

# Why Is It So Difficult to Be Ethical?:

A Practical Application of the  
AICPA Code of Conduct

Webinar will begin at 1:00 pm CT



**Shelly Hammond, CPA, CGFM**  
Senior Vice President  
Assurance Services



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# Administration



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# Administration



**For best quality, call in by phone instead of using your computer speakers.**

# Administration



**To ask questions during the presentation, use the questions box on the right side of your screen.**

# Administration



**Please provide your feedback at the end of today's presentation.**

# Our Presenter



## **Shelly L. Hammond, CPA, CGFM**

- Leads AGH's public sector practice
- 23 years' experience, specializing in providing auditing and consulting services to a variety of governmental and nonprofit entities
- Serves as AGH's Quality Control Officer
- Member of the AICPA's State & Local Government Expert Panel
- Past member of the AICPA's Government Audit Quality Center Executive Committee
- Member of the:
  - American Institute of Certified Public Accountants
  - Government Finance Officers Association

# Learning Objectives

- Review highlights of the AICPA's Code of Professional Conduct
- Understand applications of the Code to
  - Members in public practice
  - Members in business
- Learn about frequently asked questions to the AICPA
- Discover what's new in the Code





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# *AICPA Annual Report - 2014*

# January 1 – December 31, 2014

	2014	2013
Total cases at end of period	912	734
Summary of disposition of completed cases:		
Expelled or Suspended	113	90
Admonished	66	76
Corrective Action Required	113	167
No Violation / Dismissed	81	69
No Further Action	100	85
Subsequent Monitoring Completed Satisfactorily	32	30
Other	25	13
Total	530	530

*Source: AICPA Annual Report of AICPA Disciplinary Activity, 2014*



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# *The Code of Professional Conduct*

# Polling Question #1

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# The Code of Professional Conduct

- The revised Code was launched in June 2014, and was effective Dec. 15, 2014.
- The two Conceptual Frameworks became effective Dec. 15, 2015.
- View at <http://pub.aicpa.org/codeofconduct>

# The Code of Professional Conduct

- Now an online platform that allows users to conduct and save searches, save notes, add bookmarks, etc. (Access is free.)
- Incorporates references to nonauthoritative guidance such as FAQs
  - Text boxes attached to guidance that directs the reader to the URL where related nonauthoritative guidance exists

# The Code of Professional Conduct

## Nonauthoritative Guidance References

Appears in boxed text at the end of the applicable topic, sub-topic or section. For example:

### 1.224.010 Client Affiliates

*.01 Financial interests in, and other relationships with, affiliates of a financial statement attest client may create threats to a member's compliance with the "Independence Rule" [1.200.001].*

Nonauthoritative questions and answers regarding the application of the independence rules to affiliates of employee benefit plans are available at <http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/faqs-application-independence-rules-affiliates-of-employee-benefit-plans.pdf>

# The Code of Professional Conduct

- Incorporates two conceptual frameworks
  - Conceptual Framework for Members in the Practice of ***Public Accounting***
  - Conceptual Framework for Members in ***Business***



# Conceptual Framework

- Applies when there is no specific guidance
- Requires professional judgment
  - Would a reasonable third party come to the same conclusion?

# Conceptual Framework

Step 1: Identify Threats

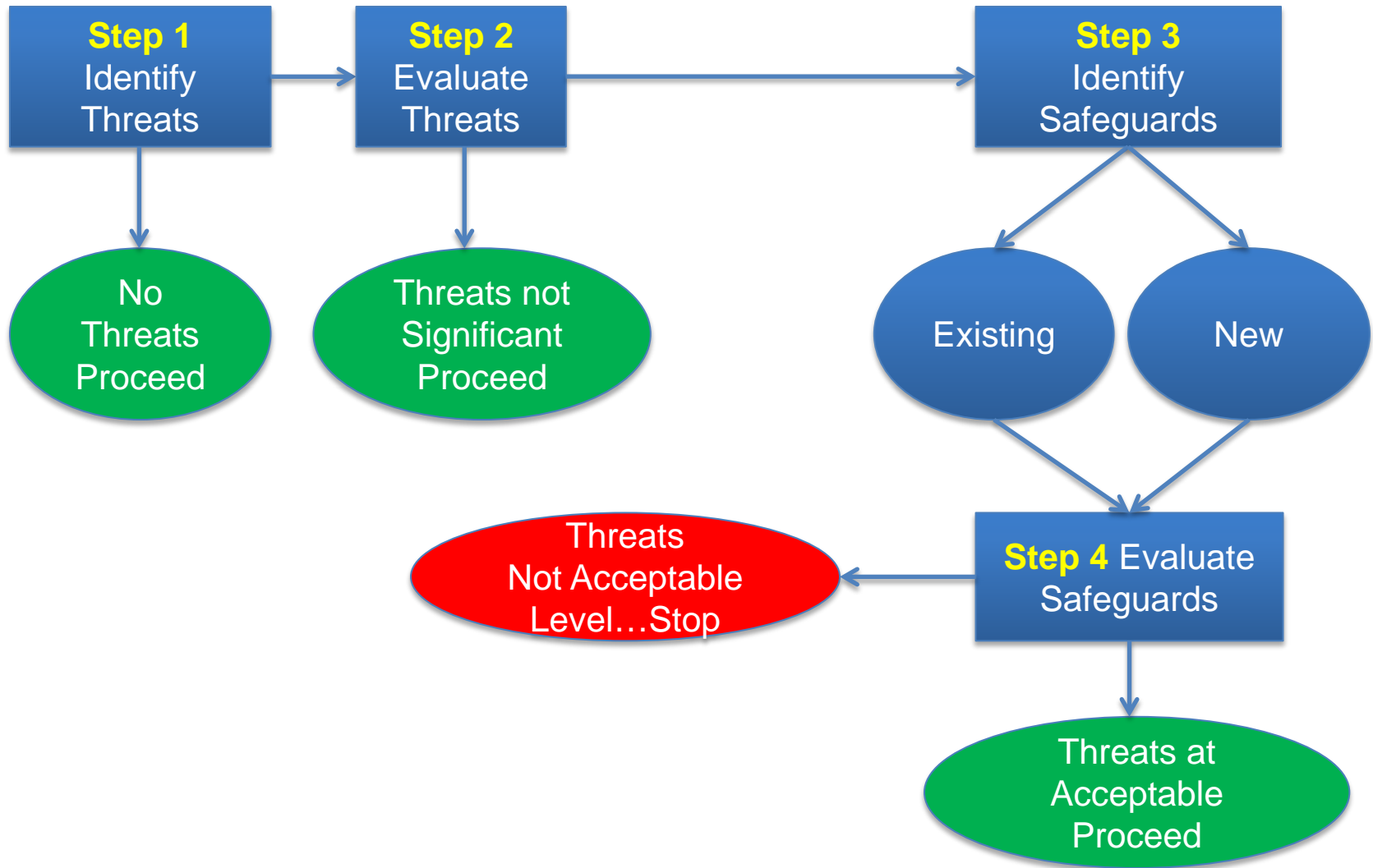
Step 2: Evaluate Significance of the Threat

*The threat is at an acceptable level when a reasonable and informed third party who is aware of relevant information would be expected to conclude that the threat would not compromise compliance with the rules.*

Step 3: Identify and Apply Safeguards

Step 4: Evaluate Safeguards

# Steps of the Conceptual Framework



# Safeguards

- Safeguards created by the profession, legislation, or regulation
- Safeguards implemented by the client
  - *It is not possible to rely solely on safeguards implemented by the client to eliminate or reduce a significant threat to an acceptable level.*
- Safeguards implemented by the firm

# Polling Question #2

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# *Members in Public Practice*

# Members in Public Practice

- 1.000 Introduction
- 1.100 Integrity and Objectivity
- 1.200 Independence
- 1.300 General Standards
  - 1.310 Compliance with Standards
  - 1.320 Accounting Principles
- 1.400 Acts Discreditable
- 1.500 Fees and Other Types of Remuneration
- 1.600 Advertising and Other Forms of Solicitation
- 1.700 Confidential Information
- 1.800 Form of Organization and Name

# Members in Public Practice: Common Issues

- Independence
  - Financial interests
  - Family & business relationships
  - Nonattest services
  - Client affiliates
- Conflicts of interest
- Information required to be provided to your client
- Client confidentiality
- Commissions and referral fees
- Unpaid fees



# Members in Public Practice: Examples

A manager functions as a partner in that she has ultimate responsibility for an engagement, without partner approval. She is a “partner equivalent” for purposes of applying the independence rules.

*“Partner Equivalent” interpretation became effective for engagements covering beginning on or after December 15, 2014.*

# Members in Public Practice: Examples

As the auditor of ABC Company, you also prepare the company's financial statements and various accrual-basis journal entries only done at year-end. These are deemed to be nonattest services.

*Interpretation effective for engagements covering periods beginning on or after December 15, 2014.*

# Frequently Asked Questions

What does “suitable skill, knowledge and/or experience” mean in the context of the Nonattest Services subtopic?

A: Means that the individual designated by the attest client has the ability to understand the nature, objective, and scope of the nonattest service. It does NOT require that the individual possess the expertise to perform or re-perform the services.

# Frequently Asked Questions

A member records journal entries while performing monthly bookkeeping services without first obtaining attest client approval. Would independence be impaired?

A: Yes. An individual designated by the client must review and approve the proposed entries. In addition, the member should be satisfied that the designated individual understands the nature of the entries and their impact on the financial statements.

# Frequently Asked Questions

Would performing network maintenance (updating virus protection, applying updates / patches, configuring user settings consistent with management's requests) impair independence?

A: No, provided the provisions of the Nonattest Services section are applied.

# Frequently Asked Questions

Would assisting an attest client in applying ASC 805, *Business Combinations* or ASC 350 *Intangibles – Goodwill and Other*, impair independence (for example, providing advice on the various valuation methodologies, assumptions needed, etc.)?

A: Refer to guidance in “Appraisal, Valuation and Actuarial Services” interpretation. Services that involve a significant degree of subjectivity and whose results are material to the attest client’s financial statements, will impair independence.

# Frequently Asked Questions

When a single employer Employee Benefit Plan is a financial statement attest client of the firm, would the sponsor (employer) be considered an affiliate of the plan?

A: Yes

# Frequently Asked Questions

When an employee benefit plan is an attest client of the firm, would independence be impaired if an immediate family member or close relative of a covered member is employed in a key position at an affiliate of the plan?

A: Independence would not be impaired provided the position does not place the immediate family member or close relative in a key position with respect to the plan (for example, they are not a member of the board of trustees for the plan, and do not sign the management representation letter for the plan).



# Polling Question #3

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# 1.295.020 Cumulative Effect on Independence When Providing Nonattest Services

New interpretation, effective for engagements covering periods beginning on or after Dec. 15, 2014

- Requires evaluation of whether the performance of multiple nonattest services creates a significant threat to independence that cannot be reduced to an acceptable level by the application of safeguards

# *Members in Business*

# Members in Business

- 2.000 Introduction
- 2.100 Integrity and Objectivity
- 2.300 General Standards
  - 2.310 Compliance with Standards
  - 2.320 Accounting Principles
- 2.400 Acts Discreditable

# Members in Business: Common Issues

- Integrity and objectivity
- Obligations to external accountants
- Subordination of judgment
- Confidential information obtained from employment or volunteer activities
- Failure to file tax returns or pay tax liability
- Negligence in preparation of financial statements
- Use of the CPA credential

# Members in Business: Examples

- Member and supervisor have a difference of opinion on how to record a transaction or on an aspect of the preparation of the financial statements
- Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out

# Members in Business: Examples

- Being responsible for selecting a vendor for the member's employing organization when the member or his/her immediate family could benefit financially from the transaction
- Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving their partnership

# Members in Business: Decision Tree

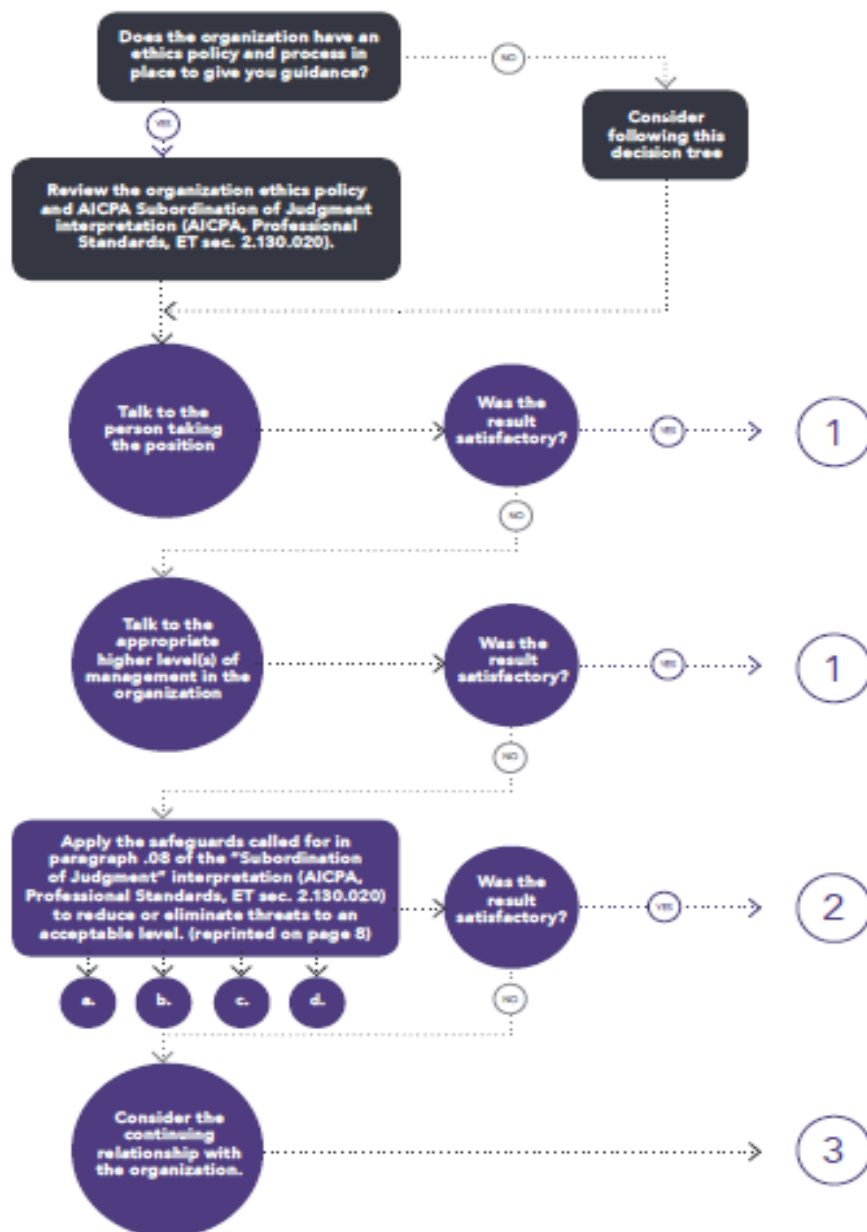
Provides guidance for resolving issues:

- Consideration of ethics policy at the entity
- Consultation with appropriate parties in the entity (and outside if necessary)
- Maintenance of professional skepticism
- Consider guidance from “Subordination of Judgment” section of the Code
- Maintain documentation
- Consideration of ongoing employment



## Ethics Decision Tree For CPAs in Business

When a member encounters an issue that would result in a material misrepresentation of fact or a violation of applicable laws or regulations then threats to compliance with the "Integrity and Objectivity Rule" exist. In such situations members must try to resolve the issue by following these recommended steps and actions:



# Examples of Violations

- CFO signs client representation letter in connection with an audit that states there have been no communications from regulatory agencies (when there have been).
- Recording of a material sale of merchandise on the last day of the year without sufficient support (no invoice or shipping documentation)

# Polling Question #4

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# *Recent Developments*

# New PEEC Interpretations

- Breach of Independence Interpretation (ET 1.298.010): Effective **March 31, 2016**
  - Provides guidance to members in evaluating and addressing the consequences of a breach of independence
- Revised definition of “Affiliate,” effective **Oct. 31, 2015**
  - Clarified applicability to “financial statement attest clients” and concept of “significant influence” when evaluating affiliates to a multiemployer employee benefit plan

# New PEEC Interpretations

- Firm Mergers and Acquisitions Interpretation (1.220.040): Effective for mergers or acquisitions with closing dates on or after **Jan. 31, 2016**
- Focus on employment / association with an attest client, and the provision of nonattest services

# PEEC Proposals

Omnibus Proposal issued Nov. 2015;  
comment period ended May 16, 2016.

- Transfer of files and return of client records in a sale, transfer or discontinuance of a member's practice
- Disclosing client information in connection with a review or acquisition of the member's practice
- Disclosure of a commission and referral fee

# PEEC Activities: On the Horizon

Currently under evaluation / research:

- Impact of cloud-based IT service offerings on nonattest services subtopic
- Re-evaluation of “Entities Included in the State and Local Government Financial Statements” interpretation (1.224.020)
  - In light of recent client affiliate interpretations



# Resources

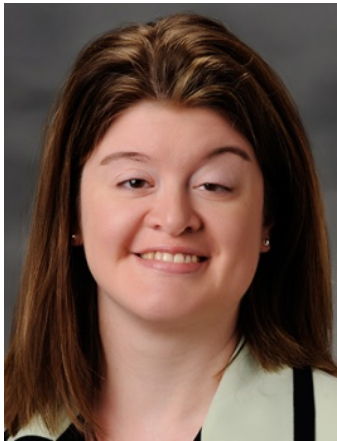
[www.aicpa.org/interestareas/professionalethics/](http://www.aicpa.org/interestareas/professionalethics/)

- The Plain English Guide to Independence
- FAQ documents:
  - General topics
  - Nonattest services
  - Application of the independence rules to employee benefit plans

# Resources

- AICPA Conceptual Framework Toolkits:
  - Independence
  - Members in Public Practice
  - Members in Business
- AICPA Ethics Hotline: 888.777.7707
- Ethically Speaking (newsletter)

# Thank you!



## **Shelly Hammond, CPA, CGFM**

Senior Vice President, Assurance Services



[Shelly.Hammond@aghlc.com](mailto:Shelly.Hammond@aghlc.com)



[www.linkedin.com/in/shellylhammond](http://www.linkedin.com/in/shellylhammond)



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[mike.ditch@aghlc.com](mailto:mike.ditch@aghlc.com)