERS:

Respondent: Mr. Happy

Complainant: Mr. Grumpus

Client: Company RED

CASE DETAILS:

In a letter to the ICPAS**, Mr. Grumpus indicated that Mr. Happy and his company billed excessively for work done for Company RED that was considered substandard because it contained errors in projected financial statements. Mr. Grumpus also claimed that the overly aggressive collections method that Mr. Happy used was of low professional conduct. Mr. Happy is a former employee of Mr. Grumpus and his company.

Mr. Happy responded via an interview with the ICPAS and indicated that the error in the projected financial statements was a failure to include the amount of interest expense in the determination of net income. Mr. Happy

indicated that the mistake was in the software formula, causing the subtotal not to foot. Mr. Happy said that the error was immaterial. If materiality is based on projected revenue, the errors amounted to less than two percent for each of the three years in question. If it is based on percentage of error on net income, the errors amount to 40%, 15%, and 6% for the same years. Mr. Grumpus relied on the PPC Forecasts and Projections Guide in determining materiality issue. As stated in the PPC guide materiality could be as high as twice that used for the historical financial statements.

Mr. Happy also said that the projected financial statements were not relied upon and that the users were sophisticated financial professionals who caught the error and made manual and mental corrections to the statements. The error had no effect on the complainant's analysis of the projected venture and did not affect their conclusions about not pursuing the venture. The ICPAS investigator contacted Company RED and discovered that had the numbers been correct, the merger would not have been completed anyway due to seller related issues.

Mr. Happy said that an offer to reissue the financial statements was made and that Company RED declined. The ICPAS investigator told Mr. Happy that he should have notified Company RED in writing to state that the financial statements should be reissued.

The second issue concerning unpaid fees is being contested by Company RED as being too high due to excessive hours and credits that have not been applied as stated. Mr. Happy has not issued the billing credit on the advice of legal counsel. The interest charges per the respondent and the complainant have been eliminated from the statements submitted. The ethics committee feels that at this point, the fees should be settled between the parties and will not be an issue in the ethics investigation.

CONCLUSION:

The case was closed with a determination that no violation of the Code of Professional Conduct occurred. In a letter to Mr. Happy, the committee suggested that as a protective measure, he should put in writing any offers to reissue financial reports should such circumstances arise in the future.

CORRECTIVE ACTION:

None.

LESSONS LEARNED:

While fee disputes are a common source of complaints to the Ethics Committee, they generally do not get involved in them. However in this case the Committee debated whether the work product was being relied on. The Committee determined that although the projection was materially flawed, the primary users had discovered the error and took the error into consideration during their negotiations. At this point, the projection was no longer being relied on.

If a document is in error and the accountant knows this, it is the accountant's responsibility to take all efforts to make all users aware of this, typically through recalling a report and reissuing. However, if the report is not being relied on due to the "staleness" of the document, or the "special purpose" nature of the document having expired, there is no need to recall the report.

3. The Case of the Inadequate Accountant

RULES THAT APPLY:

AICPA Rule 1.310, *Compliance with Standards*

AICPA Rule 1.320, *Accounting Principles*

THE PLAYERS:

Respondent: Mr. Indigo

Complainant: Mr. Whiner

Audited Party: Loser Township

CASE DETAILS:

Mr. Indigo performed an audit of the financial statements of the Loser Township for the year ended March 31, 20xx.

Mr. Whiner wrote in a letter to the ICPAS that Mr. Indigo's audit contained major deficiencies. The ICPAS notified Mr. Indigo of the complaint. The ICPAS Ethics Committee investigators met with Mr. Indigo at his office.

At the meeting, Mr. Indigo made the following statements:

- The Loser Township is one of three municipal clients. Their primary practice is in tax and monthly work.
- The firm has not completed a quality review as of yet. The review was scheduled for March 20xx, but was not started. None of the governmental audit work appears to follow yellow book standards. The firm has available to it, the AICPA audit guide Audits of State and Local Governmental Units and referred to it during the audit.
- The firm also utilized a PPC Guide on Auditor's Reports in drafting its report on the Loser Township financial statements.

The following deficiencies were discussed and noted at the meeting:

- The financial statements presented a prior year column that was also audited by Mr. Indigo. However, the auditor's opinion made no reference to the prior year. Other statements were inaccurate or missing.
- Based on review of the footnotes to the financial statements, the following notes were not present:
 - Reporting entity note;
 - Description of funds;
 - Detail on property tax recognition
 - Change of general fixed asset-shown as an exhibit not part of the notes;
 - Insurance coverage for cash and investment disclosure;
 - Disclosure on interfund transfers.

- The statements, including the footnotes, would not be a complete disclosure and, as such, are not "liftable" as presented.
- The following items were not present in the workpapers:
 - Assessment of Risk
 - Determination of Materiality
 - Evidence of Review
 - Evidence of Planning

CONCLUSION:

The committee found evidence that Mr. Indigo violated the following rules: - Compliance with Standards, and *Accounting Principles*

CORRECTIVE ACTION:

The Committee instructed Mr. Indigo to comply immediately with professional standards applicable to professional service he performs. They also instructed him to complete 16 hours of specified CPE courses within one year, and show evidence of completion.

LESSONS LEARNED:

Don't try to do work that is unfamiliar or new to you. Accounting standards have become very complex and specialized. This accountant mainly did monthly and tax work, and only had a few municipal clients. In a case such as this, he may have been better off referring the municipal client to an auditor with more expertise in this field. Another option is to do a joint venture with another firm that has more experience. The corrective action in this case focused on trying to educate the member in the area in which he had some inadequacy. But remember that all the CPE in the world cannot take the place of experience.

*Special thanks to Dr. Howard A. Kanter of the DePaul University School of Accountancy and the ICPAS Ethics Committee for developing and maintaining the Ethics Case Studies.

** ICPAS refers to Illinois CPA Society

Chapter 2 Review Questions - Section 2

4. According to Conduct Rule 1.600, *Advertising and Other Forms of Solicitation*, advertising or other forms of solicitation that are false, misleading, or deceptive are not in the public interest, and AICPA members in public practice shall not seek to obtain clients in such a manner. Such activities include all the following EXCEPT:

- A. An indication of the CPA's educational and professional attainments.
- B. An implication of the ability to influence a court.
- C. A claim to be able to save the taxpayer 20% of a determined tax liability.
- D. The creation of unjustified expectations of favorable results.

5. AICPA Conduct Rule 1.700 is violated when a member in public practice:

- A. Provides client profit and loss percentages to a trade association without the client's consent.
- B. Uses outside computer services to process tax returns.
- C. Performs consulting services for similar clients.
- D. Advises potential consulting services clients about previous problems on similar engagements.

6. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is

-
- A. Not addressed by the AICPA Code of Professional Conduct.
 - B. Acceptable if sanctioned by state law.
 - C. Prohibited under the AICPA Code of Professional Conduct.
 - D. A violation of GAAS.

Chapter 3:

Florida Ethics

Learning Objectives

After studying this chapter you will be able to:

- Recognize Florida Administrative Codes for the Public Accounting profession, including key sections from within Chapter 61H1-19 thru 39 *Board of Accountancy Rules*.
 - Identify key sections of the Florida Statutes, including Chapter 455 *Business and Professional Regulation: General Provisions*, and Chapter 473, *Regulation of Professions and Occupations - Public Accountancy*.
-

61H1 – Board of Accountancy Rules

Independence (61H1-21.001)

A firm shall not express an opinion on financial statements of an enterprise or on the reliability of an assertion by one party for use by another (third) party unless the firm is active licensed and independent with respect to such enterprise or the party making the assertion.

A licensed firm is also precluded from expressing such an opinion if the firm is aware that an individual in the firm is not independent and that individual is a covered certified public accountant or is otherwise required to be independent. A certified public accountant shall not express such an opinion unless the certified public accountant is independent with respect to such enterprise or the party making the assertion.

A certified public accountant is also precluded from expressing such an opinion if he or she is aware that an individual in the firm is not independent and that individual is a covered certified public accountant or is otherwise required to be independent.

All covered certified public accountants and all other individuals who are required to be independent are required to disclose to the firm that they are not independent prior to the issuance of such an opinion; failure to do so is a violation of this rule. All firms are required to adopt appropriate policies to implement the disclosure requirement and to monitor compliance therewith.

In order to be considered independent a certified public accountant must comply with the requirements set out in the "Standards for Independence" and the requirements of this rule.

Integrity and Objectivity (61H1-21.002)

A certified public accountant shall not knowingly misrepresent facts, and, when engaged in the practice of public accounting, shall not subordinate his/her judgment to others including but not limited to clients, employers or other third parties. In tax practice, a certified public accountant may resolve doubt in favor of his/her client as long as there is reasonable support for his/her position.

Commissions or Referral Fees (61H1-21.003)

A certified public accountant shall not pay or accept a commission or referral fee in connection with the sale of a product or referral of any services. These services include:

- (a) Audit, review or compilation services.
- (b) Services for any prospective financial data including forecasts or projections.
- (c) Any special procedures engagement resulting in an expression of an opinion

The certified public accountant must have an engagement letter signed by the client prior to beginning any engagement for which the certified public accountant will receive a commission. The letter must include complete details of the financial arrangements involving compensation for the services rendered.

The certified public accountant must hold appropriate licenses as required.

If the certified public accountant is not independent, it must be disclosed in the engagement letter. However, if the only reason for not being independent is the fact that the certified public accountant is being compensated by a commission or contingent fee then the lack of independence does not have to be disclosed.

Scenario: Tim Jenkins, a CPA in Tampa, had a very successful practice catering to a number of individuals and small businesses. As an aside, Mr. Jenkins also had an insurance agent license and represented several insurance companies. Tim had an accounting and taxation client who appeared to be in need of more competitive insurance, and Tim was happy to put on his other hat and sign the client up for a policy. Did Tim need to inform his client in writing of any commission in this case because the two services are apparently unrelated?

Solution: Yes, Tim must inform his client in writing of the commission per the Board Rules. He should disclose the nature, source and amount, or an estimate of the amounts, of commissions he will receive for the sale to clients of insurance and annuity products. Note: Independence rules still apply, so the licensee cannot receive any commissions related to audits, reviews and compilations requiring independence.

Contingent Fees (61H1-21.005)

No certified public accountant or firm shall accept a fee contingent upon the findings or results of such services if the service is of the type for which a commission or referral fee could not be accepted.

No certified public accountant or firm shall accept a contingent fee for tax filings with the federal, state, or local government unless the findings are those of the tax authorities and not those of the certified public accountant or firm. Unless the certified public accountant or firm has specific reason to know that the filing will be reviewed in detail by the taxing authorities, the findings will be presumed to be those of the certified public accountant or firm and a contingent fee is not permissible.

An original or amended federal tax return or a claim for refund cannot be prepared for a contingent fee since the findings are not considered to be those of the taxing authority. If the taxing authority has begun an audit, any findings will be considered those of the taxing authority and a contingent fee may be accepted.

Fees to be fixed by courts or other public authorities, which are of an indeterminate amount at the time a public accounting service is undertaken, shall not be regarded as contingent fees for the purposes of this rule. However, a certified public accountant's or firm's fee may vary depending, for example, on the complexity of the service rendered.

Scenario: Edward Flint, a CPA in Daytona Beach, wanted to grow his business quickly and he knew that a lot of clients were tight on money and couldn't necessarily afford the upfront fees for a tax return. Using his sense of marketing, he advertised to potential clients that he would work for 20% fee on any refund he could produce. Is this an acceptable way to get new clients?

Solution: A CPA may not prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client. Edward would clearly be in the wrong in this situation. He can work for clients with tax refunds, but he should do so using a set fee.

Communication with Client of another Certified Public Accountant (61H1-21.006)

If a client of one certified public accountant or firm requests a second certified public accountant or firm to provide professional advice on accounting or auditing matters in connection with an expression of opinion, the second certified public accountant or firm must consult with the first certified public accountant or firm, after obtaining the client's consent, to make certain that the (the second certified public accountant or firm) is aware of all the relevant facts.

Competence (General Standards) (61H1-22.001)

A certified public accountant shall comply with the following general standards and must justify any departures therefrom:

1. Professional competence. A certified public accountant shall undertake only those engagements which he or his firm can reasonably expect to complete with professional competence. A certified public accountant must be in charge of all public accounting services performed by the firm.
2. Due professional care. A certified public accountant shall exercise due professional care in the performance of an engagement.
3. Planning and supervision. A certified public accountant shall adequately plan and supervise an engagement.
4. Sufficient relevant data. A certified public accountant shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

Confidential Client Information (61H1-23.001)

A certified public accountant shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client. This rule shall not be construed to relieve a certified public accountant of his or her obligation under Rules 61H1-22.008 and 61H1-22.007, F.A.C., or to contravene or contradict any of the provisions of Chapter 473, F.S. Furthermore, this rule shall not prohibit a confidential review of a certified public accountant's professional practice as a part of a quality review program.

Records Disposition Responsibility (61H1-23.002)

A certified public accountant shall furnish to a client or former client upon request and reasonable notice:

- a. Any accounting or other records belonging to, or obtained from or on behalf of, the client that were provided to the certified public accountant; the certified public accountant may make and retain copies of such documents of the client when they form the basis for work done by the certified public accountant.
- b. Any accounting or other records that the certified public accountant was not specifically engaged to prepare that are related to an issued work product of the certified public accountant and that

are not in the client's books and records or are otherwise not available to the client, with the result that the client's financial information is complete.

- c. A copy of any deliverable as set forth in the terms of the engagement that has been issued by the certified public accountant.

This rule shall not preclude a certified public accountant from making reasonable charges for costs incurred. Once the certified public accountant has complied with the requirements above, the certified public accountant is under no obligation to comply with subsequent requests from the client to again provide such records or work products. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or act of war, the certified public accountant shall comply with an additional request to provide such records or work products.

Provisions of this rule apply to Licensed Firms and to all certified public accountants practicing public accounting.

Advertising (61H1-24.001)

No certified public accountant shall disseminate or cause the dissemination of any advertisement or advertising which is in any way fraudulent, false, deceptive, or misleading, if it, among other things:

- a. Contains a misrepresentation of facts; or
- b. Makes only a partial disclosure of relevant facts; or
- c. Creates false or unjustified expectations of beneficial assistance; or
- d. Appeals primarily to a layperson's fears, ignorance, or anxieties regarding his state of financial well-being; or
- e. Contains any representation or claims, as to which the certified public accountant, referred to in the advertising, does not expect to perform; or
- f. Contains any other representation, statement, or claim which misleads or deceives; or
- g. In the event that a certified public accountant uses the term "specialty" or "specialist" or any other term tending to indicate an advanced standing in any aspect of the practice of public accountancy, in any advertisement or offering to the public, the advertisement must state that the use of the term is a self-designation and is not sanctioned by the state or federal government. This requirement shall not apply to any statement indicating the certified public accountant has received any bona fide formal recognition or attainment; or
- h. Represents that professional services can or will be competently performed for a stated fee when this is not the case, or makes representations with respect to fees for professional services that do not disclose all variables affecting the fees that will in fact be charged; or

"Advertising" shall mean:

Any statements, oral or written, disseminated to or before the public or any portion thereof, with the intent of furthering the purpose, either directly or indirectly, of selling public accounting

services, or offering to perform public accounting services, or including members of the public to enter into any obligation relating to such public accounting services. This includes business cards, brochures and websites, and other forms of communication.

Scenario: Samuel Jacobs, CPA, wanted to boost his business so he decided to try more advertising. His first attempt was to publish a short brochure with which he could create a direct mail piece. As part of the copy in the brochure, Samuel stressed 'Always the lowest fee.' Also, Samuel stressed how his close relationship with local IRS office would 'guarantee the best results'. Samuel sent one direct mail. Timothy, another CPA in the area, saw the advertisement and complained to the Board, stating that Samuel ad was deceptive and that Samuel should not be contacting Timothy's clients with such a 'harassing and vexatious' document. Did Samuel violate any rules?

Solution: Yes, Samuel violated the advertising rule. First, the claim of the 'always the lowest fees' could be viewed as a deceptive claim, claiming an unsubstantiated fact. Samuel would be better off using a phrase like 'Great service at a low fee' to reduce this possibility. Second, hinting or stating that a relationship with an IRS office is clearly a violation because it "implies the ability to improperly influence any court, tribunal, regulatory agency or similar body or official due to some special relations". Lastly, the final accusation of harassment is not likely a valid point, unless Samuel continued to send brochures to people who had requested not to be contacted anymore.

Form of Practice and Name-Shared Office Space (61H1-26.001)

A Florida certified public accountant may practice public accounting, whether as an owner or employee, only in the form of a proprietorship, a partnership or a corporation, or a limited liability company. A Florida certified public accountant shall not allow any person to practice in his name that is not a partner or shareholder with him or in his employ. A Florida certified public accountant shall not practice under a name which is misleading or deceptive as to the legal form of the firm or as to persons who are partners, or shareholders of the firm or as to any other matter. In this regard:

- a. A Florida certified public accountant may practice public accounting under a fictitious name which is not misleading or deceptive as to the persons who are sole proprietors, partners, or shareholders; and
- b. A firm name may include the names of retired or deceased partners or shareholders or members who were active partners or shareholders or members of the entity. This provision permits a firm, in the same line of succession, to change from one form of business to another and continue to use the names of retired or deceased partners, shareholders or members.
- c. Use of the term "and Company" or "and Associates" requires at least one other fully employed Florida certified public accountant or non certified public accountant owner other than those named in the firm name; however, this rule does not preclude a Florida certified public accountant initially meeting this requirement from using the above-mentioned terms if the Florida certified public accountant subsequently does not fully employ at least one Florida certified public accountant other than those named in the firm name.

- d. A firm may use the term "Certified Public Accountants" in the firm's name if all owners are certified public accountants. If there are non certified public accountant owners, the firm may use the terms "CPA Firm" "CPAs and Associates" or "Certified Public Accountants and Associates" provided the firm has more than one certified public accountant. Further, a certified public accountant firm with non certified public accountant owners may not use the term Certified Public Accountants without indicating there are other owners such as Associates or Consultants.
- e. A firm may only use the term "CPA," "CPA Firm," "CPAs and Associates," "Certified Public Accountants and Associates," or any other title, designation, words, letters, abbreviations, or device indicating that it is a CPA Firm if it holds a license.

The term "certified public accountant(s)" or the abbreviation "CPAs" must appear with the name of a certified public accountant when used in connection with an expression of opinion.

Florida certified public accountants may share office facilities provided there is adequate disclosure that would enable a reasonable person to determine the practice is not associated with the profession or occupation not regulated by the Board, such as written agreements, signs, etc.

Question: I want to open a CPA Firm and I am concerned with the name. What are the rules concerning the name?

Answer: The name cannot be misleading or deceptive as to the owner and associates.

Question: Can I use "& Associate" or "& Company" in the name of my company?

Answer: Yes, if and only if there is another CPA or a non-CPA owner to represent the "& Associate" or "& Company".

Minimum Capitalization or Adequate Public Liability Insurance for Florida Firms (61H1-26.002)

A Florida firm, with the exception of a sole proprietorship, shall not engage in the practice of public accounting in this state unless:

1. Assets in excess of liabilities and professional liability insurance combined are at least equal to \$50,000 per shareholder, officer, member, or partner and any Florida licensed certified public accountant to a maximum of \$2,000,000 or
2. It has an irrevocable letter of credit of at least equal to \$50,000 per shareholder, officer, member, or partner and any Florida licensed certified public accountant to a maximum of \$2,000,000, which meets the following criteria:
 - a. The responsibility for repayment of any sums disbursed under the letter of credit is not an obligation of the Florida firm, its owners, or any entity affiliated with the Florida firm;

- b. The letter of credit contains an "evergreen clause," which automatically renews the letter of credit unless the issuer of the letter of credit notifies the Florida firm and the Board within sixty (60) days of the decision not to renew; and
 - c. The letter of credit is issued by a financial institution authorized to do so under applicable state or federal banking laws; or
3. The corporation, each shareholder, and each officer who has authority over the practice of public accountancy, the LLC or the limited liability company and each member of the LLC, or the LLP and each partner have executed a waiver of limitation on liability approved by the Board.

Licensure of Florida Certified Public Accountant Firms (61H1-26.003)

Every Florida firm and non-Florida firm required to be licensed shall be certified for licensure by the Board on a biennial basis, and shall furnish its firm name, addresses and telephone numbers of main office as well as the names of all licensed professional staff and all non-licensed owners. The firms must also disclose whether any non-certified public accountant owners have convictions or findings of guilt, regardless of adjudication, of a crime in any jurisdiction and judgment or settlements of civil lawsuits, or having been acted against including denial of licensure by any regulatory agency by a court or regulatory agency and any other matters which show a lack of good moral character.

Changes by Firms (61H1-26.004)

A licensed firm shall file a written notification with the Department within thirty (30) days after the occurrence of any of the following events:

- a. The admission or addition of a non-CPA co-partner, shareholder or member in any Florida office, including whether any non-CPA co-partners, shareholders or members have convictions or findings of guilt, regardless of adjudication, of a crime in any jurisdiction; judgement or settlements or civil lawsuits; having been acted against, including denial of licensure, by any regulatory agency or by a court; and any other matters which show a lack of good moral character;
- b. The admission or addition of a CPA co-partner, shareholder or member in any Florida office, including whether any CPA co-partners, shareholders or members have convictions or findings of guilt, regardless of adjudication, of a crime in any jurisdiction; judgment or settlements of civil lawsuits (excluding domestic matters); having the right to practice acted against, including denial of licensure, by the Securities Exchange Commission (SEC), Internal Revenue Service (IRS), or any other regulatory agency or court; and any other matters which show a lack of good moral character;
- c. The retirement or death of a co-partner, shareholder or member in any Florida office;
- d. A change in the name of the partnership, corporation or limited liability company;
- e. The termination of the partnership, corporation or limited liability company.
- f. When the firm or any existing CPA or Non-CPA co-partner, shareholder or member has been the recipient of a conviction or finding of guilt, regardless of adjudication, of a crime in any jurisdiction; has been the subject of a judgment or settlements of a civil lawsuit (excluding domestic matters); has had the right to practice public accountancy acted against, including denial

of licensure, by the Securities Exchange Commission (SEC), Internal Revenue Service (IRS), or any other regulatory agency or court; and any other matters which show a lack of good moral character.

In the event of the formation of a new sole proprietorship, partnership, corporation or limited liability company, or any legal entity engaged in the practice of public accounting or a change in the name of a sole proprietorship, partnership, corporation or limited liability company, or any other legal entity engaged in the practice of public accounting, such sole proprietorship, partnership, corporation or limited liability company shall, within thirty (30) days of the event, become certified for licensure by the Board and pay the license fee required.

Question: How do I change the name of my firm?

Answer: You must submit a CPA firm application and pay the appropriate fees.

Question: How do I add and new CPA or a non-CPA owner to the firm?

Answer: You will, in your annual report, let the BoA know of any new CPA or a non-CPA owner to the firm.

Question: My CPA just died or retired. What does the firm have to do?

Answer: Your firm may retain the names of deceased or retired partners, shareholder, or members who were active partners, shareholder, or members for the firm. However, your business entity may change from one form (i.e. corporation, partnership, LLC, etc) to another and continue use of the names of the deceased or retired.

Change of Address of Record (61H1-26.005)

All Florida certified public accountants, and licensed firms are required to have their correct street address on file with the Board office as their address of record. A post office box may be used for a mailing address, but it must be in addition to the address of record.

Any time a Florida certified public accountant or licensed firms changes or their address of record or mailing address, the Board office must be notified in writing within thirty days.

Question: How do I update my Firm's location address?

Answer: In order to update your location address, you must submit a written request that is signed by an owner of the firm to:

Department of Business and Professional Regulation
2601 Blair Stone Rd
Tallahassee, FL 32399-1027

Question: How do I update my Firm's mailing address?

Answer: You can update your Firm's mailing address online using the DBPR online services.

Peer Review (61H1-39)

Definitions (61H1-39.001)

“Compilation” means an engagement that applies limited procedures to assist management in the presentation of financial statements and report on those statements without providing any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

“Firm” means a sole proprietor, partnership, corporation, limited liability company, or any other firm required to be licensed.

“Peer Review Administering Entity” or “AE” means an organization approved by the board to facilitate and administer a peer review program in accordance with the peer review standards established by the board.

“Peer Review Program” means the entire peer review process of a peer review administering organization.

“Review” means an engagement that obtains limited assurance as a basis for reporting whether the certified public accountant firm (CPA firm) is aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with the applicable financial reporting framework. A review includes primarily analytical procedures to financial data and inquiries of management. A review engagement does not contemplate obtaining an understanding of the entity’s internal control, assessing fraud risk, testing accounting records by inspection, observation confirmation or examination of source documents or other procedures ordinarily performed in an audit engagement and accordingly does not include an expression of an opinion on the financial statements.

Peer Review Program Standards (61H1-39.002)

The board hereby adopts and incorporates by reference, as its minimum standards for administering, performing and reporting on peer reviews, the American Institute of Certified Public Accountants, Incorporated’s “Standards for Performing and Reporting on Peer Review” and “Peer Review Standards Interpretations,” (AICPA Standards), effective May, 2015, and available at :

<http://www.flrules.org/Gateway/reference.asp?No=Ref-06480> or
www.aicpa.org/Research/Standards/PeerReview/Downloadable Documents/PeerReviewStandards.pdf
and <http://www.flrules.org/Gateway/reference.asp?No=Ref-06481> or
<http://www.aicpa.org/Research/Standards/PeerReview/DownloadableDocuments/PeerReviewStandard sInterpretations.pdf> , respectively.

Peer Review Administering Entities (61H1-39.003)

Peer Review Administering Entities shall be approved by the Board. To be approved by the Board as a Peer Review Administering Entity (AE), an organization must submit an administration plan to the Board for review and approval. The plan of administration must:

- (a) Establish Report Acceptance Bodies (RAB) and provide professional staff, as needed, for the operation of the review program;
- (b) Establish and document a program to communicate to enrolled Firms the latest development in peer review standards and the most common findings in the reviews conducted by the AE;
- (c) Establish and document procedures for resolving any disagreement which may arise out of the performance of a review;
- (d) Establish procedures to resolve matters which may lead to the dismissal of a Firm from the peer review program, and conduct hearings pursuant to those procedures;
- (e) Establish procedures to evaluate and document the performance of each reviewer, and conduct hearings which may lead to the disqualification of a reviewer who does not meet the standards adopted in Rule 61H1-39.002, F.A.C.;
- (f) Require the maintenance of records of reviews conducted under the program in accordance with the records retention rules of standards adopted in Rule 61H1-39.002, F.A.C.; and
- (g) Provide for the periodic performance assessments and related reports to the Board's Peer Review Oversight Committee.

The Board adopts the AICPA as an approved AE and its Peer Review Program and other Peer Review Programs administered by entities fully involved in the administration of the AICPA Peer Review Program. These AEs are not required to submit a plan of administration required above. The Board may approve other AEs.

If requested by the Board or the Peer Review Oversight Committee, a peer review administering entity shall provide a list of the Firms enrolled in its programs and the date of their last peer review.

The Board shall maintain a list of Board-approved peer review administering entities.

Peer Review Oversight Committee Composition and Responsibilities (61H1-39.004)

The Board shall appoint a peer review oversight committee (PROC) to oversee and monitor implementation of the peer review requirement set forth in Section 473.3125, F.S. and the licensee renewal requirements.

The PROC shall consist of three members, appointed for a term of service of no less than three years and no more than five years. Board appointment shall be based upon the review of applications of those who possess the following qualifications:

- a. Current licensure in good standing as a Florida certified public accountant; and
- b. Extensive auditing experience as part of a firm or practice unit that has undergone a peer review and received a review rating of pass on the most recent review.

PROC members may not:

- a. Be a current member of the Board;
- b. Be an employee of the department or AE;
- c. Be a voting member of the AE's governing board; or
- d. Perform any enforcement related work for the board/department during their term on the PROC.

Responsibilities of the PROC shall include:

- a. Recommending to the Board the approval or termination of peer review administering entities, peer review programs and peer review standards;
- b. Monitoring and assessing the effectiveness of the peer review programs and peer review standards; and,
- c. Providing a written report to the Board no later than December 1, 2016, and annually thereafter.

Compliance with Peer Review Requirements (61H1-39.005)

CPAs licensed in other states must determine whether or not he or she meets the peer review standards for Florida.

Effective January 1, 2015, if the firm performs services as specified in Section 473.3125(4), F.S., (opinions on financial statements, attestation, reviews) the firm shall enroll with a board-approved AE prior to submitting an application for licensure or an application for license renewal. The exceptions to Peer Reviews are firms that do not perform audits, reviews, compilations and/or attest service engagements.

For firms that renew their license for periods beginning January 1, 2015, the firm shall determine whether it performed those services for the prior license period.

- (a) If the firm performed those services during the prior license renewal period, the firm shall enroll in a board approved peer review program.
- (b) If the firm did not perform those services during the prior license renewal period, the firm is not required to be enrolled in a board approved peer review program on January 1, 2015.
- (c) If a firm that has not enrolled in a board approved AE at the time of licensure renewal subsequently decides to perform those services, the firm shall enroll in a board approved AE prior to performing such services.

A firm is considered enrolled when it has completed the AE's application process and paid the enrollment fee. As part of any disciplinary action relating to services performed, the board will require confirmation of the firm's enrollment by a board approved AE.

A firm that is terminated by a board approved AE shall notify the board in writing within 30 days of the effective date of the termination and provide the termination letter from the AE.

Florida 473: Regulation of Professions and Occupations - Public Accountancy

Purpose (473.301)

The Legislature recognizes that there is a public need for independent and objective public accountants and that it is necessary to regulate the practice of public accounting to assure the minimum competence of practitioners and the accuracy of audit statements upon which the public relies and to protect the public from dishonest practitioners and, therefore, deems it necessary in the interest of public welfare to regulate the practice of public accountancy in Florida.

Definitions (473.302(8))

The "practice of," "practicing public accountancy," or "public accounting" means:

- (a) Offering to perform or performing for the public one or more types of services involving the expression of an opinion on financial statements, the attestation as an expert in accountancy to the reliability or fairness of presentation of financial information, the utilization of any form of opinion or financial statements that provide a level of assurance, the utilization of any form of disclaimer of opinion which conveys an assurance of reliability as to matters not specifically disclaimed, or the expression of an opinion on the reliability of an assertion by one party for the use by a third party;
- (b) Offering to perform or performing for the public one or more types of services involving the use of accounting skills, or one or more types of tax, management advisory, or consulting services, by any person who is a certified public accountant who holds an active license, issued pursuant to this chapter, or who is authorized to practice public accounting pursuant to the practice privileges granted in section 473.3141, including the performance of such services by a certified public accountant in the employ of a person or firm; or
- (c) Offering to perform or performing for the public one or more types of service involving the preparation of financial statements not included within paragraph (a), by a certified public accountant who holds an active license, issued pursuant to this chapter, or who is authorized to practice public accounting pursuant to the practice privileges granted in section 473.3141; by a firm of certified public accountants; or by a firm in which a certified public accountant has an ownership interest, including the performance of such

services in the employ of another person. The board shall adopt rules establishing standards of practice for such reports and financial statements; provided, however, that nothing in this paragraph shall be construed to permit the board to adopt rules that have the result of prohibiting Florida certified public accountants employed by unlicensed firms from preparing financial statements as authorized by this paragraph.

Board of Accountancy (473.303)

The Board of Accountancy consists of nine members, seven of whom must be certified public accountants licensed in Florida and two of whom must be laypersons who are not and have never been certified public accountants or members of any closely related profession or occupation. The members who are certified public accountants must have practiced public accounting on a substantially full-time basis in Florida for at least 5 years. At least one member of the board must be 60 years of age or older. Each member shall be appointed by the Governor, subject to confirmation by the Senate.

The probable cause panel of the board may be composed of at least one current board member who shall serve as chair and additional current board members or past board members who are certified public accountants licensed in Florida and in good standing. The past board members shall be appointed to the panel for a term of 2 years by the chair of the board with the approval of the secretary of the department, and may be reappointed for additional terms.

Licensure (473.308)

A person desiring to be licensed as a Florida certified public accountant in Florida shall apply to the department for licensure.

The board shall certify for licensure any applicant who successfully passes the licensure examination and satisfies the education, experience and good moral character requirements. The board shall certify for licensure any firm that satisfies the firm practice and licensure requirements. The board may refuse to certify any applicant or firm that has violated any of the provisions of section 473.322 regarding prohibitions and penalties.

"Good moral character" means a personal history of honesty, fairness, and respect for the rights of others and for the laws of Florida and nation. When an applicant is found to be unqualified for a license because of a lack of good moral character, the board shall furnish to the applicant a statement containing the findings of the board, a complete record of the evidence upon which the determination was based, and a notice of the rights of the applicant to a rehearing and appeal.

The board shall certify as qualified for a license by endorsement an applicant who holds a valid license to practice public accounting issued by another state or territory of the United States, if the criteria for issuance of such license were substantially equivalent to the licensure criteria that existed in Florida at the time the license was issued.

If the applicant has at least 5 years of experience in the practice of public accountancy in the United States or in the practice of public accountancy or its equivalent in a foreign country that the International Qualifications Appraisal Board of the National Association of State Boards of Accountancy has determined has licensure standards that are substantially equivalent to those in the United States, or has at least 5 years of accepted work experience, the board shall waive the requirements which are in excess of a baccalaureate degree.

The board may refuse to certify for licensure any applicant who is under investigation in another state for any act that would constitute a violation of this act or chapter 455, until such time as the investigation is complete and disciplinary proceedings have been terminated.

Practice requirements (473.309)

Partnerships, corporations or limited liability corporations may practice accountancy in Florida, as long as it is a form of partnership recognized by Florida law, or a corporation or limited liability company duly organized in Florida or some other state.

- At least one general partner, shareholder or member of the limited liability company is a certified public accountant and holds an active license in Florida or, in the case of a firm that must have a license, at least general partner, shareholder or member is a certified public accountant in some state and meets the requirements reciprocal privileges.
- All partners, shareholders or members who are not certified public accountants in any state are engaged in the business of the partnership, corporation, or company as their principal occupation.
- Partners, shareholders or members owning at least 51 percent of the financial interest and voting rights of the company are certified public accountants in some state. However, each partner, shareholder or member who is a certified public accountant in some state and is domiciled in Florida must be a certified public accountant of Florida and hold an active license.
- It is in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance.
- A partnership, corporation, limited liability company, or any other firm is engaged in the practice of public accounting if its employees are engaged in the practice of public accounting. Notwithstanding any other provision of law, a licensed audit firm may own all or part of another licensed audit firm.

Question: Can a person who is not a CPA own a firm?

Answer: Yes. Non-CPA owners can own up to 49% of the firm.

Question: Other than the application, fees and having a CPA owner, what is needed?

Answer: At least 51 % of voting and financial interests in the firm must be a CPA's in good standing in any state in the U.S. All CPA's that reside in Florida must have an active license.

Licensure of firms or public accounting firms (473.3101)

Each sole proprietor, partnership, corporation, limited liability company, or any other firm seeking to engage in the practice of public accounting in Florida must file an application for licensure with the department and supply the information the board requires.

- An application must be made upon the affidavit of a sole proprietor, general partner, shareholder, or member who is a certified public accountant.
- The board shall determine whether the sole proprietor, partnership, corporation, limited liability company, or any other firm meets the requirements for practice and, pending that determination, may certify to the department the partnership, corporation, or limited liability company for provisional licensure.
- Each license must be renewed every 2 years.
- Each sole proprietor, partnership, corporation, limited liability company, or any other firm licensed under this section must notify the department within 1 month after any change in the information contained in the application on which its license is based.

Question: I am an active CPA. Do I have to be a part of a firm?

Answer: Yes. As an active CPA you must be connected to a firm, either as a sole proprietor or to a corporation, LLC, LLP, or partnership.

Continuing education (473.312)

As part of the license renewal procedure, the board shall by rule require Florida certified public accountants to submit proof satisfactory to the board that during the 2 years prior to application for renewal, they have successfully completed not less than 48 or more than 80 hours of CPE programs in public accounting subjects approved by the board.

There are four categories into which all acceptable subject matter for CPE credit is classified: 1) Accounting and Auditing, 2) Technical Business, 3) Behavioral and 4) Ethics. Florida CPAs must complete at least 20 hours in accounting and auditing and at least 4 hours in approved ethics every two years.

Not less than 25 percent (20 hours) of the total hours required by the board shall be in accounting-related and auditing-related subjects, as distinguished from federal and local taxation matters and management services.

1. Accounting-related subjects or courses including, but not limited to, financial accounting (including current authoritative literature in generally accepted accounting principles in the United States and the Pronouncements of the Accounting Principles Board and the Financial Accounting Standards Board), and accounting for specialized industries.
2. Auditing-related subjects or courses, including, but not limited to, general auditing theory and practice (including current authoritative literature in generally accepted auditing standards in the United States and the Statements on Auditing Standards promulgated by the American Institute

of Certified Public Accountants, auditing for specialized industries (including governmental auditing requirements) and audit applications to computers and information systems.

The technical business category is broad, including courses on taxation, general business, and management advisory services. Technical business subjects consist of:

1. Taxation.
2. Management services and management advisory services.
3. General business including, but not limited to, economics, business law, production or operational systems, marketing, finance, quantitative applications in business and business policy, and computers and information systems without audit applications.

No more than 20 hours may be in behavioral subjects.

The Behavioral category includes courses on oral and written communications, the social environment of business, and administration of an accounting practice. No more than 20 hours maximum may be reported in behavioral subjects for each reestablishment period. Examples of behavioral subjects are:

- Effective speaking
- Employee supervision
- Human Resources
- Leadership and motivation
- Management by objectives
- Speed reading
- Time management

All licensees must take at least 4 hours of ethics in a Florida Board-approved ethics course.

Programs of continuing professional education approved by the board should contribute directly to the professional competency of an individual following licensure to practice public accounting.

The board may prescribe by rule additional continuing professional education hours, not to exceed 25 percent of the total hours required, for failure to complete the hours required for renewal by the end of the reestablishment period.

Question: How many CPE hours are required to renew my license?

Answer: Currently, you must complete a total of 80 hours with at least 20 in accounting and/or auditing subjects and no more than 20 hours may be in behavioral subjects. There is no limiting number to the amount of technical business hours. However, you must also include 4 hours of ethics from an approved provider. Note: Hours in excess of the requirement for that renewal period will not "carry over".

Question: What type of information must I maintain as proof of participation from my CPE courses?

Answer: You will need a course outline or agenda indicating what subjects were covered and how much time was spent on each subject. The proof of attendance should include the attendees' name, the title of

the course, the date, the number of hours, the organizations' name, and a signature of representative of the organization. See Continuing Professional Education CPE Guidelines Continuing Professional Education CPE Guidelines for more information.

Note: It is MANDATORY that accountants keep up with their own CPE records. These records are NOT sent to BOA unless by special request.

Question: I missed my June 30th completion deadline for my CPE, is there an extension?

Answer: Yes, there is an automatic extension. Automatic means you do not have to apply for the extension.

The first extension requires completion of eight additional accounting and auditing hours. Total hours are 88 with at least 28 in accounting and auditing and not more than 20 in behavioral. Hours must be completed by September 15.

The second extension requires completion of 16 additional accounting and auditing hours. Total hours are 96 with at least 36 in accounting and auditing and not more than 20 in behavioral. Hours must be completed by December 31.

Peer review (473.3125)

As used in this section, the term:

(a) "Licensee" means a sole proprietor, partnership, corporation, limited liability company, or any other firm engaged in the practice of public accounting.

(b) "Peer review" means the study, appraisal, or review by one or more independent certified public accountants of one or more aspects of the professional work of a licensee.

The board shall adopt rules establishing minimum standards for peer review programs, including, but not limited to, standards for administering, performing, and reporting peer reviews. The board shall also adopt rules establishing minimum criteria for the board's approval of one or more organizations that facilitate and administer peer review programs.

For the purposes of maintaining oversight of the license renewal requirements, the board may establish a peer review oversight committee, which shall be composed of at least three, but no more than five, members who are licensed under this chapter and whose firms are subject to license renewal requirements and have received a review rating of "pass" on the most recent peer review.

Effective January 1, 2015, a sole proprietor, partnership, corporation, limited liability company, or other licensed firm and engaged in the practice of public accounting, as defined in s. 473.302(8)(a), except for the performance of compilations and reviews as those terms are defined by the board, must be enrolled in a peer review program.

Certified public accountants licensed in other states (473.3141)

Except as otherwise provided in Chapter 473, an individual who does not have an office in Florida has the privileges of Florida CPAs and may provide public accounting services in Florida without obtaining a license or notifying or registering with the board or paying a fee if the individual:

- a. Holds a valid license as a certified public accountant from a state that the board or its designee has determined by rule to have adopted standards that are substantially equivalent to the certificate requirements in s. 5 of the Uniform Accountancy Act in the issuance of licenses; or
- b. Holds a valid license as a CPA from a state that has not been approved by the board as having adopted standards in substantial equivalence with s. 5 of the Uniform Accountancy Act, but obtains verification from the board, or its designee, as determined by rule, that the individual's CPA qualifications are substantially equivalent to the certificate requirements in s. 5 of the Uniform Accountancy Act.

Except as otherwise provided in chapter 473, an individual who qualifies to practice under this section may offer or provide services in Florida in person, by mail, by telephone, or by electronic means, and a notice, fee, or other submission is not required.

An individual CPA from another state who practices pursuant to this section, and the firm that employs that individual, shall both consent, as a condition of the privilege of practicing in Florida:

- a. To the personal and subject matter jurisdiction and disciplinary authority of the board;
- b. To comply with this chapter and the applicable board rules;
- c. That if the license as a CPA from the state of the individual's principal place of business is no longer valid, the individual will cease offering or rendering public accounting services in Florida, individually and on behalf of a firm; and
- d. To the appointment of the state board that issued the individual's license as the agent upon whom process may be served in any action or proceeding by the board or department against the individual or firm.

An individual who qualifies to practice under this section may perform opinions on financial statements or attestation services only through a firm that has obtained a Florida license or is authorized to provide such services.

Question: Do I have to have a Florida CPA license to have a Florida firm license?

Answer: At least one owner of the firm has to be Florida CPA and hold an active license.

Question: Does the CPA Firm have to be located in Florida to be a Florida CPA firm?

Answer: No. The firm does not have to be located in Florida in order to perform CPA services as a licensed Florida CPA firm.

Independence and technical standards (473.315)

A certified public accountant shall not express an opinion on the financial statements of an enterprise unless she or he and her or his firm are independent with respect to such enterprise.

A certified public accountant shall not undertake any engagement in the practice of public accounting which she or he or her or his firm cannot reasonably expect to complete with professional competence.

The board shall adopt rules establishing the standards of practice of public accounting, including, but not limited to, independence, competence, and technical standards.

Attorneys who are admitted to practice law by the Supreme Court of Florida are exempt from the standards of practice of public accounting when such standards conflict with the rules of The Florida Bar or orders of the Florida Supreme Court.

Communications between the accountant and client are privileged (473.316)

A communication between an accountant and her or his client is "confidential" if it is not intended to be disclosed to third persons other than:

1. Those to whom disclosure is in furtherance of the rendition of accounting services to the client.
2. Those reasonably necessary for the transmission of the communication.

A client has a privilege to refuse to disclose, and to prevent any other person from disclosing, the contents of confidential communications with an accountant when such other person learned of the communications because they were made in the rendition of accounting services to the client. This privilege includes other confidential information obtained by the accountant from the client for the purpose of rendering accounting advice.

The privilege may be claimed by:

- a. The client.
- b. A guardian or conservator of the client.
- c. The personal representative of a deceased client.
- d. A successor, assignee, trustee in dissolution, or any similar representative of an organization, corporation, or association or other entity, either public or private, whether or not in existence.
- e. The accountant, but only on behalf of the client. The accountant's authority to claim the privilege is presumed in the absence of contrary evidence.

There is no accountant-client privilege under this section when:

- a. The services of the accountant were sought or obtained to enable or aid anyone to commit or plan to commit what the client knew or should have known was a crime or fraud.

- b. A communication is relevant to an issue of breach of duty by the accountant to her or his client or by the client to her or his accountant.
- c. A communication is relevant to a matter of common interest between two or more clients, if the communication was made by any of them to an accountant retained or consulted in common when offered in a civil action between the clients.

Communications are not privileged from disclosure in any disciplinary investigation or proceeding conducted by the department or before the board or in any judicial review of such a proceeding. In any such proceeding, a certified public accountant, without the consent of her or his client, may testify with respect to any communication between the accountant and the accountant's client or be compelled, pursuant to a subpoena of the department or the board, to testify or produce records, books, or papers. Such a communication disclosed to the board and records of the board relating to the communication shall for all other purposes and proceedings be a privileged communication in all of the courts of Florida.

The proceedings, records, and workpapers of a review committee are privileged and are not subject to discovery, subpoena, or other means of legal process or to introduction into evidence in a civil action or arbitration, administrative proceeding, or state accountancy board proceeding. A member of a review committee or person who was involved in a quality review may not testify in a civil action or arbitration, administrative proceeding, or state accountancy board proceeding as to any matter produced or disclosed during the quality review or as to any findings, recommendations, evaluations, opinions, or other actions of the review committee or any members thereof. Public records and materials prepared for a particular engagement are not privileged merely because they were presented during the quality review. This privilege does not apply to disputes between a review committee and a person subject to a quality review.

Ownership of working papers (473.318)

All statements, records, schedules, working papers, and memoranda made by a CPA or firm or her or his employee incident to, or in the course of, professional services to a client, except the reports submitted by the CPA or firm to the client and except for records which are part of the client's records, shall be and remain the property of the CPA or firm in the absence of an express agreement between the CPA or firm and the client to the contrary.

Contingent fees (473.319)

Public accounting services and those that include tax filings with federal, state, or local government, shall not be offered or rendered for a fee contingent upon the findings or results of such service. This section does not apply to services involving federal, state, or other taxes in which the findings are those of the tax authorities and not those of the certified public accountant or firm. Fees to be fixed by courts or other public authorities, which are of an indeterminate amount at the time a public accounting service is undertaken, shall not be regarded as contingent fees for purposes of this section.

Commissions or referral fees (473.3205)

A CPA or firm may not accept or pay a commission or referral fee in connection with the sale or referral of public accounting services. Any CPA or firm that is engaged in the practice of public accounting and that accepts a commission for the sale of a product or service to a client must disclose that fact to the client in writing in accordance with rules adopted by the board. However, this section shall not prohibit:

1. Payments for the purchase of an accounting practice;
2. Retirement payments to individuals formerly engaged in the practice of public accounting or payments to their heirs or estates; or
3. Payment of fees to a referring certified public accountant or firm for public accounting services to the successor CPA or firm or the client in connection with an engagement.

Fictitious names (473.321)

A CPA, partnership, corporation, or limited liability company may not practice public accountancy in Florida under any name that is misleading or deceptive as to the legal form; as to persons who are partners, officers, shareholders, or members of the firm; or as to any other matter. However, a firm name may include the names of retired or deceased persons who were active partners, shareholders, or members of the firm.

This section does not prohibit any CPA or firm from practicing public accounting under a fictitious name that is not misleading or deceptive as to the persons who are partners, officers, shareholders, or members.

Prohibitions and penalties (473.322)

A person may not knowingly:

- a. Practice public accounting unless the person is a certified public accountant or a public accountant;
- b. Assume or use the titles or designations "certified public accountant" or "public accountant" or the abbreviation "C.P.A." or any other title, designation, words, letters, abbreviations, sign, card, or device tending to indicate that the person holds a license to practice public accounting under this chapter or the laws of any other state, territory, or foreign jurisdiction, unless the person holds an active license under chapter 473 or has the practice privileges pursuant to section 473.3141;
- c. Perform or offer to perform any services described in section 473.302(8)(a) unless such person holds an active license under this chapter and is a licensed audit firm, provides such services through a licensed audit firm, or complies with sections 473.3101 and 473.3141. This paragraph does not prohibit the performance by persons other than certified public accountants of other services involving the use of accounting skills, including the preparation of tax returns and the preparation of financial statements without expression of opinion thereon;
- d. Present as her or his own the license of another;

- e. Give false or forged evidence to the board or a member thereof;
- f. Use or attempt to use a public accounting license that has been suspended, revoked, or placed on inactive or delinquent status;
- g. Employ unlicensed persons to practice public accounting; or
- h. Conceal information relative to violations of this chapter.

Any person who violates any provision of this section commits a misdemeanor of the first degree.

Disciplinary Proceedings - Chapter 455 and Chapter 473

Disciplinary proceedings (455.225)

The Department of Business and Professional Regulation and the Board of Accountancy may investigate any complaint that is filed before it if the complaint is in writing, signed by the complainant, and legally sufficient.

A complaint is legally sufficient if it contains ultimate facts that show that a violation of any of the practice acts relating to the professions regulated by the department, or of any rule adopted by the department or the Board has occurred. In order to determine legal sufficiency, the department may require supporting information or documentation.

The department may investigate, and the department or the Board may take appropriate final action on, a complaint even though the original complainant withdraws it or otherwise indicates a desire not to cause the complaint to be investigated or prosecuted to completion.

The department may investigate an anonymous complaint if the complaint is in writing and is legally sufficient, if the alleged violation of law or rules is substantial, and if the department has reason to believe, after preliminary inquiry, that the violations alleged in the complaint are true.

The department may investigate a complaint made by a confidential informant if the complaint is legally sufficient, if the alleged violation of law or rule is substantial, and if the department has reason to believe, after preliminary inquiry, that the allegations of the complainant are true. The department may initiate an investigation if it has reasonable cause to believe that a licensee or a group of licensees has violated a Florida statute, a rule of the department, or a rule of the Board.

When an investigation of any subject is undertaken, the department shall promptly furnish to the subject or the subject's attorney a copy of the complaint or document that resulted in the initiation of the investigation. The subject may submit a written response to the information contained in such complaint

or document within 20 days after service to the subject of the complaint or document. The subject's written response shall be considered by the probable cause panel. The department may conduct an investigation without notification to any subject if the act under investigation is a criminal offense.

The department shall allocate sufficient and adequately trained staff to expeditiously and thoroughly determine legal sufficiency and investigate all legally sufficient complaints. When its investigation is complete and legally sufficient, the department shall prepare and submit to the probable cause panel of the appropriate regulatory board the investigative report of the department. The report shall contain the investigative findings and the recommendations of the department concerning the existence of probable cause.

At any time after legal sufficiency is found, the department may dismiss any case, or any part thereof, if the department determines that there is insufficient evidence to support the prosecution of allegations contained therein. The department shall provide a detailed report to the appropriate probable cause panel prior to dismissal of any case or part thereof, and to the subject of the complaint after dismissal of any case or part thereof, under this section.

As an alternative, when a complaint is received, the department may provide a licensee with a notice of noncompliance for an initial offense of a minor violation. A violation is a minor violation if it does not demonstrate a serious inability to practice the profession, result in economic or physical harm to a person, or adversely affect the public health, safety, or welfare or create a significant threat of such harm. Each board, or the department if there is no board, shall establish by rule those violations which are minor violations under this provision. Failure of a licensee to take action in correcting the violation within 15 days after notice may result in the institution of regular disciplinary proceedings.

The determination as to whether probable cause exists shall be made by majority vote of a probable cause panel of the board, or by the department, as appropriate. Each regulatory board shall provide by rule that the determination of probable cause shall be made by a panel of its members or by the department.

A formal hearing before an administrative law judge from the Division of Administrative Hearings shall be held pursuant to chapter 120 if there are any disputed issues of material fact. The administrative law judge shall issue a recommended order pursuant to chapter 120. If any party raises an issue of disputed fact during an informal hearing, the hearing shall be terminated and a formal hearing pursuant to chapter 120 shall be held.

The complaint and all information obtained pursuant to the investigation by the department are confidential until 10 days after probable cause has been found to exist by the probable cause panel or by the department, or until the regulated professional or subject of the investigation waives his or her privilege of confidentiality, whichever occurs first.

A privilege against civil liability is hereby granted to any complainant or any witness with regard to information furnished with respect to any investigation or proceeding pursuant to this section, unless the complainant or witness acted in bad faith or with malice in providing such information.

Grounds for discipline and enforcement (455.227 and 473.323)

The following acts shall constitute grounds for which the disciplinary actions may be taken:

- a. Making misleading, deceptive, or fraudulent representations in or related to the practice of the licensee's profession.
- b. Intentionally violating any rule adopted by the board or the department, as appropriate.
- c. Being convicted or found guilty of, or entering a plea of guilty or nolo contendere to, regardless of adjudication, a crime in any jurisdiction which relates to the practice of, or the ability to practice, a licensee's profession.
- d. Having a license or the authority to practice the regulated profession revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of any jurisdiction, including its agencies or subdivisions, for a violation that would constitute a violation under Florida law. The licensing authority's acceptance of a relinquishment of licensure, stipulation, consent order, or other settlement, offered in response to or in anticipation of the filing of charges against the license, shall be construed as action against the license.
- e. Having been found liable in a civil proceeding for knowingly filing a false report or complaint with the department against another licensee.
- f. Attempting to obtain, obtaining, or renewing a license to practice a profession by bribery, by fraudulent misrepresentation, or through an error of the department or the board.
- g. Failing to report to the department any person who the licensee knows is in violation of this chapter, the chapter regulating the alleged violator, or the rules of the department or the board.
- h. Aiding, assisting, procuring, employing, or advising any unlicensed person or entity to practice a profession contrary to this chapter, the chapter regulating the profession, or the rules of the department or the board.
- i. Failing to perform any statutory or legal obligation placed upon a licensee.
- j. Making or filing a report which the licensee knows to be false, intentionally or negligently failing to file a report or record required by state or federal law, or willfully impeding or obstructing another person to do so. Such reports or records shall include only those that are signed in the capacity of a licensee.
- k. Making deceptive, untrue, or fraudulent representations in or related to the practice of a profession or employing a trick or scheme in or related to the practice of a profession.
- l. Exercising influence on the patient or client for the purpose of financial gain of the licensee or a third party.
- m. Practicing or offering to practice beyond the scope permitted by law or accepting and performing professional responsibilities the licensee knows, or has reason to know, the licensee is not competent to perform.
- n. Delegating or contracting for the performance of professional responsibilities by a person when the licensee delegating or contracting for performance of such responsibilities knows, or has reason to know, such person is not qualified by training, experience, and authorization when required to perform them.

- o. Violating any provision of this chapter, the applicable professional practice act, a rule of the department or the board, or a lawful order of the department or the board, or failing to comply with a lawfully issued subpoena of the department.
- p. Improperly interfering with an investigation or inspection authorized by statute, or with any disciplinary proceeding.
- q. Failing to report in writing to the board within 30 days after the licensee is convicted or found guilty of, or entered a plea of nolo contendere or guilty to, regardless of adjudication, a crime in any jurisdiction. A licensee must report a conviction, finding of guilt, plea, or adjudication entered before the effective date of this paragraph within 30 days after the effective date of this paragraph.
- r. Termination from a treatment program for impaired practitioners as described in s. 456.076 for failure to comply, without good cause, with the terms of the monitoring or treatment contract entered into by the licensee or failing to successfully complete a drug or alcohol treatment program.
- s. Violation of any provision chapter 473.
- t. Attempting to procure a license to practice public accounting by bribery or fraudulent misrepresentations.
- u. Having a license to practice public accounting revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of another state, territory, or country.
- v. Being convicted or found guilty of, or entering a plea of nolo contendere to, regardless of adjudication, a crime in any jurisdiction which directly relates to the practice of public accounting or the ability to practice public accounting.
- w. Making or filing a report or record that the certified public accountant or firm knows to be false, willfully failing to file a report or record required by state or federal law, willfully impeding or obstructing such filing, or inducing another person to impede or obstruct such filing. Such reports or records include only those that are signed in the capacity of a certified public accountant.
- x. Advertising goods or services in a manner that is fraudulent, false, deceptive, or misleading in form or content.
- y. Committing an act of fraud or deceit, or of negligence, incompetency, or misconduct, in the practice of public accounting.
- z. Violation of any rule adopted pursuant to chapter 473 or chapter 455.
 - aa. Practicing on a revoked, suspended, inactive, or delinquent license.
 - bb. Suspension or revocation of the right to practice before any state or federal agency.
 - cc. Performance of any fraudulent act in any jurisdiction while holding a license to practice public accounting in Florida or using practice privileges in Florida.
 - dd. Failing to maintain a good moral character as provided in s. 473.308 while applying for licensure, or while licensed in Florida or using practice privileges pursuant to s. 473.3141.
 - ee. Failing to provide any written disclosure to a client or the public which is required by this chapter or rule of the board.
 - ff. Having the same or equivalent practice privileges of a Florida certified public accountant or firm revoked, suspended, or otherwise acted against by the licensing authority of another state,

territory, or country as a result of activity in that jurisdiction which would have subjected the Florida certified public accountant or firm to discipline in Florida.

Per Chapter 455 and 473, the board finds any certified public accountant or firm guilty of any of the grounds set forth in above, it may enter an order imposing one or more of the following penalties:

- a. Denial of an application for licensure.
- b. Revocation or suspension of the certified public accountant or firm's license or practice privileges in Florida.
- c. Imposition of an administrative fine not to exceed \$5,000 for each count or separate offense.
- d. Issuance of a reprimand.
- e. Placement of the certified public accountant on probation for a period of time and subject to such conditions as the board may specify, including requiring the certified public accountant to attend continuing education courses or to work under the supervision of another licensee.
- f. Restriction of the authorized scope of practice by the certified public accountant.

The department shall reissue the license of a disciplined licensee upon certification by the board that the disciplined licensee has complied with all of the terms and conditions set forth in the final order.

In addition to any other discipline imposed pursuant to this section or discipline imposed for a violation of any practice act, the board, or the department when there is no board, may assess costs related to the investigation and prosecution of the case excluding costs associated with an attorney's time.

In any case where the board or the department imposes a fine or assessment and the fine or assessment is not paid within a reasonable time, such reasonable time to be prescribed in the rules of the board, or the department when there is no board, or in the order assessing such fines or costs, the department or the Department of Legal Affairs may contract for the collection of, or bring a civil action to recover, the fine or assessment.

The department shall not issue or renew a license to any person against whom or business against which the board has assessed a fine, interest, or costs associated with investigation and prosecution until the person or business has paid in full such fine, interest, or costs associated with investigation and prosecution or until the person or business complies with or satisfies all terms and conditions of the final order.

In addition to, or in lieu of, any other remedy or criminal prosecution, the department may file a proceeding in the name of the state seeking issuance of an injunction or a writ of mandamus against any person who violates any of the provisions of this chapter, or any provision of law with respect to professions regulated by the department, or any board therein, or the rules adopted pursuant thereto.

In the event the board, determines that revocation of a license is the appropriate penalty, the revocation shall be permanent. However, the board may establish, by rule, requirements for reapplication by applicants whose licenses have been permanently revoked. Such requirements may include, but shall not be limited to, satisfying current requirements for an initial license.

Question: Does the Florida Board of Accountancy have the authority to take disciplinary action against an individual or firm that practices pursuant to the Mobility provision set forth in Chapter 473, Florida Statutes?

Answer: Yes. Because an individual or firm is granted the same or equivalent practice privileges as a Florida licensed CPA, Chapter 473, Florida Statutes, gives the Florida Board of Accountancy the authority to revoke, suspend, or take appropriate disciplinary action against the out-of-state licensee any action that would have subjected the Florida CPA or firm to discipline in Florida.

Criminal proceedings against licensees (455.2274)

A representative of the department may voluntarily appear in a criminal proceeding brought against a person licensed by the department to practice a profession regulated by the state. The department's representative is authorized to furnish pertinent information, make recommendations regarding specific conditions of probation, and provide other assistance to the court necessary to promote justice or protect the public. The court may order a representative of the department to appear in a criminal proceeding if the crime charged is substantially related to the qualifications, functions, or duties of a license regulated by the department.

Penalty for giving false information (455.2275)

In addition to, or in lieu of, any other discipline imposed pursuant to s. 455.227, the act of knowingly giving false information in the course of applying for or obtaining a license from the department, or any board thereunder, with intent to mislead a public servant in the performance of his or her official duties, or the act of attempting to obtain or obtaining a license from either the department, or any board thereunder, to practice a profession by knowingly misleading statements or knowing misrepresentations constitutes a felony of the third degree.

Chapter 3 Review Questions

1. The appearance of independence of a CPA is most likely to be impaired if the CPA _____
 - A. Provides appraisal, valuation, or actuarial services for an attest client.
 - B. Joins a trade association, which is an attest client, and serves in a nonmanagement capacity.
 - C. Accepts a token gift from an attest client.
 - D. Serves as an executor and trustee of the estate of an individual who owned the majority of the stock of a closely held client corporation.

2. AICPA Conduct Rule 1.700 and 61H1-23.001 *Confidential Client Information* are violated when a CPA:
 - A. Provides client profit and loss percentages to a trade association without the client's consent.
 - B. Uses outside computer services to process tax returns.
 - C. Performs consulting services for similar clients.
 - D. Advises potential consulting services clients about previous problems on similar engagements.

3. Retaining client records as a means of enforcing payment of an overdue audit fee is:
 - A. Not addressed by the AICPA Code of Professional Conduct and the Florida Accountancy Rules.
 - B. Acceptable by state law.
 - C. Prohibited under the AICPA Code of Professional Conduct and the Florida Accountancy Rules.
 - D. A violation of GAAS.

4. A violation of the Florida ethical standards would most likely have occurred when a CPA _____
 - A. Included the name of a retired CPA in the firm's name.
 - B. Joined an accounting partnership made up of two other CPA practitioners and a non-CPA financial advisor.
 - C. Advertised that a client would not pay if they did not receive a tax refund.
 - D. Purchased a bookkeeping firm to assist with client's tax services.

5. Which of the following would be a violation of the Florida Accountancy Rules for CPAs:
 - A. Failure to complete 80 hours of continuing education every year.
 - B. Receiving a mortgage loan from a client who is a bank.

- C.** Employing an unlicensed person to practice public accounting.
- D.** Disclosing confidential client information to the bank after getting approval from the client.

Appendices

Board Rules

Chapter 61H1-36: Discipline

61H1-36.003 Time for Payment of Civil Penalties.

In cases where the Board of Accountancy imposes a civil penalty for violation of Chapter 455 or 473, F.S., or the rules promulgated pursuant thereunder, the penalty shall be paid within thirty (30) days of its imposition by Order of the Board.

61H1-36.004 Disciplinary Guidelines; Range of Penalties; Aggravating and Mitigating Circumstances.

(1)

(a) The board sets forth below a range of disciplinary guidelines from which disciplinary penalties will be imposed upon practitioners guilty of violating Chapter 473, F.S. The purpose of the disciplinary guidelines is to give notice to licensees of the range of penalties which will normally be imposed upon violations of particular provisions of Chapter 473, F.S. The disciplinary guidelines are based upon a single count violation of each provision listed. The brief description of each violation is provided for quick reference and is not meant to convey all elements of any given statutory provision; the full language of each statutory provision cited must be consulted in order to determine the conduct involved. All penalties at the upper range of the sanctions set forth in the guidelines, i.e., suspension, revocation, etc., include lesser penalties, i.e., fine, probation or reprimand which may be included in the final penalty at the board's discretion.

(b) Standard probationary terms will include, as applicable, a review of the licensee's practice, including analysis of selected financial statements (including working papers), restriction of the scope of the licensee's practice and review of internal controls put in place by the licensee in order to eliminate the violation. All of the above will usually include the use of a CPA consultant employed by the Department of Business and Professional Regulation or approved by the Board and will usually require the licensee to assume the cost of the consultant's activities. Additional continuing education may also be required of a licensee where deficiencies in a particular practice area are noted. In all cases of probation or suspension a report showing compliance with the terms of the final order must be received and accepted by the Board prior to the termination of the probation or suspension. Other specific terms of probation or suspension may be imposed, as necessary, by the Board.

(2) The following disciplinary guidelines shall be followed by the board in imposing disciplinary penalties upon licensees for violation of the below mentioned statutes and rules:

VIOLATION	PENALTY RANGE	
	MINIMUM	MAXIMUM
(a) Attempting to procure license by bribery or fraudulent misrepresentation	Revocation and \$5,000 fine if licensed (denial of license and refer to State Attorney if not licensed)	
(b) CPA License disciplined by another jurisdiction	Same penalty as imposed in other jurisdiction or imposition of same range of penalties as those set forth in those rules for the same type of violation.	
(c) Criminal conviction relating to accountancy	Misdemeanor: Reprimand	Reprimand and \$5,000 fine one (1) year suspension and two (2) year probation
	Felony: One (1) year suspension; two (2) year probation \$5,000 fine	Revocation and \$5,000 fine
(d) Knowingly making or filing false report	Reprimand one (1) year probation	Revocation and \$5,000 fine
(e) Fraudulent, false, deceptive or misleading advertising	\$250 fine	Reprimand, one (1) year probation and \$5,000 fine
(f) Incompetence (mental or physical impairment)	Suspension until ability to practice proved, followed by probation	
(g) Fraud, deceit or misleading	Reprimand, one (1) year suspension; two (2) years probation and \$5,000 fine	\$5,000 fine and revocation
(h) Negligence or misconduct		
1. Technical standards and professional competence	\$250 fine	Reprimand and one (1) year probation (continuing education and review of practice at licensee's expense and limited area of practice)
2. Lack of independence	Reprimand, one (1) year probation with review of practice and continuing education	Reprimand, one (1) year suspension, two (2) years probation and review of practice and continuing education
3. Commissions and contingent fees	Reprimand	One (1) year suspension, two (2) years probation \$5,000 fine
4. Client records disposition	\$250 fine	Suspension until records are returned
(i) Practicing on suspended or revoked license	Revoke if previously suspended; refer to State Attorney if previously revoked	
(j) Practicing on inactive or delinquent license	Reprimand and fine based on length of time in practice while inactive; \$100/month or \$5,000 maximum (penalty will require licensure or cease practice)	
(k) Licensees practicing in an unlicensed firm (including sole proprietors) or otherwise in violation of Sections 473.309, 473.3101, and	Reprimand and \$100 per month fine to maximum of \$5,000 and suspension of right to practice until corrected	

473.323(1)(g), F.S.; Rule 61H1-26.001, F.A.C.		
(l) Suspension of right to practice in front of any state or federal agency	Same penalty as imposed by agency or imposition of same range of penalties as those set forth in those rules for the same type of violation	
(m) Lack of Good Moral Character	Reprimand; and one year probation	Revocation
(n) Failure to pay fines or administrative costs imposed by final order or citations set forth in Rule 61H1-36.005, F.A.C.	\$100 per month late fee for every month the licensee is late to a maximum of \$5,000	Revocation
(o) Violation of CE requirements	Reprimand, probation, make up missed CEs and penalty CEs	Suspension and \$1,000 fine
(p) Violation of client confidentiality	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(q) Misleading or deceptive name	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(r) Violation of Section 473.323(1)(a) by 473.322, F.S.:		
1. Present license of another as one's own	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
2. Give false or forged evidence to Board or member thereof (Section 473.322(1)(e), F.S.)	Reprimand, probation, and \$1,000 fine	Revocation and \$5,000 fine
3. Use or attempt to use license that has been suspended, revoked, or placed on inactive or delinquent status	Reprimand, probation, and \$1,000 fine	Revocation and \$5,000 fine
4. Employ unlicensed persons to practice public accounting; aiding or assisting unlicensed practice public accounting	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
5. Conceal information relative to violations of Chapter 473, F.S.	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(s) Failure to provide legally-required written disclosure to client or public	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(t) Violation of Section 473.323(1)(a) by 455.227(1), F.S.:		
1. Improper influence on client	Reprimand, probation, and \$1,000 fine	Revocation and \$5,000 fine
2. Improper delegation of professional responsibilities	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
3. Improper interference with investigation or disciplinary proceeding	Reprimand, probation, and \$1,000 fine	Revocation and \$5,000 fine
4. Failure to perform statutory/legal obligations (Section 455.227(1)(k), F.S.)	Reprimand, probation and \$1,000 fine	Suspension and \$1,000 fine
(u) Failure to maintain current address	Reprimand and \$500 fine	Suspension and \$1,000 fine
(v) Standards for assembly of financial statements	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(w) Violation of Sections 473.323(1)(h) and 455.227(1)(q), F.S., by Rule 61H1-25.001, F.A.C. Same as (t)2. subparagraph	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(x) Minimum capital	Reprimand, probation, \$1,000 fine and corrective action. Must document required capital	Suspension and \$5,000 fine
(y) Licensure of firm names and changes	Reprimand, probation, \$100/ month fine and corrective action. Must document	Suspension and \$5,000 fine

	licensure	
(z) Failure to report discipline violation	Reprimand, probation, and \$1,000 fine	Suspension and \$5,000 fine
(aa) Failure to timely report being convicted or found guilty of, or entering a plea of nolo contendere or guilty to, regardless of adjudication, a crime in any jurisdiction (more than 30 days late)	Reprimand	Suspension and \$5,000 fine

(3) The Board shall be entitled to deviate from the above-mentioned guidelines upon a showing of aggravating or mitigating circumstances by clear and convincing evidence presented to the Board prior to the imposition of a final penalty.

(a) Aggravating circumstances; circumstances which may justify deviating from the above set forth disciplinary guidelines and cause the enhancement of a penalty beyond the maximum level of discipline in the guidelines shall include but not be limited to the following:

1. History of previous violations of the practice act and the rules promulgated thereto.
2. In the case of negligence; of the magnitude and scope of the engagement and the damage inflicted upon the general public by the licensee's misfeasance.
3. Evidence of violation of professional practice acts in other jurisdictions wherein the licensee has been disciplined by the appropriate regulatory authority.
4. Violation of the provision of the practice act wherein a letter of guidance as provided in Section 455.225(3), F.S., has previously been issued to the licensee.
5. Multiple convictions of violations of the same provision of Chapter 473, F.S., or the rules promulgated thereto contained in the same administrative complaint.

(b) Mitigating circumstances; circumstances which may justify deviating from the above set forth disciplinary guidelines and cause the lessening of a penalty beyond the minimum level of discipline in the guidelines shall include but not be limited to the following:

1. In cases of negligence, the minor nature of the engagement in question and lack of danger to the public health, safety and welfare resulting from the licensee's misfeasance.
2. Lack of previous disciplinary history in this or any other jurisdiction wherein the licensee practices his profession.
3. Restitution of any damages suffered by the licensee's client.
4. The licensee's professional standing among his peers including continuing education.
5. Steps taken by the licensee or his firm to insure the non-occurrence of similar violations in the future.

6. The degree of financial hardship incurred by a licensee as a result of the imposition of fines or the suspension of his practice.

7. Cooperation with the Department of Business and Professional Regulation and the Board including understanding and admission of the violation by the Respondent.

61H1-36.005 Citations

(1) Pursuant to Section 455.224, F.S., the Board sets forth in subsection (3) of this rule those violations for which there is no substantial threat to the public health, safety and welfare; or, if there is a substantial threat to the public health, safety and welfare, such potential for harm has been removed prior to the issuance of the citation. Next to each violation is the fine to be imposed.

(2) Prior to issuance of the citation, the Department must confirm that the violation has been corrected or is in the process of being corrected. If the violation is a substantial threat to the public health, safety and welfare, such potential for harm must be removed prior to issuance of the citation.

(3) The following violations with accompanying fines may be disposed of by citation:

(a) Practicing on an inactive or delinquent license	Reprimand and fine based on length of time in practice while inactive; \$100/month or \$5,000 maximum (penalty will require licensure or cease practice).
(b) Licensees practicing in an unlicensed firm (including sole proprietors)or otherwise in violation of Sections 473.309, 473.3101, and 473.323(1)(g), F.S.	Reprimand and \$100 per month fine to maximum of \$5,000 and suspension of right to practice until corrected.
(c) Licensees who complete continuing professional education requirements timely but who are found to be deficient after December 1st of their renewal year .	Submit documentation that deficient hours have been completed and pay \$50 fine within 60 days.
(d) Licensees who fail to timely submit complete documentation for a CE audit	Fined \$100 per month.
(e) Retention of client records when records are returned more than three months after the date requested and there is no evidence that the failure to return the records was due to any fees not being paid. (Rule 61H1-23.002, F.A.C.)	\$500 fine.
(f) Failure to timely report being convicted or found guilty of, or entering a plea of nolo contendere or guilty to, regardless of adjudication, a crime in any jurisdiction (up to 30 days late)	\$250 fine.

(4) Once the citation becomes a final order, the citation and complaint become a public record pursuant to Chapter 119, F.S., unless otherwise exempt from the provisions thereof. The citation and complaint may be considered as aggravating circumstances in future disciplinary actions pursuant to paragraph 61H1-36.004(3)(a), F.A.C.

(5) The procedures described herein apply only for an initial offense of the alleged violation. Subsequent violation(s) of the same rule or statute shall require the procedures of Section 455.225, F.S., to be applied. In addition, should an initial offense for which a citation could be issued occur in conjunction with violations not described herein, then the procedures of Section 455.225, F.S., shall apply.

61H1-36.0055 Minor Violation, Notice of Non-Compliance.

(1) Pursuant to Section 455.225(3), F.S., the Department may issue a notice of non-compliance to a certified public accountant for an initial offense of a minor violation. Failure of the person to whom a notice of non-compliance is issued to take corrective action which is set forth in the notice of violation within 15 days of the receipt of the notice may result in further disciplinary action.

(2) The following violations are minor violations for which the Department may issue a notice of non-compliance:

(a) Retention of client records when records are returned within three months of the date requested and there is no evidence that the initial failure to return the records was due to any fees not being paid.

(b) Use of "& Associates" in a firm name when the firm does not have a licensee that qualifies as the "associate".

(c) Licensees practicing in a firm which was not licensed within three months of the date the firm began doing business. Any late fees shall still apply.

(d) Practicing on a delinquent license for up to three months.

(e) Failure to timely complete required CPE if failure is due to erroneous belief that completed CPE satisfied requirements and deficiency has been completed.

(f) Failure to notify the Board in writing within 30 days of the occurrence of any of the following:

1. Admission or addition of a co-partner, shareholder or member in the Florida office;
2. Retirement or death of a co-partner, shareholder, or member in a Florida office;
3. Termination of the partnership, professional service corporation or limited liability company of any Florida office.

(g) Failure to provide the Board with a list of all co-partners, shareholders or members in the U.S. pursuant to subsection 61H1-26.004(2), F.A.C.

(h) Employment by a CPA firm of any person with a delinquent or inactive license; or, working for a CPA firm with an inactive or delinquent license for one year or less.

(i) Issuance of a check to the Board or Department that is subsequently dishonored.

(3) The Department shall not issue a notice of non-compliance for any subsequent violations of the same provision of the law or rules to the same licensee, registrant or certificate holder, within a three-year period following the initial notice of non-compliance for violation of that provision.

61H1-36.006 Mediation.

(1) "Mediation" means a process whereby a mediator appointed by the Department acts to encourage and facilitate resolution of a legally sufficient complaint. It is an informal and nonadversarial process with the objective of assisting the parties to reach a mutually acceptable agreement.

(2) The Board finds that mediation is an acceptable method of dispute resolution for the following violations as they are economic in nature or can be remedied by the certified public accountant:

- (a) Failure of the certified public accountant to timely pay any assessed administrative fines or costs;
- (b) Retention of client records contrary to Rule 61H1-23.002, F.A.C.;
- (c) Issuance of a check to the Board or Department that is subsequently dishonored;
- (d) Practicing in or as an unlicensed firm less than three months; and/or
- (e) Practicing on a delinquent license less than three months.

(3) A "mediator" means a person who is certified in mediation by the Florida Bar, the Florida Supreme Court, or the Division of Administrative Hearings.

Chapter 61H1-31: Fees

61H1-31.001 Collection and Payment of Fees.

All fees shall be made payable to the Department of Business and Professional Regulation. Application fees will not be refunded in the event an application is withdrawn or denied.

61H1-31.003 Renewal of Active and Inactive License Fee for CPA.

For individual active and inactive status licenses, the biennial renewal fee provided for in Section 473.305, F.S., shall be \$100.00, with the exception that for the 2013-2014 renewal period, the fee shall be \$80.00. A special fee of \$5.00 per licensee shall be imposed upon initial licensure and at each renewal to fund efforts to combat unlicensed activity.

61H1-31.004 Delinquency Fee.

A delinquent status licensee shall pay a delinquency fee of \$50.00 when the licensee applies for active or inactive status.

61H1-31.005 Initial Licensure Fee.

The fee for initial licensure of an individual shall be \$50.00. In the event the application is denied or withdrawn, no portion of the fee shall be refunded by the Department. A special fee of \$5.00 per licensee shall be imposed upon initial licensure and at each renewal to fund efforts to combat unlicensed activity.

61H1-31.006 Reactivation Fee.

The application fee for reactivation of an inactive status license to active status shall be \$250.00; for reactivation of a delinquent status license to active, \$250.00. In all cases completion of the requirements of Rule 61H1-33.006, F.A.C., shall be required for reactivation.

61H1-31.0065 Change of Status Process Fee.

The fee for processing a licensee's request to change licensure status from active to inactive at any time other than during the renewal period shall be \$50.00.

61H1-31.007 Temporary License Fee.

The fee for a temporary license shall be \$400.00 for the first license in a calendar year and \$400.00 for each additional application in the same calendar year.

61H1-31.0075 Temporary License Fee – Electronic Practice.

The fee for a temporary license shall be \$400.00 for the first license in a calendar year and \$400.00 for each additional application in the same calendar year.

61H1-31.008 Licensure by Endorsement.

The application fee for license by endorsement provided in Section 473.308, F.S. shall be \$250.00 per person.

61H1-31.009 Renewal of Accountancy Firm License Fee.

The biennial renewal fee provided in Section 473.305, F.S., for partnerships, corporations, and limited liability companies licensed in Section 473.3101, F.S., shall be \$145.00.

The biennial renewal fee provided in Section 473.305, F.S., for sole proprietor firms licensed in Section 473.3101, F.S., shall be \$45.00.

A special fee of \$5.00 per licensee shall be imposed at each renewal to fund efforts to combat unlicensed activity.

61H1-31.010 Initial Accountancy Firm License Fees.

(1) The initial licensure fee provided in Section 473.305, F.S., for partnerships, corporations, and limited liability companies licensed in Section 473.3101, F.S. shall be \$145.00.

(2) The initial licensure fee provided in Section 473.305, F.S., for sole proprietor firms licensed in Section 473.3101, F.S., shall be \$45.00.

(3) Persons, partnerships and corporations licensed in the first year of the biennial period, as established by the Department, shall pay the fees established above. Those persons, partnerships and corporations licensed in the second year of the biennial period, as established by the Department, shall pay one half of the fees established above.

(4) A special fee of \$5.00 per licensee shall be imposed upon initial licensure and at each renewal of fund efforts to combat unlicensed activity.

61H1-31.011 Licensure and Exam Score Verification Fee.

The fee for verification of licensure and examination status to other states shall be \$50.00. In the event the verification request is completed using the Department of Business and Professional Regulation's Online Certification system there will be no charge.

61H1-31.012 Duplicate License Fee.

Duplicate licensee fee – If a Florida certified public accountant requests a duplicate license or wall certificate, the Board will issue the duplicate if the request is made in writing and is accompanied by a payment of \$25.00.

61H1-31.014 Continuing Education Course Approval Fees.

For approval of a continuing education course in ethics, meeting the requirements of Section 473.312(1)(c), F.S., \$250.00.

61H1-31.015 Reinstatement of a Null and Void License Fee.

Upon approval of the board, reinstatement of a null and void license must be accompanied by an application fee of \$250.00. The completion of the requirements of Rule 61H1-33.006, F.A.C. shall be required for reinstatement.

Glossary

Acceptable level

A level where a reasonable and informed third party would likely conclude, weighing all specific facts and circumstances, that compliance with the rules is not compromised.

Attest engagement

An engagement in which a practitioner will issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion of another party. This engagement requires independence.

Attest engagement team

Participants in the engagement, including partners who perform concurring or second reviews and all employees and contractors retained by the firm, but excluding specialists.

Audit committee

Selected members of a client's board of directors whose responsibilities include helping auditors to remain independent of management.

Client

Any person or entity, other than the member's employee, that engages a member or a member's firm to perform professional services.

Close relatives

Parents, siblings, or nondependent children.

Confidential client information

Client information that may not be disclosed without the specific consent of the client except under authoritative professional or legal investigation

Corporate governance

The system of checks and balances designed to ensure that corporate managers are just as vigilant on behalf of long-term shareholder value as they would be if it was their own money at risk. It is also the process whereby shareholders—the actual owners of any publicly traded firm—assert their ownership rights, through an elected board of directors and the CEO and other officers and managers they appoint and oversee.

Covered member

- An individual on the attest engagement team or who is able to influence the engagement.
- A partner or manager who provides at least 10 hours of nonattest services to a client.

- A partner in the office where the lead engagement partner primarily practices in relation to the engagement, (4) the firm (including its benefit plans), and (5) an entity that can be controlled by the foregoing parties.

Deontology (Kantian ethics)

The concept of duty and the rightness of acts. It emphasizes maxims, duties, rules, and principles that are so important that they should be followed whatever the consequences.

Direct financial interest

The ownership of stock or other equity shares by members or their immediate family.

Ethical dilemma

A situation in which a decision must be made about the appropriate behavior.

Ethics

Standards of professional conduct and business practices adhered to by professionals in order to enhance their profession and maximize idealism, justice and fairness when dealing with the public, clients and other members of their profession.

Financial institution

An entity that normally makes loans to the public.

Firm

A form of organization permitted by law or regulation that is consistent with the resolutions of the AICPA's Council and practices public accounting. The term "firm" includes the individual partners thereof except for the purposes of Rule 101, *Independence*.

Immediate family

A covered member's spouse, equivalent of a spouse, or dependents.

Independence of mind

The state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in appearance

The avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest engagement team had been compromised.

Independence in fact

The auditor's ability to take an unbiased viewpoint in the performance of professional services.

Independence Standards Board (ISB)

An autonomous private-sector body established under an agreement between the SEC and the AICPA to provide a

conceptual framework for independence issues related to audits of public companies. The ISB dissolved around 2001 (ISB existed 1997-2001).

Indirect financial interest

A close, but not direct, ownership relationship between the auditor and the client; an example is the ownership of stock by a member's grandparent.

Individual in a position to influence the attest engagement

One who (1) evaluates the attest engagement partner or recommends his/her compensation; (2) directly supervises or manages that partner, including all levels above such supervisor or manager; (3) consults with the engagement team about technical or industry-related issues; or (4) participates in or oversees quality control for the engagement, including all senior levels.

Institute

The American Institute of Certified Public Accountants (AICPA).

Internal Control Report

A report on the company's internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act. For example, the report must include a statement of management's responsibility for internal control.

Interpretations

The means used to explain the application of the spirit of a Principle or Rule to specific situations in which the Principle or Rule may not be sufficiently clear or explicit.

Joint closely held investment

An investment in any entity or property by the member and (1) the client, (2) the client's officers or directors, or (3) an owner who can exercise significant influence if the investment permits such parties to control the entity or property.

Key position

One in which an individual is primarily responsible for significant accounting functions supporting material financial statement components or for the preparation of the statements. A key position is also one able to influence financial statement content, for example, director, CEO, CFO, general counsel, chief accountant, director of internal audit, or treasurer.

Laws

Bodies of rules governing members of a community, state, organization, professional, etc ... and enforced by authority or compelling legislation.

Member

A member, associate member, or international associate of the AICPA.

Moral

An accepted rule or standard of human behavior.

Normal lending procedures, terms, and requirements

Those reasonably comparable with those for similar loans to others from the financial institution in the period when a commitment was made for a loan to a covered member.

Objectivity

A state of mind, a quality that lends itself to a member's services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

Period of the professional engagement

The period that starts at the earlier of when the member signs an initial engagement letter to perform attest services or begins to perform. It continues for the entire professional relationship; it does not end with the issuance of a report and start again with the next year's engagement. This period ends with the later of notification by the member or client or by issuance of a report.

Principles

Broad guidelines for behavior and are not intended to be specific. Principles cover the concepts of responsibilities to the public, integrity, objectivity and independence, professional due care, as well as to whom the principles apply.

Privileged information

Client information that the professional cannot be legally required to provide; information that an accountant obtains from a client is confidential but not privileged.

Public company accounting oversight board (PCAOB)

(www.pcaobus.com) established in 2002 as a result of the Sarbanes-Oxley Act, a private sector, non-profit corporation set up to oversee the audits of public companies and ensure that accountancy firms should no longer derive non-audit revenue streams, such as consultancy, from their audit clients.

Rules

Enforceable guidelines that govern all services performed by the CPA in the practice of public accounting.

Safeguards

Actions or other measures to eliminate threats or reduce them to acceptable levels.

Sarbanes-Oxley Act (SOX)

Wide-ranging U.S. corporate reform legislation, coauthored by the Democrat in charge of the Senate Banking Committee, Paul Sarbanes, and Republican Congressman Michael Oxley. The Act, which became law in July 2002, lays down stringent procedures regarding the accuracy and reliability of corporate disclosures, places restrictions on auditors providing non-audit services and obliges top executives to verify their accounts personally. Section 409 is especially tough and requires that companies must disclose information on material changes in the financial condition or operations of the issuer on a rapid and current basis.

Special purpose entities (SPEs)

A type of corporate entity or limited partnership created for a specific transaction or business, especially

one unrelated to a company's main business. Their losses and risks generally aren't recorded on a company's balance sheet.

Threat

The risk that relationships or circumstances could compromise a member's compliance with the rules.

Utilitarianism (teleological ethics)

The promotion that the best long-term interest of everyone concerned should be the moral standard. One should take those actions that lead to the greatest balance of good versus bad consequences.

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Review Question Answers

Chapter 1 Review Answers

1. All of the following are a major focus of ethics EXCEPT:

- A. Incorrect. A key focus of ethics is the concept of integrity (or honesty). Integrity in broad terms will imply that no business-persons in the course of their business functions should be party to the falsification of any facts or information or make any statement which knowingly is misleading, false or deceptive in a material particular.
- B. **Correct.** The preferred position of many is that one should always avoid concurrent involvement in any business, occupation or activity, which might result in the compromising of integrity, objectivity and independence of decision making.
- C. Incorrect. Professional competence and due care implies that business professionals should always perform their functions in accordance with law and regulations. In other words, business transactions and professional functions should not be undertaken unless one possesses the required competence and technical skills.
- D. Incorrect. This is a more controversial focus of ethics. The preferred position of many is that one should always avoid concurrent involvement in any business, occupation or activity, which might result in the compromising of integrity, objectivity and independence of decision making.

Chapter 2 Review Answers - Section 1

1. Which of the following statements best explains why the CPA profession has found it essential to promulgate ethical standards and to establish means for ensuring their observance?

- A. **Correct.** According to the Principles section of the Code of Professional Conduct, *The Public Interest*, "Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism." According to the accompanying explanation, "A distinguishing mark of a profession is acceptance of its responsibility to the public."
- B. Incorrect. The responsibility of CPAs is to a public that is not limited to clients and colleagues but includes all those who rely on their objectivity and integrity.
- C. Incorrect. Excellence in performance is but one of the effects of accepting responsibility to the public.

- D. Incorrect. Vigorous enforcement is significant but secondary to the creation of an environment in the profession that fosters voluntary adherence to ethical principles.

2. The AICPA Code of Professional Conduct states, in part, that a CPA should maintain integrity and objectivity. Objectivity in the Code refers to a CPA's ability _____

- A. **Correct.** According to the Principles, *Objectivity*, "Objectivity is a state of mind, a quality that lends itself to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest."
- B. Incorrect. The CPA uses both judgment and GAAP to evaluate whether a client's accounting practices are acceptable.
- C. Incorrect. The CPA is expected to use professional judgment, which may include flexibility, in applying audit procedures.
- D. Incorrect. Auditing standards are concerned with the quality of the auditor's performance, whereas adherence to accounting principles by management is a prerequisite for fairly stated financial statements.

3. Which of the following reports may be issued only by an accountant who is independent of a client?

- A. **Correct.** Conduct Rule 1.200, *Independence*, states, "A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council." Such standards include Statements on Standards for Attestation Engagements, which apply to, among other things, reviews and audits of financial statements (forecasts and projections).
- B. Incorrect. Although most consulting services are prohibited by the Sarbanes-Oxley (SOX) Act of 2002 for auditors of public companies, tax services are allowed by auditors but only after approval from the audit committee and with proper safeguards.
- C. Incorrect. Independence is not required reviewing IT systems, but designing or operating the system would impair independence.
- D. Incorrect. Compilation reports on financial statement do not require independence. A CPA who is not independent may not express an audit opinion or issue a review report, but (s)he may issue a compilation report after disclosing the lack of independence.

Chapter 2 Review Answers - Section 2

4. According to Rule 1.600, *Advertising and Other Forms of Solicitation*, advertising or other forms of solicitation that are false, misleading, or deceptive are not in the public interest, and AICPA members in public practice shall not seek to obtain clients in such a manner. Such activities include all the following EXCEPT:

- A. **Correct.** Advertising and solicitation are acceptable as long as they do not involve falsehood or deception.
- B. Incorrect. Advertisements suggesting any influence over courts, tribunals, regulatory agencies, or a similar body or official are deceptive and prohibited.
- C. Incorrect. A correct amount of tax liability exists and any claim to save a taxpayer part of that amount are prohibited under Rule 1.600 because they are misleading and against public interests.
- D. Incorrect. It is misleading to create false and unjustified expectations of favorable results.

5. AICPA Conduct Rule 1.700 is violated when a member in public practice:

- A. **Correct.** AICPA Conduct Rule 1.700, *Confidential Client Information*, states that, prior to disclosing confidential client profit and loss percentages to a trade association, the CPA must have specific client consent.
- B. Incorrect. According to the Ethics Rules, using outside computer services to process tax returns is permissible as long as client confidentiality is maintained.
- C. Incorrect. Most CPAs perform consulting services for clients in the same or related industries, and as long as the member doesn't share confidential information, it is permissible to have clients in similar business activities.
- D. Incorrect. According to AICPA Conduct Rule 1.700, *Confidential Client Information*, CPAs must make full disclosure about any reservations concerning the usefulness of potential consulting services, especially those based on past experience with similar engagements. However, the use of any specific client information must remain confidential or be waived by the client.

6. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is _____

- A. Incorrect. This is addressed in the code. CPAs should return the papers regardless of whether they receive payment. Conduct Rule 1.400, *Acts Discreditable*, prohibits retention of client records as a means of enforcing payment of an overdue audit fee.
- B. Incorrect. The profession may require CPAs to adhere to standards beyond the legal minimum.
- C. **Correct.** An Interpretation of Conduct Rule 1.400, *Acts Discreditable*, defines client records as "any accounting or other records belonging to the client that were provided to the member by or on behalf of the client." This Interpretation prohibits the retention (after a demand is made for them) of client records to enforce payment or for any other purpose. Such an act is deemed to be discreditable to the profession.

- D. Incorrect. This is not a violation of GAAS, generally accepted auditing standards; it is a violation of the Code of Professional Standards.

Chapter 3 Review Answers

1. The appearance of independence of a CPA is most likely to be impaired if the CPA _____

- A. Incorrect. Independence is not necessarily impaired if the CPA does not perform management functions or make management decisions, if all significant matters of judgment are determined or approved by the client, and the client is in a position to make an informed judgment.
- B. Incorrect. Independence is not impaired, provided the CPA does not participate in management.
- C. Incorrect. A token gift will not impair independence. However, a CPA who accepts more than a token gift, even with the knowledge of the member's firm, will appear to lack independence.
- D. **Correct.** According to an Interpretation of AICPA Rule 1.200 and FL 61H1-21, independence is impaired if, during the period of the professional engagement, "a covered member was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client." An Ethics Ruling states that mere designation as trustee or executor does not impair independence in the foregoing circumstances but that actual service does.

2. AICPA Conduct Rule 1.700 and 61H1-23.001 *Confidential Client Information* are violated when a CPA:

- A. **Correct.** AICPA Conduct Rule 1.700, *Confidential Client Information*, and 61H1-23.001 *Confidential Client Information*, state that, , the CPA must have specific client consent prior to disclosing any confidential client information.
- B. Incorrect. According to an Ethics Ruling, using outside computer services to process tax returns is permissible as long as client confidentiality is maintained.
- C. Incorrect. Most CPAs perform consulting services for clients in the same or related industries, and as long as the member doesn't share confidential information, it is permissible to have clients in similar business activities.
- D. Incorrect. CPAs may discuss similar engagements, but the client confidentiality must be preserved or waived.

3. Retaining client records as a means of enforcing payment of an overdue audit fee is:

- A. Incorrect. This is addressed in the code. CPAs should return the papers regardless of whether they receive payment. Conduct Rule 1.400, *Acts Discreditable*, prohibits retention of client

records as a means of enforcing payment of an overdue audit fee. Section 61H1-23.002 of the Florida Accountancy Rules states the CPA must return the documents, but can make reasonable charges for the costs incurred.

- B. Incorrect. It is not permissible by AICPA rules or the Florida Board rules to retain client records to force payment of overdue fees. A certified public accountant shall not withhold client's records under any circumstances following a demand for same from the client.
- C. **Correct.** An Interpretation of Conduct Rule 1.400, *Acts Discreditable*, defines client records as "any accounting or other records belonging to the client that were provided to the member by or on behalf of the client." This Interpretation prohibits the retention (after a demand is made for them) of client records to enforce payment or for any other purpose. Such an act is deemed to be discreditable to the profession. Section 61H1-23.002 of the Florida Accountancy Rules states the CPA must return the documents, but can make reasonable charges for the costs incurred.
- D. Incorrect. Retention of client records as a means of enforcing payment of an overdue audit fee is prohibited by the Code of Professional Conduct and Florida Board rules, not by GAAS (generally accepted auditing standards).

4. A violation of the Florida ethical standards would most likely have occurred when a CPA _____

- A. Incorrect. It is permissible to include the name of a retired CPA in the firm's name per 473.321. A firm name may include the names of retired or deceased persons who were active partners, shareholders, or members of the firm.
- B. Incorrect. The Code does not prohibit this arrangement. CPA's must comprise 51% of the financial interest and voting rights of the partnership.
- C. **Correct.** This would violate advertising rules as a CPA is prohibited from preparing original tax returns for a contingent fee per 473.319.
- D. Incorrect. No Code provision prohibits purchase of a bookkeeping firm to assist with tax services. However, bookkeeping services for an attest client would be prohibited.

5. Which of the following would be a violation of the Florida Accountancy Rules:

- A. Incorrect. A CPA must complete 80 hours every two years.
- B. Incorrect. Conducting a normal financing transaction with a banking customer is not a violation, but no special treatment may be provided to the CPA.
- C. **Correct.** A CPA must not employ unlicensed persons to practice public accounting, per 473.322, but they may employ unlicensed individual for other responsibilities such as booking or administrative work.
- D. Incorrect. The CPA's responsibility to the client precludes the disclosure of confidential client information, but failure to disclose may cause a breach of the fiduciary duty owed to the bank.

**CPA Audit Update
2015 Renewal Period**

Number of licensees audited: 1007

Number reviewed: 961

Number of licensees compliant: 837

Number of licensees deficient: 73

Number of licensees failed: 51

Number of licensees who have not responded: 46

Probationary Sponsor Agreements

ADVANTAGE CPE, INC MIAMI, FL	0006946
FLORIDA DEPT OF FINANCIAL SERVICES STATEWIDE REPORTING TALLAHASSEE, FL	0003211
FLAH & COMPANY WEST PALM BEACH, FL	0002447
PALM BEACH COUNTY ESTATE PLANNING COUNCIL JUPITER, FL	0005653
HODGES UNIVERSITY NAPLES, FL	0007235
POSITIVE IMPACT FORCE TAMPA, FL	0007246