

Professional Ethics Update for Arizona CPAs – Including Revised AICPA Code



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Supplemental materials can be found at:

AICPA = <http://www.aicpa.org/Pages/Default.aspx>

ASBA = <http://www.azaccountancy.gov/>

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Introduction

Birth, Death, Taxes and Changes - Lots of Changes

For Arizona CPAs, the biggest and perhaps most important change relating to professional ethics in the past two years was the Board of Accountancy's adoption of the AICPA Code as part of our accountancy laws effective January 1, 2018. Previously the Code was referred to as "persuasive but not conclusive." Obviously, the Accountancy Board has historically utilized the Code in their decision-making, but the adoption of the Code by reference enhances and clarifies the relationship of the AICPA Code to the body of laws that Arizona CPAs must follow. We will review this change and its implications in the class.

Arizona CPAs should also be aware of the passage of **SB 1443** which was effective on August 3, 2018. Called the "CPA Bill," SB 1443 updates the Statute and includes at least one important change regarding who must register as a firm. Specifically, the statute was modified to reflect that all CPAs who prepare compilations must first register as a firm.

The Latest Change:

In February 2019 the Accountancy Board published new rules that impact CPE. The topics include:

- CPE Reciprocity
- Nano-Learning CPE
- CPE Credit Increments
- Reporting CPE for Renewal
- CPE Record Retention

The document, sent to all registrants (by email), is included in the Supplemental Materials located at the back of the course materials.

SB 1443 Resources:

An executive summary of SB 1443 is included in the Supplemental Materials.

A second summary document provided by the Accountancy Board (by email) is also reproduced in the Supplemental Materials.

A link to a downloadable document that includes both a summary and the entire bill is located on the Board's website. See the July 2018 "News and Updates." It is important that everyone review the many changes, additions and corrections included in SB 1443.

Please note that the changes effect both individuals and firms.

Administrative Code Changes (Effective January 1, 2018)

The Administrative Code sets forth the standards for conduct for Arizona CPAs. As a result of the Board adoption of the AICPA code by reference, R1-4-455 was completely revised. As a preview, below are the first two paragraphs of the "new" R-4-1-455.

R4-1-455. Professional Conduct and Standards

A. It is the Board's policy that the rules governing registrants be consistent with the rules governing the accounting profession generally. Except as otherwise set forth in these regulations, registrants shall conform their conduct to the Code of Professional Conduct, published June 1, 2017 in the AICPA Professional Standards by the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036-8775 (www.aicpa.org), available from the AICPA.

B. The AICPA Code of Professional Conduct, and any interpretations and ethical rulings by the issuing body, shall apply to all registrants, including those who are not members of the AICPA. The version specified above, including any interpretations and ethical rulings in effect shall apply.

Conceptual Framework Approach. Often called the threats and safeguards approach, the conceptual framework approach offers a methodology that allows CPAs to get to the heart of an ethics issue. The Code incorporates three conceptual frameworks, one for members in public practice, one for members in business along with an additional conceptual framework for independence. The conceptual framework approach offers 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.

Use of the Term "Member" in the AICPA Code. The AICPA Code was adopted by the members of the AICPA, hence the consistent reference to "members" in the Code. Over time, many states have chosen to adopt the Code as part of their state's accountancy law, including Arizona as of this year. As a result, all CPAs must now treat the Code as an integral part of the Arizona accountancy law. Technically, the Board uses the term "registrant." Regardless of terminology, the code is effectively now law in Arizona and should be considered as such.

Looking into the Future:

One of the disadvantages to taking biennial ethics classes is that a great deal can happen during the intervening two years.

To wit, the AICPA periodically publishes exposure drafts relating to professional ethics. They can be found in the Professional Ethics Division in the "PEEC Standard Setting" area. Currently several exposure drafts are in process. Those that are adopted may affect you, so please take the time to review them.

About the Author

Gilbert B. Blumenthal, CPA

Gil has been active in the Arizona CPA community since 1978. Prior to moving to Phoenix and joining a local practice, he received his training in two of the now “Big 4” CPA firms. He became a shareholder and ultimately managing partner of a local firm that grew to become one of the largest in the Phoenix area.

Throughout his professional career, Gil has been involved in the planning and management of numerous accounting, consulting, peer review and litigation support engagements. Prior to his career in public accounting, he was a Job Analyst with ARCO in Philadelphia, PA. He also proudly served in the United States Army in the Office of the Inspector General, Frankfurt, Germany.

A graduate of the University of Pennsylvania, Gil has been a frequent instructor of professional education programs for CPA's and Attorneys. In 1991 he received the Arizona Society of CPA's Outstanding Instructor award for his teaching efforts. He has also served on the faculty of the Judicial College of Arizona for the New Judge Orientation Program. In addition, he has published several articles for accounting publications and has been a frequent speaker for local and regional professional organizations.

Retired from public accounting in 1994, Gil initially worked as court-appointed Special Master, Mediator and Arbitrator specializing in complex financial disputes. He has since worked in a variety of venues including professional ethics training, consulting, and litigation support. Gil has also authored courses for Checkpoint Learning on negotiating skills and preparing CPAs for their role in mediations. Through his work, Gil has enjoyed a continuing relationship with the CPA community in Arizona as well as several other states.

Gil has served on numerous ASCPA committees and is past Chairman of the Quality Review (Peer Review) Executive Committee and the ADR Committee. He has also served on the Arizona Society of Certified Public Accountants Board of Directors. As a result of his long and varied professional career, Gil has a “hands on” appreciation as to the importance of professional ethics.

Gil and his wife reside in Scottsdale, AZ. He can be reached by email at phxmedi8r@aol.com

Course Description

Professional Ethics for Arizona CPAs is designed to meet the Arizona 4 hour ethics CPE requirement for Arizona CPAs renewing their licenses. In addition to Arizona State Board of Accountancy requirements, the course also includes materials to increase the CPA's appreciation of business ethics and provides resources that may be useful in resolving ethical dilemmas.

Objectives:

To reinforce skills to allow a CPA to:

- Identify laws, standards and other factors involved in making ethical accounting and business decisions.
- Apply the rules along with the conceptual framework approach in the analysis and resolution of ethical dilemmas.
- Apply professional ethics standards to both public practice and business situations.
- Fulfill responsibilities as required by the Arizona State Board of Accountancy.
- Stay up to date!

Course Highlights:

- Review of ethics standards related to the practice of accounting including the AICPA Code of Professional Conduct, Arizona Accountancy Statutes and Administrative Code.
- Introduction to the recently adopted revised AICPA Code of Conduct.
- Discussion of "hot topics" in professional ethics.
- Use of multiple examples to illustrate application of ethics rules.

Recommended CPE Credit: 4 hours

Level: Basic – This course is designed for CPAs seeking ethics training or fulfilling the Arizona ethics requirement.

Requisite Knowledge or Experience: None

Regarding the slides used in class:

Copies of the entire slide presentation cannot be offered to attendees. However, requests for individual slides will be honored. Simply email me at phxmedi8r@aol.com with your request and I'll try to accommodate you.

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Supplemental Materials:

- **Conceptual Framework Toolkit for Members in Public Practice**
- **Conceptual Framework Toolkit for Members in Business**
- **Third Party Verification Requests**
- **AICPA - Frequently Asked Questions: General Ethics Questions**
- **SB 1443 Legislative Summary**
- **SB 1443 Summary Provided by Accountancy Board**
- **Summary of February 4, 2019 Rulemaking by Accountancy Board**

Abbreviated Best Practices – Your Code of Conduct

- Emphasize core values such as trust and integrity.
- Involve the entire staff.
- Provide a way to report concerns in a confidential manner, without fear of reprisal.
- Include ethics in corporate/firm training programs.
- Be sure to monitor the effectiveness of the code.
- Make conformity to your code part of any contract of employment.
- Make a key individual responsible for code implementation and compliance.
- Periodically review the code in light of changing business challenges.
- Make sure senior staff “walk the talk.” Talk is cheap!



Section 1

AICPA Code of Professional Conduct

Introduction

The revisions to the AICPA Code of Professional Conduct have been in effect for several years. The format was changed and now uses a web-based, topical approach. Additionally, the code was restructured with separate sections for CPAs in Public Practice and CPAs in business. With the adoption of the code by reference (see R4-1-455 of the Arizona Administrative Code) in 2018, it is essential that all Arizona CPAs are familiar with the AICPA Code.

Learning Objectives

To review the AICPA Code of Professional Conduct (the code), highlighting topics of particular interest. Completion of Section 1 meets one of the continuing professional education requirements for ethics for Arizona CPAs (see R4-1-453 C.4.a.).

Please review the abbreviated Table of Contents below. In addition to the obvious restructuring of the code, new content was added to provide additional guidance.

AICPA Code: Abbreviated Table of Contents.

Preface: Applicable to All Members

0.100 Overview of the AICPA Code of Professional Conduct

0.200 Structure and Application of the AICPA Code

0.300 Principles of Professional Conduct

0.300.010 Preamble

0.300.020 Responsibilities

0.300.030 The Public Interest

0.300.040 Integrity

0.300.050 Objectivity and Independence

0.300.060 Due Care

0.300.070 Scope and Nature of Services

0.400 Definitions

0.500 Nonauthoritative Guidance (Note: New content)

Part 1: CPAs in Public Practice

1.000 Introduction

1.000.010 Conceptual Framework for Members in Public Practice

1.000.020 Ethical Conflicts

1.100 Integrity and Objectivity

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Interpretations Under the Integrity and Objectivity Rule
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 - 1.300.001 General Standards Rule
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 - 1.310.001 Compliance with Standards Rule
Interpretations Under the Compliance with Standards Rule
- 1.320 Accounting Principles
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Interpretations Under the Accounting Standards Rule
- 1.400 Acts Discreditable
 - 1.400.001 Acts Discreditable Rule
Interpretations Under the Acts Discreditable Rule
- 1.500 Fees and Other Types of Remuneration
 - 1.500.008 Unpaid Fees
 - 1.510 Contingent Fees
 - 1.520 Commissions and Referral Fees
- 1.600 Advertising and Other Forms of Solicitation
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- 1.700 Confidential Information
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 - 2.000.010 Conceptual Framework for Members in Business
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- 2.100 Integrity and Objectivity
 - 2.100.001 Integrity and Objectivity Rule
Interpretations Under the Integrity and Objectivity Rule
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 - 2.300.001 General Standards Rule
Interpretations Under the General Standards Rule
- 2.310 Compliance with Standards
 - 2.310.001 Compliance with Standards Rule
Interpretations Under the Compliance with Standards Rule
- 2.320 Accounting Principles
 - 2.320.001 Accounting Principles Rule

Interpretations Under the Accounting Principles Rule
2.400 Acts Discreditable
2.400.001 Acts Discreditable Rule
Interpretations Under the Acts Discreditable Rule

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3.000.030 Applicability
3.400 Acts Discreditable
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Interpretations Under the Acts Discreditable Rule

Appendix A - Council Resolution Designating Bodies to Promulgate Technical Standards

Overview

What is the CPA's primary responsibility?

- To **serve the public interest**
- To maintain and broaden public confidence by performing all responsibilities with **integrity**
- To maintain **objectivity** and be free of conflicts; and to discharge all responsibilities with **due care**

State and governmental agency rules

In addition to the AICPA Code, other organizations have adopted rules and guidelines to address ethical behavior. In Arizona, the state legislature established accountancy laws, which include the creation of the Board of Accountancy. The Board of Accountancy has in turn, established regulations to provide specific guidance for Arizona practitioners. It is important to remember that both the Arizona Accountancy Statutes and Administrative Code have the force of law. (Arizona accountancy laws will be covered in Section 2)

The term "member" is used throughout AICPA Code of Professional Conduct. What then are the responsibilities of CPAs who are not members of the AICPA?

Effective January 1, 2018 the Arizona Board of Accountancy adopted the AICPA code into law by reference. As a result, R4-1-455 was revised to include: B. "The AICPA Code of Professional Conduct, and any interpretations and ethical rulings by the issuing body, shall apply to all registrants, including those who are not members of the AICPA."

As a CPA in business, what are my professional responsibilities?

The AICPA requires that all members, including those in business, adhere to the AICPA Code of Professional Conduct. It is imperative that you are aware of and in compliance with the Code as well as any federal, state or other laws that may be applicable.

What happened to the term "CPA in Industry"? The AICPA is now using the term "business" (in the code they will use "members in business.") to describe CPAs who are not in public practice. The term "public practice" is now used consistently, replacing "public accounting." Thus far, Arizona has retained the existing terminology.

Enforcement

Primary enforcement of the rules of professional ethics is done by voluntary compliance. CPAs in general have an outstanding record of ethical and prudent behavior. Enforcement matters are usually brought to light when suspension or expulsion is an outcome.

While kudos should go to the vast majority of CPAs, these accolades should be accompanied by the following caution. Laws and standards are dynamic. Business issues and relationships change. We do not operate within four well-defined corners. Awareness of how our client relationships and reporting fits into these rules is essential both for the public good and our professional well-being.

Standard Setters

In Appendix A of the Code, the AICPA cites a number of organizations authorized to promulgate technical standards. Additional standard setters are also cited below in the Preface to the Code. Included in that citation is the following: "Any other body that regulates a member who performs professional services for an entity when a member or entity is subject to the rules and regulations of such a regulatory body." It is essential that CPAs are aware of all applicable standards, and laws, that govern the professional service(s) they provide.

Preface: Applicable to All Members

0.100 Overview of the Code of Professional Conduct

.01 The AICPA Code of Professional Conduct (the code) begins with this preface, which applies to all members. The term member, when used in part 1 of the code, applies to and means a member in public practice; when used in part 2 of the code, applies to and means a member in business; and when used in part 3 of the code, applies to and means all other members, such as those members who are retired or unemployed.

.02 A member may have multiple roles, such as a member in business and a member in public practice. In such circumstances, the member should consult all applicable parts of the code and apply the most restrictive provisions.

0.100.010 Principles and Rules of Conduct

.01 The AICPA membership adopted the Code of Professional Conduct (the code) to provide guidance and rules to all *members* in the performance of their professional responsibilities. The code consists of principles and rules as well as interpretations and other guidance, which are discussed, in 0.100.020. The principles provide the framework for the rules that govern the performance of their professional responsibilities.

.02 The AICPA bylaws require that members adhere to the rules of the code. Compliance with the rules depends primarily on members' understanding and voluntary actions; secondarily on reinforcement by peers and public opinion; and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the rules. Members must be prepared to justify departures from these rules.

0.100.020 Interpretations and Other Guidance

.01 Interpretations of the rules of conduct are adopted after exposure to the membership, state societies, state boards, and other interested parties. The interpretations of the rules of conduct, "Definitions" [0.400], "Application of the AICPA Code" [0.200.020], and "Citations" [0.200.030], provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. A member who departs from the interpretations shall have the burden of justifying such departure in any disciplinary hearing. Interpretations that existed before the adoption of the code on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior committee.

.02 A member should also consult the following, if applicable:

- The ethical requirements of the member's state CPA society and authoritative regulatory bodies such as state board(s) of accountancy
- The Securities and Exchange Commission (SEC)
- The Public Company Accounting Oversight Board (PCAOB)
- The Government Accountability Office (GAO)
- The Department of Labor (DOL)
- Federal, state and local taxing authorities

- Any other body that regulates a member who performs professional services for an entity when the member or entity is subject to the rules and regulations of such regulatory body.

0.200 Structure and Application of the AICPA Code

0.200.010 Structure of the AICPA Code

.01 A variety of topics appear in parts 1–3 of the code. When applicable, topics are aligned with the relevant rule or rules of conduct. Topics may be further divided into subtopics, and some subtopics include one or more sections. Topics, subtopics, and sections interpret the rules of conduct (see “Interpretations and Other Guidance” [0.100.020]).

.02 Defined terms (see “Definitions” [0.400]) as well as the plurals and possessives thereof, are shown in italics throughout the code. When a defined term is used in the code but is not shown in italics, the definition in 0.400 should not be applied.

0.300 Principles of Professional Conduct

0.300.010 Preamble

.01 Membership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a member assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.

.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. [Prior reference: ET section 51]

0.300.020 Responsibilities

.01 Responsibilities principle. In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

.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.

0.300.030 The Public Interest

.01 The public interest principle. Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.

.02 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.

.03 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.

.04 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.

.05 All who accept membership in the American Institute of Certified Public Accountants commit themselves to honor the public trust. In return for the faith that the public reposes in them, members should seek to continually demonstrate their dedication to professional excellence.

0.300.040 Integrity

.01 Integrity principle. To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

.02 Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

.03 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. Integrity can accommodate the

inadvertent error and honest difference of opinion; it cannot accommodate deceit or subordination of principle.

.04 Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance or in the face of conflicting opinions, a member should test decisions and deeds by asking: "Am I doing what a person of integrity would do? Have I retained my integrity?" Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

.05 Integrity also requires a member to observe the principles of objectivity and independence and of due care.

0.300.050 Objectivity and Independence

.01 Objectivity and independence principle. A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

.02 Objectivity is a state of mind, a quality that lends value 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 precludes relationships that may appear to impair a member's objectivity in rendering attestation services.

.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.

.04 For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.

.05 Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be

scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.

0.300.060 Due Care

.01 Due care principle. 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.

.02 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability, with concern for the best interest of those for whom the services are performed, and consistent with the profession's responsibility to the public.

.03 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.

.04 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.

.05 Members should be diligent in discharging responsibilities to clients, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough and to observe applicable technical and ethical standards.

.06 Due care requires a member to plan and supervise adequately any professional activity for which he or she is responsible.

0.300.070 Scope and Nature of Services

.01 Scope and nature of services principle. A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

.02 The public interest aspect of members' services requires that such services be consistent with acceptable professional behavior for members. Integrity requires that service and the public trust not be subordinated to personal gain and advantage. Objectivity and independence require that members be free from conflicts of interest in discharging professional responsibilities. Due care requires that services be provided with competence and diligence.

.03 Each of these Principles should be considered by members in determining whether or not to provide specific services in individual circumstances. In some instances, they may represent an overall constraint on the nonaudit services that might be offered to a specific client. No hard-and-fast rules can be developed to help members reach these judgments, but they must be satisfied that they are meeting the spirit of the Principles in this regard.

.04 In order to accomplish this, members should

- a. Practice in firms that have in place internal quality control procedures to ensure that services are competently delivered and adequately supervised.
- b. 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.
- c. Assess, in their individual judgments, whether an activity is consistent with their role as professionals.

0.500 Nonauthoritative Guidance

.01 The code is the only authoritative source of AICPA ethics rules and interpretations. The staff of the Professional Ethics Division has issued nonauthoritative guidance to assist members and others in their implementation of the code. Such guidance does not amend or override the code. Further, the guidance is not meant to be exhaustive and does not establish best practices, set standards, or serve as official pronouncements of the AICPA. These documents were not approved in accordance with normal due process, which requires proposed changes to be exposed to the public and requires consideration of members' and others' comments.

.02 References to relevant nonauthoritative guidance, when available, are provided throughout the code in boxed text at the end of the applicable interpretation.

Effective Date

.03 Effective December 15, 2014.

Note: In recent years there has been much discussion about the need to make the code more practical, particularly because interpretations alone cannot possibly address every condition that could fall under the caption "professional ethics." The addition of the conceptual frameworks changes the way CPAs can approach ethical concerns. If there

is no interpretation that addresses your situation – apply the appropriate conceptual framework.

To further assist in when using the conceptual framework approach, the AICPA has prepared four conceptual framework “toolkits.” Two of these toolkits, one for CPAs in Public Practice and one for CPAs in Business, are included in the supplemental materials to this course. Two additional toolkits for Independence and Nonattest Services are available on the AICPA's website. It is strongly recommended that you familiarize yourselves with the appropriate toolkit(s).

Part 1

Members in Public Practice

1.000 Introduction

.01 Part 1 of the Code of Professional Conduct (the code) applies to members in public practice. Accordingly, when the term member is used in part 1 of the code, the requirements apply only to members in public practice. When a member in public practice is also a member in business (for example, serves as a member of an entity's board of directors), the member should also consult Part 2 of the code, which applies to a member in business.

.02 Government auditors within a government audit organization who audit federal, state, or local governments or component units thereof, that are structurally located within the government audit organization, are considered in public practice with respect to those entities provided the head of the audit organization meets one of the organizational structures described in paragraph .07b(i–iii) of the “Client” definition [0.400.07]. [No prior reference: new content]

1.000.010 Conceptual Framework for Members in Public Practice Introduction

.01 Members may encounter various relationships or circumstances that create threats to the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an 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 the member's compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.

.02 The code specifies that in some circumstances no safeguards can reduce a threat to an acceptable level. For example, the code specifies that a member may not subordinate the member's professional judgment to others without violating the "Integrity and Objectivity Rule" [1.100.001]. A member may not use the conceptual framework to overcome this prohibition or any other prohibition or requirement in the code.

.03 The "Conceptual Framework for Independence" interpretation [1.210.010] of the "Independence Rule" [1.200.001] provides authoritative guidance that members should use when making decisions on independence matters that are not explicitly addressed by the "Independence Rule" and its interpretations.

Definitions Used in Applying the Conceptual Framework

.04 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.

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

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

.07 Under the conceptual framework approach, members should identify threats to compliance with the rules and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules. Members should perform three main steps in applying the conceptual framework approach:

a. Identify threats. The relationships or circumstances that a member encounters in various engagements and work assignments will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .10–.16 that follow. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.

b. Evaluate the significance of a threat. In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when 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. 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.

c. Identify and apply safeguards. If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of safeguards will vary, depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the engagement.

Threats

.08 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.

.09 Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the code. Paragraphs .10–.16 of this section define and provide examples, which are not all inclusive, of each of these threat categories.

.10 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. Examples of adverse interest threats include the following:

- 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.

.11 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.

Examples of advocacy threats include the following:

- 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.

.12 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. Examples of familiarity threats include the following:

- 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.

.13 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.

.14 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. Examples of self-interest threats include the following:

- 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.

.15 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. Examples of self-review threats include the following:

- 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.

.16 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. Examples of undue influence threats include the following:

- 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.

Safeguards

.17 Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.

.18 Safeguards that may eliminate a threat or reduce it to an acceptable level fall into three broad categories:

- a. Safeguards created by the profession, legislation, or regulation.

b. Safeguards implemented by the client. It is not possible to rely solely on safeguards implemented by the client to eliminate or reduce significant threats to an acceptable level.

c. Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements.

.19 The effectiveness of a safeguard depends on many factors, including those listed here:

a. The facts and circumstances specific to a particular situation

b. The proper identification of threats

c. Whether the safeguard is suitably designed to meet its objectives

d. The party(ies) who will be subject to the safeguard

e. How the safeguard is applied

f. The consistency with which the safeguard is applied

g. Who applies the safeguard

h. How the safeguard interacts with a safeguard from another category

i. Whether the client is a public interest entity

.20 Examples of safeguards within each category are presented in the following paragraphs. Because these are only examples and are not intended to be all-inclusive, it is possible that threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.

.21 The following are examples of safeguards created by the profession, legislation, or regulation:

a. Education and training requirements on independence and ethics rules

b. Continuing education requirements on independence and ethics

c. Professional standards and the threat of discipline

d. External review of a firm's quality control system

e. Legislation establishing prohibitions and requirements for a firm or a firm's professional employees

- f. Competency and experience requirements for professional licensure
- g. Professional resources, such as hotlines, for consultation on ethical issues

.22 Examples of safeguards implemented by the client that would operate in combination with other safeguards are as follows:

- a. 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.
- b. 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.
- c. Policies and procedures are in place to achieve fair financial reporting and compliance with the applicable laws, rules, regulations, and corporate governance policies.
- d. Policies and procedures are in place to address ethical conduct.
- e. 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.
- f. 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.

.23 The following are examples of safeguards implemented by the firm:

- a. Firm leadership that stresses the importance of complying with the rules and the expectation that engagement teams will act in the public interest.
- b. Policies and procedures that are designed to implement and monitor engagement quality control.
- c. 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.
- d. Internal policies and procedures that are designed to monitor compliance with the firm's policies and procedures.
- e. 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.

- f. The use of different partners, partner equivalents, and engagement teams from different offices or that report to different supervisors.
- g. Training on and timely communication of, a firm's policies and procedures and any changes to them for all partners and professional staff.
- h. Policies and procedures that are designed to monitor the firm's, partners, or partner equivalent's reliance on revenue from a single client and that, if necessary, trigger action to address excessive reliance.
- i. Designation of someone from senior management as the person responsible for overseeing the adequate functioning of the firm's quality control system.
- j. A means for informing partners and professional staff of attest clients and related entities from which they must be independent.
- k. A disciplinary mechanism that is designed to promote compliance with policies and procedures.
- l. 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.
- m. Policies and procedures relating to independence and ethics communications with audit committees or others charged with client governance.
- n. Discussion of independence and ethics issues with the audit committee or others responsible for the client's governance.
- o. 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.
- p. 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.
- q. Consultation on engagement issues with an interested third party, such as a committee of independent directors, a professional regulatory body, or another professional accountant.
- r. Rotation of senior personnel who are part of the engagement team.
- s. 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.

- t. The involvement of another firm to perform part of the engagement.
- u. Having another firm to reperform a nonattest service to the extent necessary for it to take responsibility for that service.
- v. 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.
- w. A consultation function that is staffed with experts in accounting, auditing, independence, ethics, and reporting matters who can help engagement teams:
 - i. assess issues when guidance is unclear or when the issues are highly technical or require a great deal of judgment; and
 - ii. resist undue pressure from a client when the engagement team disagrees with the client about such issues.
- x. 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.
- y. Policies that preclude audit partners or partner equivalents from being directly compensated for selling nonattest services to the attest client.
- z. Policies and procedures addressing ethical conduct and compliance with laws and regulations. [No prior reference: new content]

1.000.020 Ethical Conflicts

.01 An ethical conflict arises when a member encounters one or both of the following:

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

For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain client confidentiality.

.02 Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the member should consider factors such as the following:

- a. Relevant facts and circumstances, including applicable rules, laws, or regulations

- b. Ethical issues involved
- c. Established internal procedures

.03 The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules and law. If the member was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the member may have to address the consequences of any violations.

.04 Before pursuing a course of action, the member should consider consulting with appropriate persons within the firm or the organization that employs the member.

.05 If a member decides not to consult with appropriate persons within the firm or the organization that employs the member and the conflict remains unresolved after pursuing the selected course of action, the member should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The member also should consider documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

.06 If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the engagement team, specific assignment, client, firm, or employer.

1.100 Integrity and Objectivity

1.100.001 Integrity and Objectivity Rule

.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. [Prior reference: paragraph .01 of ET section 102]

Interpretations Under the Integrity and Objectivity Rule

1.100.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.01 In the absence of an interpretation of the “Integrity and Objectivity Rule” [1.100.001] 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 “Integrity and Objectivity Rule” [1.100.001] 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.

1.110 Conflicts of Interest

1.110.010 Conflicts of Interest for Members in Public Practice

.01 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.

.02 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.

.03 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.

.04 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

Identification of a Conflict of Interest

.05 Before accepting a new client relationship, engagement, or business relationship, a member should take reasonable steps to identify circumstances that might create a conflict of interest including identification of

- a. the nature of the relevant interests and relationships between the parties involved and
- b. the nature of the service and its implication for relevant parties.

.06 The nature of the relevant interests and relationships and the services may change during the course of the engagement. This is particularly true when a member is asked to conduct an engagement for a client in a situation that may become adversarial with respect to another client or the member or member's firm, even though the parties who engage the member may not initially be involved in a dispute. A member should remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

.07 For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a member in identifying actual or potential conflicts of interest that may create significant threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of a member being able to apply safeguards to eliminate or reduce significant threats to an acceptable level. The process to identify actual or potential conflicts of interest will depend on such factors as

- a. the nature of the professional services provided,
- b. the size of the firm,
- c. the size and nature of the client base, and
- d. the structure of the firm, for example the number and geographic location of offices.

.08 If the firm is a member of a network, the member is not required to take specific steps to identify conflicts of interest of other network firms; however, if the member knows or has reason to believe that such conflicts of interest may exist or might arise due to interests and relationships of a network firm, the member should evaluate the significance of the threat created by such conflicts of interest as described below.

.09 When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. In evaluating the significance of an identified threat, members should consider both of the following:

- a. The significance of relevant interests or relationships.
- b. The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional

service and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

.10 If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level.

Examples of safeguards include the following:

a. 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

- i. using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality;
- ii. 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;
- iii. establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and the physical and electronic separation of confidential information.

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

c. 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.

d. Consulting with third parties, such as a professional body, legal counsel, or another professional accountant.

.11 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.

Disclosure of a Conflict of Interest and Consent

.12 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. The member should disclose

the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

.13 Disclosure and consent may take different forms. The following are examples:

a. General disclosure to clients of circumstances in which the member, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might be made in a member's standard terms and conditions for the engagement.

b. Specific disclosure to affected clients of the circumstances of the particular conflict including an explanation of the situation and any planned safeguards, sufficient to enable the client to make an informed decision with respect to the matter and to provide specific consent.

.14 The member should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general disclosure and general consent. For this purpose, the member should exercise professional judgment in evaluating the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

.15 When a member has requested specific consent from a client and that consent has been refused by the client, the member should (a) decline to perform or discontinue 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, such that consent can be obtained, after applying any additional safeguards, if necessary.

.16 The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

.17 When addressing conflicts of interest, including making disclosures and seeking guidance of third parties, a member should remain alert to the requirements of the "Confidential Client Information Rule" [1.700.001] and the "Confidential Information Obtained from Employment or Volunteer Activities" interpretation [1.400.070] of the "Acts Discreditable Rule" [1.400.001]. In addition, federal, state, or local statutes, or regulations concerning confidentiality of client information may be more restrictive than the requirements contained in the Code of Professional Conduct.

.18 When practicing before the IRS or other taxing authorities, members should ensure compliance with any requirements that are more restrictive. For example, Treasury Department Circular No. 230, Regulations Governing Practice before the

Internal Revenue Service, provides more restrictive requirements concerning written consent by the client when a conflict of interest exists.

1.120 Gifts and Entertainment

1.120.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, 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.

.02 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" [1.100.001] may exist.

.03 Threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] 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 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.

.04 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. The following are examples of relevant facts and circumstances:

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

.05 Threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards 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” under these circumstances.

.06 Refer to the “Offering or Accepting Gifts or Entertainment” interpretation [1.285.010] of the “Independence Rule” [1.200.001] for additional guidance.

1.130 Preparing and Reporting Information

1.130.010 Knowing Misrepresentations in the Preparation of Financial Statements or Records

.01 Threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] 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.

Note: In 2017, this interpretation was revised and greatly expanded for CPAs in Business.

1.130.020 Subordination of Judgment

.01 The “Integrity and Objectivity Rule” [1.100.001] 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.

.02 Self-interest, familiarity, and undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001] may exist when a member and his or her supervisor or any other person within the member’s organization have a difference of opinion relating to the application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations.

.03 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards in paragraphs .05–.07 to eliminate or reduce the threat(s) to an acceptable level so that the member does not subordinate his or her judgment.

.04 In evaluating the significance of any identified threats, the member should determine, after appropriate research or consultation, whether the result of the position taken by the supervisor or other person

- a. fails to comply with professional standards, when applicable;
- b. creates a material misrepresentation of fact; or
- c. may violate applicable laws or regulations.

.05 If the member concludes that threats are at an acceptable level the member should discuss his or her conclusions with the person taking the position. No further action would be needed under this interpretation.

.06 If the member concludes that the position results in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would not be at an acceptable level. In such circumstances, the member should discuss his or her concerns with the supervisor.

.07 If the difference of opinion is not resolved after discussing the concerns with the supervisor, the member should discuss his or her concerns with the appropriate higher level(s) of management within the member's organization (for example, the supervisor's immediate superior, senior management, and those charged with governance).

.08 If after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member's organization, the member concludes that appropriate action was not taken, then the member should consider, in no specific order, the following safeguards to ensure that threats to the member's compliance with the "Integrity and Objectivity Rule" [1.100.001] are eliminated or reduced to an acceptable level:

- a. Determine whether the organization's internal policies and procedures have any additional requirements for reporting differences of opinion.
- b. Determine whether he or she is responsible for communicating to third parties, such as regulatory authorities or the organization's (former organization's) external accountant. In considering such communications, the member should be cognizant of his or her obligations under the "Confidential

Information Obtained from Employment or Volunteer Activities” interpretation [1.400.070] of the “Acts Discreditable Rule” [1.400.001].

c. Consult with his or her legal counsel regarding his or her responsibilities.

d. Document his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.

.09 If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider the continuing relationship with the member’s organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.

.10 Nothing in this interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employer’s (former employer’s) external accountant.

.11 A member should use professional judgment and apply similar safeguards, as appropriate, to other situations involving a difference of opinion as described in this interpretation so that the member does not subordinate his or her judgment.

1.140 Client Advocacy

1.140.010 Client Advocacy

.01 An advocacy threat to compliance with the “Integrity and Objectivity Rule” [1.100.001] may exist when a member or the member’s firm is engaged to perform nonattest services, such as tax and consulting services, that involve acting as an advocate for the client or to support a client’s position on accounting or financial reporting issues either within the firm or outside the firm with standard setters, regulators, or others.

.02 The code governs these types of professional services, and the member shall perform such services in compliance with the “General Standards Rule” [1.300.001], the “Compliance With Standards Rule” [1.310.001], the “Accounting Principles Rule” [1.320.001], and any interpretations thereof. The member shall also comply with the “Integrity and Objectivity Rule” [1.100.001] that requires maintaining objectivity and integrity and prohibits subordinating one’s judgment to others.

.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.

.04 When performing professional services requiring independence, a member shall also comply with the "Independence Rule" [1.200.001].

1.200 Independence

1.200.001 Independence Rule

.01 A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council. [Prior reference: paragraph .01 of ET section 101]

Interpretations Under the Independence Rule

1.200.005 Application of the Conceptual Framework for Independence and Ethical Conflicts

.01 In the absence of an interpretation of the "Independence Rule" [1.200.001] that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Independence" interpretation [1.210.010].

.02 A member would be considered in violation of the "Independence Rule" [1.200.001] if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level. [Prior reference: "Other Considerations" section of paragraph .02 of ET section 101]

.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.

Note: The AICPA has prepared a "toolkit" for CPAs applying the conceptual framework approach to an independence matter. The toolkit is available on the AICPA's website.
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1.210 Conceptual Framework Approach

1.210.010 Conceptual Framework for Independence Introduction

.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."

.02 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.

Definitions Used in Applying the Conceptual Framework for Independence

.03 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 independence is not impaired.

.04 Impair(ed). In connection with independence, to effectively extinguish independence. When a member's independence is impaired, the member is not independent.

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

.06 Threats. Relationships or circumstances that could impair independence.

Conceptual Framework Approach

.07 The conceptual framework approach entails identifying threats and evaluating the threat that the member would not be independent or would be perceived by a reasonable and informed third party who is aware of the relevant information as not being independent. The member must eliminate or reduce that threat to an acceptable level to conclude that the member is independent. Threats are at an acceptable level either because of the types of threats and their potential effect or because safeguards have eliminated or reduced the threat, so that a reasonable and informed third party who is aware of the relevant information would perceive that the member's professional judgment is not compromised.

.08 Refer to paragraph .07 of the "Conceptual Framework for Members in Public Practice" [1.000.010.07] for a detailed description of the conceptual framework approach.

Documentation

.09 When the member applies safeguards to eliminate or reduce significant threats to an acceptable level, as described in paragraph .07c of the “Conceptual Framework for Members in Public Practice” [1.000.010.07], the member should document the identified threats and safeguards applied. Failure to prepare the required documentation would be considered a violation of the “Compliance with Standards Rule” [1.310.001] rather than the “Independence Rule” [1.200.001] if the member can demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

Threats

.10 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.

.11 Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the code. Paragraphs .12–.18 in this section define and provide examples, which are not all inclusive, of each of these threat categories. 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.

.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]

.13 Advocacy threat. The threat that a member will promote an attest client’s interests or position to the point that his or her independence is compromised. Examples of advocacy threats include the following:

a. A member promotes the attest client’s securities as part of an initial public offering. [1.295.130]

b. A member provides expert witness services to an attest client. [1.295.140]

c. A member represents an attest client in U.S. tax court or other public forum. [1.295.160]

.14 Familiarity threat. The threat that, because of a long or close relationship with an attest client, a member will become too sympathetic to the attest client's interests or too accepting of the attest client's work or product. Examples of familiarity threats include the following:

a. 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. [1.270.020 and 1.270.100]

b. A partner or partner equivalent of the firm has been a member of the attest engagement team for a prolonged period.

c. A member of the firm has recently been a director or an officer of the attest client. [1.277.010]

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

.15 Management participation threat. The threat that a member will take on the role of attest client management or otherwise assume management responsibilities for an attest client. Examples of management participation threats include the following:

a. A member serves as an officer or a director of the attest client. [1.275.005]

b. A member accepts responsibility for designing, implementing, or maintaining internal controls for the attest client. [1.295.030]

c. A member hires, supervises, or terminates the attest client's employees. [1.295.135]

.16 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, an attest client or persons associated with the attest client. Examples of self-interest threats include the following: threats include the following:

a. A member has a direct financial interest or material indirect financial interest in the attest client. [1.240.010]

b. 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. [1.260.010]

c. A member or his or her firm relies excessively on revenue from a single attest client.

d. A member or member's firm has a material joint venture or other material joint business arrangement with the attest client. [1.265]

.17 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 an attest engagement. Certain self-review threats, such as preparing source documents used to generate the attest client's financial statements [1.295.120], pose such a significant self-review threat that no safeguards can eliminate or reduce the threats to an acceptable level.

.18 Undue influence threat. The threat that a member will subordinate 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 or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member. Examples of undue influence threats include the following:

a. Management threatens to replace the member or member's firm over a disagreement on the application of an accounting principle.

b. Management pressures the member to reduce necessary audit procedures in order to reduce audit fees.

c. The member receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]

Safeguards

.19 Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors, including the size of the firm and whether the attest client is a public interest entity. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.

.20 The following are three broad categories of safeguards:

a. Safeguards created by the profession, legislation, or regulation.

b. Safeguards implemented by the attest client. It is not possible to rely solely on safeguards implemented by the attest client to eliminate or reduce significant threats to an acceptable level.

c. Safeguards implemented by the firm, including policies and procedures to implement professional and regulatory requirements.

.21 The effectiveness of a safeguard depends on many factors, including those listed here:

- a. The facts and circumstances specific to a particular situation
- b. The proper identification of threats
- c. Whether the safeguard is suitably designed to meet its objectives
- d. The party(ies) that will be subject to the safeguard
- e. How the safeguard is applied
- f. The consistency with which the safeguard is applied
- g. Who applies the safeguard
- h. How the safeguard interacts with a safeguard from another category
- i. Whether the attest client is a public interest entity

.22 Examples of various safeguards within each category are presented in paragraphs .21–.23 of the “Conceptual Framework for Members in Public Practice” [1.000.010]. The examples presented in these paragraphs are not intended to be all-inclusive. In addition, threats may be sufficiently mitigated through the application of other safeguards not specifically identified in these paragraphs.

1.295 Nonattest Services

1.295.010 Scope and Applicability of Nonattest Services

.01 When a member performs nonattest services for an attest client, self-review, management participation, or advocacy threats to the member’s compliance with the “Independence Rule” [1.200.001] may exist. When significant independence threats exist during the period of the professional engagement or the period covered by the financial statements (except as provided for in paragraph .03), independence will be impaired unless the threats are reduced to an acceptable level and any requirements included in the interpretations of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” have been met.

.02 For purposes of the interpretations of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” [1.200.001], the term member includes the member’s firm.

.03 Period of engagement. A member’s independence would not be impaired if the member performed nonattest services that would have otherwise impaired

independence during the period covered by the financial statements if all of the following conditions exist:

- a. The nonattest services were provided prior to period of the professional engagement.
- b. The nonattest services related to periods prior to the period covered by the financial statements.
- c. The financial statements for the period to which the nonattest services relate were audited by another firm (or in the case of a review engagement, reviewed or audited by another firm).

.04 Activities related to attest services. Performing attest services often involves communications between the member and client management regarding

- a. the client's selection and application of accounting standards or policies and financial statement disclosure requirements;
- b. the appropriateness of the client's methods used in determining accounting and financial reporting;
- c. adjusting journal entries that the member has prepared or proposed for client management consideration; and
- d. the form or content of the financial statements.

These communications are considered a normal part of the attest engagement and are not considered nonattest services subject to the "General Requirements for Performing Nonattest Services" [1.295.040] and "Documentation Requirements When Providing Nonattest Services" [1.295.050] interpretations.

.05 However, the member should exercise judgment in determining whether his or her involvement has become so extensive that it would constitute performing a separate service which would be subject to the "General Requirements for Performing Nonattest Services" interpretation [1.295.040].

.06 For example, activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the attest engagement and, therefore, constitute a nonattest service. Such activities would not impair independence if the requirements of the interpretations of the "Nonattest Services" subtopic [1.295] are met.

.07 Engagements subject to independence rules of certain regulatory or standard-setting bodies. Threats to compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member is not in compliance with the independence regulations of authoritative regulatory bodies that are more restrictive than the interpretations of the "Nonattest Services" subtopic [1.295] under the "Independence

Rule” (examples of such authoritative bodies are the SEC, the Government Accountability Office [GAO], the Department of Labor [DOL], the Public Company Accounting Oversight Board [PCAOB], and state boards of accountancy) when a member performs nonattest services for an attest client and is required to be independent of the attest client under the regulations of the applicable regulatory body. Independence would be impaired under these circumstances.

1.295.030 Management Responsibilities

.01 If a member were to assume a management responsibility for an attest client, the management participation threat would be so significant that no safeguards could reduce the threat to an acceptable level and independence would be impaired. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

.02 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, impair independence if performed for an attest client, include

- a. setting policy or strategic direction for the attest client.
- b. 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.
- c. authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so.
- d. preparing source documents, in electronic or other form, that evidence the occurrence of a transaction.
- e. having custody of an attest client’s assets.
- f. deciding which recommendations of the member or other third parties to implement or prioritize.
- g. reporting to those charged with governance on behalf of management.
- h. serving as an attest client’s stock transfer or escrow agent, registrar, general counsel or equivalent.
- i. accepting responsibility for the management of an attest client’s project.

j. accepting responsibility for the preparation and fair presentation of the attest client's financial statements in accordance with the applicable financial reporting framework.

k. accepting responsibility for designing, implementing or maintaining internal control.

l. performing ongoing evaluations of the attest client's internal control as part of its monitoring activities.

1.295.040 General Requirements for Performing Nonattest Services

.01 When a member performs a nonattest service for an attest client, threats to the member's compliance with the "Independence Rule" [1.200.001] may exist. Unless an interpretation of the "Nonattest Services" subtopic [1.295] under the "Independence Rule" states otherwise, threats would be at an acceptable level, and independence would not be impaired, when all the following safeguards are met:

a. The member determines that the attest client and its management agree to

i. assume all management responsibilities as described in the "Management Responsibilities" interpretation [1.295.030].

ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.

iii. evaluate the adequacy and results of the services performed.

iv. accept responsibility for the results of the services.

b. The member does not assume management responsibilities (See the "Management Responsibilities" interpretation [1.295.030] of the "Independence Rule") when providing nonattest services and the member is satisfied that the attest client and its management will

i. be able to meet all of the criteria delineated in item a;

ii. make an informed judgment on the results of the member's nonattest services; and

iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.

If the attest client is unable or unwilling to assume these responsibilities (for example, the attest client cannot oversee the nonattest services provided or is

unwilling to carry out such responsibilities due to lack of time or desire), the member's performance of nonattest services would impair independence.

c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the attest client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding

- i. objectives of the engagement,
- ii. services to be performed,
- iii. attest client's acceptance of its responsibilities,
- iv. member's responsibilities, and
- v. any limitations of the engagement.

1.295.050 Documentation Requirements When Providing Nonattest Services

.01 Before performing nonattest services, the member should document in writing the member's understanding established with the attest client, as described in paragraph .01c of the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] of the "Independence Rule" [1.200.001].

.02 Failure to prepare the required documentation does not impair independence provided that the member did establish the understanding with the attest client. However, failure to prepare the required documentation would be considered a violation of the "Compliance with Standards Rule" [1.310.001].

.03 The documentation requirement does not apply to nonattest services performed prior to the period of the professional engagement for an attest client. However, for nonattest services provided during the period covered by the financial statements, the member should document in writing that the requirements of the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] were met prior to the period of the professional engagement, including the requirement to establish an understanding with the attest client.

1.295.105 Advisory Services

.01 Self-review or management participation threats to compliance with the "Independence Rule" [1.200.001] may exist when a member performs advisory services for an attest client.

.02 If the member's services are only advisory in nature and the member applies the "General Requirements for Performing Nonattest Services" interpretation [1.295.040]

of the “Independence Rule” [1.200.001], threats would be at an acceptable level and independence would not be impaired. For example, a member may

- a. provide advice, research materials, and recommendations to assist management in performing its functions and making decisions.
- b. attend board meetings as a nonvoting advisor.
- c. interpret financial statements, forecasts, or other analyses.
- d. provide management with advice regarding its potential plans, strategies, or relationships.

.03 However, threats to 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 if a member assumes any management responsibilities, as described in the “Management Responsibilities” interpretation [1.295.030]. Accordingly, independence is impaired.

1.295.120 Bookkeeping, Payroll, and Other Disbursements

.01 When a member provides bookkeeping, payroll, and other disbursement services to an attest client, self- review and management participation threats to the covered member’s compliance with the “Independence Rule” [1.200.001] may exist.

.02 If the member applies the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001], threats would be at an acceptable level and independence would not be impaired. For example, a member may

- a. record transactions to an attest client’s general ledger when management has determined or approved the account classifications for the transaction.
- b. post client-coded transactions to an attest client’s general ledger.
- c. prepare financial statements based on information in the attest client’s trial balance.
- d. post client-approved journal or other entries to an attest client’s trial balance.
- e. propose 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.

f. generate unsigned checks using source documents or other records provided and approved by the attest client.

g. process an attest client's payroll using payroll time records that the attest client has provided and approved.

h. transmit 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.

i. prepare a reconciliation (for example, bank and accounts receivable) that identifies reconciling items for the client's evaluation.

.03 However, threats to 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, and independence would be impaired, if, for example, a member

a. determines or changes journal entries, any account coding or classification of transactions, or any other accounting records without first obtaining the attest client's approval.

b. authorizes or approves transactions.

c. prepares source documents.

d. makes changes to source documents without the attest client's approval.

e. accepts 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."

f. accepts responsibility to sign or cosign an attest client's checks, even if only in emergency situations.

g. maintains 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.

h. approves vendor invoices for payment.

<p>The AICPA has prepared a "Toolkit" for nonattest services. The toolkit is available at no cost on the AICPA's website.</p>

1.295.160 Tax Services

.01 For purposes of this interpretation, tax services include preparation of a tax return, transmittal of a tax return, and transmittal of any related tax payment to the taxing authority, signing and filing a tax return, having a power of attorney limited strictly to tax matters; and authorized representation of attest clients in administrative proceedings before a taxing authority.

.02 For purposes of this interpretation, a tax return includes all tax filings, including informational tax forms (such as estimated tax vouchers), extension forms, and Forms 990, 5500, 1099, and W-2, filed with a taxing authority or other regulatory agency.

.03 Preparation and transmittal. When a member prepares a tax return and transmits the tax return and related tax payment to a taxing authority in paper or electronic form, self-review and management participation threats to the member's compliance with the "Independence Rule" [1.200.001] may exist. If the member applies the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired, provided that the member does not have custody or control over the attest client's funds or assets and the individual designated by the attest client to oversee the tax services

- a. reviews and approves the tax return and related tax payment.
- b. if required for filing, signs the tax return prior to the member transmitting the return to the taxing authority.

The following are not considered having custody or control over an attest client's funds: making electronic tax payments authorized by an attest client pursuant to a taxing authority's prescribed criteria (as discussed in paragraph .04), affixing the attest client's depository account information on a tax return, or remitting an attest client's check made payable to the taxing authority.

.04 If the member applies the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] of the "Independence Rule" [1.200.001], threats would be at an acceptable level and independence would not be impaired when a member signs and files a tax return on behalf of management, provided that the member has the legal authority to do so and

- a. the taxing authority has prescribed procedures in place for an attest client to permit a member to sign and file a tax return on behalf of the attest client (for example, Forms 8879 or 8453), and such procedures meet, at the minimum, standards for electronic return originators and officers outlined in Form 8879, or

b. an individual in management who is authorized to sign and file the attest client's tax return provides the member with a signed statement that clearly identifies the return being filed and represents that such individual

i. is authorized to sign and file the tax return.

ii. has reviewed the tax return, including accompanying schedules and statements, and it is true, correct, and complete to the best of the individual's knowledge and belief.

iii. authorizes the member or another named individual in the member's firm to sign and file the tax return on the attest client behalf.

.05 Authorized representation in administrative proceedings. If the member applies the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] of the "Independence Rule" [1.200.001], threats would be at an acceptable level and independence would not be impaired if a member acts as the attest client's authorized representative in administrative proceedings before a taxing authority, provided that the member obtains the attest client's agreement prior to committing the attest client to a specific resolution with the taxing authority. [Prior reference: paragraph .05 of ET section 101]

.06 Power of attorney. When a member has an attest client's power of attorney, the self-review, management participation, and advocacy threats to the covered member's compliance with the "Independence Rule" [1.200.001] may exist. If the member applies the "General Requirements for Performing Nonattest Services" interpretation [1.295.040] of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired, provided that the member's use of the power of attorney is limited strictly to tax matters and the member does not bind the attest client to any agreement with a taxing authority or other regulatory agency. [No prior reference: new content]

.07 Representation in court. Threats to compliance with the "Independence Rule" [1.200.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards, and independence would be impaired if a member represents an attest client in court to resolve a tax dispute. For purposes of this interpretation, court encompasses a tax, district, or federal court of claims and the equivalent state, local, or foreign forums.

1.300 General Standards

1.300.001 General Standards Rule

.01 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council:

- a. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
- b. Due Professional Care. Exercise due professional care in the performance of professional services.
- c. Planning and Supervision. Adequately plan and supervise the performance of professional services.
- d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Note: See Appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards." plus the other standard setters listed in the preface to the code (Page 1-5)

Interpretations Under the General Standards Rule

1.300.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.01 In the absence of an interpretation of the "General Standards Rule" [1.300.001] 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 "General Standards Rule" [1.300.001] 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. [No prior reference: new content]

1.300.010 Competence

.01 Competence, in this context, means that the member or member's staff possess the appropriate technical qualifications to perform professional services and that the member, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession's standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of professional services.

.02 A member's agreement to perform professional services implies that the member has the necessary competence to complete those services according to professional standards and to apply the member's knowledge and skill with reasonable care and diligence. However, the member does not assume a responsibility for infallibility of knowledge or judgment.

.03 The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing professional services involves performing additional research or consulting with others to gain sufficient competence.

.04 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.

1.310 Compliance with Standards

1.310.001 Compliance with Standards Rule

.01 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

.02 See Appendix A "Council Resolution Designating Bodies to Promulgate Technical Standards."

Interpretations Under the Compliance with Standards Rule

1.310.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.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.

1.320 Accounting Principles

1.320.001 Accounting Principles Rule

.01 A member shall not (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, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

.02 See appendix A “Council Resolution Designating Bodies to Promulgate Technical Standards.”

Interpretations Under the Accounting Standards Rule

1.320.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.01 In the absence of an interpretation of the “Accounting Principles Rule” [1.320.001] 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 “Accounting Principles Rule” [1.320.001] 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.

1.320.010 Responsibility for Affirming That Financial Statements Are in Conformity with the Applicable Financial Reporting Framework

.01 A member shall not state affirmatively that an entity’s financial statements or other financial data are presented in conformity with generally accepted accounting principles (GAAP) if such statements or data contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles. Members who affirm that financial statements or other financial data are

presented in conformity with GAAP should comply with the “Accounting Principles Rule” [1.320.001]. A member’s representation in a letter or other communication that an entity’s financial statements are in conformity with GAAP may be considered an affirmative statement within the meaning of this rule with respect to the member who signed the letter or other communication (for example, the member signed a report to a regulatory authority)

1.320.030 Departures from Generally Accepted Accounting Principles

.01 It is difficult to anticipate all the circumstances in which accounting principles may be applied. However, there is a strong presumption that adherence to GAAP would, in nearly all instances, result in financial statements that are not misleading. The “Accounting Principles Rule” [1.320.001] recognizes that, upon occasion, there may be unusual circumstances when the literal application of GAAP would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment to apply is that which will not render the financial statements misleading.

.02 The question of what constitutes unusual circumstances, as referred to in the “Accounting Principles Rule” [1.320.001], is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle within GAAP would be regarded generally by reasonable persons as producing misleading financial statements.

.03 Examples of circumstances that may justify a departure from GAAP include new legislation or evolution of a new form of business transaction. Examples of circumstances that do not justify departures from GAAP include an unusual degree of materiality or conflicting industry practices.

.04 If the statements or data contain such departures, see the “Accounting Principles Rule” [1.320.001] for further guidance.

1.320.040 Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP

.01 Reference to GAAP in the “Accounting Principles Rule” [1.320.001] means those accounting principles promulgated by bodies designated by Council, which are listed in appendix A. The bodies designated by Council to promulgate accounting principles are

- a. FASAB,
- b. FASB,
- c. GASB, and
- d. IASB.

.02 Financial statements prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of the “Accounting Principles Rule” [1.320.001].

.03 However, the “Accounting Principles Rule” [1.320.001] 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, such as

- a. 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;
- b. financial reporting frameworks prescribed by an agreement or a contract or
- c. 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.

.04 In such circumstances, however, the client’s financial statements and member’s reports thereon should not purport that the financial statements are in accordance with GAAP, and the financial statements or reports on those financial statements, or both, should clarify the financial reporting framework(s) used. [Prior reference: paragraph .06 of ET section 203] [Prior reference: paragraph .06 of ET section 203]

1.400 Acts Discreditable

1.400.001 Acts Discreditable Rule

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

Interpretations Under the Acts Discreditable Rule

1.400.005 Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts

.01 In the absence of an interpretation of the “Acts Discreditable Rule” [1.400.001] 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 “Acts Discreditable Rule” [1.400.001] 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 and legal standards, or both.

1.400.040 Negligence in the Preparation of Financial Statements or Records

.01 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.

1.400.070 Confidential Information Obtained from Employment or Volunteer Activities

.01 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).

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

.04 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer’s confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

.05 A member would be considered in violation of the “Acts Discreditable Rule” [1.400.001] if the 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.

.06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to:
 - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the member’s professional interests in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer’s confidential complaint hotline or those charged with governance.
- d. Disclosure is permitted on behalf of the employer to:
 - i. obtain financing with lenders;
 - ii. communicate with vendors, clients, and customers; or
 - iii. communicate with the employer’s external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

.09 Refer to the “Subordination of Judgment” interpretation [1.130.020] of the “Integrity and Objectivity Rule” [1.100.001] and the “Confidential Information” topic [1.700] for additional guidance.

1.400.200 Records Requests

Terminology

.01 The following terms are defined here solely for use with this interpretation:

- a. A client includes current and former clients.
- b. A member means the member or the member’s firm.
- c. Client-provided records are accounting or other records, including hardcopy and electronic reproductions of such records, belonging to the client that were provided to the member by, or on behalf of, the client.
- d. Member-prepared records are accounting or other records that the member was not specifically engaged to prepare and that are not in the client’s books and records or are otherwise not available to the client, thus rendering the client’s financial information incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that the member proposed or prepared as part of an engagement (for example, an audit).
- e. Member’s work products are deliverables set forth in the terms of the engagement, such as tax returns.
- f. Working papers are all other items prepared solely for purposes of the engagement and include items prepared by the

- i. member, such as audit programs, analytical review schedules, and statistical sampling results and analyses.
- ii. client at the request of the member and reflecting testing or other work done by the member.

Interpretation

.02 Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records, even though fees are due to the member for the work performed. Failure to comply with the more restrictive provisions of the applicable regulatory body's rules and regulations concerning the return of certain records would constitute a violation of this interpretation.

.03 The member should return client-provided records in the member's custody or control to the client at the client's request.

.04 Unless a member and the client have agreed to the contrary, when a client makes a request for member-prepared records or a member's work products that are in the member's custody or control and that have not previously been provided to the client, the member should respond to the client's request as follows:

- a. The member should provide member-prepared records relating to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product.

- b. Member's work products should be provided to the client, except that such work products may be withheld

- i. if fees are due to the member for the specific work product;

- ii. if the work product is incomplete;

- iii. if for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or

- iv. if threatened or outstanding litigation exists concerning the engagement or member's work.

.05 Once a member has complied with these requirements, he or she is under no ethical obligation to

- a. comply with any subsequent requests to again provide records or copies of records described in paragraphs .03–.04. However, if subsequent to complying

with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

b. retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed. [Prior reference: paragraph .02 of ET section 501]

.06 A member who has provided records to an individual designated or held out as the client's representative, such as the general partner, majority shareholder, or spouse, is not obligated to provide such records to other individuals associated with the client. [Prior reference: paragraphs .377–.378 of ET section 591]

.07 Working papers are the member's property, and the member is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.

.08 In fulfilling a request for client-provided records, member-prepared records, or a member's work products, the member may

a. charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client.

b. provide the requested records in any format usable by the client. However, the member is not required to convert records that are not in electronic format to electronic format. If the client requests records in a specific format and the records are available in such format within the member's custody and control, the client's request should be honored. In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records, or the member was engaged to provide such formulas as part of a completed work product.

c. make and retain copies of any records that the member returned or provided to the client.

.09 A member who is required to return or provide records to the client should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.

.10 The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation.

.11 A member would be considered in violation of the "Acts Discreditable Rule" [1.400.001] if the member does not comply with the requirements of this interpretation.

1.400.210 Removing Client Files or Proprietary Information from a Firm

.01 A member whose employment relationship is terminated would be considered in violation of the “Acts Discreditable Rule” [1.400.001] if the member takes or retains (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.

.02 A firm’s ownership agreement would govern ownership of client files and proprietary information; accordingly, this interpretation would not apply to owners of firms.

1.400.240 Use of Confidential Information from Nonclient Sources

.01 If a member discloses confidential information obtained from a prospective client or nonclient without consent, the member would be in violation of the “Acts Discreditable Rule” [1.400.001].

1.700.001 Confidential Client Information Rule

.01 A member in public practice shall not disclose any confidential client information without the specific consent of the client.

.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.

1.700.010 Client Competitors

.01 When a member provides professional services to clients that are competitors, threats to compliance with the “Confidential Client Information Rule” [1.700.001] may exist because the member may have access to confidential client information, such as sales, purchases, and gross profit percentages of the respective competitors.

.02 To reduce the threat of disclosing confidential client information to a competitor, the member should emphasize to all relevant parties, including employees of the firm and affected clients, that the “Confidential Client Information Rule” [1.700.001] prohibits members from revealing to others any confidential client information obtained in their professional capacity.

1.700.020 Disclosing Information from Previous Engagements

.01 When a member evaluates whether to accept a new client engagement, the member should consider whether knowledge and experience that the member or member’s firm will share while providing the professional services to the prospective client would be confidential client information. If such information would be confidential client information, and the circumstances are such that the prospective client would be able to identify the client or clients that are the source of the information, the engagement should not be accepted unless the member obtains the original client’s specific consent to disclose the information.

.02 When a member withdraws from an engagement due to, for example, discovery of irregularities in a client’s tax return, if contacted by the successor, the member should suggest that the successor ask the client to permit the member to discuss all matters freely with the successor. The successor is then on notice of some conflict.

.03 The “Confidential Client Information Rule” [1.700.001] is not intended to help an unscrupulous client cover up illegal acts or otherwise hide information by changing CPAs. Due to the possibility of legal implications in such matters, the member should seek legal advice on the member’s status and obligations in the matter.

1.700.030 Disclosing Information to Persons or Entities Associated with Clients

.01 When a member is engaged to prepare a married couple’s joint tax return, both spouses are considered to be the member’s client, even if the member was engaged by one spouse and deals exclusively with that spouse.

.02 Accordingly, if the married couple is undergoing a divorce and one spouse directs the member to withhold joint tax information from the other spouse, the member may provide the information to both spouses, in compliance with the “Confidential Client Information Rule” [1.700.001], because both are the member’s client. The member should consider reviewing

- a. the legal implications of such disclosure with an attorney and
- b. responsibilities under any tax performance standards, such as Section 10.29 of IRS Circular 230.

.03 If a member provides professional services to a company’s executives at the request of the company, the member’s disclosure of confidential client information to the company without the consent of the applicable executives would be a violation of the

“Confidential Client Information Rule” [1.700.001], even if the company is not otherwise a client.

1.700.040 Disclosing Information to a Third-Party Service Provider

.01 When a member uses a third-party service provider to assist the member in providing professional services, threats to compliance with the “Confidential Client Information Rule” [1.700.001] may exist.

.02 Clients may not expect the member to 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 do one of the following:

a. Enter into a contractual agreement with the third-party service provider to maintain the confidentiality of the information and provide reasonable assurance that the third-party service provider has appropriate procedures in place to prevent the unauthorized release of confidential information to others. The nature and extent of procedures necessary to obtain reasonable assurance depends on the facts and circumstances, including the extent of publicly available information on the third-party service provider’s controls and procedures to safeguard confidential client information.

b. Obtain specific consent from the client before disclosing confidential client information to the third-party service provider.

.03 Refer to the “Use of a Third-Party Service Provider” interpretation [1.150.040] of the “Integrity and Objectivity Rule” [1.100.001] and the “Use of a Third-Party Service Provider” interpretation [1.300.040] of the “General Standards Rule” [1.300.001] for additional guidance.

1.700.050 Disclosing Client Information in Connection with a Review of the Member’s Practice

.01 For purposes of the “Confidential Client Information Rule” [1.700.001], a review of a member’s professional practice includes a review performed in conjunction with a prospective purchase, sale, or merger of all or part of a member’s practice. Such reviews may threaten a member’s compliance with the “Confidential Client Information Rule.” To reduce the threat to an acceptable level, a member must take appropriate precautions (for example, through a written confidentiality agreement with the prospective purchaser) to help ensure that the prospective purchaser does not disclose any confidential client information obtained in the course of the review.

.02 Members who perform such reviews should not use to their advantage or disclose any confidential client information that comes to their attention during the review.

.03 Members who obtain client files as the result of acquiring all or part of another member's professional practice should not disclose any confidential client information contained in such files. Members should refer to the "Transfer of Files and Return of Client Records in Sale, Transfer Discontinuance or Acquisition of a Practice " interpretation under the "Acts Discreditable Rule" [1.400.205] for guidance related to client files obtained through acquiring a practice.

1.700.060 Disclosure of Client Information to Third Parties

.01 When a member receives a request from a third party (for example, a trade association, member of academia, or surveying or benchmarking organization) to disclose client information or intends to use such information for the member's own purposes (for example, publication of benchmarking data or studies) in a manner that may result in the client's information being disclosed to others without the client being specifically identified, threats to compliance with the "Confidential Client Information Rule" [1.700.001] may exist.

.02 If the information is considered to be confidential client information, the member would be in violation of the "Confidential Client Information Rule" [1.700.001] if the member discloses or uses the information unless the member has the client's specific consent, preferably in writing, for the disclosure or use of such information. The consent should specify the nature of the information that may be disclosed, the type of third party to whom it may be disclosed, and its intended use.

.03 If the information is not considered to be confidential client information, the disclosure or use of the information is not subject to the "Confidential Client Information Rule" [1.700.001]. However, the member should be cautious in the disclosure or use of the information so as not to disclose client information that may go beyond what is available to the public or that the client has agreed may be disclosed.

.04 A member is not prohibited from marketing his or her services or advising a third party, such as a current or prospective client, of information based on his or her expertise or knowledge obtained from prior experiences with clients (for example, the nature of services provided to other clients or common practices within a client's industry). However, if the information may be identifiable to one or more clients, specific consent, preferably in writing, is required from such client(s). Prior to disclosing confidential client information to a third party, the member should consider whether a contractual agreement with the third party to maintain the confidentiality or limit the use of the information is necessary.

.05 In addition, the member should consider whether federal, state, or local statutes, rules, or regulations concerning the confidentiality of client information may be more restrictive than the requirements in this interpretation.

.06 Refer to the "Use of a Third-Party Service Provider" interpretation [1.300.040] of the "General Standards Rule" [1.300.001] for additional guidance.

1.700.070 Disclosing Client Information During Litigation

.01 The “Confidential Client Information Rule” [1.700.001] is not intended to prohibit a member from disclosing information necessary to initiate, pursue, or defend the member in an actual or a threatened lawsuit or alternative dispute resolution proceeding. Accordingly, releasing confidential client information to the member’s liability insurance carrier solely to assist in the defense against an actual or a potential claim against the member would not violate the “Confidential Client Information Rule.”

1.700.080 Disclosing Client Information in Director Positions

.01 When a member serves as a director of an organization, such as a bank or an insurance company, the member’s fiduciary responsibilities to the organization may create threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] and the “Confidential Client Information Rule” [1.700.001]. For example, the member’s fiduciary duty to the organization may conflict with the member’s obligations pursuant to the “Confidential Client Information Rule” (for example, failure to disclose information may constitute a breach of the director’s fiduciary responsibilities) when the member’s clients are customers of the organization.

.02 A member’s general knowledge and experience may be very helpful to an organization in formulating a policy and making business decisions. Nevertheless, if the member’s clients are likely to engage in significant transactions with the organization, 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 the “Integrity and Objectivity Rule” [1.100.001] and the “Confidential Client Information Rule” [1.700.001]. If, however, the member serves as a board member of the organization, the member should evaluate the significance of any threats and apply safeguards, when necessary, to eliminate or reduce the threats to an acceptable level.

.03 See the “Director Positions” interpretation [1.110.020] of the “Integrity and Objectivity Rule” [1.100.001].

.04 The revisions to this interpretation are effective December 15, 2014.

1.700.090 Disclosing Client Names

.01 The member’s disclosure of a client’s name would not violate the “Confidential Client Information Rule” [1.700.001] if disclosure of the client’s name does not constitute the release of confidential client information. For example, if a member’s practice is limited to bankruptcy matters, disclosure of the client’s name could suggest that the client may be experiencing financial difficulties, which may be confidential client information.

1.700.100 Disclosing Confidential Client Information as a Result of a Subpoena or Summons

.01 The member's disclosure of confidential client information in compliance with a validly issued and enforceable subpoena or summons would not violate the "Confidential Client Information Rule" [1.700.001].

.02 When complying with such subpoena or summons, the member is not required to notify the client that its records have been subpoenaed or that a summons related to the client's records has been issued. The member may also wish to consult with legal counsel to determine the validity and enforceability of the subpoena or summons and the specific client information required to be provided. The member may also wish to consult with his or her state board of accountancy.



**“You can correct my spelling and grammar,
but my ethics are none of your business!”**

Part 2

Members in Business

2.000 Introduction

.01 Part 2 of the Code of Professional Conduct (the code) applies to members in business. Accordingly, when the term member is used in part 2 of the code, the requirements apply only to members in business. When a member in business is also a member in public practice (for example, a member has a part-time tax practice), the member should also consult part 1 of the code, which applies to members in public practice.

2.000.010 Conceptual Framework for Members in Business **Introduction**

.01 Members may encounter various relationships or circumstances that create threats to the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an 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 the member's compliance with the rules that is not at an acceptable level. When making that evaluation, the member should apply the conceptual framework approach as outlined in this interpretation.

.02 The code specifies that in some circumstances, no safeguards can reduce a threat to an acceptable level. For example, the code specifies that a member may not subordinate the member's professional judgment to others without violating the "Integrity and Objectivity Rule" [2.100.001]. A member may not use the conceptual framework to overcome this or any other prohibition or requirement in the code.

Definitions Used in Applying the Conceptual Framework

.03 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.

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

.05 Threat(s). Relationships or circumstances that could compromise a member's compliance with the rules.

Conceptual Framework Approach

.06 Under the conceptual framework approach, members should identify threats to compliance with the rules and evaluate the significance of those threats. Members should evaluate identified threats both individually and in the aggregate because threats can have a cumulative effect on a member's compliance with the rules. Members should perform three main steps in applying the conceptual framework approach:

- a. Identify threats. The relationships or circumstances that a member encounters in various engagements and work assignments or positions will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, under this approach, the member should determine whether the relationship or circumstance creates one or more threats, such as those identified in paragraphs .09–.14 that follow. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.

- b. Evaluate the significance of a threat. In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when 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. 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.

- c. Identify and apply safeguards. If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of safeguards will vary depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member's compliance with the rules, and the member should determine

whether to decline or discontinue the professional services or resign from the employing organization.

Threats

.07 Many threats fall into one or more of the following six broad categories: adverse interest, advocacy, familiarity, self-interest, self-review, and undue influence.

.08 Examples of threats associated with a specific relationship or circumstance are identified in the interpretations of the code. Paragraphs .09–.14 of this section define and provide examples, which are not all inclusive, of each of these threat categories.

.09 Adverse interest threat. The threat that a member will not act with objectivity because the member's interests are opposed to the interests of the employing organization. Examples of adverse interest threats include the following:

- a. A member has charged, or expressed an intention to charge, the employing organization with violations of law.
- b. 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.
- c. A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.

.10 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. Examples of advocacy threats include the following:

- a. 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.
- b. 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.

.11 Familiarity threat. The threat that, due to a long or close relationship with a person or an employing organization, a member will become too sympathetic to their interests or too accepting of the person's work or employing organization's product or service. Examples of familiarity threats include the following:

- a. A member uses an immediate family's or a close relative's company as a supplier to the employing organization.
- b. 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.

- c. A member's immediate family or close relative is employed as a member's subordinate.
- d. A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.

.12 Self-interest threat. The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization. Examples of self-interest threats include the following:

- a. A member's immediate family or close relative has a financial interest in the employing organization.
- b. 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.
- c. 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.

.13 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 employing organization and that the member will rely on that service in forming a judgment as part of another service. Examples of self-review threats include the following:

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

.14 Undue influence threat. 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. Examples of undue influence threats include the following:

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

Safeguards

.15 Safeguards may partially or completely eliminate a threat or diminish the potential influence of a threat. The nature and extent of the safeguards applied will depend on many factors. To be effective, safeguards should eliminate the threat or reduce it to an acceptable level.

.16 Safeguards that may eliminate a threat or reduce it to an acceptable level fall into two broad categories

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

.17 The effectiveness of a safeguard depends on many factors, including those listed here:

- a. The facts and circumstances specific to a particular situation
- b. The proper identification of threats
- c. Whether the safeguard is suitably designed to meet its objectives
- d. The party(ies) who will be subject to the safeguard
- e. How the safeguard is applied
- f. The consistency with which the safeguard is applied
- g. Who applies the safeguard
- h. How the safeguard interacts with a safeguard from another category
- i. Whether the employing organization is a public interest entity

.18 Examples of safeguards within each category are presented in the following paragraphs. Because these are only examples and are not intended to be all inclusive, it is possible that threats may be sufficiently mitigated through the application of other safeguards not specifically identified herein.

.19 The following are examples of safeguards created by the profession, legislation, or regulation:

- a. Education and training requirements on ethics and professional responsibilities
- b. Continuing education requirements on ethics
- c. Professional standards and the threat of discipline

- d. Legislation establishing prohibitions and requirements for entities and employees
- e. Competency and experience requirements for professional licensure
- f. Professional resources, such as hotlines, for consultation on ethical issues

.20 Examples of safeguards implemented by the employing organization are as follows:

- a. A tone at the top emphasizing a commitment to fair financial reporting and compliance with applicable laws, rules, regulations, and corporate governance policies
- b. Policies and procedures addressing ethical conduct and compliance with laws, rules, and regulations
- c. Audit committee charter, including independent audit committee members
- d. Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organization, its directors or officers, and vendors, suppliers, or customers
- e. Internal policies and procedures related to purchasing controls
- f. Internal policies and procedures related to customer acceptance or credit limits
- g. 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
- h. Human resource policies and procedures safeguarding against discrimination or harassment, such as those concerning a worker's religion, sexual orientation, gender, or disability
- i. Human resource policies and procedures stressing the hiring and retention of technically competent employees
- j. Policies and procedures for implementing and monitoring ethical policies
- k. Assigning sufficient staff with the necessary competencies to projects and other tasks
- l. Policies segregating personal assets from company assets
- m. Staff training on applicable laws, rules, and regulations
- n. Regular monitoring of internal policies and procedures

- o. A reporting structure whereby the internal auditor does not report to the financial reporting group
- p. Policies and procedures that do not allow an internal auditor to monitor areas where the internal auditor has operational or functional responsibilities
- q. Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity
- r. Use of third-party resources for consultation as needed on significant matters of professional judgment

2.000.020 Ethical Conflicts

.01 An ethical conflict arises when a member encounters one or both of the following:

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

For example, a member suspects a fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain the confidentiality of his or her employer's confidential information.

.02 Once an ethical conflict is encountered, a member may be required to take steps to best achieve compliance with the rules and law. In weighing alternative courses of action, the member should consider factors such as the following:

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

.03 The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules and law. If the member was unable to resolve the conflict in a way that permitted compliance with the applicable rules and law, the member may have to address the consequences of any violations.

.04 Before pursuing a course of action, the member should consider consulting with appropriate persons within the organization that employs the member.

.05 If a member decides not to consult with appropriate persons within the organization that employs the member, and the conflict remains unresolved after pursuing the selected course of action, the member should consider either consulting with other individuals for help in reaching a resolution or obtaining advice from an appropriate professional body or legal counsel. The member also should consider

documenting the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

.06 If the ethical conflict remains unresolved, the member will in all likelihood be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the specific assignment or employer.

2.100 Integrity and Objectivity

2.100.001 Integrity and Objectivity Rule

.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.

Interpretations Under the Integrity and Objectivity Rule

2.100.005 Application of the Conceptual Framework for Members in Business and Ethical Conflicts

.01 In the absence of an interpretation of the “Integrity and Objectivity Rule” [2.100.001] that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business” [2.000.010].

.02 A member would be considered in violation of the “Integrity and Objectivity Rule” [2.100.001] 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” [2.000.020] 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 and legal standards, or both.

2.110 Conflicts of Interest

2.110.010 Conflicts of Interest for Members in Business

.01 A member may be faced with a conflict of interest when undertaking 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.

.02 A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001]. For example, threats may be created when

- a. a member undertakes a professional service related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict, or
- b. the interests of a member with respect to a particular matter and the interests of a party for whom the member undertakes a professional service related to that matter are in conflict.

.03 A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or other party.

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

- a. Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the member to the advantage or disadvantage of the other employing organization
- b. Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving their partnership
- c. Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out
- d. Being responsible for selecting a vendor for the member's employing organization when the member or his or her immediate family member could benefit financially from the transaction
- e. Serving in a governance capacity or influencing an employing organization that is approving certain investments for the company in which one of those specific investments will increase the value of the personal investment portfolio of the member or his or her immediate family member

Identification of a Conflict of Interest

.05 In identifying whether a conflict of interest exists or may be created, a member should take reasonable steps to determine

- a. the nature of the relevant interests and relationships between the parties involved and
- b. the nature of the services and its implication for relevant parties.

.06 The nature of the relevant interests and relationships and the services may change over time. The member should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

Evaluation of a Conflict of Interest

.07 When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.

.08 In evaluating the significance of an identified threat, members should consider the following:

- a. The significance of relevant interests or relationships.
- b. The significance of the threats created by undertaking the professional service or services. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

.09 If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include the following:

- a. Restructuring or segregating certain responsibilities and duties
- b. Obtaining appropriate oversight
- c. Withdrawing from the decision-making process related to the matter giving rise to the conflict of interest
- d. Consulting with third parties, such as a professional body, legal counsel, or another professional accountant

.10 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.

Disclosure of a Conflict of Interest and Consent

.11 When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing

organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

.12 The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

.13 When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel, or another professional accountant. When making disclosures and seeking guidance of third parties, the member should remain alert to the requirements of the "Confidential Information Obtained from Employment or Volunteer Activities" interpretation [2.400.070] of the "Acts Discreditable Rule" [2.400.001]. In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.

.14 A member may encounter other threats to compliance with the "Integrity and Objectivity Rule" [2.100.001]. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close relatives or immediate family members of the member have with the employing organization. Guidance on managing such threats is covered by the "Knowing Misrepresentations in the Preparation of Financial Statements or Records" interpretation [2.130.010] and the "Subordination of Judgment" interpretation [2.130.020] under the "Integrity and Objectivity Rule."

2.120 Gifts and Entertainment

2.120.010 Offering or Accepting Gifts or Entertainment

.01 For purposes of this interpretation, a customer or vendor of the member's employer includes a representative of the customer or vendor.

.02 When a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer, self-interest, familiarity, or undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] may exist.

.03 Threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] 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 presumed to lack integrity in violation of the "Integrity and Objectivity Rule" in the following circumstances:

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

.04 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. The following are examples of relevant facts and circumstances:

- a. The nature of the gift or entertainment
- b. The occasion giving rise to the gift or entertainment
- c. The cost or value of the gift or entertainment
- d. The nature, frequency, and value of other gifts and entertainment offered or accepted
- e. Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
- f. Whether other customers or vendors also participated in the entertainment
- g. The individuals from the customer or vendor and a member's employer who participated in the entertainment

.05 Threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer that is not reasonable in the circumstances. The member would be considered to lack objectivity in violation of the "Integrity and Objectivity Rule," under these circumstances.

A nonauthoritative basis-for-conclusions document summarizing considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/Gifts_Basis_Document.pdf.

2.130 Preparing and Reporting Information

2.130.010 Knowing Misrepresentations in the Preparation and Presentation of Information (Revised effective August 31, 2017)

.01 Members at all levels in an employing organization may be involved in the preparation and presentation of information for use both within and outside the employing organization. Stakeholders for whom such information is prepared or presented include the following:

- a. Management and those charged with governance
- b. Investors, lenders, and other creditors
- c. Regulators

.02 This information may assist stakeholders in understanding and evaluating aspects of the employing organization's operations and finances and in making decisions concerning the employing organization. This includes financial and non-financial information that may be made public or used for internal purposes such as the following:

- a. Operating and performance reports
- b. Decision support analyses
- c. Budgets and forecasts
- d. Information provided to the internal and external auditors
- e. Risk analyses
- f. General and special purpose financial statements
- g. Tax returns
- h. Reports filed with regulators for legal and compliance purposes

.03 Members who are responsible for recording, maintaining, preparing, approving, or presenting information should do so in accordance with the "Integrity and Objectivity Rule" [2.100.001] as follows:

- a. Presenting the information in accordance with a relevant reporting framework, where applicable

b. Preparing or presenting information in a manner that is intended not to mislead, including not to influence contractual or regulatory outcomes inappropriately

c. Preparing or presenting information without omissions that would render the information misleading

.04 This responsibility involves using professional judgment in the following:

a. Representing the facts accurately and completely in all material respects

b. Describing clearly the true nature of business transactions or activities

c. Classifying and recording information in a timely and proper manner

Preparation and Presentation of Financial Statements and Records

.05 Threats to compliance with the “Integrity and Objectivity Rule” [2.100.001] 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.

.06 Preparing or presenting information may require the exercise of discretion in making professional judgments. Preparing or presenting such information in compliance with the “Integrity and Objectivity Rule” [2.100.001] requires the member not to exercise such discretion with the intention of misleading.

Preparation and Presentation of Information Not Subject to a Reporting Framework

.07 When performing professional activities, especially those that do not require compliance with a relevant reporting framework, the member should use professional judgment to identify and take into account the purpose for which the information is to be used, the context in which it is provided, and the audience to whom it is addressed. For example, when preparing or presenting pro forma reports, budgets, or forecasts, the inclusion of relevant estimates, approximations, and assumptions, where appropriate,

would enable those who may rely on such information to form their own judgments. The member may also consider clarifying the intended audience, context, and purpose of the information presented.

Reliance on the Work of Others

.08 A member who intends to rely on the work of others, either internal or external to the organization, should use professional judgment to determine what steps to take, if any, to ensure that the requirements set out in paragraphs .03, .04, and .05 are fulfilled. Factors to consider in determining whether reliance on others is reasonable include reputation, expertise, objectivity, resources available to the individual or organization, and whether the other individual is subject to applicable professional and ethical standards. Such information may be gained from prior association with, or from consulting others about, the individual or the organization.

Association with Misleading Information

.09 If the member knows or has reason to believe that the information with which he or she is associated is misleading, the member should apply appropriate safeguards to seek to resolve the matter, including the following:

- a. Consulting the employing organization's policies and procedures (for example, an ethics or whistleblowing policy) regarding how such matters should be addressed internally

- b. Discussing concerns that the information is misleading with the member's supervisor or the appropriate levels of management within the member's employing organization or those charged with governance and requesting such individuals to take appropriate action to resolve the matter. Such action may include the following:
 - i. Having the information corrected

 - ii. If the information has already been disclosed to the intended users, informing them of the correct information

.10 If the member determines that appropriate action has not been taken and continues to have reason to believe that the information is misleading, threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] would not be at an acceptable level. In such circumstances, the member, being alert to the requirements of the "Confidential Information Obtained from Employment or Volunteer Activities" interpretation [2.400.070], should consider one or more of the following safeguards:

- a. Consulting with a relevant professional body

b. Consulting with the employing organization's internal auditor and external accountant

c. Determining whether any requirements exist to communicate to third parties, including users of the information, the organization's external accountant, or regulatory authorities

d. Consulting legal counsel regarding his or her responsibilities

.11 If, after exhausting all feasible options, the member determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the member should refuse to be or to remain associated with the information. The member also should consider whether to continue a relationship with the employing organization.

.12 Nothing in this interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employing organization's (or former employing organization's) external accountant.

.13 The member is also encouraged to document his or her understanding of the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed, the courses of action considered, and how the member attempted to address the matter.

.14 When threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] are due to differences of opinion between a member and his or her supervisor (or any other person within the member's organization) relating to the application of accounting principles, auditing standards, or other relevant professional standards, the member should also refer to the "Subordination of Judgment" interpretation [2.130.020].

2.130.020 Subordination of Judgment

.01 The "Integrity and Objectivity Rule" [2.100.001] prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services 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.

.02 Self-interest, familiarity, and undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] may exist when a member and his

or her supervisor or any other person within the member's organization have a difference of opinion relating to the application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations.

.03 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards in paragraphs .05–.07 to eliminate or reduce the threat(s) to an acceptable level so that the member does not subordinate his or her judgment.

.04 In evaluating the significance of any identified threats, the member should determine, after appropriate research or consultation, whether the result of the position taken by the supervisor or other person

- a. fails to comply with professional standards, when applicable;
- b. creates a material misrepresentation of fact; or
- c. may violate applicable laws or regulations.

.05 If the member concludes that threats are at an acceptable level, the member should discuss his or her conclusions with the person taking the position. No further action would be needed under this interpretation.

.06 If the member concludes that the position results in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would not be at an acceptable level. In such circumstances, the member should discuss his or her concerns with the supervisor.

.07 If the difference of opinion is not resolved after discussing the concerns with the supervisor, the member should discuss his or her concerns with the appropriate higher level(s) of management within the member's organization (for example, the supervisor's immediate superior, senior management, and those charged with governance).

.08 If after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member's organization, the member concludes that appropriate action was not taken, then the member should consider, in no specific order, the following safeguards to ensure that threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] are eliminated or reduced to an acceptable level:

- a. Determine whether the organization's internal policies and procedures have any additional requirements for reporting differences of opinion.

b. Determine whether he or she is responsible for communicating to third parties, such as regulatory authorities or the organization's (former organization's) external accountant. In considering such communications, the member should be cognizant of his or her obligations under the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation [2.400.070] of the "Acts Discreditable Rule" [2.400.001] and the "Obligation of a Member to His or Her Employer's External Accountant" interpretation [2.130.030] of the "Integrity and Objectivity Rule" [2.100.001].

c. Consult with his or her legal counsel regarding his or her responsibilities.

d. Document his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.

.09 If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider the continuing relationship with the member's organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.

.10 Nothing in this interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employer's (former employer's) external accountant.

.11 A member should use professional judgment and apply similar safeguards, as appropriate, to other situations involving a difference of opinion as described in this interpretation so that the member does not subordinate his or her judgment.

2.130.030 Obligation of a Member to His or Her Employer's External Accountant

.01 The "Integrity and Objectivity Rule" [2.100.001] requires a member to maintain objectivity and integrity in the performance of a professional service. When dealing with an employer's external accountant, a member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts. This would include, for example, responding to specific inquiries for which the employer's external accountant requests written representation.

2.170 Pressure to Breach the Rules (New effective August 31, 2017)

2.170.010 Pressure to Breach the Rules

.01 This interpretation addresses pressures that could result in a member taking actions that breach or cause others to breach the rules, particularly the "Integrity and Objectivity Rule" [2.100.001].

.02 A member may face pressure that could create threats, for example undue influence threats, to compliance with the "Integrity and Objectivity Rule" [2.100.001] when undertaking a professional service. Pressure may be explicit or implicit. Pressure may come from within the employing organization, for example, from a colleague or superior, from an external individual or organization such as a vendor, customer or lender, or from the need to meet internal or external targets and expectations.

.03 A member should not allow pressure from others to result in a breach of the "Integrity and Objectivity Rule" [2.100.001]. A member also should not place pressure on others that the member knows, or has reason to believe, would result in the other individuals breaching the rules of the AICPA Code of Professional Conduct.

.04 Examples of pressure that could result in a breach of the "Integrity and Objectivity Rule" [2.100.001] include the following:

a. Pressure related to conflicts of interest, for example, pressure from a family member bidding to act as a vendor to the member's employing organization to select that vendor over another prospective vendor.

Refer to the "Conflicts of Interest for Members in Business" interpretation [2.110.010] for additional guidance.

b. Pressure to influence presentation of information:

i. Pressure to report misleading financial results to meet investor, analyst, or lender expectations.

ii. Pressure from elected officials on government accountants to misrepresent programs or projects to voters.

iii. Pressure from colleagues to misstate income, expenditure, or rates of return to bias decision-making on capital projects and acquisitions.

iv. Pressure from superiors to approve or process expenditures that are not legitimate business expenses.

- v. Pressure to suppress internal audit reports containing adverse findings.

Refer to the "Knowing Misrepresentations in the Preparation and Presentation of Information" interpretation [2.130.010] for additional guidance.

- c. Pressure to act without sufficient competence or due care:

- i. Pressure from superiors to inappropriately reduce the extent of work performed.

- ii. Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

Refer to the "General Standards Rule" [2.300.001] for additional guidance.

- d. Pressure related to financial interests. For example, pressure to manipulate performance indicators from superiors, colleagues or others, such as those who may benefit from participation in compensation or incentive arrangements.

- e. Pressure related to gifts or entertainment:

- i. Pressure from others, either internal or external to the employing organization, to offer gifts or entertainment to inappropriately influence the judgment or decision-making process of an individual or organization.

- ii. Pressure from colleagues to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

Refer to the "Offering or Accepting Gifts or Entertainment" interpretation [2.120.010] for additional guidance.

.05 In determining whether the pressure could result in a breach of the "Integrity and Objectivity Rule" [2.100.001], the member might consider factors including the following:

- a. The intent of the individual who is exerting the pressure and the nature and significance of the pressure.

- b. The application of relevant laws, regulations, and professional standards to the circumstances.

- c. The culture and leadership of the employing organization including the extent to which it emphasizes the importance of ethical behavior and the expectation that employees will act in an ethical manner. For example, a corporate culture

that tolerates unethical behavior may increase the likelihood that the pressure would result in a breach of the rules.

d. Policies and procedures, if any, that the employing organization has established, such as ethics or human resources policies that address pressure.

.06 In considering the factors in paragraph .05 along with other factors, and being alert to the requirements of the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation [2.400.070], the member may consult with the following:

a. A colleague, superior, human resources personnel, internal compliance personnel, or another professional accountant.

b. Relevant professional or regulatory bodies or industry associations.

c. Legal counsel.

.07 If the member determines that the pressure would result in a breach of the "Integrity and Objectivity Rule" [2.100.001], the member might consider safeguards, including these:

a. Discussing the matter with the individual who is exerting the pressure to seek to resolve it.

b. Discussing the matter with the member's supervisor if the supervisor is not the individual exerting the pressure.

c. Escalating the matter within the employing organization, for example, with higher levels of management, internal or external auditors, or those charged with governance, including independent directors and, when appropriate, explaining any consequential risks to the organization.

d. Requesting restructuring or segregating certain responsibilities and duties so that the member is no longer involved with the individual or entity exerting the pressure, when doing so would eliminate the pressure to breach the "Integrity and Objectivity Rule." For example, if a member is pressured in relation to a conflict of interest, the pressure to breach the rule may be eliminated if the member avoids being associated with the matter creating the conflict.

e. Disclosing the matter in accordance with the employing organization's policies, including ethics and whistleblowing policies, using any established mechanism, such as a confidential ethics hotline.

f. Consulting with legal counsel.

.08 In situations in which the member determines that the pressure to breach the "Integrity and Objectivity Rule" [2.100.001] has not been eliminated, the member should do the following:

a. Decline to undertake or discontinue the professional activity that would result in a breach of the rule.

b. Consider whether to continue a relationship with the employing organization.

.09 The member is also encouraged to document the facts, the communications, the courses of action considered, the parties with whom these matters were discussed, and how the matter was addressed.

Effective Date

.10 This interpretation is effective August 31, 2017.

2.300 General Standards

2.300.001 General Standards Rule

.01 A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council.

a. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.

b. Due Professional Care. Exercise due professional care in the performance of professional services.

c. Planning and Supervision. Adequately plan and supervise the performance of professional services.

d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

.02 See appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards." [Prior reference: paragraph .01 of ET section 201]

Interpretations Under the General Standards Rule

2.300.005 Application of the Conceptual Framework for Members in Business and Ethical Conflicts

.01 In the absence of an interpretation of the “General Standards Rule” [2.300.001] that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business” [2.000.010].

.02 A member would be considered in violation of the “General Standards Rule” [2.300.001] 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” [2.000.020] 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 and legal standards, or both.

2.300.010 Competence

.01 Competence, in this context, means that the member or member’s staff possesses the appropriate technical qualifications to perform professional services and, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession’s standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of professional services.

.02 A member’s agreement to perform professional services implies that the member has the necessary competence to complete those services according to professional standards and to apply the member’s knowledge and skill with reasonable care and diligence. However, the member does not assume a responsibility for infallibility of knowledge or judgment.

.03 The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing professional services involves performing additional research or consulting with others to gain sufficient competence.

.04 If a member is unable to gain sufficient competence, the member should suggest the involvement of a competent person to perform the needed professional service, either independently or as an associate.

2.310 Compliance with Standards

2.310.001 Compliance with Standards Rule

.01 A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

.02 See Appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards."

Interpretations Under the Compliance with Standards Rule

2.310.005 Application of the Conceptual Framework for Members in Business and Ethical Conflicts

.01 In the absence of an interpretation of the "Compliance with Standards Rule" [2.310.001] that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" [2.000.010]

.02 A member would be considered in violation of the "Compliance with Standards Rule" [2.310.001] 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" [2.000.020] 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.

2.320 Accounting Principles

2.320.001 Accounting Principles Rule

.01 A member shall not (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, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

.02 The question of what constitutes unusual circumstances, as referred to in the “Accounting Principles Rule” [2.320.001], is a matter of professional judgment involving the ability to support the position that adherence to a promulgated principle within GAAP would be regarded generally by reasonable persons as producing misleading financial statements.

.03 Examples of circumstances that may justify a departure from GAAP include new legislation or evolution of a new form of business transaction. Examples of circumstances that would not justify departures from GAAP include an unusual degree of materiality or conflicting industry practices.

.04 If the statements or data contain such departures, see the “Accounting Principles Rule” [2.320.001] for further guidance.

2.320.040 Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other Than GAAP

.01 Reference to GAAP in the “Accounting Principles Rule” [2.320.001] means those accounting principles promulgated by bodies designated by Council, which are listed in appendix A. The bodies designed by Council to promulgate accounting principles are

- a. FASAB,
- b. FASB,
- c. GASB, and
- d. IASB.

.02 Financial statements prepared pursuant to other accounting principles would be considered financial reporting frameworks other than GAAP within the context of the “Accounting Principles Rule” [2.320.001].

.03 However, the “Accounting Principles Rule” [2.320.001] does not preclude a member from preparing or reporting on financial statements that have been prepared pursuant to financial reporting frameworks other than GAAP, such as

- a. financial reporting frameworks generally accepted in another country, including jurisdictional variations of IFRS such that the entity’s financial statements do not meet the requirements for full compliance with IFRS, as promulgated by the IASB;
- b. financial reporting frameworks prescribed by an agreement or a contract; or

c. 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.

.04 In such circumstances, however, the financial statements or member's reports thereon should not purport that the financial statements are in accordance with GAAP and the financial statements or reports on those financial statements, or both, should clarify the financial reporting framework(s) used.

2.400 Acts Discreditable

2.400.001 Acts Discreditable Rule

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

Interpretations Under the Acts Discreditable Rule

2.400.005 Application of the Conceptual Framework for Members in Business and Ethical Conflicts

.01 In the absence of an interpretation of the "Acts Discreditable Rule" [2.400.001] that addresses a particular relationship or circumstance, a member should apply the "Conceptual Framework for Members in Business" [2.000.010].

.02 A member would be considered in violation of the "Acts Discreditable Rule" [2.400.001] 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" [2.000.020] when addressing ethical conflicts that may arise when the member encounters obstacles to follow an appropriate course of action. Such obstacles may be due to internal or external pressures or to conflicts in applying relevant professional standards or legal standards, or both

2.400.010 Discrimination and Harassment in Employment Practices

.01 A member would be presumed to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001] if a final determination, no longer subject to appeal, is made by a court or an administrative agency of competent jurisdiction that a member has violated any antidiscrimination laws of the United States, state, or municipality, including those related to sexual and other forms of harassment. [Prior reference: paragraph .03 of ET section 501]

2.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers

.01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001].

2.400.030 Failure to File a Tax Return or Pay a Tax Liability

.01 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 for the member's employer 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 may be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001].

2.400.040 Negligence in the Preparation of Financial Statements or Records

.01 A member shall be considered in violation of the "Acts Discreditable Rule" [2.400.001] 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.

2.400.050 Governmental Bodies, Commissions, or Other Regulatory Agencies

.01 Many governmental bodies, commissions, or other regulatory agencies have established requirements, such as standards, guides, rules, and regulations, that members are required to follow in the preparation of financial statements or related information. For example, the SEC, the Federal Communications Commission, state insurance commissions, and other regulatory agencies have established such requirements.

.02 If a member prepares financial statements or related information (for example, management's discussion and analysis) for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations in addition to the applicable financial reporting framework.

.03 A member's material departure from such requirements would be considered a violation of the "Acts Discreditable Rule" [2.400.001] unless the member discloses

in the financial statements or related information that such requirements were not followed and the applicable reasons.

2.400.060 Indemnification and Limitation of Liability Provisions

.01 Certain governmental bodies, commissions, or other regulatory agencies (collectively, regulators) have established requirements through laws, regulations, or published interpretations that

- a. prohibit entities subject to their regulation (regulated entity) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest services that are required by such regulators; or
- b. provide that the existence of such provisions disqualifies a member from rendering such services to these entities.

For example, federal banking regulators, state insurance commissions, and the SEC have established such requirements.

.02 If a member enters into, or directs or knowingly permits another individual to enter into, a contract for the performance of audit or other attest services that are subject to the requirements of these regulators, the member should not include, or knowingly permit or direct another individual to include, an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements or disqualify a member from providing such services to the regulated entity. A member who enters into or directs or knowingly permits another individual to enter into, such an agreement for the performance of audit or other attest services would be considered in violation of the “Acts Discreditable Rule” [2.400.001].

2.400.070 Confidential Information Obtained from Employment or Volunteer Activities

.01 A member should maintain the confidentiality of his or her employer’s 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).

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member. The

member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

.04 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

.05 A member would be considered in violation of the "Acts Discreditable Rule" [2.400.001] if the 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.

.06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
 - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
 - ii. protect the member's professional interests in legal proceedings;
 - iii. comply with professional standards and other ethics requirements; or
 - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.
- d. Disclosure is permitted on behalf of the employer to

- i. obtain financing with lenders;
- ii. communicate with vendors, clients, and customers; or
- iii. communicate with the employer's external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

.09 Refer to the "Subordination of Judgment" interpretation [2.130.020] of the "Integrity and Objectivity."

Part 3

Other Members

3.000 Introduction

.01 Part 3 of the Code of Professional Conduct (the code) applies to members who are not in public practice and are not members in business. Accordingly, when the term member is used in part 3 of the code, the requirements apply only to such members.

3.000.030 Applicability

.01 Part 3 of the code applies to members who are neither members in public practice nor members in business, for example members who are retired or not currently employed. These members are subject to the "Acts Discreditable Rule" [3.400.001].

3.400 Acts Discreditable

3.400.001 Acts Discreditable Rule

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

Interpretations Under the Acts Discreditable Rule

3.400.010 Discrimination and Harassment in Employment Practices

.01 A member would be presumed to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [3.400.001] if a final determination, no longer subject to appeal, is made by a court or an administrative agency of competent jurisdiction that a member has violated any antidiscrimination laws of the United States, state, or municipality, including those related to sexual and other forms of harassment. [Prior reference: paragraph .03 of ET section 501]

3.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers

.01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [3.400.001]. [Prior reference: paragraph .07 of ET section 501]

3.400.030 Failure to File a Tax Return or Pay a Tax Liability

.01 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 (b) the timely remittance of all payroll and other taxes.

3.400.070 Confidential Information Obtained from Former Employment or Previous Volunteer Activities

.01 A member should maintain the confidentiality of his or her former employer's 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 previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member worked in a volunteer capacity).

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the former employer or any organization for whom the member may have worked in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member.

.04 A member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

.05 A member would be considered in violation of the "Acts Discreditable Rule" [3.400.001] if the member discloses or uses any confidential employer information acquired as a result of former employment or volunteer relationships without the proper authority or specific consent of the former employer 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.

.06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the former employer.
- b. Disclosure is required by law, for example, to
 - i. comply with a validly issued and enforceable subpoena or summons or
 - ii. inform the appropriate public authorities of violations of law that have been discovered.

c. There is a professional responsibility or right to disclose information, when not prohibited by law, to

- i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
- ii. protect the member's professional interests in legal proceedings;
- iii. comply with professional standards and other ethics requirements; or
- iv. report potential concerns regarding questionable accounting, auditing, or other matters to the former employer's confidential complaint hotline or those charged with governance.

d. Disclosure is permitted on behalf of the former employer to

- i. obtain financing with lenders;
- ii. communicate with the former employer's external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.



**“You can correct my spelling and grammar,
but my ethics are none of your business!”**

Section 2

Arizona Accountancy Statutes and Administrative Code

Before we begin our review of the Arizona accountancy laws, it's important to emphasize that every Arizona CPA should periodically visit the Arizona State Board of Accountancy website (<https://www.azaccountancy.gov>). Registrants should be aware that several major changes to the Arizona accountancy laws were enacted in 2018 and they may affect you or your firm.

- The first major changes were to the Administrative Code. These changes, effective January 1, 2018 include:

- Adoption by reference of the AICPA Code of Professional Conduct
- Changes to the Peer Review program to conform with the AICPA Peer Review program

- The second round of changes to the Arizona Revised Statutes passed by the Arizona Legislature were effective August 3, 2018. Per the Senate's executive summary:

"Laws 2018, Chapter 268, SB 1443 ... is a collaborative work product of the Arizona Society of CPA's, the Arizona State Board of Accountancy (Board), and the Board's Law Review Advisory Committee. SB 1443 reduces regulation, fosters lean government, improves customer service, and supports the Board's mission to protect the public."

All of the changes enacted in 2018 are in the materials. However, there may be additional clarifications enacted in the future, so (again) it's important that you visit the Board's website to check for updates. Information from the Board can be found on their website's home page under "News and Updates."

Changes to the Administrative Code

Latest Change - Effective February 4, 2019

In February 2019 the Accountancy Board published new rules that impact CPE. The topics include:

- CPE Reciprocity
- Nano-Learning CPE
- CPE Credit Increments

- Reporting CPE for Renewal
- CPE Record Retention

A summary sent to all registrants (by email), is included in the Supplemental Materials located at the back of the course materials.

Code of Conduct ... "Board's Professional Conduct rules have been amended to incorporate in part the American Institute of Certified Public Accountants (AICPA) Code of Conduct and Professional Standards (Code). Continuing Professional Education Standards were not incorporated by reference. The AICPA sets ethical standards for the profession and U.S. auditing standards for private companies, nonprofit organizations, federal, state and local governments. It is not efficient nor effective for the Board to promulgate its own standards, as these may be redundant or contradictory to the AICPA. The incorporation by reference of the AICPA standards reduces the regulatory burden while achieving the same objective by ensuring that the accounting community only has one set of standards by which it is regulated. More than 37 jurisdictions have adopted the Code in full or in part. Please note that both AICPA members and non-members will be subject to the AICPA Code of Conduct and Professional Standards."

Peer Review ... " The Board's peer review rules have been amended to make them consistent with the American Institute of Certified Public Accountants' (AICPA) peer review program. The AICPA peer review program subjects non-disclosure compilations to peer review, whereas, the Board's rules did not. Rather, the Board's rules subjected non-disclosure compilations to an Educational Enhancement Review (EER). The rules have been amended to repeal the EER process and make non-disclosure compilations subject to peer review. (Note: This is effective for non-disclosure compilations with a period ending on or after January 1, 2018 making them subject to peer review rather than Educational Enhancement Review). This change will make the Board consistent with 47 of the 54 states of the United States and its territories that require peer review of non-disclosure compilations. The new rule will also require that firms allow the peer review administering entity to make peer review documents accessible to the Board via the AICPA Facilitated State Board Access (FSBA). This will reduce the need for firms to provide results via hard copy to the Board."

Changes to the Statute

On April 27, 2018 the state legislature passed SB1443, dubbed the "CPA Bill." The bill was effective as of August 3, 2018. The bill is extensive and adopts many changes, clarifications and additions to the Arizona Revised Statutes that pertain to CPAs. The course materials have been updated to reflect the changes. An executive summary is included in the Supplemental Materials.

One change is particularly important. Previously, a sole practitioner would only have to register as a firm if they performed attest services. SB1443 changes that to include compilations. So, if a sole practitioner performs no attest services, but does prepare compilations, that sole practitioner would have to register as a firm.

The Board has disseminated summary information on the changes enacted by SB1443. This is included in the course materials. Also, a redlined version of the bill is available at <https://legiscan.com/AZ/text/SB1443/2018>.

The past two years have been quite "busy" for the Accountancy Board and the legislature. Only major changes can be covered in any ethics class, so please take some time to revisit the areas of the Statute or Administrative Code that are relevant to you or your firm.

Top Reasons for Discipline

- Failure to exercise due care or comply with standards (Tax and A&A)
- Failure to cooperate with or timely respond to the Board or its investigative committees
- Unlawful use of the CPA designation; dishonestly in obtaining a certificate
- CPE violations
- Peer reviews (successive failures)

Provision of Professional Services to Medical Marijuana Dispensaries by Arizona CPAs (March 2016)

Issue:

Chapter 28 of Title 36, Public Health and Safety of the Arizona Revised Statutes ("ARS"), entitled Arizona Medical Marijuana Act, legalizes in the State of Arizona the sale and use of medical marijuana which such sale being authorized through registered nonprofit medical marijuana dispensaries. Title 9, Health Services, Chapter 17, Department of Health Services Medical Marijuana Program of the Arizona Administrative Code, authorized by ARS 36-2803 provides regulations that medical marijuana dispensaries must abide by. Rule R9-17-308 (B)(4) states that to renew the license of a medical marijuana dispensary, such entity must provide, "A report of an audit by an independent certified public accountant of the annual financial statements required in subsection (B)(3)."

However, the sale of marijuana, whether for medicinal purposes or recreational purposes, is still illegal under United States Federal Laws. Consequently, Arizona CPA's have questioned whether the provision of the aforementioned audit services as well as other accounting services by Arizona CPA registrants would be considered an act discreditable should they provide such services to such entities. For purposes of this white paper, the term accounting services should be considered as defined within ARS 32-701 to mean:

“services that are commonly and historically performed by accountants, including recording or summarizing financial transactions, bookkeeping, analyzing or verifying financial information, auditing, reviewing or compiling financial statements, reporting financial results, financial planning, providing attestation or tax or consulting services.”

Conclusion:

The authorized sale of medical marijuana is legal in the State of Arizona and the State of Arizona has mandated that such sale be performed by licensed and regulated medical marijuana dispensaries. Further, the State of Arizona has mandated that to renew their license such medical marijuana dispensaries must retain a certified public accountant to perform an audit of the financial statements of such entity. The Arizona Board of Accountancy recognizes that while the state of Arizona has a law that legalizes the sale of medical marijuana, the Federal Government does not have such a law. As there is a dichotomy between Federal and Arizona law, the Arizona Board of Accountancy can make no determination of how such a conflict might ultimately affect a medical marijuana dispensary or any of its service providers. Hence, the Arizona Board of Accountancy has concluded that during the contemplation of acceptance of any accounting services engagement for a medical marijuana dispensary, an Arizona registrant should diligently evaluate and address the potential risks and uncertainties associated with providing such services. Registrants should carefully consider the criteria provided in auditing standards and other professional materials, as well as professional guidance specifically related to providing services to the medical marijuana industry. Further, the Arizona Board of Accountancy has concluded that merely accepting an engagement to provide accounting services to a medical marijuana dispensary does not, on its face, constitute an act discreditable to the profession and it will not pursue independent disciplinary action against an Arizona CPA registrant based solely on such acceptance.

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“When I grow up I want to be an accountant.”

Introduction

In this section, you will learn about the Arizona Accountancy Statutes and Administrative Code. Together, these comprise the state accountancy laws that Arizona CPAs must follow.

Learning Objectives

At the end of this section you will be able to:

- Know the difference between the Arizona Accountancy Statutes and Administrative Code.
- Correlate the Arizona Statutes and Administrative Code to the AICPA Code of Professional Conduct.
- Recognize recently introduced requirements.
- Apply various elements of the accountancy law to yourself or your practice.

Note: Please remember that the materials in this section list highlights only. The full text of the Arizona Statutes and Administrative Code can be found at: <http://www.azaccountancy.gov/>

The Mission of the Arizona Board of Accountancy:

The Board of Accountancy provides assurance to the public that the CPA profession in Arizona operates at the highest level of professional competence through...

- Verification of education and experience credentials
- Monitoring the requirements for continuing education
- Investigation of consumer complaints

We also serve CPA professionals and applicants to the profession by providing complete information and prompt processing of...

- CPA examination applications
- Administration of the computer based Uniform CPA Exam
- Certification and registration of CPAs

Arizona Accountancy Statutes

Arizona CPAs are required to comply with the laws set forth by the State Legislature. When these laws conflict with any other rules or regulations, Arizona law prevails. It is essential for CPAs to follow the letter of the law or risk disciplinary action or loss of license.

By establishing the Arizona Accountancy Statutes, the Legislature created the framework for the licensing and regulation of both Certified Public Accountants and Public Accountants in Arizona.

The Statute consists of three articles:

- **Article 1. Board of Accountancy** - §32-701 thru 32-707
- **Article 2. Certification and Registration** - §32-721 thru 32-735
- **Article 3. Regulation of Certified Public Accountants** - §32-741 thru 32-751

Individual section titles are listed in the Index, which is located at the beginning of the Statute.

Article 1 – Board of Accountancy

§32-701. Definitions

In this chapter, unless the context otherwise requires:

1. "Accounting services" means services that are commonly and historically performed by accountants, including recording or summarizing financial transactions, bookkeeping, analyzing or verifying financial information, reporting financial results, financial planning or providing attest services, compilation services, tax services or consulting services.
2. "Accredited institution" means any public or private regionally or nationally accredited college or university that is accredited by an organization recognized by the council for higher education accreditation or its successor agency.
3. "Attest services" means the following services to be performed by the holder of a certificate issued by the board:
 - (a) Audits or other engagements to be performed in accordance with the statements on auditing standards adopted by the American institute of certified public accountants.

(b) Reviews of financial statements to be performed in accordance with the statements on standards for accounting and review services adopted by the American institute of certified public accountants.

(c) Any examination of prospective financial information to be performed in accordance with the statements on standards for attestation engagements adopted by the American institute of certified public accountants.

(d) Any engagement to be performed in accordance with the standards of the public company accounting oversight board or its successor.

(e) Any examination, review or agreed on procedure engagement to be performed in accordance with the statements on standards for attestation engagements adopted by the American institute of certified public accountants, other than an examination described in subdivision (c) of this paragraph.

4. "Board" means the Arizona state board of accountancy established by section 32-702.

5. "Business organization" means a partnership, professional corporation, professional limited liability company, limited liability company or limited liability partnership or any other entity that is recognized by the board and that is established under the laws of any state or foreign country.

6. "Certified public accountant" means an individual who has been issued a certificate of authority by the board to practice as a certified public accountant or who meets the limited reciprocity privilege requirements pursuant to section 32-725.

7. "Client" means a person or entity, other than one's employer, for whom accounting services are provided.

8. "Compilation services" means providing a service of any compilation engagement to be performed in accordance with the statements on standards for accounting and review services.

9. "Consulting services" includes management advisory services, litigation support services, valuation services and other services that require the use of technical skills, education, observation, experience and knowledge to develop an analytical approach to process and to present findings, conclusions or recommendations.

10. "Conviction" means a judgment of conviction by any state or federal court of competent jurisdiction in a criminal cause, regardless of whether an appeal is pending or could be taken, and includes any judgment or order based on a plea of no contest.

11. "CPA designation" means the title "certified public accountant" or any abbreviation or grammatical derivative of the term "certified public accountant".

12. "Disciplinary action" means any other regulatory sanctions imposed by the board in combination with, or as an alternative to, relinquishment, revocation or suspension of a certificate or registration, including the imposition of:

(a) An administrative penalty in an amount not to exceed two thousand dollars for each violation of this chapter or rules adopted pursuant to this chapter.

(b) Restrictions on the scope of the registrant's practice of accounting.

(c) Pre-issuance and post-issuance peer review.

(d) Professional education requirements.

(e) A decree of censure.

(f) Probation requirements best adapted to protect the public welfare.

(g) Reimbursement of the board's costs of investigations and proceedings initiated under this chapter, including attorney fees.

(h) A requirement for restitution payments to accounting services clients or to other persons suffering economic loss resulting from violations of this chapter or rules adopted pursuant to this chapter.

13. "Employer" means a person or entity that hires an individual to perform a service and that directs and controls the manner in which the service is performed.

14. "Federal securities laws" means the securities act of 1933, the securities exchange act of 1934, the public utility holding company act of 1935 and the investment company act of 1940, as amended.

15. "Financial statements":

(a) Means statements and footnotes related to statements that purport to show a financial position or changes in a financial position in conformity with generally accepted accounting principles or other comprehensive basis of accounting.

(b) Includes balance sheets, statements of income, statements of retained earnings, statements of cash flows, statements of changes in equity and other commonly used or recognized summaries of financial information.

(c) Does not include tax returns or information contained in tax returns.

16. "Firm" means a business organization, a sole proprietorship or an individual who is registered pursuant to section 32-731.

17. "Good cause" means factors that temporarily prevent a registrant from satisfying a particular requirement in a specific instance as determined by the board and may include:

(a) A disability.

(b) An illness.

(c) A physical or mental condition.

(d) Military service.

(e) Financial hardship.

(f) A natural disaster.

(g) Any condition or circumstance that the board deems relevant.

18. "Jurisdiction" means, for the purposes of examination, certification, firm registration or limited reciprocity privilege, the fifty states of the United States, the District of Columbia, the United States Virgin Islands, Guam, the Commonwealth of the northern Mariana Islands or the Commonwealth of Puerto Rico.

19. "Letter of concern" means an advisory letter to notify a registrant that, while the evidence does not warrant disciplinary action, the board believes that the registrant should modify or eliminate certain practices and that continuation of the activities that led to the evidence being submitted to the board may result in board action against the registrant. A letter of concern is not a disciplinary action.

20. "Limited reciprocity privilege" means the permission to practice as a certified public accountant in this state pursuant to section 32-725 for an individual whose principal place of business is outside of this state.

21. "Management advisory services" means advisory services consisting of the development of findings, conclusions or recommendations for the recipient's consideration and decision making.

22. "Office" for the purposes of firm registration, limited reciprocity privilege and fees, means any physical location used in the practice of accounting in this state

and that is owned, leased, licensed for use or maintained by the firm or someone under the firm's authority.

23. "Practice of accounting" means providing accounting services for a client or an employer.

24. "Registrant" means any certified public accountant or firm that is registered with the board.

25. "Related courses" means:

(a) Business administration.

(b) Statistics.

(c) Computer science, information systems or data processing.

(d) Economics.

(e) Finance.

(f) Management.

(g) Business law.

(h) College algebra or more advanced mathematics.

(i) Advanced written communication.

(j) Advanced oral communication.

(k) General ethics.

(l) Marketing.

(m) Other courses closely related to the subject of accounting and satisfactory to the board.

26. "Sole proprietor" means the owner of a sole proprietorship.

27. "Sole proprietorship" means a business that is owned by one individual and that does not have a legal distinction between the owner and the business.

§32-702. Arizona state board of accountancy; membership; administrative duties; compensation

- A. The Arizona state board of accountancy is established to administer and enforce this chapter.
- B. The board consists of seven members who are residents of this state and who are appointed by the governor as follows:
1. Five members who currently hold valid certificates issued pursuant to this chapter. At least three of these members must be in active public practice as certified public accountants. No more than one of these members may be from the same firm. If a member's certificate is on probation, revoked or suspended, the member's appointment automatically terminates and the position becomes vacant.
 2. Two public members who do not hold a certificate issued pursuant to this chapter but who have professional or practical experience in using accounting services and financial statements and who are qualified to make judgments about the qualifications and conduct of persons and firms subject to this chapter.
- C. The term of office of members of the board is five years, beginning and ending on July 3, except that the governor may remove any member for neglect of duty or other just cause. The governor shall fill vacancies by appointment for the unexpired term. A person who has served a complete term is not eligible for reappointment for a period of one year.
- D. The board shall annually elect a president, secretary and treasurer from among its members. The president, secretary or treasurer may sign and approve claims filed against the board of accountancy fund to pay expenses incurred under this chapter.
- E. The board shall have a seal that shall be judicially noticed.
- F. The board shall retain or provide for retention of the following according to its retention schedule pursuant to section 41-151.19:
1. All documents under oath that are filed with the board.
 2. Records of its proceedings.
- G. Each member of the board or member of an accounting and auditing, tax, peer review, law, certification or continuing professional education committee appointed by the board pursuant to section 32-703, subsection B, paragraph 10 is eligible for compensation of one hundred dollars for each day or part of a day

spent, plus reimbursement for the member's actual and necessary expenses incurred, in discharging the member's official duties.

§32-703. Powers and duties; rules; executive director; advisory committees and persons

A. The primary duty of the board is to protect the public from unlawful, incompetent, unqualified or unprofessional certified public accountants through certification, regulation and rehabilitation.

B. The board may:

1. Investigate complaints filed with the board or on its own motion to determine whether a certified public accountant has engaged in conduct in violation of this chapter or rules adopted pursuant to this chapter.
2. Establish and maintain high standards of competence, independence and integrity in the practice of accounting by a certified public accountant as required by generally accepted auditing standards and generally accepted accounting principles and, in the case of publicly held corporations or enterprises offering securities for sale, in accordance with state or federal securities agency accounting requirements.
3. Establish reporting requirements that require registrants to report:
 - (a) The imposition of any discipline on the right to practice before the federal securities and exchange commission, the internal revenue service, any state board of accountancy, other government agencies or the public company accounting oversight board.
 - (b) Any criminal conviction, any civil judgment involving negligence in the practice of accounting by a certified public accountant and any judgment or order as described in section 32-741, subsection A, paragraphs 7 and 8.
4. Establish basic requirements for continuing professional education of certified public accountants, except that the requirements shall not exceed eighty hours in any registration renewal period.
5. Adopt procedures concerning disciplinary actions, administrative hearings and consent decisions.
6. Issue to qualified applicants certificates executed for and on behalf of the board by the signatures of the president and secretary of the board.
7. Adopt procedures and rules to administer this chapter.

8. Require peer review pursuant to rules adopted by the board on a general and random basis of the professional work of a registrant engaged in the practice of accounting.

9. Subject to title 41, chapter 4, article 4, employ an executive director and other personnel that it considers necessary to administer and enforce this chapter.

10. Appoint accounting and auditing, tax, peer review, law, certification, continuing professional education or other committees or individuals as it considers necessary to advise or assist the board or the board's executive director in administering and enforcing this chapter. These committees and individuals serve at the pleasure of the board.

11. Take all action that is necessary and proper to effectuate the purposes of this chapter.

12. Sue and be sued in its official name as an agency of this state.

13. Adopt and amend rules concerning the definition of terms, the orderly conduct of the board's affairs and the effective administration of this chapter.

14. Delegate to the executive director the authority to:

(a) Approve an applicant to take the uniform certified public accountant examination pursuant to section 32-723.

(b) Issue a certificate of certified public accountant pursuant to section 32-721.

(c) Approve an application for firm registration pursuant to section 32-731.

(d) Approve a registrant's name change and reissue a certificate of certified public accountant due to the name change.

(e) Approve a registrant's cancellation request pursuant to section 32-730.02.

(f) Approve a request for retired status pursuant to section 32-730.04.

(g) Approve reactivation from inactive status or retired status pursuant to section 32-732.

(h) Approve compliance with peer review requirements pursuant to this section.

(i) Approve compliance with continuing professional education audits.

(j) Approve continuing professional education compliance with decisions and orders.

(k) Terminate decisions and orders based on a registrant's successful completion of all order requirements.

C. The board or an authorized agent of the board may:

1. Issue subpoenas to compel the attendance of witnesses or the production of documents. If a subpoena is disobeyed, the board may invoke the aid of any court in requiring the attendance and testimony of witnesses and the production of documents.

2. Administer oaths and take testimony.

3. Cooperate with the appropriate authorities in other jurisdictions in investigation and enforcement concerning violations of this chapter and comparable statutes of other jurisdictions.

4. Receive evidence concerning all matters within the scope of this chapter.

*The **primary duty of the board** is to protect the public from unlawful, incompetent, unqualified or unprofessional certified public accountants through certification, regulation and rehabilitation.*

I've been asked: Why is the primary duty of the Board of Accountancy couched in such "negative" terms?

Response – If the primary duty of the Board of Accountancy is to protect the public. Legislation must specify what, or who, the Board is protecting the public from.

Article 2 – Certification and Registration

Article 2 establishes the qualifications for becoming a Certified Public Accountant. Included in those requirements in §32-721 are:

Meets the following character and fitness requirements:

- (a) Is at least eighteen years of age.
- (b) Is of good moral character.
- (c) Has not engaged in any conduct that would constitute grounds for revocation or suspension of a certificate or other disciplinary action pursuant to section §32-741 (disciplinary proceedings).

The term “good moral character” is mentioned several times in the Statutes. The concept is also used in the AICPA Code of Professional conduct principles - Responsibilities: “In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.”

§32-725. Limited reciprocity; qualifications; definition

A. The limited reciprocity privilege may be exercised by an individual who is not a resident of this state and who meets the requirements of this section.

B. To qualify to exercise the limited reciprocity privilege, an individual must:

1. Have a principal place of business that is not in this state.
2. Not have or represent to have an office in this state.
3. Not be the subject of suspension or revocation of a certificate as provided by section 32-741 or relinquishment of a certificate as provided by section 32-730.06.
4. Hold a valid registration, certificate or license as a certified public accountant issued by another jurisdiction and either of the following applies:
 - (a) The other jurisdiction requires as a condition of licensure that an individual has all of the following:
 - (i) At least one hundred fifty semester hours of college education, including a baccalaureate degree or a higher degree that is conferred by an accredited institution or a college or university that maintains standards that are comparable to those of an accredited institution.
 - (ii) A passing grade on the uniform certified public accountant examination.
 - (iii) At least one year of experience in the practice of accounting that has been verified.
 - (b) The individual meets the qualifications prescribed in section 32-721, subsection C.

C. An individual qualifying for limited reciprocity privilege under this section is considered to have qualifications that are substantially equivalent to the requirements prescribed pursuant to this chapter and has all of the privileges of registrants, certificate holders or licensees in this state without obtaining a registration, certificate or license under this chapter.

D. An individual qualifying for limited reciprocity privilege under this section may use the CPA designation and may offer or practice accounting in person or by mail, telephone or electronic means. A notice, fee or other submission is not required. The individual is subject to the requirements prescribed in subsection E of this section.

E. Each individual who holds a registration, certificate or license issued by another jurisdiction and who exercises the limited reciprocity privilege and each partnership, corporation or other entity engaging in the practice of accounting as provided by this section, as a condition of exercising the privilege provided by this section:

1. Shall:

(a) Comply with article 3 of this chapter and rules adopted pursuant to article 3 of this chapter. In any investigation or other proceedings conducted pursuant to article 3 of this chapter, an individual claiming permission to practice as a certified public accountant in this state under the limited reciprocity privilege has the burden of demonstrating that the applicable requirements of subsection B of this section have been satisfied.

(b) Cease the offering or practicing of accounting in person or by mail, telephone or electronic means in this state if the individual no longer satisfies the requirements of subsection B of this section or the partnership, corporation or other entity no longer satisfies the requirements of subsection G of this section.

2. Is subject to:

(a) The personal and subject matter jurisdiction of the board and the power of the board to investigate complaints and take disciplinary action.

(b) Service by either of the following:

(i) The appointment of the state board that issued the registration, certificate or license to the individual as agent, on whom process may be served in any action or proceeding against the person by the board.

(ii) Directly on the person.

F. Any individual who holds a valid registration, certificate or license as a certified public accountant issued by another jurisdiction or a foreign country, whose principal place of business is not in this state and who does not otherwise qualify under this section for limited reciprocity privilege may enter this state and provide services if the services are limited to the following:

1. Expert witness services.

2. Teaching or lecturing.
3. Other services as determined by the board.

G. A partnership, corporation or other entity formed under the laws of another jurisdiction relating to the practice of accounting in that jurisdiction may use the CPA designation in this state and may engage in the practice of accounting in this state, including the provision of attest services, without having to register as a firm if all of the following apply:

1. The partnership, corporation or other entity is owned by or employs an individual who is a limited reciprocity privilege holder pursuant to this section.
2. The partnership, corporation or other entity is in good standing in its principal place of business under the laws of that jurisdiction relating to the practice of accounting.
3. The principal place of business of the limited reciprocity privilege holder is a recognized place of business for the practice of accounting by the partnership, corporation or other entity.
4. The partnership, corporation or other entity does not have an office in this state and does not represent that it has an office in this state.
5. The partnership, corporation or other entity holds an active permit or registration as a certified public accountant firm in another jurisdiction.
6. The practice of accounting is performed by or under the direct supervision of an individual who is qualified for the limited reciprocity privilege under this section.

H. For the purposes of this section, "principal place of business" means the office designated by the individual or firm as the principal location for the individual's or firm's practice of accounting.

§32-730. Biennial registration; continuing education

A. Except as provided in subsection B of this section and in section 32-4301, the board shall require every certified public accountant and firm to register once every two years with the board and pay a registration fee pursuant to section 32-729.

B. The registration fee for certified public accountants may be reduced or waived by the board for registrants with a disability to a degree precluding the continuance of their practice for six months or more prior to the due date of any renewal fee.

C. At the time of registration, every certified public accountant, as a prerequisite to biennial registration, shall submit to the board satisfactory proof in a manner prescribed by the board that the registrant has completed the continuing professional education requirements established by the board. The board may grant a full or partial exemption from continuing professional education requirements or an extension of time to complete the continuing professional education requirements for registrants on a demonstration of good cause.

§32-730.01. Inactive status; exception

A. A registrant who meets all of the following requirements may request that the registrant's certificate be placed on inactive status:

1. Completes the forms prescribed by the board.
2. Does not provide attest or compilation services in this state.
3. Does not provide accounting services for a fee or other compensation in this state.
4. Does not have a certificate under a disciplinary order by the board, except for suspension for nonregistration pursuant to section 32-741.01.
5. Does not have disciplinary proceedings initiated against the registrant.

B. A registrant whose certificate is on inactive status:

1. Shall continue to register once every two years with the board and pay fifty percent of the registration fee and one hundred percent of any applicable late fee pursuant to section 32-729.
2. Shall not do any of the following:
 - (a) Provide attest or compilation services in this state.
 - (b) Provide accounting services for a fee or other compensation in this state.
 - (c) Assume or use the CPA designation in this state unless accompanied by the word "inactive".

C. A registrant may reactivate an inactive certificate only once.

D. A certificate expires if it has been inactive for more than six years.

E. Subsections C and D of this section do not apply if inactive status is approved by the board for good cause based on a registrant's disability.

§32-730.02. Canceled status

A. A registrant may cancel a certificate or registration by submitting a written request on a form prescribed by the board. A registrant whose certificate or registration is under a disciplinary order by the board, except for suspension for nonregistration pursuant to section 32-741.01, or against whom disciplinary proceedings have been initiated may not cancel the certificate or registration.

B. An individual whose certificate has been canceled shall not assume or use the CPA designation while the certificate remains on canceled status unless the individual qualifies for limited reciprocity privilege pursuant to section 32-725.

§32-730.03. Expired status

A. A registrant's certificate or registration is expired if the registrant fails to reinstate the certificate or registration within twelve months after it has been suspended pursuant to section 32-741.01 or 32-741.02 or fails to reinstate a certificate that has been on inactive status pursuant to section 32-730.01 for more than six years.

B. An individual whose certificate has expired shall not assume or use the CPA designation while the certificate remains on expired status unless the individual qualifies for limited reciprocity privilege pursuant to section 32-725.

§32-730.04. Retired status

A. A registrant who meets all of the following requirements may request that the registrant's certificate be placed on retired status:

1. Completes the forms prescribed by the board.
2. Is at least fifty-five years of age.
3. Has been a certified public accountant in one or more jurisdictions for at least twenty years.
4. Does not have a certificate under a disciplinary order by the board, except for suspension for nonregistration pursuant to section 32-741.01.
5. Does not have disciplinary proceedings initiated against the registrant.
6. Does not provide attest or compilation services.

7. Does not provide accounting services for a fee or other compensation in this state.

B. A registrant whose certificate is on retired status:

1. Shall continue to register once every two years with the board and pay a registration fee and all of an applicable late fee as prescribed by section 32-729.

2. Shall not do any of the following:

(a) Provide attest or compilation services.

(b) Provide accounting services for a fee or other compensation in this state.

(c) Assume or use the CPA designation in this state unless accompanied by the word "retired" or the abbreviation "RET".

§32-730.05. Revoked status

An individual whose certificate has been revoked shall not assume or use the CPA designation.

§32-730.06. Relinquished status

A. A registrant may relinquish a certificate or firm registration pending or in lieu of an investigation or disciplinary proceeding or while under a disciplinary order. The board shall consider a relinquishment tendered by a registrant pursuant to this section and shall determine whether to accept the relinquishment. The board shall issue an order documenting its decision.

B. An individual whose certificate, or an individual, sole proprietor or business organization whose firm registration, has been relinquished shall not assume or use the CPA designation.

C. If the board accepts the relinquishment of a certificate of a certified public accountant or registration of a firm, the registrant shall acknowledge that disciplinary proceedings have been initiated against the registrant pursuant to article 3 of this chapter and that the registrant relinquishes the right to practice accounting as a certified public accountant or firm in this state. The registrant shall acknowledge that the registrant understands both of the following:

1. If the registrant chooses to apply for a new certificate or firm registration, the registrant shall meet all requirements for certification or firm registration pursuant to section 32-731.

2. In deciding whether to issue a new certificate or firm registration to the registrant, the board will consider all disciplinary actions currently pending against the registrant and any other matters it determines to be appropriate.

§32-731. Certified public accountant firm registration requirements; performance of attest services and compilation services; definition

A. Except as provided in section 32-725, subsection G, once every two years each of the following shall pay the registration fee pursuant to section 32-729 and register with the board as a firm:

1. A business organization that meets all of the following criteria:

(a) Has a simple majority of the ownership, in terms of direct and indirect financial interests and voting rights, that belong to holders in good standing of certificates or licenses as certified public accountants in any jurisdiction.

(b) Has an office in this state.

(c) Either:

(i) Provides attest or compilation services.

(ii) Uses the CPA designation in its firm name.

2. A sole proprietorship that meets all of the following criteria:

(a) Has an owner that is a certified public accountant in good standing in this state.

(b) Has an office in this state.

(c) Either:

(i) Performs attest or compilation services.

(ii) Uses the CPA designation in its firm name, unless the firm name is the name of the sole proprietor as registered with the board.

3. An individual who meets both of the following criteria:

(a) Is a certified public accountant in good standing in this state.

(b) Performs attest or compilation services in this state, other than as an owner or employee of a sole proprietorship or business organization required to register

under paragraph 1 or 2 of this subsection or in the capacity as an employee of a governmental entity.

B. Attest or compilation services shall be provided only through a registered firm in good standing in this state. Any attest or compilation services reports issued by a firm must be signed by a person who is certified pursuant to this chapter or qualified to exercise the limited reciprocity privilege pursuant to section 32-725, subsection G.

C. An application or registration pursuant to this section shall be made by an owner of the firm who is a certified public accountant in good standing. A firm that is registered pursuant to this section may use the CPA designation in connection with its firm name as provided for by the board in its rules.

D. A firm that applies or registers pursuant to this section shall list in its application or registration all jurisdictions in which the firm has any disciplinary actions, other than for failure to timely renew a registration, license or permit, by any other jurisdiction.

E. Except as provided in subsection F of this section, an applicant for registration or a firm registered pursuant to this section shall notify the board in writing within one month of any change in owners that results in less than a simple majority of the ownership in terms of direct and indirect financial interests and voting rights that belong to holders in good standing of certificates or licenses as certified public accountants in any jurisdiction.

F. The board or the board's executive director may grant a reasonable period of time for the firm to take corrective action to maintain its qualifications as a firm.

G. Professional corporations composed of certified public accountants shall meet the requirements of title 10, chapter 20 and any additional nonconflicting requirements contained in this section.

H. Limited liability companies, professional limited liability companies and limited liability partnerships composed of certified public accountants shall meet the requirements of title 29, chapter 4 or 5 and any additional nonconflicting requirements contained in this section.

I. A registrant may not use any firm name other than the firm name that is registered with the board.

J. For the purposes of this section, "good standing" means:

1. For an individual, a status that allows the individual to use the CPA designation and to perform accounting services for a fee or other compensation.

2. For a firm, a status that allows the firm to use the CPA designation.

Regarding E. (above) How many of us have failed to meet this requirement at one time or another??

§32-732. Reactivation from inactive or retired status; reinstatement from canceled, expired, relinquished or revoked status

A. A certified public accountant with a certificate status of inactive or retired may request that the certified public accountant's certificate be reactivated if all of the following apply:

1. The registrant files an application for renewal on the form prescribed by the board and pays the registration fee pursuant to section 32-729.

2. The registrant submits proof that the registrant has satisfied continuing professional education requirements as prescribed by the board.

3. Either:

(a) The registrant affirms that the registrant has not engaged in any conduct during the period of time that the certificate was in inactive or retired status that would constitute a reason to revoke or suspend the certificate pursuant to section 32-741.

(b) The board determines that good cause exists for the conduct.

B. An individual with a certificate status of canceled, who does not qualify for certification by reciprocity pursuant to section 32-721, subsection C, may request that the individual's certificate be reinstated if all of the following apply:

1. The registrant files an application for reinstatement on the form prescribed by the board and pays the reinstatement application fee pursuant to section 32-729.

2. The registrant submits proof that the registrant has satisfied continuing professional education requirements as prescribed by the board.

3. Either:

(a) The registrant affirms that the individual has not engaged in any conduct during the period of time that the certificate was in canceled status that would constitute a reason to suspend or revoke pursuant to section 32-741.

(b) The board determines that good cause exists for the conduct.

4. On board approval of reinstatement, pays the registration fee pursuant to section 32-729.

C. An individual with a certificate status of expired, relinquished or revoked may request that the individual's certificate be reinstated if the individual meets all the following requirements:

1. The requirements prescribed by subsection B, paragraphs 1, 2 and 4 of this section.

2. Unless waived by a board relinquishment or revocation order, presents satisfactory evidence from an accredited institution or a college or university that maintains standards comparable to those of an accredited institution that the individual has completed at least one hundred fifty semester hours of education as follows:

(a) At least thirty-six semester hours of accounting courses of which at least thirty semester hours are upper-level courses.

(b) At least thirty semester hours of accounting-related courses.

3. If prescribed by a board relinquishment or revocation order, presents evidence that the individual has retaken and passed the uniform certified public accountant examination.

4. Demonstrates through substantial evidence presented to the board that the individual is completely rehabilitated with respect to the conduct that was pending or outstanding at the time the certificate was relinquished or revoked or that occurred before or after the certificate expired. Demonstration of rehabilitation includes evidence of the following:

(a) The individual has not engaged in any conduct that, if the individual had been registered during the period the conduct occurred, would have constituted a basis for revocation or suspension pursuant to section 32-741.

(b) The individual's civil rights have been fully restored pursuant to statute or an applicable recognized judicial or gubernatorial order with respect to any criminal conviction that constitutes any part of the basis for the relinquishment or revocation or that occurred before or after the certificate expired.

(c) The individual has addressed or remedied any complaints, investigations or board-ordered requirements that were pending or outstanding at the time of expiration, relinquishment or revocation.

(d) The individual has made restitution as ordered by the board or by a court of competent jurisdiction as a result of the individual's violation of this chapter or rules adopted pursuant to this chapter.

(e) Other evidence of rehabilitation that the board deems appropriate.

D. Except as otherwise provided in subsection C of this section, the board may not issue a certificate to an individual whose certificate has been revoked until five years after the effective date of revocation. If the revocation is based only on section 32-741, subsection A, paragraph 1 or 2 and the criminal conviction is ultimately reversed on appeal, the board shall enter an order vacating the revocation.

E. An individual, sole proprietor or business organization whose firm registration has been canceled may request that the firm registration be reinstated if the individual, sole proprietor or business organization does all of the following:

1. Files an application for reinstatement on the form prescribed by the board and pays the reinstatement application fee pursuant to section 32-729.
2. Meets the requirements of section 32-731.
3. On board approval of reinstatement, pays the registration fee pursuant to section 32-729.

F. An individual, sole proprietor or business organization whose firm registration has expired or been relinquished or revoked may request that the firm registration be reinstated if the individual, sole proprietor or business organization meets all of the following requirements:

1. The requirements prescribed by subsection E of this section.
2. Demonstrates through substantial evidence presented to the board that the firm is completely rehabilitated with respect to the conduct that was pending or outstanding at the time the registration was relinquished or revoked or that occurred before or after the registration expired. Demonstration of rehabilitation includes evidence of the following:
 - (a) The firm or any owner of the firm has not engaged in any conduct that, if the firm had been registered during the period the conduct occurred, would have constituted a basis for revocation or suspension pursuant to section 32-741.
 - (b) The firm has addressed or remedied any complaints, investigations or board-ordered requirements that were pending or outstanding at the time of expiration, relinquishment or revocation.

(c) The firm has made restitution as ordered by the board or by a court of competent jurisdiction as a result of any violation of this chapter or rules adopted pursuant to this chapter.

(d) Other evidence of rehabilitation that the board deems appropriate.

Article 3. Regulation of Certified Public Accountants

§32-741. Revocation or suspension of certificate; disciplinary action; letter of concern

A. After notice and an opportunity for a hearing, the board may revoke or suspend any certificate granted under this chapter and may take disciplinary action concerning the holder of any certificate for any of the following causes:

1. Conviction of a felony under the laws of any jurisdiction or of the United States if civil rights have not been restored pursuant to title 13, chapter 9 or other applicable recognized judicial or gubernatorial order.
2. Conviction of any crime that has a reasonable relationship to the practice of accounting by a certified public accountant, including crimes involving accounting or tax violations, dishonesty, fraud, misrepresentation, embezzlement, theft, forgery, perjury or breach of fiduciary duty, regardless of whether civil rights have been restored.
3. Fraud or deceit in obtaining a certificate as a certified public accountant under this chapter.
4. Dishonesty, fraud or gross or continuing negligence in the practice of accounting.
5. Discipline to the holder of any certificate or other authority to practice or refusal to renew the certificate or other authority to practice as a certified public accountant by any other jurisdiction or foreign country for any cause other than failure to pay license or registration fees.
6. Violation of any of the provisions of this chapter, of title 44, chapter 12, article 13 or of any fraud provisions of the federal securities laws.
7. Final judgment in a civil action if the court makes findings of accounting violations, dishonesty, fraud, misrepresentation or breach of fiduciary duty.
8. Final judgment or order in a civil action or administrative proceeding if the court or agency makes findings of violations of any fraud provisions of the laws of any jurisdiction or federal securities laws.

9. Violation of any decision, order or rule issued or adopted by the board.
10. Suspension or revocation for cause of the right to practice before the federal securities and exchange commission or any other governmental body or agency or the public company accounting oversight board or its successor.
11. Offering or accepting commissions or contingency fees for services rendered for clients for whom attest services are also offered or rendered in the performance of the practice of accounting unless:
 - (a) The fee is fixed by a court or another public authority.
 - (b) In a tax matter, the fee is determined based on the results of a judicial proceeding or the finding of a governmental agency.
12. Failing to disclose to a client that the registrant has received or expects to receive a commission from a third party for any engagement, services or product sales involving services other than attest services.
13. Making any false or misleading statement or verification in support of an application for a certificate, registration or permit filed by another person.
14. Making a false or misleading statement:
 - (a) To the board or its designated agent.
 - (b) On a form required by the board.
 - (c) In written correspondence to the board.
15. Failing to respond in writing or furnish information in a timely manner to the board or its designated agent, if the information is legally requested by the board and is in the registrant's possession or control.

B. Pursuant to title 41, chapter 6, article 10, the board may summarily suspend the certificate of any certified public accountant pending proceedings for revocation or other disciplinary action on the receipt of either of the following:

1. A notice of conviction of any crime that has a reasonable relationship to the practice of accounting, including crimes involving accounting or tax violations, dishonesty, fraud, misrepresentation, embezzlement, theft, forgery, perjury or breach of fiduciary duty or of any felony.

2. A final judgment or order in a civil action or administrative proceeding in which the court or agency made findings of violations of any fraud provisions of the laws of any jurisdiction or federal securities laws.

C. The board may take disciplinary action against a holder of a certificate issued pursuant to this chapter who is practicing accounting even if the person is not representing to the public that the person is a certified public accountant and even if the person is practicing accounting in a firm that is not registered by the board.

D. The board may issue a letter of concern if, in the opinion of the board, there is insufficient evidence to support disciplinary action against the registrant, but the board believes, as a result of information ascertained during an investigation, that continuation of the activities that led to the investigation may result in future board action against the registrant. A registrant may file a response with the board within thirty days after receipt of a letter of concern. Letters of concern issued by the board and records kept by the board in connection with investigations leading to letters of concern are confidential and are not public records.

§32-741.01. Suspension for nonregistration; expiration of certificate or registration

A. The certificate or registration of any registrant who fails to timely register and pay the biennial registration fee as required by section 32-729 is automatically suspended without prior notice or a hearing.

B. A registrant whose certificate or registration is suspended shall not assume or use the CPA designation while the registrant's certificate or registration remains on suspended status.

C. A suspension under this section is vacated when the board has determined that the registrant has paid all past due fees and has satisfied all other requirements for renewal.

D. If the registrant fails to renew the registrant's certificate or registration within three months after the date of suspension, the certificate or registration expires.

§32-741.02. Suspension for noncompliance with continuing education requirements; expiration of certificate

A. After notice and an opportunity for a hearing, the board shall suspend the certificate of any registrant who fails to show proof of compliance with the continuing professional education requirements established by the board pursuant to section 32-730.

B. A registrant whose certificate is suspended shall not assume or use the CPA designation while the registrant's certificate remains on suspended status.

C. A suspension issued under this section is vacated when the board has determined that the registrant has complied with the continuing professional education requirements and has satisfied all other requirements for renewal.

D. If the registrant fails to meet the requirements of subsection C of this section within six months after the date of suspension, the certificate expires.

§32-742. Revocation or suspension of firm's registration; failure to renew or reinstate; reinstatement; relinquishment

A. After notice and an opportunity for a hearing, the board shall revoke a firm's registration if at any time the firm does not have all the qualifications prescribed by this chapter and has not been granted an extension of time to comply with firm registration requirements pursuant to section 32-731, subsection F.

B. After notice and an opportunity for a hearing, the board may revoke or suspend a firm's registration or may take disciplinary action for any of the causes enumerated in section 32-741, subsection A or for any of the following additional causes:

1. The relinquishment, revocation or suspension of any certificate issued by the board to any owner of the firm. This paragraph does not apply to a suspension for nonregistration pursuant to section 32-741.01.

2. The failure to comply with section 32-731, subsection E

§32-742.01. Investigations

A. The board on its own motion, or on receiving a complaint or other information suggesting violations of this chapter or board rules, may conduct or direct an authorized committee to conduct an initial analysis which shall be completed before the board may open an investigation file pursuant to subsection B to determine whether reasonable cause exists to believe that there is a violation of this chapter or board rules. The board or its authorized committee may designate one or more persons of appropriate competence to assist the board in its initial analysis.

B. After an initial analysis if the board finds reasonable cause to believe there is a violation of this chapter or board rules, the board may direct that an investigation file be opened to determine if there is reasonable cause to institute disciplinary proceedings under this chapter. An investigation is not a prerequisite to disciplinary proceedings under this chapter if reasonable cause can be determined without an investigation.

C. To assist in the investigation, the board or an authorized committee may designate one or more persons of appropriate competence to be investigators. When completing an investigation, the investigator shall file a report with the board or an authorized committee. Based on the investigator's report, the board or authorized committee may request further investigation, hold voluntary investigative interviews, make appropriate recommendations for dismissal, letters of concern, consent orders or other disciplinary actions.

D. If the board does not find reasonable cause to believe that there is a violation of this chapter or board rules, the board shall close the investigation file.

Investigation process summary:

- Complaint
- Initial analysis
- Reasonable cause to believe there is a violation of rules
- Investigation file
- Investigation to determine if reasonable cause exists to institute disciplinary proceedings
- Disciplinary proceedings

How the Board Handles A Complaint: (Previously posted on the Board's website)

Every complaint the Board receives will be handled by its professional staff. Upon receipt, the Board promptly notifies the registrant (licensee) that a complaint has been filed. In most instances, the Board cannot effectively investigate cases that request the identity of the complaining party be kept confidential. In the event the Board institutes a formal disciplinary action against the licensee, it may be required to disclose the identity of the complaining party.

If your complaint concerns a matter outside the Arizona Board's jurisdiction, please contact the applicable State Board or Agency. If the Arizona Board has jurisdiction, it will communicate in writing the substance of your complaint to the licensee who is the subject of your complaint. Arizona law requires the Board to provide substantial evidence in order to sustain a disciplinary action and accordingly the investigative process can be lengthy. The Board will notify you in writing of the results of its investigation, once completed.

If after completing an investigation, the Board determines that a violation of the Accountancy Board statutes or rules has occurred, the Board will decide the appropriate disciplinary action to be taken. The Accountancy Board statutes and rules may be obtained through the Board's Web site.

§32-743. Hearings; judicial review

A. The board may initiate proceedings under this chapter, for cause, either on its own motion or a verified complaint pursuant to title 41, chapter 6, article 10.

B. A written notice stating the nature of the charge or charges against the holder of a certificate and the time and place of the hearing before the board on the charges shall be served not less than twenty days prior to the date of the hearing either personally or by mailing a copy of the notice, certified mail, to the address last known to the board.

C. If, after having been served with the notice of hearing, the person fails to appear at the hearing and defend, the board may proceed to hear evidence against the person and may enter such order as shall be justified by the evidence.

D. At all hearings the attorney general of this state, one of the attorney general's assistants or a special assistant designated by the attorney general shall appear and represent the board.

E. The decision of the board shall be by majority vote. Any person aggrieved by the decision may file a motion for a rehearing pursuant to title 41, chapter 6, article 10.

F. Except as provided in section 41-1092.08, subsection H, the board's final decision is subject to judicial review pursuant to title 12, chapter 7, article 6.

§32-744. Ownership and custody of working papers and records

A. All statements, records, schedules, working papers and memoranda prepared by a registrant or a partner, shareholder, officer, director, member, manager or employee of a registrant incidental to or in the course of rendering professional services to a client while a registrant are and shall remain the property of the registrant, except:

1. In the case of an express agreement between the registrant and the client to the contrary.
2. The reports submitted by the registrant to the client.
3. Records that are part of the client's records.

B. Without the consent of the client or the client's personal representative or assignee, no statement, record, schedule, working paper or memorandum may be sold, transferred or bequeathed to anyone other than surviving partners,

stockholders or members or new partners, new stockholders, new members of the firm or any combined or merged firm or successor in interest to the firm.

C. On request with reasonable notice, a registrant shall timely furnish to a client or former client:

1. A copy of the registrant's working papers, to the extent that the working papers include records that would ordinarily constitute part of the client's records and are not otherwise available to the client.

2. Any accounting or other records belonging to, or obtained from or on behalf of, the client that the registrant removed from the client's premises or received for the client's account. The registrant may make and retain copies of these documents if they form the basis for work done by the registrant.

D. A registrant or firm shall maintain all records pertaining to any legal action initiated against the registrant or firm for a period of three years after the resolution of the action. On request, the registrant or firm shall timely furnish all records pertaining to the legal action to the board. For the purposes of this subsection, "legal action" means any civil or criminal lawsuit or state, United States territory or federal administrative proceeding where the allegations against the registrant or firm are violations of accounting or auditing standards or that result from negligence, gross negligence or reckless conduct, dishonesty, fraud, misrepresentation, breach of fiduciary duty or the suspension or revocation of the right to practice before the federal securities and exchange commission, the internal revenue service or any other state, United States territory or federal agency.

E. Except as provided in subsection D of this section, this section does not require a registrant to keep any work paper beyond the period prescribed by any other applicable statute.

§32-745. Employment of persons by accountants

This chapter does not prevent a person from being employed by a certified public accountant or a firm of certified public accountants if the employed person does not sign reports or assume any responsibility for the conduct of the employer's professional practice.

<p>Note: Article 1 of the Statute requires that CPAs "...establish and maintain high standards of competence, independence and integrity in the practice of accounting..." Clearly, these requirements require that all non-CPAs be adequately supervised to assure that professional standards are met.</p>

§32-746. Fraudulent audit practices; classification

A. A person commits fraudulent audit practices if such person knowingly prepares, issues or offers or files with any public agency an audit report or certificate on any financial statement which is materially false or misleading or fraudulent, or which purports to fairly present the financial position, results of operations or changes in financial position of the person or entity reported on but fails to do so.

B. Fraudulent audit practices is a class 5 felony. Fraudulent audit practices in connection with any securities offering or involving the filing of financial statements in connection with securities is a class 4 felony.

§32-747. Unlawful use of designation or abbreviation; classification

A. A registrant or an individual or firm that qualifies for the limited reciprocity privilege under section 32-725 shall be known as a certified public accountant or certified public accounting firm and may use the CPA designation unless the status of the registrant, individual or firm is canceled, expired, suspended, relinquished or revoked.

B. An individual or firm when referring to accounting or accounting practices shall not assume or use the CPA designation unless the individual or firm is qualified pursuant to subsection A of this section.

C. This section does not apply to or affect or limit the right to continuous use of a firm name, or a modification of a firm name, by successor firms formed by the remaining owner or owners or added owner or owners even though the individuals whose names are included in the firm name are not owners, but the successor firm shall conform to all other provisions of this chapter. This section does not apply to or affect or limit the right to continuous use of a professional corporation's name as provided pursuant to this chapter or title 10, chapter 20 or a professional limited liability company's name pursuant to this chapter or title 29, chapter 4.

D. The displaying or uttering by a registrant or an individual or firm that qualifies for the limited reciprocity privilege under section 32-725 of any card, sign, advertisement or other printed, engraved or written instrument or device bearing a name and intended to be confused with the CPA designation is prima facie evidence in a prosecution, proceeding or hearing brought under this section that the registrant, individual or firm so displayed caused or procured the displaying or uttering of the card, sign, advertisement or other printed, engraved or written instrument or device.

E. A firm may not refer to itself as a CPA firm unless it has a simple majority of the ownership in terms of direct and indirect financial interests and voting rights

that belong to holders in good standing of certificates or licenses as certified public accountants in any jurisdiction.

§32-749. Confidential nature of information acquired by accountants; privilege; conditions for disclosure; public records; exceptions

A. Certified public accountants practicing in this state shall not be required to divulge, nor shall they voluntarily divulge, client records or information they have received by reason of the confidential nature of their employment. Information derived from or as a result of a professional source shall be kept confidential as provided in this section, but this section does not modify, change or affect the criminal or bankruptcy laws of this state or the United States or limit the authority of this state or any agency of this state to subpoena and use the information in connection with any investigation, public hearing or other proceeding.

B. The board shall not require a registrant to disclose taxpayer information protected from disclosure by section 42-2069 or section 43-381 except as provided by those sections.

C. This section and section 32-744 do not prohibit the disclosure of information for:

1. Compliance with ethical investigations or practice monitoring programs conducted by the board or private professional organizations pursuant to programs preapproved by the board. These programs include, but are not limited to, quality and peer reviews. The scope of quality and peer reviews may include subsequent, remedial or corrective actions. Disclosure of information under this paragraph shall not destroy its confidentiality and privilege nor relieve any registrant of the obligation of confidentiality. The registrants to whom the information is provided shall be bound by this section.

2. Access by the board or its duly authorized agents or employees during business hours to examine and copy any documents, reports, records or other physical evidence of any person being investigated by the board on its own motion or as the result of a complaint received, if the documents, reports, records or evidence relates to the competence or professional conduct of the registrant who is being investigated.

D. Records the board maintains in exercising its statutory duties are presumed to be public records pursuant to title 39, chapter 1, article 2 and are generally accessible for inspection and copying. Exceptions to the public records presumption include investigations of registrants. The board shall treat as confidential information the complaint, the investigation report, the testimony and documents submitted in support of the complaint or gathered in the investigation, including information obtained pursuant to section 32-721, and any correspondence related to the complaint or investigation. After the initial analysis

under section 32-742.01, if the board opens an investigation file on a complaint, the details and records of the complaint and investigation shall remain confidential. However, the fact that a complaint or investigation is pending and the nature of the complaint shall be public. The board shall not disclose this confidential information to any person except law enforcement authorities and, to the extent deemed necessary to conduct the investigation, the subject of the investigation, persons whose complaints are being investigated and witnesses questioned in the course of the investigation. Except for client records or information and any information from which the client or the client's property may be identified, the information made confidential under this subsection becomes public record if the board institutes civil enforcement or disciplinary proceedings or issues a consent order in lieu of disciplinary proceedings. If the board dismisses the matter with no disciplinary action, the board may disclose the information relating to the matter only with the consent of the registrant or entity under investigation.

§32-750. Injunction against unlawful act

When in the judgment of the board any person has engaged, or is about to engage, in any acts or practices which constitute, or will constitute, a violation of section 32-747, the board may make application to the appropriate court for an order enjoining such acts or practices, and upon a showing by the board that such person has engaged, or is about to engage, in any such acts or practices, an injunction, restraining order, or such other order as may be appropriate shall be granted by such court without bond.

<p>This section gives the Board a very powerful enforcement tool in the ability, via injunction, to take preemptive action if it deems it necessary.</p>
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Created by the legislature, the Board of Accountancy regulates and oversees the CPA profession in Arizona. The Board issues regulations, called the Administrative Code, to clarify and expand upon the articles set forth in the Statutes. Administrative law passed by the Board does not merely suggest appropriate professional conduct for CPAs. Instead, the full force of the law supports it.

In this portion of the course, we will review **key areas** of the Regulations. These areas will be extracted, emphasized or paraphrased to provide a quick reference. It is suggested that you read the Regulations in their entirety if you have any substantive questions regarding their contents.

The Regulations consist of four articles:

- **Article 1 – General**
- **Article 2 – CPA Examination**
- **Article 3 – Certification and Registration**
- **Article 4 – Regulation**

Article 1. General

Note regarding fonts: The ASBA has reformatted the Administrative Code and, as a result, you will note inconsistencies in the font. This was done to retain formatting as best as possible.

R4-1-101. Definitions

A. The definitions in A.R.S. § 32-701 apply to this chapter.

B. In this chapter, unless the context otherwise requires:

1. “Compilation services” means services, the objective of which is defined in Section 80.04 of the Statement on Standards for Accounting and Review Services No. 21, issued October 2014 and published June 1, 2017 in the AICPA Professional Standards by the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036-8775, which is incorporated by reference. This incorporation by reference does not include any later amendments or editions. The incorporated material is available for inspection and copying at the Board's office.

2. “Contested case” means any proceeding in which the legal rights, duties, or privileges of a party are required by law to be determined by any agency after an opportunity for hearing.

3. "CPE" or "continuing professional education" means attending classes, writing articles, conducting or teaching courses, and taking self-study courses if the activities contribute to maintaining and improving of professional competence in accounting.

4. "Facilitated State Board Access (FSBA)" means the sponsoring organization's process for providing the Board access to peer review results via a secured website.

5. "Party" means each person or agency named or admitted as a party, or properly seeking and entitled, as of right, to be admitted as a party.

6. "Peer review" means an assessment, conducted according to R4-1-454(J), of one or more aspects of the professional work of a firm.

7. "Peer review program" means the sponsoring organization's entire peer review process, including but not limited to the standards for administering, performing and reporting on peer reviews, oversight procedures, training, and related guidance materials.

8. "Person" may include any individual, and any form of corporation, partnership, or professional limited liability company.

9. "Sponsoring organization" means a Board-approved professional society, or other organization approved by the Board responsible for the facilitation and administration of peer reviews through use of its peer review program and peer review standards.

10. "Upper level course" means a course taken beyond the basic level, after any required prerequisite or introductory accounting course and does not include principals of accounting or similar introductory accounting courses.

R4-1-105. Confidential Records

- A. Complaints, reports, photographs, transcripts, correspondence and other documents relating to an investigation by the Board of possible violations of the Arizona State Board of Accountancy statutes or this chapter shall not be made available for public inspection and copying, except that investigative records shall be made available for public inspection and copying when a civil enforcement or disciplinary proceeding against the person who is the subject of the investigation is instituted.
- B. Correspondence between the Board, members of the Board or staff members, or members of the Board's committees and the Board's attorney shall not be made available for public inspection and copying.

- C. An examinee's scores on the Uniform Certified Public Accountant Examination shall not be made available for public inspection and copying, except that the Board may disclose the identity of those who pass the examination after the date set by it for the release of scores.
- D. Letters of reference received in connection with applications for certificates shall not be made available for public inspection and copying.
- E. Resumes, employment applications, personnel evaluations and injury reports regarding employees of the Board or applicants for employment shall not be made available for public inspection and copying, except that the records shall be disclosed as directed by the employee or applicant concerned.
- F. Minutes of executive sessions of the Board and its advisory committees and executive session agendas containing confidential information shall not be made available for public inspection or copying.
- G. The Board may, in the case of a record not otherwise made confidential by this Section, order that the record not be made available for public inspection or copying whenever the Board determines that public disclosure of the record would have a significant and adverse effect on the Board's ability to perform its duties or would otherwise be detrimental to the best interests of the state.
- H. Notwithstanding subsections (A) through (G), the Board may order that any record of the Board made confidential under this Section be made available for public inspection and copying when it determines that the reasons justifying the confidentiality of the record no longer exist.

Confidentiality provisions allow the Board to secure both its privacy and the privacy of the members.

R4-1-114. Hearing; Rehearing or Review

A. Hearing: The Board or an Administrative Law Judge (ALJ) employed by the Office of Administrative Hearings (OAH) shall hear contested cases and appealable agency actions.

The following subsections apply to hearings conducted by the Board and hearings conducted by OAH where applicable.

1. Power to Join any Interested Party: Any Board member or the ALJ may join as a party applicant or as a party defendant, any person, firm or corporation, who appears to have an interest in the matter before the Board.

2. Stipulation at Hearing: The parties may stipulate to any facts that are not in dispute. The stipulation may be in writing, or may be made orally by reading the stipulation into the record at the hearing, and is binding upon the parties unless the Board or the ALJ grants permission to withdraw from the stipulation. The Board or the ALJ may set aside any stipulation.

3. Settlements and Consent Orders: At any time before or after formal disciplinary proceedings have been instituted against a registrant, the registrant may submit to the Board an offer of conditional settlement in which the registrant agrees to take specific remedial steps such as enrolling in continuing education courses, limiting the scope of the registrant's practice, accepting limitation on the filing of public reports, and submitting the registrant's work product for peer review to avoid formal disciplinary proceedings by the Board.

4. Decisions and Orders: The Board shall make all decisions and orders by a majority vote of the members considering the case. The Board shall issue a final written decision in a contested case or state the decision on the record. The decision shall state separately the findings of fact and conclusions of law, upon which the decision is based, and the Board's order to implement the decision.

R4-1-115. Advisory Committees

A. The Board may appoint advisory committees concerning accounting reports, taxation and other areas of public accounting as the Board deems appropriate. Such committees shall evaluate investigation files referred by the Board, hold voluntary informal interviews and make advisory recommendations to the Board concerning settlement, dismissal or other disposition of the reviewed matter.

B. The Board, in its discretion, may accept, reject or modify the advisory recommendation.

Article 2. CPA Examination

Article 3. Certification and Registration

R4-1-346. Notice of Change of Address

A. Within 30 days of any business, mailing, or residential change of address, a registrant shall notify the Board of the new address by filling out the change of address form prescribed by the Board.

B. Within 30 days of the opening of any new or additional office, or the closing of any existing office, a registrant shall notify the Board in a letter signed by the registrant.

This is an often-missed regulation. I'm not aware of any Draconian measures take by the Board, but who needs the aggravation and embarrassment.

Article 4. Regulation

R4-1-453. Continuing Professional Education (Revised February 4, 2019)

A. Measurement Standards. The Board shall use the following standards to measure the hours of credit given for CPE programs completed by an individual registrant.

1. CPE credit shall be given in one-fifth or one-half increments for periods of not less than one class hour except as noted in paragraph 8. The computation of CPE credit shall be measured as follows:

- a. A class hour shall consist of a minimum of 50 continuous minutes of instruction
- b. A half-class hour shall consist of a minimum of 25 continuous minutes of instruction
- c. A one-fifth class hour shall consist of a minimum of 10 continuous minutes of instruction.

2. Courses taken at colleges and universities apply toward the CPE requirement as follows:

- a. Each semester - system credit hour is worth 15 CPE credit hours,
- b. Each quarter - system credit hour is worth 10 CPE credit hours, and
- c. Each noncredit class hour is worth one CPE credit hour.

3. Each correspondence program hour is worth one CPE credit hour.

4. Acting as a lecturer or discussion leader in a CPE program, including college courses, may be counted as CPE credit. The Board shall determine the amount of credit on the basis of actual presentation hours, and shall allow CPE credit for preparation time that is less than or equal to the presentation hours. A registrant may only claim as much preparation time as is actually spent for a presentation. Total credit earned under this subsection for service as a lecturer or discussion leader, including preparation time may not exceed 40 credit hours of the renewal period's requirement. Credit is limited to only one presentation of any seminar or course with no credit for repeat teaching of that course.

5. Writing and publishing articles or books that contribute to the accounting profession may be counted for a maximum of 20 hours of CPE credit during each renewal period.

a. Credit may be earned for writing accounting material not used in conjunction with a seminar if the material addresses an audience of certified public accountants, is at least 3,000 words in length, and is published by a recognized third-party publisher of accounting material or a sponsor.

b. For each 3,000 words of original material written, the author may earn two credit hours. Multiple authors may share credit for material written.

6. A registrant may earn a combined maximum of 40 hours of CPE credit under subsections (A)(4) and (5) above during each renewal period.

7. A registrant may earn a maximum of 20 hours of CPE during each renewal period by completing introductory computer-related courses. Computer-related courses may qualify as consulting services pursuant to subsection (C).

8. A registrant may earn a maximum of 4 hours of CPE during each renewal period by completing nano-learning courses. A nano-learning program is a tutorial program designed to permit a participant to learn a given subject in a ten-minute time-frame through the use of electronic media and without interaction with a real time instructor.

9. CPE credit shall be given in one-fifth or one-half hour increments if the CPE is a segment of a continuing series related to a specific subject as long as the segments are connected by an overarching course that is a minimum of one hour and taken within the same CPE reporting period.

10. Credit shall not be allowed for repeat participation in any seminar or course during the registration period.

B. Programs that Qualify. CPE credit may be given for a program that provides a formal course of learning at a professional level and contributes directly to the professional competence of participants.

1. The Board shall accept a CPE course as qualified if it:

a. Is developed by persons knowledgeable and experienced in the subject matter,

b. Provides written outlines or full text,

c. Is administered by an instructor or organization knowledgeable in the program, and

d. Uses teaching methods consistent with the study program.

2. The Board shall accept a correspondence program which includes online or computer based programs if the sponsors maintain written records of each student's participation and records of the program outline for three years following the conclusion of the program.

3. An ethics program taught or developed by an employer or co-worker of a registrant does not qualify for the ethics requirements of subsection (C)(4).

C. Hour Requirement. As a prerequisite to registration pursuant to A.R.S. § 32-730(C) or to reactivate from inactive status pursuant to A.R.S. § 32-730.01, a registrant shall complete the CPE requirements during the two-year period immediately before registration as specified under subsections (C)(1) through (C)(5). For registration periods of less than two years CPE may be prorated, with the exception of ethics.

1. A registrant whose last registration period was for two years shall complete 80 hours of CPE.

2. A registrant shall complete a minimum of 50 percent of the required hours in the subject areas of accounting, auditing, taxation, business law, or consulting services with a minimum of 16 hours in the subject areas of accounting, auditing, or taxation.

3. A registrant shall complete a minimum of 16 of the required hours:

a. In a classroom setting,

b. Through an interactive live webinar, or

c. By acting as a lecturer or discussion leader in a CPE program, including college courses

4. A registrant shall complete four hours of CPE in the subject area of ethics. The four hours required by this subsection shall include a minimum of one hour of each of the following subjects:

a. Ethics related to the practice of accounting including the Code of Professional Conduct of the American Institute of Certified Public Accountants, and

b. Board statutes and administrative rules.

5. A registrant shall report, at a minimum, the CPE hours required for the registration period.
6. Hours that exceed the number required for the current registration period may not be carried forward to a subsequent registration period.
7. Any CPE hours completed to vacate a suspension for nonregistration or for noncompliance with CPE requirements may not be used to meet CPE requirements for the registration period.
8. As a prerequisite to reactivate from retired status or reinstate from cancelled, expired, relinquished or revoked status, a registrant or an applicant shall complete up to 160 hours of CPE during the four-year period immediately before application to reactivate or reinstate. For periods of less than four years CPE may be prorated, with the exception of ethics.
 - a. A registrant or an applicant shall complete a minimum of 50 percent of the required hours in the subject areas of accounting, auditing, taxation, business law, or consulting services with a minimum of 32 hours in the subject areas of accounting, auditing or taxation.
 - b. A registrant or an applicant shall complete a minimum of 32 hours of the required hours:
 - i. In a classroom setting,
 - ii. Through an interactive live webinar, or
 - iii. By acting as a lecturer or discussion leader in a CPE program, including college courses.
 - c. A registrant or an applicant shall complete CPE in the subject area of ethics. Four hours of ethics CPE shall be required if 1-24 months have passed since the last registration due date for which CPE was completed. Eight hours of ethics CPE shall be required if 25-48 months have passed since the last registration due date for which CPE was completed. The hours required by this subsection shall include a minimum of one hour each of the following subjects. The following subjects shall be completed during the two-year period immediately preceding application for reactivation or reinstatement:
 - i. Ethics related to the practice of accounting including the Code of Professional Conduct of the American Institute of Certified Public Accountants; and

ii. Board statutes and administrative rules.

D. Reporting: A registrant or an applicant for reactivation or reinstatement, a registrant who is subject to an audit, or a registrant completing their registration must report the following details about their completed CPE:

1. Sponsoring organization;
2. Number of CPE credit hours;
3. Title of program or description of content; and
4. Dates attended.

E. In addition to the information required under subsection (D), a registrant or an applicant for reactivation or reinstatement from cancelled, expired, relinquished or revoked status, or a registrant subject to a CPE audit pursuant to subsection (G) shall provide the Board the following CPE records at its request: copies of transcripts, course outlines, and certificates of completion that include the registrant's name, course provider or sponsor, course title, credit hours and date of completion.

F. CPE Record Retention: A registrant shall maintain CPE records for three years from the date the registration was dated as received by the Board the following documents for all CPE completed for the registration period, even if not reported on the registration: transcripts, course outlines, and certificates of completion that include registrant's name, course provider or sponsor, course title, credit hours, and date of completion.

G. CPE audits: The Board, at its discretion, may conduct audits of a registrant's CPE and require that the registrant provide the CPE records that the registrant is required to maintain under subsection (F) to verify compliance with CPE requirements.

H. The Board may grant a full or partial exemption from CPE requirements on demonstration of good cause for a disability for only one registration period.

I. A non-resident registrant seeking renewal of a certificate in this state shall be determined to have met the CPE requirements of this rule by meeting the CPE requirements for renewal of a certificate in the jurisdiction in which the registrant's principal place of business is located.

1. Non-resident applicants for renewal shall demonstrate compliance with the CPE renewal requirements of the jurisdiction in which the registrant's principal place of business is located by signing a statement to that effect on the renewal application of this state.

2. If a non-resident registrant's principal place of business jurisdiction has no CPE requirements for renewal of a certificate or license, the non-resident registrant must comply with all CPE requirements for renewal of a certificate in this state.

R4-1-454. Peer Review (Revised January 1, 2018)

A. Each firm that performs attest services or compilation services shall have a peer review performed and reported on within the three years immediately preceding the firm's registration date.

1. Firms shall submit a copy of the results of their most recently accepted peer review pursuant to R4-1-345 or by a Board approved extension date to the Board which includes the following documents:

a. Peer review report which has been accepted by the sponsoring organization,

b. Firm's letter of response accepted by the sponsoring organization, if applicable,

c. Completion letter from the sponsoring organization,

d. Letter(s) accepting the documents signed by the firm with the understanding that the firm agrees to take any actions required by the sponsoring organization, if applicable, and

e. Letter signed by the sponsoring organization notifying the firm that required actions have been appropriately completed, if applicable.

2. For firms whose peer reviews are scheduled before January 1, 2018, the firm shall submit the peer review documents pursuant to R4-1-454(A)(1) to the Board prior to its next firm registration renewal via mail, electronic transmission or, if available, the AICPA Facilitated State Board Access (FSBA).

3. For firms whose peer reviews are scheduled after January 1, 2018, the firm must allow the sponsoring organization to make the documents pursuant to R4-1-454(A)(1) accessible to the Board via the FSBA process.

4. The Board may grant, upon written request and demonstration of good cause, excluding financial hardship pursuant to A.R.S. §32-701(15)(E), an extension of time for completing the peer review or submitting the peer review documents to the Board.

B. Only a peer reviewer or a review team approved by the sponsoring organization may conduct a peer review. In approving a peer reviewer or a review team, the sponsoring organization shall ensure that each peer reviewer or member of a review team holds a certificate or license in good standing to practice public accounting, and is not affiliated with the firm under review.

C. The Peer Review Oversight Advisory Committee (PROAC) shall review the peer review results to determine whether the firm is complying with the standards in subsection (J). If the results of peer review indicate that a firm is complying with the standards in subsection (J), PROAC shall recommend to the Board that it accept the firm's peer review and that the firm be notified of its compliance with this Section.

D. If the results of the peer review indicate that a firm is not complying with the standards in subsection (J), the Board may take disciplinary action.

E. If the results of the peer review suggest one or more violations of A.R.S. Title 32 Chapter 6 or Board rules, the Board may conduct or direct an authorized committee to conduct an initial analysis and take other action as authorized by A.R.S §32-742.01.

F. Information discovered solely as a result of a peer review is not grounds for suspension or revocation of a certificate.

G. Failure of a firm to complete a peer review under this Section may constitute grounds for disciplinary action.

H. A firm is exempt from the requirements of this Section if the firm submits to the Board a written statement that it meets at least one of the following grounds for exemption:

1. The firm has not previously practiced public accounting in this state, any other state, or a foreign country and the firm shall enroll in a Board approved peer review program with a peer review due date, in compliance with the peer review standards referenced in R4-1-454(J) of 18 months from the year end of the first engagement performed.

2. The firm submits to the Board an affidavit, on a form prescribed by the Board, that states that all of the following apply:

- a. Within the previous three years, the firm did not perform any attest services or compilation services; and

- b. The firm agrees to notify the Board within 90 days after accepting an attest services or compilation services engagement and shall enroll in a Board approved peer review program with a due date, in compliance with the peer

review standards referenced in R4-1-454(J) of 18 months from the year-end of the initial engagement accepted.

I. Firms that reorganize a current firm, rename a firm, or create a new firm, within which at least one of the prior CPA owners remains an owner or employee, shall remain subject to the provisions of this Section. If a firm is merged, combined, dissolved, or separated, the sponsoring organization shall determine which resultant firm shall be considered the succeeding firm. The succeeding firm shall retain its peer review status and the review due date.

J. Each firm, review team, and member of a review team shall comply with the Standards for Performing and Reporting on Peer Reviews, issued January 2009 and published June 1, 2017 in the AICPA Professional Standards by the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036-8775 (www.aicpa.org), which is incorporated by reference. This incorporation by reference does not include any later amendments or editions. The incorporated material is available for inspection and copying at the Board's office.

K. Peer review record retention. A firm shall maintain for five years, and provide the Board upon request, the documents referenced in R4-1-454(A)(1), if applicable and however denominated, for the peer reviews required by this Section.

R4-1-455. Professional Conduct and Standards (Revised January 1, 2018)

A. It is the Board's policy that the rules governing registrants be consistent with the rules governing the accounting profession generally. Except as otherwise set forth in these regulations, registrants shall conform their conduct to the Code of Professional Conduct, published June 1, 2017 in the AICPA Professional Standards by the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036-8775 (www.aicpa.org), available from the AICPA.

B. The AICPA Code of Professional Conduct, and any interpretations and ethical rulings by the issuing body, shall apply to all registrants, including those who are not members of the AICPA. The version specified above, including any interpretations and ethical rulings in effect shall apply. Any later amendments, additions, interpretations, or ethical rulings shall not apply.

R4-1-455.01. Professional Conduct: Definitions; Interpretations

A. Interpretation of definitions: All terms defined in A.R.S. § 32-701 et seq. shall be construed, to the extent possible, to be consistent with corresponding definitions in the professional standards adopted in R4-1-455. The foregoing

notwithstanding, for purposes of R4-1-455 and the professional standards adopted therein:

1. The term “practice of public accounting” shall be defined as set forth in A.R.S. § 32-701; and

2. References to “member” shall be to “registrant” as defined in A.R.S. § 32-701.

R4-1-455.02. Professional Conduct: Competence and Technical Standards

A. In reporting on financial statements for which a registrant has performed attest services (as defined in A.R.S. § 32-701) any of the following will constitute a violation of A.R.S. § 32-741(A)(4):

1. In an audit engagement, failing to:

a. Prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

i. The nature, timing, and extent of the audit procedures performed;

ii. The results of the audit procedures performed, and the audit evidence obtained; and

iii. Significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions;

b. Obtain sufficient appropriate evidence to conclude that the financial statements taken as a whole are free from material misstatement; or

c. Modify the opinion in the auditor’s report when:

i. The financial statements as a whole are materially misstated; or

ii. Sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement has not been obtained.

2. In a review engagement, failing to:

a. Accumulate sufficient review evidence to provide a reasonable basis for obtaining limited assurance that there are no material modifications that should be made to the financial statements in order to be in conformity with the applicable financial reporting framework; or

b. Modify the accountant's review report for a departure from the applicable financial reporting framework, including inadequate disclosure, that is material to the financial statements.

3. In an examination of prospective financial statements engagement, failing to:

a. Obtain sufficient evidence to provide a reasonable basis for the conclusion that is expressed in the report; or

b. Modify the report when:

i. One or more significant assumptions do not provide a reasonable basis for the prospective financial statements; or

ii. The examination is affected by conditions that preclude application of one or more procedures considered necessary in the circumstances.

B. The provisions of this subsection are not intended to be all inclusive or to limit the application of A.R.S. § 32-741(A)(4).

R4-1-455.03. Professional Conduct: Specific Responsibilities and Practices

A. Discreditable acts: In addition to any other acts prohibited by any standards incorporated in these rules, a registrant shall not commit an act that reflects adversely on the registrant's fitness to engage in the practice of public accounting, including and without limitation:

1. Violating a provision of R4-1-455, R4-1-455.01, R4-1-455.02, R4-1-455.03 or R4-1-455.04;

2. Violating a fiduciary duty or trust relationship with respect to any person; or

3. Violating a provision of A.R.S. Title 32, Chapter 6, Article 3, or this Chapter.

B. Advertising practices and solicitation practices: A registrant has violated A.R.S. § 32-741(A)(4) and engaged in dishonest or fraudulent conduct in the practice of public accounting in connection with the communication or advertising or solicitation of accounting services through any media, if the registrant willfully engages in any of the following conduct:

1. Violates A.R.S. § 44-1522 and a court finds the violation willful;

2. Engages in fraudulent or misleading practices in the advertising of accounting services that leads to a conviction pursuant to A.R.S. § 44-1481; or

3. Engages in fraudulent practices in the advertising of accounting services that leads to a conviction for a violation of any other state or federal law.

C. Form of practice and name: A registrant shall not use a professional or firm name or designation that is misleading about the legal form of the firm, or about the persons who are partners, officers, members, managers, or shareholders of the firm, or about any other matter. A firm name or designation shall not include words such as “& Company,” “& Associates,” or “& Consultants” unless the terms refer to additional full-time CPAs that are not otherwise mentioned in the firm name.

D. Communications: When requested, a registrant shall file a written response to a communication from the Board within 30 days of the date of the mailing of such communication by certified mail. A written response is deemed filed on the date and time received in the Board office. The Board shall record the date and time either by electronic date stamp in Arizona time or on physical receipt in the Board’s office. The Board shall not accept a postmark as evidence of timely filing.

E. The provisions of R4-1-455.03(A) through (C) are not intended to be all inclusive or to limit the application of any standards incorporated by R4-1-455.

R4-1-455.04. Professional Conduct: Records Disposition

A. Document retention policies. Except as set forth in A.R.S. § 32-744(D), a registrant may retain and dispose of documents prescribed in A.R.S. § 32-744(C) in compliance with a reasonable document retention policy.

R4-1-456. Reporting Practice Suspensions and Violations

A. A registrant, individual, or firm shall report to the Board:

1. Any suspension or revocation of the right to practice accounting before the federal Securities and Exchange Commission, the Internal Revenue Service, or any other state or federal agency;

2. Any final judgment in a civil action or administrative proceeding in which the court or public agency makes findings of violations, by the registrant, of any fraud provisions of the laws of this state or of federal securities laws;

3. Any final judgment in a civil action in which the court makes findings of accounting violations, dishonesty, fraud, misrepresentation, or breach of fiduciary duty by the registrant;

4. Any final judgment in a civil action involving negligence in the practice of public accounting by the registrant; and

5. All convictions of the registrant of any felony, or any crime involving accounting or tax violations, dishonesty, fraud, misrepresentation, embezzlement, theft, forgery, perjury, or breach of fiduciary duty.

B. A registrant, individual, or firm required to report under subsection (A) shall make the report in the form of a written letter and ensure that the report is received by the Board within 30 days after the entry of any judgment or suspension or revocation of the registrant's right to practice before any agency. The registrant, individual, or firm shall ensure that the letter contains the following information:

1. Description of the registrant's activities that resulted in a suspension or revocation;
2. Final judgment or conviction;
3. Name of the state or federal agency that restricted the registrant's right to practice;
4. Effective date and length of any practice restriction;
5. Case file number of any court action, civil or criminal;
6. Name and location of the court rendering the final judgment or conviction;
and
7. Entry date of the final judgment or conviction.

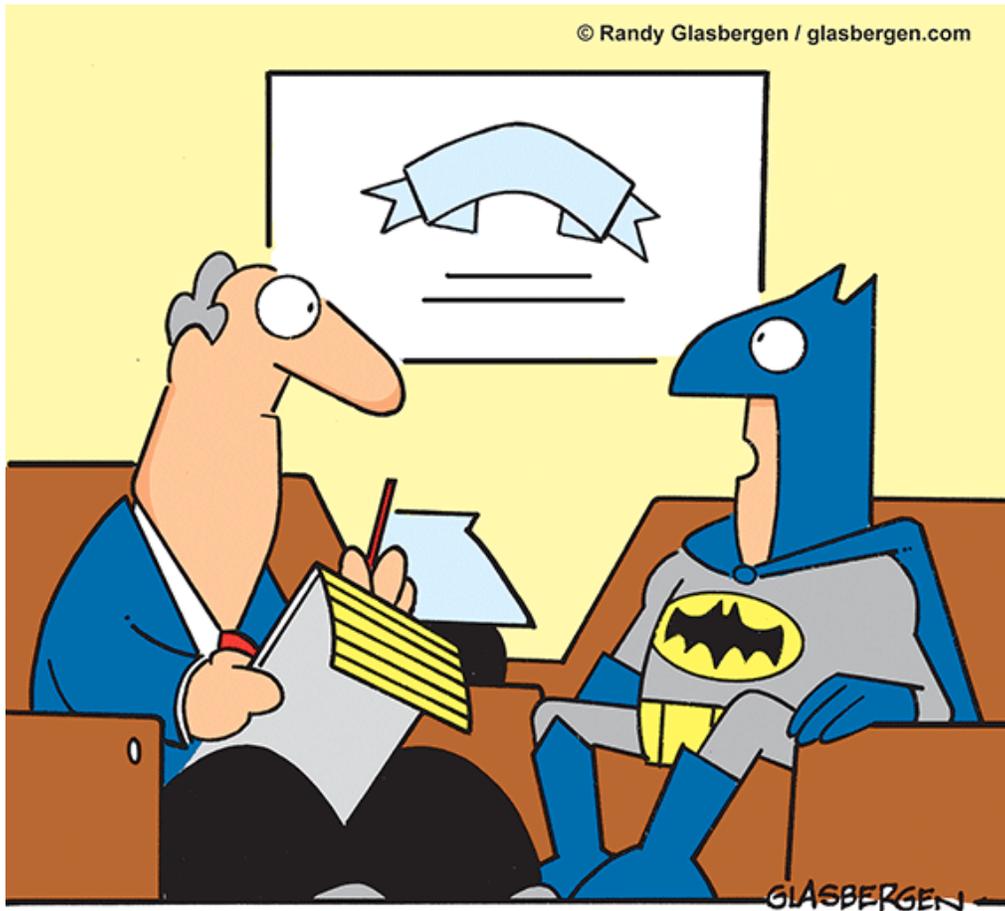
One final note:

Disciplinary Transparency (Added December 2015)

Pursuant to A.R.S. §32-703(A), the primary duty of the board is to protect the public from unlawful, incompetent, unqualified or unprofessional certified public accountants or public accountants through certification, regulation and rehabilitation.

In an effort to better fulfill its mission and protect the public, effective December 31, 2015, the Arizona Board of Accountancy is posting disciplinary action to its website via its CPA Directory, to help the public who is looking to the Board for such information to make an informed judgement about who they want to engage with to provide services. While there is a wide array of disciplinary action from things intended to educate registrants to things that are intended to be punitive in nature, each consumer will be able to review the findings of fact, conclusions of law, and the associated discipline and make their own independent judgements

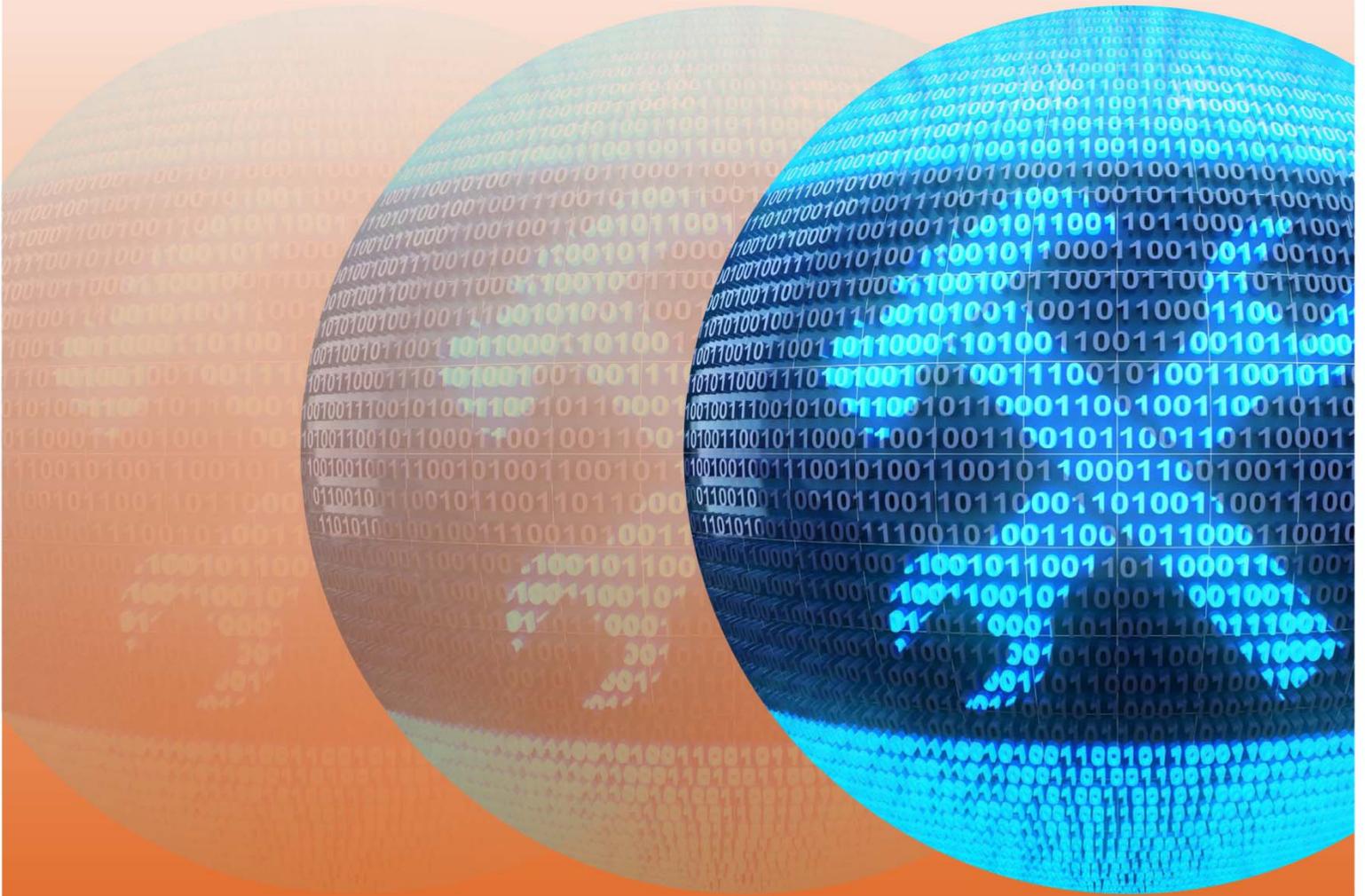
about whether the posted discipline – past or present – is of concern to them and empower them with the appropriate information to act accordingly.



**“I’m convinced that all corporations are evil,
but Bruce Wayne says free market capitalism
is the only thing that can save the world.”**



Conceptual Framework Toolkit for Members in Public Practice



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INTRODUCTION

The *Application of the Conceptual Framework for Members in Public Practice and Ethical Conflicts* interpretations under each rule require members to apply the [Conceptual Framework for Members in Public Practice](#) (the framework) (AICPA, Professional Standards, ET sec. 1.000.010) in cases for which there is no guidance in the [AICPA Code of Professional Conduct](#) (AICPA code) that addresses a particular relationship or circumstance. The framework cannot be used to overcome a prohibition or other requirement of the AICPA code. The framework incorporates a “threats and safeguards” approach, which is designed to assist members in analyzing relationships and circumstances that the AICPA code does not specifically address and in determining whether such relationships or circumstances may result in the violation of any of the rules in the AICPA code.

This toolkit assists members in the implementation of the conceptual framework approach. Specifically, the toolkit includes the following:

- ▶ 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.



Relationships or circumstances that members encounter that involve threats to independence **may be analyzed using a separate toolkit** entitled, *Conceptual Framework Toolkit for Independence*.

STEPS OF THE CONCEPTUAL FRAMEWORK

Under the conceptual framework approach, members are required to (a) identify threats that could compromise the member's compliance with the rules or be perceived by a reasonable and informed third party, who is aware of the relevant information as compromising the member's compliance with the rules; (b) evaluate the significance of the threat(s) identified; (c) identify and apply appropriate safeguards, when necessary; and (d) evaluate whether such safeguards have been effective to eliminate or reduce significant threat(s) to an acceptable level.

The following sections provide detailed guidance on the steps members should perform when applying the conceptual framework approach. Under this approach, if appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level, the member should (if possible) change the circumstance or relationship so that the threats are at an acceptable level or decline or discontinue the professional engagement.

Step 1 — Identify Threats

Members may encounter relationships or circumstances that threaten the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, when guidance is lacking, the AICPA code requires a member to evaluate that situation from the perspective of a reasonable and informed third party using the conceptual framework approach.

Threats are relationships or circumstances that could compromise a member's compliance with the rules. For members in public practice, these rules, found in AICPA *Professional Standards*, are as follows:

- ▶ [Integrity and Objectivity Rule](#)
- ▶ [Independence Rule¹](#)
- ▶ [General Standards Rule](#)
- ▶ [Compliance with Standards Rule](#)
- ▶ [Accounting Principles Rule](#)
- ▶ [Acts Discreditable Rule](#)
- ▶ [Contingent Fees Rule](#)
- ▶ [Commissions and Referral Fees Rule](#)
- ▶ [Advertising and Other Forms of Solicitation Rule](#)
- ▶ [Confidential Client Information Rule](#)
- ▶ [Form of Organization and Name Rule](#)

Paragraphs .10–.16 of the framework identify the following threats: [adverse interest](#), [advocacy](#), [familiarity](#), [management participation](#), [self-interest](#), [self-review](#), and [undue influence](#).

¹ A separate toolkit, "Conceptual Framework Toolkit for Independence," is available to assist with analyzing relationships or circumstances that members encounter that involve threats to independence.

Step 2 — Evaluate the Significance of a Threat

If a member has identified a threat resulting from a relationship or circumstance, the member will need to evaluate the significance of the threat. Members should evaluate identified threats, both individually and in the aggregate, because threats can have a cumulative effect on a member's compliance with the rules. When evaluating the significance of a threat, the member should determine whether the threat is at an acceptable level, that is, would a reasonable and informed third party that is aware of the relationship or circumstance conclude that the threat identified would not compromise the member's compliance with the rules. In addition, the member should consider both qualitative and quantitative factors, including whether any existing safeguards are in place that already reduce the threat to an acceptable level. If, after evaluating the significance of the threat, the member concludes that the threat is at an acceptable level, then the member is not required to evaluate the threat any further and may proceed with the professional service. However, if the member's evaluation brings the member to the conclusion that the threat is not at an acceptable level, then the member must proceed to step 3, Identify and Apply Safeguards.

Step 3 — Identify and Apply Safeguards

If a member has evaluated the significance of a threat identified from a relationship or circumstance and concluded that the threat is not at an acceptable level, the member will need to identify safeguards that may be applied to eliminate or reduce the threat to an acceptable level. The member may identify safeguards that already exist or may need to identify new safeguards. It is possible that the member will need to apply only one safeguard that may eliminate or reduce multiple threats. However, in some cases, the member may need to apply multiple safeguards to eliminate or reduce one threat to an acceptable level.

Safeguards may be created by the profession, legislation, or regulation, or may be implemented by the client or the firm. Examples of various safeguards within each category are presented in [paragraphs .21-.23](#) of the framework. After identifying and applying safeguards, the member will need to proceed to step 4, Evaluate the Effectiveness of Safeguards, and use his or her professional judgment to evaluate whether the safeguards to be applied would be effective in eliminating or reducing the threat to an acceptable level.

Step 4 — Evaluate the Effectiveness of Safeguards

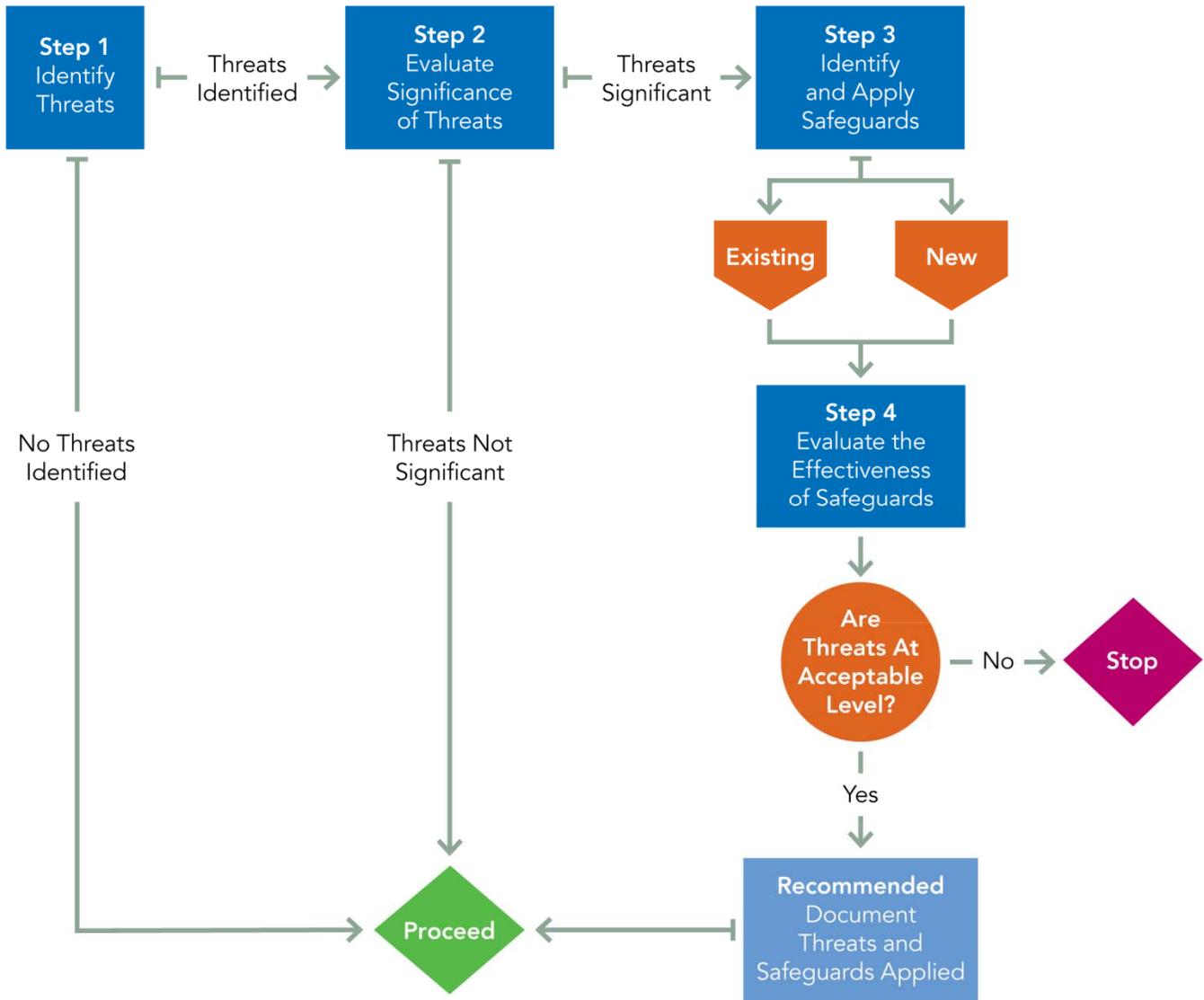
If the member concludes that threats are at an acceptable level after applying the identified safeguards, then the member may proceed with the professional service. However, if there are no safeguards that would eliminate the threat or reduce it to an acceptable level, or the member is unable to implement 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. Refer to [paragraph .19](#) of the framework for examples of some factors that may aid in determining the effectiveness of a safeguard.

Step 5 — Document Threats and Safeguards (Recommended)

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

The following flowchart illustrates the steps of the conceptual framework:



CONCEPTUAL FRAMEWORK WORKSHEET

When a member identifies a relationship or circumstance that may create threats to the member's compliance with the rules, the member may wish to use the Conceptual Framework Worksheet to fulfill his or her compliance obligation under the AICPA code. Members may

add additional relationships or circumstances to the worksheet as they are identified. Use "Tab" to navigate through the fields. (Instructions for Completing the Conceptual Framework Worksheet are on page 10 of the conceptual framework toolkit.)

<p>Summary of the Relationship or Circumstances Provide a description of the relationship or circumstance that may create threats to compliance with the rules</p>	<p>Step 1 Identify Threat(s) Describe the threat (<i>adverse interest</i>, <i>advocacy</i>, <i>familiarity</i>, <i>management participation</i>, <i>self-interest</i>, <i>self-review</i> and <i>undue influence</i>) associated with this relationship or circumstance.</p>	<p>Step 2 Evaluate the Significance of Threat(s) Describe why the identified threats are or are not significant.</p>	<p>Step 3 Identify and Apply Safeguards Describe the safeguards identified that will be applied to eliminate or reduce threats to an acceptable level.</p>	<p>Step 4 Evaluate the Effectiveness of Safeguards Describe whether the safeguards applied would or would not eliminate or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, then document whether the firm can change the circumstance or relationship creating the threat or will decline or discontinue the engagement.</p>
Field A	Field B	Field C	Field D	Field E

CONCEPTUAL FRAMEWORK EXAMPLES

The following are examples of situations a member may encounter that the AICPA code does not address. These examples are not authoritative positions; rather, they demonstrate the use of the conceptual framework approach for members in public practice. Members should use professional judgment in determining whether threats are significant and, if so, determine whether safeguards would effectively reduce or eliminate those threats to an acceptable level.

Examples of situations that members may encounter that involve independence can be found in the "Conceptual Framework Toolkit for Independence."

Contingent Fee Arrangement for a Consulting Engagement

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 Threat(s):

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 Safeguard(s):

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.

Commission Received by Partner's Son

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. 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.

CONCEPTUAL FRAMEWORK EXAMPLES continued

Assisting With the Sale of Client's Business

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 Threat(s):

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 Safeguard(s):

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.

CONCEPTUAL FRAMEWORK WORKSHEET EXAMPLE

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

Mary and John Smith just celebrated their 20th wedding anniversary. Mary is a consulting partner in a CPA firm, and John is the Senior Vice President of Finance at a company. A recruiter approached John with what he would consider his “dream job” as CFO of a well-respected and leading-edge company. He eagerly accepted the interview, which the recruiter scheduled for the following day. Over dinner that night, John tells Mary the exciting news. Instead of excitement, Mary begins to rub her head. She explains to John that for the past month she has been the lead partner on a major consulting project for the entity he will be interviewing with the next day. Mary explains that she is concerned about how his potential relationship with her consulting client may be perceived, so she excuses herself to review the AICPA code for guidance. Mary did not find any guidance that specifically described this situation. However, Mary decided to consult the conceptual framework and emailed her partners the following analysis for their input.

<p>Summary of the Relationship or Circumstances Provide a description of the relationship or circumstance that may create threats to compliance with the rules.</p>	<p>Step 1 Identify Threat(s) Describe the threat adverse interest, advocacy, familiarity, management participation, self-interest, self-review and undue influence associated with this relationship or circumstance.</p>	<p>Step 2 Evaluate the Significance of Threat(s) Describe why the identified threats are or are not significant.</p>	<p>Step 3 Identify and Apply Safeguards Describe the safeguards identified that will be applied to eliminate or reduce threats to an acceptable level.</p>	<p>Step 4 Evaluate the Effectiveness of Safeguards Describe whether the safeguards applied would or would not eliminate or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, document whether the member or firm can change the circumstance or relationship creating the threat or will decline/discontinue the engagement.</p>
<p>Mary is a partner of the firm, and her spouse is considering employment in a key position with a consulting client.</p>	<p>The <i>familiarity threat</i> is present.</p>	<p>The threat may be significant because Mary’s husband considers this his “dream job,” so Mary could be viewed as being too sympathetic to the client’s interests due to her husband’s consideration of employment with the client. If her husband is hired, she could be viewed as furthering his interests by becoming too accepting of the information the client gives her as part of her consulting engagement.</p>	<p>The firm approached the consulting client and explained the conflict and that they would like to replace Mary on the consulting engagement during the interview process. She would remain off the engagement if her husband is offered the job. The consulting client agreed with the firm’s proposal. In addition, the firm will not assist the client with the hiring process of the new CFO.</p>	<p>Removing Mary from the consulting engagement while her husband is interviewing with the client (and thereafter, if he is hired) and ensuring that Mary and the firm have no input or bearing on the client’s hiring process will enable both Mary and the firm to maintain the appropriate level of integrity and objectivity.</p>
<p>Conclusion</p>	<p>We have evaluated all identified threats, both individually and in the aggregate, and safeguards applied to eliminate or reduce any significant threats to an acceptable level as documented previously. Based on our evaluation, we have concluded that threats to compliance with the “Integrity and Objectivity Rule” are at an acceptable level.</p>			

INSTRUCTIONS FOR COMPLETING THE CONCEPTUAL FRAMEWORK WORKSHEET

<p>After you complete field E and select "Tab" you will be asked if you are done with the worksheet. If you answer "Yes" then field F will appear. If you answer "No" then another set of blank fields A–E will appear. When you are done completing field F select "Tab" and you will be asked if you want to save the worksheet as a separate file.</p>	
Field A	In this field, type in a summary of the relationship or circumstance that you believe may create a threat to comply with the rules. Select "Tab" to move to field B.
Field B	In this field, identify the threats that you believe exist and describe why you believe they exist. Select "Tab" to move to field C.
Field C	In this field, describe why you believe the threats you have identified in field B are or are not significant. If you believe the threats are not significant, then you can stop here. If you believe they are significant, then proceed to field D. If you believe they are significant, then select "Tab" to proceed to field D.
Field D	In this field, describe which existing and new safeguards you applied. Examples of possible safeguards are included in paragraphs 21–23 of the <i>"Conceptual Framework for Members in Public Practice."</i> Select "Tab" to move to field E.
Field E	<p>In this field, describe why you believe the safeguards applied do or do not eliminate or reduce the threats to an acceptable level. If you conclude that threats are not at an acceptable level, document your plan of action. For example, do you plan to change the relationship or circumstance so that the threats no longer exist or are not significant, or do you plan to not perform the attest engagement? Consider consulting paragraph 19 of the framework for examples of factors, which may aid in determining the effectiveness of a safeguard.</p> <p>When you are done entering content into this field select "Tab" and you will be asked if you are finished with this table. You should select "No" if you have identified another relationship or circumstance that you believe may create a threat to complying with the rules. After selecting "No" another row will appear in the table for you to complete. If you select "Yes" a "Conclusion" row (field F) will appear.</p>
Field F	In this field, document your conclusion about whether threats identified that may compromise compliance with the rules are at an acceptable level. When you are done completing this field, select "Tab" and you will be asked if you want to save the worksheet as a separate file. Select "Yes" if you do and "No" if you don't.



Conceptual Framework Toolkit for Members in Business



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INTRODUCTION

The “Application of the Conceptual Framework for Members in Business” interpretations under each rule require members to apply the “[Conceptual Framework for Members in Business](#)” (the framework) (AICPA, *Professional Standards*, ET sec. 2.000.010) in cases for which no guidance exists in the [AICPA Code of Professional Conduct](#) (AICPA code) that addresses a particular relationship or circumstance. The framework cannot be used to overcome a prohibition or other requirement of the AICPA code. The framework incorporates a “threats and safeguards” approach, which is designed to assist members in analyzing relationships and circumstances that the AICPA code does not specifically address and in determining whether such relationships or circumstances may result in the violation of any of the rules in the AICPA code.

This toolkit assists members in the implementation of the conceptual framework approach. Specifically, the toolkit includes the following:

- ▶ 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.

STEPS OF THE CONCEPTUAL FRAMEWORK

Under the conceptual framework approach, members are required to (a) identify threats that could compromise the member's compliance with the rules or be perceived by a reasonable and informed third party who is aware of the relevant information as compromising the member's compliance with the rules; (b) evaluate the significance of the threat(s) identified; (c) identify and apply appropriate safeguards, when necessary; and (d) evaluate whether such safeguards have been effective to eliminate or reduce significant threat(s) to an acceptable level.

The following sections provide detailed guidance on the steps members should perform when applying the conceptual framework approach. Under this approach, if appropriate safeguards cannot be applied to eliminate the threats or reduce them to an acceptable level, the member should (if possible) change the circumstance or relationship so that the threats are at an acceptable level or decline or discontinue the professional engagement.

Step 1 — Identify Threats

Members may encounter relationships or circumstances that threaten the member's compliance with the rules. The rules and interpretations seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, when guidance is lacking, the AICPA code requires a member to evaluate that situation from the perspective of a reasonable and informed third party using the conceptual framework approach.

Threats are relationships or circumstances that could compromise a member's compliance with the rules. For members in public practice, these rules, found in *AICPA Professional Standards*, are as follows:

- ▶ [Integrity and Objectivity Rule](#)
- ▶ [General Standards Rule](#)
- ▶ [Compliance with Standards Rule](#)
- ▶ [Accounting Principles Rule](#)
- ▶ [Acts Discreditable Rule](#)

Paragraphs .09–.14 of the framework identify the following threats: [adverse interest](#), [advocacy](#), [familiarity](#), [self-interest](#), [self-review](#) and [undue influence](#).

Step 2 — Evaluate the Significance of a Threat

If a member has identified a threat resulting from a relationship or circumstance, the member will need to evaluate the significance of the threat. Members should evaluate identified threats, both individually and in the aggregate, because threats can have a cumulative effect on a member's compliance with the rules. When evaluating the significance of a threat, the member should determine whether the threat is at an acceptable level, that is, would a reasonable and informed third party who is aware of the relationship or circumstance conclude that the threat identified would not compromise the member's compliance with the rules. In addition, the member should consider both qualitative and quantitative factors, including whether any existing safeguards are in place that already reduce the threat to an acceptable level. If after evaluating the significance of the threat the member concludes

When evaluating the significance of a threat, the member should determine whether the threat is at an acceptable level.

that the threat is at an acceptable level, then the member is not required to evaluate the threat any further and may proceed with the professional service. However, if the member's evaluation brings the member to the conclusion that the threat is not at an acceptable level, then the member must proceed to step 3, "Identify and Apply Safeguards."

Step 3 — Identify and Apply Safeguards

If a member has evaluated the significance of a threat identified from a relationship or circumstance and concluded that the threat is not at an acceptable level, the member will need to identify safeguards that may be applied to eliminate or reduce the threat to an acceptable level. The member may identify safeguards that already exist or may need to identify new safeguards. It is possible that the member will need to apply only one safeguard that may eliminate or reduce multiple threats. However, in some cases, the member may need to apply multiple safeguards to eliminate or reduce one threat to an acceptable level.

Safeguards may be created by the profession, legislation, or regulation, or may be implemented by the employing organization. Examples of various safeguards within each category are presented in [paragraphs .19–.20](#) of the framework. After identifying and applying safeguards, the member will need to proceed to step 4, “Evaluate the Effectiveness of Safeguards,” and use his or her professional judgment to evaluate whether the safeguards to be applied would be effective in eliminating or reducing the threat to an acceptable level.

Step 4 — Evaluate the Effectiveness of Safeguards

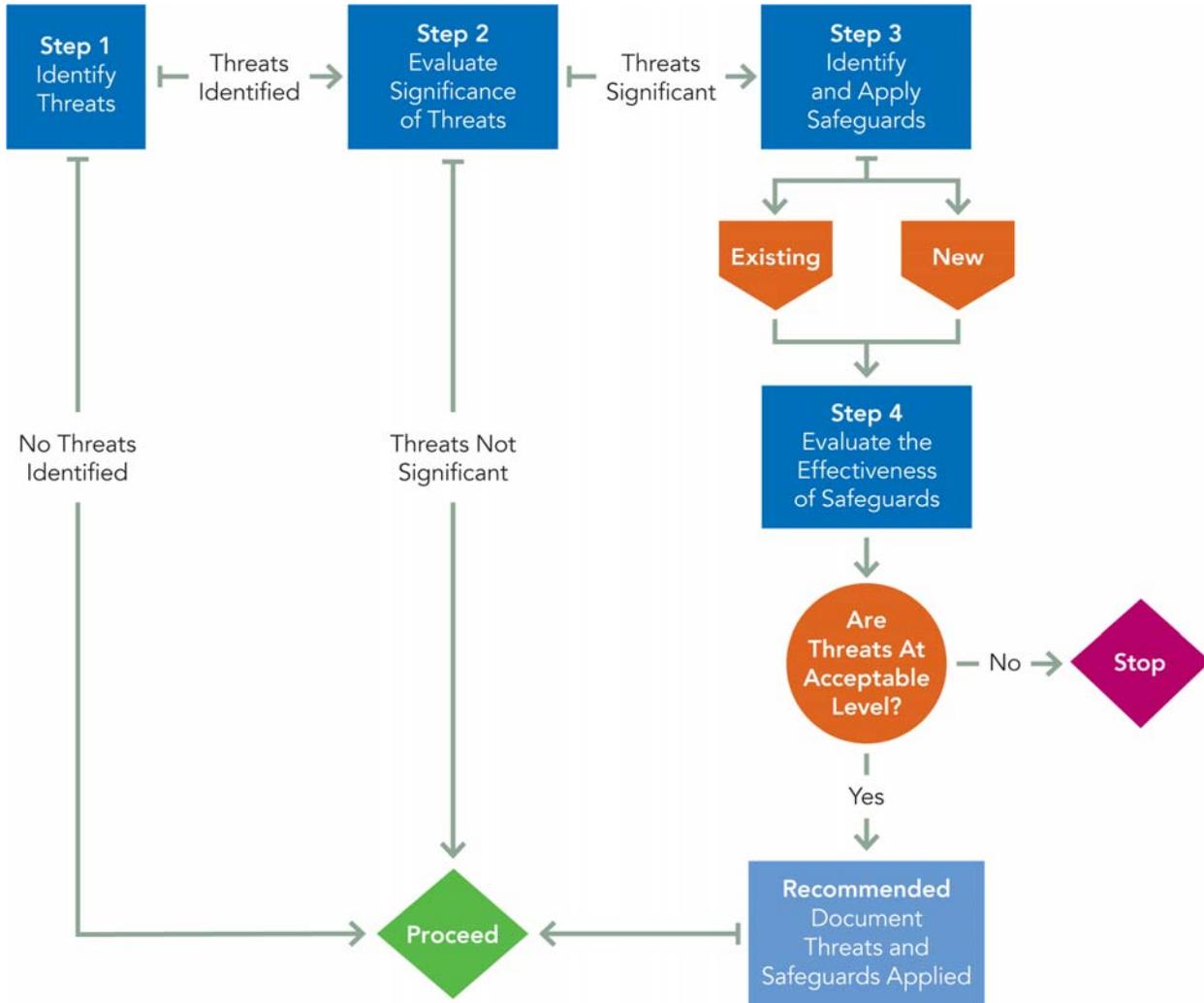
If the member concludes that threats are at an acceptable level after applying the identified safeguards, then the member may proceed with the professional service. However, if there are no safeguards that would eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the circumstance or relationship creating the threat should be changed, or the member should decline or discontinue the professional services or resign from the employing organization. If the member provides professional services under such circumstances, the member will compromise his or her compliance with the rules. Refer to [paragraph .17](#) of the framework for examples of some factors that may aid in determining the effectiveness of a safeguard.

Step 5 — Document Threats and Safeguards (Recommended)

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

The following flowchart illustrates the steps of the conceptual framework:



CONCEPTUAL FRAMEWORK WORKSHEET

When a member identifies a relationship or circumstance that may create threats to the member's compliance with the rules, the member may wish to use the conceptual framework worksheet to fulfill his or her compliance obligation under the AICPA code. Members may

add additional relationships or circumstances to the worksheet as they are identified. Use "Tab" to navigate through the fields. (Instructions for completing the conceptual framework worksheet are on page 10 of the conceptual framework toolkit.)

<p>Summary of the Relationship or Circumstances Provide a description of the relationship or circumstance that may create threats to compliance with the rules.</p>	<p>Step 1 Identify Threat(s) Describe the threat (adverse interest, advocacy, familiarity, self-interest, self-review and undue influence.) associated with this relationship or circumstance.</p>	<p>Step 2 Evaluate the Significance of Threat(s) Describe why the identified threats are or are not significant.</p>	<p>Step 3 Identify and Apply Safeguards Describe the safeguards identified that will be applied to eliminate or reduce threats to an acceptable level.</p>	<p>Step 4 Evaluate the Effectiveness of Safeguards Describe whether the safeguards applied would or would not eliminate or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, then document whether the firm can change the circumstance or relationship creating the threat or will decline or discontinue the engagement.</p>
Field A	Field B	Field C	Field D	Field E

CONCEPTUAL FRAMEWORK EXAMPLES

The following are examples of situations a member may encounter that the AICPA code does not address. These examples are not authoritative positions; rather, they demonstrate the use of the conceptual framework approach for members in business. Members should use professional judgment in determining whether threats are significant and, if so, determining whether safeguards would effectively reduce or eliminate those threats to an acceptable level.

Examples of situations that members may encounter if also working in public practice can be found in the "Conceptual Framework Toolkit for Members in Public Practice" and the "Conceptual Framework Toolkit for Independence."

Situation Involving a Potential Lack of Competence

A member is the CFO of a closely held company. The owner's nephew just graduated with an accounting degree and has no prior experience working in an accounting role. The owner is pressuring the member to hire his nephew as the controller.

The member decides to consider the matter under the conceptual framework to determine what threats may exist if he hires the nephew. The member reviews the description of the threats that are in the conceptual framework (paragraphs .09–.14) and believes the description of an undue influence threat is on point and is, in fact, example d ([A] member is pressured to hire an unqualified individual) mirrors his situation. Since the description of the threat explains, in part, that it is the threat that "a member will subordinate his or her judgment to that of an individual associated with the employing organization ..." he reviews the "Subordination of Judgment" interpretation (AICPA, *Professional Standards*, ET sec. 2.130.020). However, the member notes that this interpretation applies only when he has a difference of opinion that relates to the application of accounting principles, auditing standards, or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulation.

After further review of the conceptual framework, the member identifies the following possible threat and safeguard that he will evaluate.

Identified Threat: *The member believes that the undue influence threat to compliance with the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 2.300.001) is present. Specifically, the member believes the nephew does not have the appropriate level of competence to function as a controller, so if the member concedes to the pressure and hires the nephew to keep the owner of the company satisfied, the undue influence threat will exist.*

Possible Safeguard(s): If the member concludes that the threats to compliance with the rules are significant, an example of a safeguard the member may consider is putting controls in place, which will allow the member to closely supervise and review the nephew's work while training the nephew.



If the situation was modified such that the owner appointed the nephew to the board instead of hiring him as controller, the

"Subordination of Judgment" interpretation could be applicable if member later determines that the nephew was promoting a position that results in a material misrepresentation of fact or a violation of applicable laws or regulations.

CONCEPTUAL FRAMEWORK EXAMPLES continued

Investment in Employing Organization

A member graduates from college and secures an entry-level accounting position with a company. The member's mother is so excited and proud that she tells her daughter she purchased a small amount of stock in the company. The daughter recalls her accounting professor stressing that auditors should steer clear of investing in their clients and that even members in business could threaten their compliance with the code under certain circumstances. She decides to take a look at the code to refresh her memory.

In this situation the member believes that though there could be an appearance that the self-interest threat exists, after assessing the threat, she does not believe it to be significant (investment immaterial to mother and mother's investment results in insignificant ownership so no influence on management). As such, the member concludes that no safeguards need to be applied. If her mother makes further investments causing the investment to become material to her, the member should reassess her original evaluation.

Lucrative Bonus Program

A member is a manager in the finance department of a private company that is owned by investors. The investors control the board of directors (board). A lucrative, but complicated stock option program is in place for upper management who are not owners. Though the company is profitable, the program stipulates that certain thresholds must be met before upper management can earn stock options. One requirement is that actual sales must exceed the company's projected sales. The member is responsible for developing the sales projections that an independent third party uses to value the company's stock options. As a control, the individual who develops these projections is not eligible to participate in the stock option program and must provide a copy of the projections to the non-owner members of the board.

The member believes that the company will enter into between 10 and 20 major sales contracts in the upcoming year. The member decides to include only 10 major sales contracts in his projection so as to maximize the potential for upper management's stock option earnings, which would result in increased compensation to his direct superior.

While preparing projections, the member attends a CPE course that discusses the new conceptual framework. He is surprised to learn that the framework applies to him as a member in business. During a break he reviews the description of the threats that are in the conceptual framework (paragraphs .09-.14) and it occurs to him that the sales projections he is preparing might be a situation that should be analyzed using the conceptual framework. The member identifies the following possible threats and safeguard that he will evaluate.

Identified Threat(s): The [*advocacy*](#) and [*self-interest*](#) threats to compliance with the "[*Integrity and Objectivity Rule*](#)" are present because the member could be viewed as promoting the employing organization upper management's interests or position to the point that his objectivity is compromised and the member might benefit by receiving a bonus or raise from his direct superior who participates in the stock option program.

Possible Safeguard: If the member concludes that the threats to compliance with the rules are significant, an example of a safeguard the member may consider is to provide the board and third party with a full report that details how the projections submitted were calculated including providing information such as the projection methodology and assumptions, the ranges considered, the probability of each, and why the low end of the range was selected.

CONCEPTUAL FRAMEWORK WORKSHEET EXAMPLE

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

Kathleen graduated 10 years ago with a business degree and is employed at a large international company. Though she enjoys her current position in the risk management department, she is fascinated with the vast knowledge the staff of the internal audit department has about the inner workings of the company. So for the past three years she attended night school and spent her weekends doing class work and earned her master's in accounting three months ago and passed the CPA Exam last month.

During lunch she hears that the associate director of the internal audit department is leaving. She contacts the director of internal audit and he tells her that the position will be posted shortly. Kathleen applies and is hired.

The company lost three lawsuits recently and though this outcome was expected, the reserves booked were not adequate. When working in the risk management department Kathleen provided the accounting department with estimates regarding the potential losses for these lawsuits. Because of her background with the company's risk management function, the director of internal audit assigns her to oversee the audit of the accounting department's methodology for calculating reserves as well as auditing whether there was any deviation from that methodology in connection with the inadequate reserves that were booked. Although Kathleen understands the reasoning for her assignment (she worked closely with the accounting department in calculating the reserves) she decides to review the AICPA code for guidance on how to deal with this conflict. Kathleen did not find any guidance that specifically described this situation. However, she decides to consult the conceptual framework and emails the director the following analysis for his input.

Summary of the Relationship or Circumstances Provide a description of the relationship or circumstance that may create threats to compliance with the independence rule	Step 1 Identify Threat(s) Describe the threat (adverse interest , advocacy , familiarity , self-interest , self-review and undue influence) associated with this relationship or circumstance.	Step 2 Evaluate the Significance of Threat(s) Describe why the identified threats are or are not significant.	Step 3 Identify and Apply Safeguards Describe the safeguards identified that will be applied to eliminate or reduce threats to an acceptable level.	Step 4 Evaluate the Effectiveness of Safeguards Describe whether the safeguards applied would or would not eliminate or reduce the threat to an acceptable level. If you conclude that threats are not at an acceptable level, document whether the member or firm can change the circumstance or relationship creating the threat or will decline/discontinue the engagement.
I prepared information used by the accounting department in connection with its reserve calculation for pending lawsuits. I have now been asked to oversee the audit of the adequacy of the methodology used by the accounting department and to audit whether there were any deviations from that methodology for the three inadequate reserves.	The <i>self-review threat</i> is present. The <i>familiarity threat</i> is present.	The threat may be significant because of my prior involvement with the reserve calculations. The threat is significant because Jim could be too sympathetic to the audit client's interests or too accepting of the audit client's work or product.	I will have another member of the internal audit team review the testing done to determine whether there was any deviation from the methodology for the three reserves that were deemed inadequate. I will disclose in the internal audit report my past involvement with the reserve calculations.	Requiring another member of the internal audit team to review the testing done to determine whether there was any deviation from the methodology for the three services that were deemed inadequate combined with disclosure of my prior involvement with the reserve calculation will enable me to maintain the appropriate level of integrity and objectivity.
Conclusion	I have evaluated the identified threat and safeguards applied to eliminate or reduce any significant threats to an acceptable level as documented in this worksheet. Based on my evaluation, I have concluded that threats to compliance with the "Integrity and Objectivity Rule" are at an acceptable level.			

INSTRUCTIONS FOR COMPLETING THE CONCEPTUAL FRAMEWORK WORKSHEET

<p>After you complete field E and select "Tab" you will be asked if you are done with the worksheet. If you answer "Yes" then field F will appear. If you answer "No" then another set of blank fields A-E will appear. When you are done completing field F select "Tab" and you will be asked if you want to save the worksheet as a separate file.</p>	
Field A	In this field, type in a summary of the relationship or circumstance that you believe may create a threat to complying with the rules. Select "Tab" to move to field B.
Field B	In this field, identify the threats that you believe exist and describe why you believe they exist. Select "Tab" to move to field C.
Field C	In this field, describe why you believe the threats you have identified in field B are or are not significant. If you believe the threats are not significant, then you can stop here. If you believe they are significant, then proceed to field D. If you believe they are significant, then select "Tab" to proceed to field D.
Field D	In this field, describe which existing and new safeguards you applied. Examples of possible safeguards are included in paragraphs .19–.20 of the "Conceptual Framework for Members in Public Practice." Select "Tab" to move to field E.
Field E	<p>In this field, describe why you believe the safeguards applied do or do not eliminate or reduce the threats to an acceptable level. If you conclude that threats are not at an acceptable level, document your plan of action. For example, do you plan to change the relationship or circumstance so that the threats no longer exist or are not significant, or do you plan to not perform the attest engagement? Consider consulting paragraph .17 of the framework for examples of factors, which may aid in determining the effectiveness of a safeguard.</p> <p>When you are done entering content into this field select "Tab" and you will be asked if you are finished with this table. You should select "No" if you have identified another relationship or circumstance that you believe may create a threat to complying with the rules. After selecting "No" another row will appear in the table for you to complete. If you select "Yes" a "Conclusion" row (field F) will appear.</p>
Field F	In this field, document your conclusion about whether threats identified that may compromise compliance with the rules are at an acceptable level. When you are done completing this field, select "Tab" and you will be asked if you want to save the worksheet as a separate file. Select "Yes" if you do and "No" if you don't.



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By Dave McClain, CPA

September 1, 2018

As a trusted adviser, a CPA is often the first resource clients turn to for many financial issues. While often these questions are in the context of a service the CPA may already be engaged to provide (tax compliance, estate planning, etc.), it is not uncommon to receive other requests that seem simple but can carry unique challenges. One such request is for a third-party verification letter, often referred to as a "comfort letter."

Comfort letter requests increasingly come from a wide variety of sources, most commonly lenders, insurance providers, employers, and various government agencies. These requests can range from simple confirmations to requests that a CPA attest to the accuracy of a variety of information. Most commonly, these requests may ask that a CPA:

- Attest to the accuracy of an individual's income;
- Attest that an individual owns a business;
- Verify that an individual is self-employed;
- Provide assurance that a business will continue to be profitable; or
- Provide commentary on the effect that additional debt or a withdrawal of funds from a business would have on its continued operations.

Clients and the parties requesting those letters often turn to the CPA because they believe the CPA can provide reasonable assurance to the facts requested. Likewise, the CPA profession is client-centric and, as a result, the first inclination may be to view a response as a low-risk way to provide good client service. However, the combination of these expectations can lead to potential issues. These requests carry important considerations, both legal and ethical, that a CPA must consider before responding and in crafting an appropriate response.

Confidentiality

Paramount to any response is first considering the standards related to client confidentiality. The "Confidential Client Information Rule" of the AICPA *Code of Professional Conduct* (ET §1.700.001) establishes that confidential client information may not be disclosed without the client's specific consent. Further, Sec. 7216 imposes criminal penalties and fines on any return preparer who discloses taxpayer information without specific written consent from the client using specific language and formatting as outlined in Rev. Proc. 2013-14.

Businesses often turn to their CPA to provide tax return information as a part of these requests as a matter of convenience. It is often simpler and less time-consuming for them to ask the CPA to pull this information from his or her electronic files and pass it along to the party that made the request rather than gathering the information from their own personal files. Once the CPA explains the requirements of Sec. 7216, it often eliminates some of the convenience the clients were hoping to find. As a simple alternative, the CPA can send the requested information directly to the client, rather than to a third party. The client is free to pass this information along to whomever the client chooses. This provides an option for practitioners to provide a level of client service the client is hoping for without creating an ethical or legal issue.

Facts vs. attestation

At the heart of most of these requests is the question of attestation. Lenders, employers, government agencies, etc., are all trying to ascertain if the client has available funds, the ability to generate sufficient funds, or the means to service a level of debt. Unfortunately, most clients and, even more importantly, most parties making these requests often confuse a CPA's ability to confirm facts with the ability to provide additional attestation of the business's solvency.

CPAs can simply confirm the facts as they understand them. However, this is generally not what a client is ultimately requesting when seeking a comfort letter. The distinction between verifying facts and providing a level of attestation may be narrow, but this distinction separates providing client service from potentially creating a professional liability risk.

One common request is that the CPA confirm the income reported on a tax return is accurate. The attestation that the items of income and deduction reported on a return are in fact true and accurate is a very different assertion than that the items were reported based on information provided by the client. Section 10.34 of Circular 230, *Regulations Governing Practice Before the Internal Revenue Service* (31 C.F.R. Part 10), and Statement on Standards for Tax Services (SSTS) No. 3, *Certain Procedural Aspects of Preparing Returns*, generally provide that a tax preparer may rely on information a client has provided in the course of preparing a tax return absent contradictory information. Both these standards only set forth a requirement to make inquiries in the event the preparer has reason to believe the information provided is inaccurate or incomplete. This level of responsibility is significantly less than the level of professional responsibility required in an attest engagement.

In an attestation request, a statement that the income reported on a tax return is accurate would lead the party requesting this verification to believe that the CPA has undertaken certain procedures to verify the data provided are accurate. This belief could lead to a professional liability issue. For example, if a lender relied on the assertion that the income was accurate and, ultimately, it was incorrect and led to default on a loan, the lender could potentially sue the CPA for recovery of the funds, arguing that the CPA attested the income was accurate.

Rather than making a statement that items of income and deductions are accurate, a return preparer could instead provide a copy of the return as filed (provided the CPA complies with the disclosure requirements of Sec. 7216) along with a statement that the items reported on the return were from information the taxpayer furnished and that the return preparer did not audit or otherwise verify the information provided and is not providing any assurance as to the validity of the numbers as reported.

Representation of solvency

While requests to verify items of income and deductions are one common request, another common request concerns the taxpayer's solvency. Commonly, banks and other lenders ask a CPA to comment on a taxpayer's solvency, either in its current form or after considering the required cash flow to service the loan in question. Interpretation No. 1,

"Responding to Requests for Reports on Matters Relating to Solvency," of AT-C Section 105, *Statements on Standards for Attestation Engagements (AICPA Professional Standards, AT-C §9105, ¶¶.01-.11)*, prohibits a CPA from providing any level of assurance through any examination, review, or agreed-upon procedures that an entity is, or will continue to be, solvent, does not have an unreasonably small amount of capital, has the ability to make debt service payments, etc.

While from a client's or banker's perspective, a CPA is in a position to comment on the financial impact of debt service and solvency, whether a business is "insolvent" is a question of law rather than a pure accounting question. For this reason, the standards prohibit a CPA from making an assertion regarding solvency. A CPA can provide information that can assist the requesting party in making its own determination on solvency. For example, a CPA can provide audited or reviewed financial statements or agreed-upon procedures reports, so long as those engagements are entered into under the appropriate engagement standards and make no explicit attestation specifically regarding solvency.

Navigating the winding road of third-party verifications

It is important to remember that third parties requesting a form of verification are typically unaware of the various standards CPAs are required to adhere to. Likewise, many clients view these types of requests simply as part of the service CPAs offer their clients. While there are certain types of verification CPAs simply cannot offer, generally the first step in assisting a client is an in-depth discussion on what exactly the third party is truly attempting to verify. Once the need has been determined, a CPA should review the various standards to determine how to best respond.

Several AICPA resources are available to help assess how to respond to these requests. The AICPA Financial Reporting Center has a technical practice aid relating to comfort letters, which is available at www.aicpa.org. The AICPA Tax Section also has a [third-party verification toolkit](#) for practitioners. The AICPA Accounting and Auditing Technical Hotline is also available to assist with technical guidance on how a CPA may respond to these requests (877-242-7212; 9 a.m. to 8 p.m. ET, Monday-Friday).

Contributors

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Frequently Asked Questions: General ethics questions

As of March 20, 2018

AICPA Professional Ethics Division

Introduction

The answers to these frequently asked questions (FAQs) are based on guidance the AICPA Professional Ethics Division staff provided in response to members' inquiries. The FAQs are not rules, regulations, or statements of the Professional Ethics Executive Committee and, therefore, are not authoritative guidance. The [Conceptual Framework for Members in Public Practice](#) (ET sec. 1.000.010)¹ and the [Conceptual Framework for Members in Business](#) (ET sec. 2.000.010) should be used in conjunction with these FAQs. Further, the answers do not address the requirements of other regulatory bodies, such as the state boards of accountancy, the Securities and Exchange Commission (SEC), and the U.S. Government Accountability Office whose positions may differ from those of the AICPA.

Terms that are defined in the AICPA code appear in italic. The first time a defined term or citation to the AICPA code appears, it will be linked.

The date the FAQ was added or revised appears in brackets at the end of the answer. Dates are not given for purely editorial revisions (for example, revised citations for the code).

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¹ All ET sections can be found in AICPA *Professional Standards*.

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Blind trusts

Question. A [covered member](#) creates a blind trust and transfers assets into the blind trust. The *covered member* will not supervise or participate in the trust's investment decisions during the term of the trust. Will the trust and the underlying assets be considered the *covered member's direct financial interests*?

Answer. Although the *covered member* will not supervise or participate in the trust's investments decisions during the term of the trust, the trust and the underlying investments will be considered the *covered member's direct financial interest* if: (1) the *covered member* retains the right to amend or revoke the trust, or (2) the underlying trust investments will ultimately revert to the *covered member* as the grantor of the trust. See the "[Trusts Investments](#)" interpretation (ET sec. 1.245.020) under the "[Independence Rule](#)" (ET sec. 1.200.001) for other rights and responsibilities that would cause a trust and the underlying investments to be considered *direct financial interests* of a *covered member*. [December 2012]

Campaign contributions

Question. May a [member](#) make a political contribution to the campaign of an individual that is associated with an [attest client](#) in a [key position](#) or holds a [financial interest](#) in the *attest client* that is material and/or enables the individual to exercise [significant influence](#) over the *attest client* without [impairing independence](#) or violating any other rule of conduct?

Answer. Yes. A *member* would not *impair independence* or be in violation of any other rule of conduct provided the political contribution is not made with the intention of influencing the procurement of [professional services](#) or in contravention of federal or state laws or regulations. Related Guidance: "[Offering or Accepting Gifts or Entertainment](#)" interpretation (ET sec. 1.285.010) under the "Independence Rule" and "[Offering or Accepting Gifts or Entertainment](#)" interpretation (ET sec. 1.120.010) under the "Integrity and Objectivity Rule" (ET sec. 1.100.001) [August 2012]

Disclosure of commissions

Question. When is a *member* required to disclose to a [client](#) that a commission will be received under the "[Commissions and Referral Fees](#) Rule" (ET sec. 1.520.001)?

Answer. A *member* should disclose that a commission would be received at the time the referral is being made so that the *client* can decide whether to act on the recommendation.

Related Guidance: "[Receipt of a Commission](#)" interpretation (ET sec. 1.520.020) [August 2012]

Independent contractors

Question. Would *independence* be *impaired* if a CPA [firm](#) retained an independent contractor (as defined by IRS regulations and other federal regulatory guidance such as case law and revenue rulings) on a part-time basis that is employed by or associated with an *attest client* in a *key position*?

Answer. Yes. *Independence* would be *impaired* if an independent contractor retained by the *firm* was simultaneously employed by or associated with an *attest client* in a *key position*. However, if the independent contractor is employed by or associated with the *attest client* in a non-key position, a *member* should consider the following criteria when determining if *independence* (in fact and appearance) is *impaired*:

- a. Location of the *firm* [office](#) where the independent contractor will work in relation to the location of the office providing services to the *attest client*.
- b. Whether the independent contractor performs services for other *firms* or entities or solely to the *member's firm*. Factors to consider include but are not limited to:
 1. The percentage of income the individual derives from the *member's firm* in relation to the individual's total "self-employed" or earned income.
 2. The percentage of income the individual derives from the *client* entity in relation to the individual's total earned income.
 3. The amount of time the individual devotes to the *member's firm* versus time devoted to the *attest client*.
 4. The amount of time the individual devotes to the *member's firm* versus time devoted to other *firms* or entities.

In situations in which the [threats](#) to *independence* (in fact or appearance) are deemed not significant, the *member* or the *member's firm* should consider the potential conflict of interest arising from such a relationship as set forth in the "[Conflicts of Interest for Members in Public Practice](#)" interpretation (ET sec. 1.110.010) under "Integrity and Objectivity Rule". If *threats* are deemed significant, the *member* should consider whether [safeguards](#) are available to eliminate or reduce them to an [acceptable level](#). If no *safeguards* could eliminate or reduce *threats* to an *acceptable level*, *independence* would be considered *impaired*.

Related Guidance: "[Conceptual Framework for Independence](#)" interpretation (ET sec. 1.210.010). [August 2012]

Letter of intent to purchase practice

Question. Would *independence* be *impaired* under the "Independence Rule" if a *member* enters into a non-binding letter of intent to sell his or her practice to a purchaser that is not *independent* with respect to one or more of the *member's attest clients*?

Answer. No. A non-binding letter of intent to sell the *member's* practice would not *impair* the *independence* of the *member* if the purchaser is not *independent* with respect to one or more of the *member's attest clients*. [August 2013]

Pro bono/below cost fees

Question. May a *member* perform *professional services* for a *client* for no fee or for a fee that is below cost without *impairing independence* or violating any other rule of conduct?

Answer. Yes. However, regardless of what fee is charged, *members* are required to comply with all professional standards that are applicable to the services performed. For example, a *member* must comply with the “[General Standards Rule](#)” (ET sec. 1.300.001), which requires *members* to

- only undertake those *professional services* that the *member* or the *member’s firm* can reasonably expect to be completed with professional competence.
- exercise due professional care in the performance of *professional services*.
- adequately plan and supervise the performance of *professional services*.
- obtain relevant data to afford a reasonable basis for conclusions or recommendations in relation to any *professional services* performed.

The *member’s* state board(s) of accountancy may have rules that are more restrictive than provided in the above guidance. Accordingly, *members* should consult with their state board(s) of accountancy for guidance.

Professional services performed for a *client* for no fee or a fee below cost would not be considered a gift for purposes of applying the “[Gifts and Entertainment](#)” subtopic (ET sec. 1.120.010) of the “Integrity and Objectivity Rule” and the “[Gifts and Entertainment](#)” subtopic (ET sec. 1.285.010) of the “Independence Rule.”

Related Guidance: “Independence Rule”, “[Unpaid Fees](#)” interpretation (ET sec. 1.230.010), “Integrity and Objectivity Rule,” “General Standards Rule,” “[Compliance with Standards Rule](#)” (ET sec. 1.310.001), “[Accounting Principles Rule](#)” (ET sec. 1.320.001), “[Confidential Client Information Rule](#)” (ET sec. 1.700.001), “[Contingent Fee Rule](#)” (ET sec. 1.510.001), “[Commissions and Referral Fees Rule](#)” (ET sec. 1.520.001), “[Acts Discreditable Rule](#)” (ET sec. 1.400.001), “[Advertising and Other Forms of Solicitation Rule](#)” (ET sec. 1.600.001). [August 2012; Revised August 2014]

Compliance with SSCS’s when member does not hold out as CPA

Question. The “Compliance with Standards Rule” requires that a *member* who performs *professional services*, including consulting services, comply with standards promulgated by bodies designated by [Council](#), regardless of whether the *member* is holding out as a CPA. The standards applicable to members performing consulting services are set forth in the Statements on Standards for Consulting Services (SSCSs) and specifically state that such standards apply to *members* holding out as a CPA while providing consulting services. Would a *member* who does not hold out as a CPA be in compliance with “Compliance with Standards Rule” if the member did not comply with the SSCSs while performing consulting services for a *client*?

Answer. Yes. Because the SSCSs apply to those *members* holding out as CPAs, a *member* who does not hold out as a CPA would not be in violation of “Compliance with Standards Rule” if the *member* performed consulting services that did not comply with the SSCSs. The *member* must

still comply with all other rules of the code, including the “General Standards Rule” which requires that the member comply with the following standards:

- a. Professional Competence. Undertake only those *professional services* that the member or the member's *firm* can reasonably expect to be completed with professional competence.
- b. Due Professional Care. Exercise due professional care in the performance of *professional services*.
- c. Planning and Supervision. Adequately plan and supervise the performance of *professional services*.
- d. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any *professional services* performed.

Use of standards that have not been established by a body designated by AICPA Council

Question 1: May a *member* perform a *professional service* using standards that have not been established by a body designated by AICPA Council, as set forth in [appendix A](#), “Council Resolution Designating Bodies to Promulgate Technical Standards” (Council resolution) (ET appendix A) of the AICPA Code of Professional Conduct (hereinafter referred to as “alternative standards”)?

Answer 1: Yes, there are circumstances in which a *member* is permitted to perform a *professional service* using alternative standards. However, the *member* must consider whether the *professional service* can be covered by technical standards established by a body designated by AICPA Council (hereinafter referred to as “established standards”). Examples of such standards are the Statements on Auditing Standards (SASs), Statements on Standards for Attestation Engagements (SSAEs), Statements on Standards for Accounting and Review Services (SSARs) and Statement on Standards for Consulting Services (SSCS). The “Compliance With Standards Rule” (ET sec. [1.310.001](#) and [2.310.001](#)) states the following:

A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.

The [Council resolution](#) sets forth those bodies designated by Council to promulgate technical standards and includes AICPA standard-setting bodies, such as the Accounting and Review Services Committee (ARSC), Auditing Standards Board (ASB), and Management Consulting Services Executive Committee. (See all bodies designated by Council at [appendix A](#)).

When a *member* is engaged to perform a *professional service* that can be covered by established standards, the *member* must perform the service using such established standards. The *member* is permitted to also apply any relevant alternative standards.

When a *member* is engaged to perform a *professional service* that, based on his or her professional judgment, cannot be covered by established standards, the *member* will not be

considered to be in violation of the “Compliance With Standards Rule” if only the alternative standards are applied.

Irrespective of the *professional service* performed by the *member* and whether he or she applies established or alternative standards, or both, the *member* must always comply with the “General Standards Rule” (ET sec. [1.300.001](#) and [2.300.001](#)) when performing any *professional service*. This rule requires that a *member* comply with the following standards:

- a. Professional competence. Undertake only those professional services that the member or the member’s *firm* can reasonably expect to be completed with professional competence.
- b. Due professional care. Exercise due professional care in the performance of professional services.
- c. Planning and supervision. Adequately plan and supervise the performance of professional services.
- d. Sufficient relevant data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Members should also be aware that laws or regulations, including state boards of accountancy rules and regulations, may require the *professional service* to be performed under established standards. [May 2016]

Form of communication

Question. The “[Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice](#)” interpretation [1.400.205] requires certain communications to the *client* be in writing. Would electronic communications such as email be an acceptable form of communication?

Answer. Yes, provided electronic communication is considered an acceptable form of written notice to the *client* under the applicable state law. [August 2016]

Transfer of files to another partner in the firm

Question. When a [partner](#) leaves a *firm* and his or her *clients* are transferred to another *partner* in the *firm*, do the requirements of the “Transfer of Files and Return of Client Records in Sales, Transfer, Discontinuance or Acquisition of Practice” interpretation need to be applied?

Answer. No. In such situations the ownership of the *firm* has not been transferred outside of the *firm*, rather the *clients* have only been reassigned to a different *partner* in the *firm*. [August 2016]

Transfer of client files in a merger

Question. The “[Confidential Client Information Rule](#)” does not prohibit the review of a member’s professional practice, which, per the “[Disclosing Client Information in Connection With a Review or Acquisition of the Member’s Practice](#)” interpretation, includes a review performed in conjunction with a prospective purchase, sale, or merger of all or part of a member’s practice. Would the “Confidential Client Information Rule” prohibit a member from disclosing confidential client information to the owners of the successor firm after the consummation of such a purchase, sale, or merge?

Answer. The “Confidential Client Information Rule” would not prohibit the member from disclosing confidential client information to the other owners of the successor firm after the purchase, sale, or merger of all, or part of, a member’s practice, provided the member retains an ownership interest in the successor firm and complies with the requirements of the “Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice. [May 2017]

Electronic records

Question 1: Are the electronic data files created when a *member* prepares a tax return for a *client* using the *member*’s own tax preparation software considered to be a *member*’s working paper or a member-prepared record as defined in the “[Records Requests](#)” interpretation (ET sec. 1.400.200), and must it be provided to the *client* upon request?”

Answer 1: The electronic tax data file would generally be considered a *member*’s working paper that has been created in the performance of the tax return preparation engagement but not a file that the *member* was specifically engaged to prepare (that is, the tax return is the work product the member has been engaged to prepare). The information contained in the tax data file is typically obtained from the *client*’s books and records as well as the *client*’s representations. Such information should therefore be available to the *client* through means other than the tax data file and the *client*’s tax return records would not be rendered incomplete without the tax data file. Accordingly, the tax data file would not meet the description of a member-prepared record. Working papers are considered to be the *member*’s property under the interpretation and therefore, a *member* would not be required to provide the electronic data file to the *client*.

However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the *member*. The *member* must observe the highest standard of professional conduct which exists in the matter. [August 2015]

Question 2: Are account grouping schedules, depreciation schedules and carryover schedules prepared by a *member* to support a *client's* business tax return considered to be a *member's* working paper or a member-prepared record as defined in the "[Records Requests](#)" interpretation and must they be provided to the *client* upon request?

Answer 2: Grouping schedules, depreciation schedules and carryover schedules, are considered member-prepared records. However, since the *client's* records would be incomplete without this information the *member* would need to provide them to the *client* unless fees remain unpaid for the tax engagement. [August 2015]

Question 3: Are the adjusting entries proposed by a *member* to reconcile a *client's* book and tax records considered to be a *member's* working paper or a member-prepared records as defined in the "[Records Requests](#)" interpretation and must they be provided to the *client* upon request?

Answer 3: These adjusting entries are considered member-prepared records. Since the *client's* records would be incomplete without this information the *member* would need to provide them to the *client* unless fees remain unpaid for the tax engagement. [August 2015]

Sample - Client Provided Records



25,000	2,000
4,000	500
<u>4,800</u>	<u>5,000</u>
33,800	<u>7,500</u>

- Balance Sheet and Income Statement
- Unadjusted Trial Balance
- Third-Party Tax Forms, such as 1099 series (MISC, DIV, INT, etc.)
- Original Receipts or Substantiation Logs
- Payroll or Sales Tax Reporting Returns



Sample - Member's Working Papers

- Adjusted Trial Balance
- Scan or Copy of Client Records with Footing and Notes
- Results of Research, Notes to File and Calculations



Sample - Member Prepared Records

- Tax Return Grouping Schedules
- Book and Tax Adjusting Entries (Schedule M Support)
- Depreciation Schedules, Carryover Schedules

[August 2015]

Long association of senior personnel of the engagement team

Question 1: Does the familiarity *threat* to *independence* increase when senior personnel² of the engagement team have been on the [attest engagement team](#) for a long period of time?

Answer 1: Yes, the familiarity *threat* to *independence* may increase when senior personnel serve on the *attest engagement team* for a long period of time. The senior personnel will need to determine the significance of these *threats* and relevant factors for evaluating the *threat* to *independence*. Some of the factors to consider are as follows:

- a. Factors relating to senior personnel who are on the *attest engagement team* may include these:
 - i. The overall length of the individual's relationship with the *attest client*, including whether such relationship existed while the individual was at a prior *firm*
 - ii. How long the individual has been on the *attest engagement team* and the nature of the roles performed
 - iii. The extent to which the work of the individual is directed, reviewed, and supervised by other senior personnel
 - iv. The extent to which, due to the individual's seniority, the individual has the ability to influence the outcome of the [attest engagement](#), for example, by making key decisions or directing the work of others on the *attest engagement team*
 - v. The closeness of the individual's personal relationship with the *attest client's* senior management or [those charged with governance](#)
 - vi. The nature, frequency, and extent of the interaction between the individual and the *attest client's* senior management or *those charged with governance*
- b. Factors relating to the *attest client* may include the following:
 - i. The *attest client's* accounting and financial reporting issues and whether they have changed
 - ii. Whether there have been any recent changes in senior management or *those charged with governance*
 - iii. Whether there have been any structural changes in the *attest client's* organization that affect the nature, frequency, and extent of interactions the *member* may have with senior management or *those charged with governance*

The combination of two or more factors may increase or reduce the significance of these *threats*. For example, familiarity *threats* created over time by an increasingly close relationship between the senior personnel on the *attest engagement team* and an individual in the *attest client's* senior management would be reduced by the departure of that individual in the *attest client's* senior

² For the purposes of this FAQ, senior personnel are defined as *partners*, *partner equivalents*, and any other individuals on the *attest engagement team* who have responsibility for decision making on significant auditing, accounting, and reporting matters that affect the results of the *attest engagement* and who maintain regular contact with *attest client* management or *those charged with governance*.

management and the start of a new relationship. This change in senior management at the *attest client* could reduce or eliminate the familiarity threat. [March 2018]

Question 2: Can the *firm* still perform the *attest engagement* if it has been determined that there is a significant familiarity *threat* to the “Independence Rule” because one or more senior personnel³ has served on the *attest engagement team* for a long period of time?

Answer 2: Yes, the *firm* may still be able to perform the *attest engagement*, if *safeguards* can be applied to eliminate the *threat* or reduce it to an *acceptable level*. Examples of such *safeguards* may include the following (this list is not all inclusive):

- a. Changing the role of the senior personnel on the *attest engagement team* or the nature and extent of the tasks the senior personnel performs
- b. Having a professional accountant who was not included in the *attest engagement team* review the work of the senior personnel
- c. Performing an independent internal or an external quality review of the *attest engagement*
- d. Rotating the senior personnel off the *attest engagement team* for an appropriate period based on the significance of the *threats*

If there are no *safeguards* that could be applied that would eliminate the *threat* or reduce it to an *acceptable level*, then *independence* will be *impaired*.

When the *member* applies *safeguards* to eliminate or reduce significant *threats* to an *acceptable level*, the *member* should document the identified *threats* and *safeguards* applied. [March 2018]

³ For the purposes of this FAQ, senior personnel are defined as *partners*, *partner equivalents*, and any other individuals on the *attest engagement team* who have responsibility for decision making on significant auditing, accounting, and reporting matters that affect the results of the *attest engagement* and who maintain regular contact with *attest client* management or *those charged with governance*.

Laws 2018, Chapter 268, SB 1443, which is effective August 3, 2018, is a collaborative work product of the Arizona Society of CPA's, the Arizona State Board of Accountancy (Board), and the Board's Law Review Advisory Committee. SB 1443 reduces regulation, fosters lean government, improves customer service, and supports the Board's mission to protect the public. The following is a section-by-section summary of the bill, which is followed by the full text of the chaptered bill.

Sec. 1 - 9-481. Audits of cities and towns; posting; budget

1. Makes technical and clarifying changes to update the word from licensed to certified.

Sec. 2 - 29-103. Partnerships not required to record certificate

2. Eliminates references to public accountants and makes conforming changes.

Sec. 3 - 32-701 – Definitions

3. The definition of "accounting services" is amended to include "attest services" and "compilation services" which are separately defined terms and to make conforming changes.
4. Eliminates the definition of "attestation" or "attest function" and replaces this term with attest services in three statutory citations including one in A.R.S. § 32-701 and in two in A.R.S. § 32-741.
5. Establishes a new definition for "business organization" which was needed because the term was introduced in A.R.S. § 32-731 relating to firm registration.
6. Establishes a definition for "compilation services". The term was already defined in Arizona Administrative Code, but it was necessary to move the definition to statute because the amendments in A.R.S. § 32-731 relating to firm registration use the term.
7. Establishes a new definition for "CPA designation" to simplify statutory language and makes conforming changes throughout statute, as applicable.
8. Updates the definition "disciplinary action" to include relinquishment and makes technical and conforming changes.
9. Amends the definition of firm to include a sole proprietorship or an individual which was necessary to support amendments to A.R.S. § 32-731 relating to firm registration.
10. Makes conforming changes to the definition of "jurisdiction".

11. Establishes a new definition for “office” which was necessary given its current use in A.R.S. § 32-725 regarding limited reciprocity privilege for firms and because the amendments to A.R.S. § 32-731 relating to firm registration use the term.
12. Eliminates the definition of the “practice of public accounting” because it is no longer necessary given the repeal of R4-1-455.03(D)(1) effective June 15, 2017 and the amendments to A.R.S. § 32-731 relating to firm registration which clarifies that firm registration is required for the performance of attest services and compilation services.
13. Moves the definition of principal place of business to A.R.S. § 32-725 regarding limited reciprocity privilege.
14. Eliminates the definition of public accountant.
15. Modifies the definition of related courses by changing “ethics” to “general ethics”.
16. Establishes a new definition for “sole proprietor” due to its new use in the amendments to A.R.S. § 32-731 relating to firm registration.
17. Establishes a new definition for “sole proprietorship” due to its new use in the amendments to A.R.S. § 32-731 relating to firm registration.

Sec. 4 - 32-703. Powers and duties; rules; executive director; advisory committees and individuals

18. Eliminates references to public accountants.
19. Clarifies that the Board’s advisory committees are appointed to assist the Board or the Board’s Executive Director.
20. Allows the Board to delegate power to the Executive Director specific licensing and regulatory authority to approve matters that are currently on the Board’s consent agenda to help business move at the speed of business.

Sec. 5 - 32-725. Limited reciprocity privilege; qualifications; definition

21. Clarifies the limited reciprocity privilege for individuals to include the requirement that an individual must not have or represent to have an office in this state.
22. Makes conforming changes to incorporate the newly defined term “CPA designation” and other technical and conforming changes to update statutory references.
23. Adds the definition of “principal place of business” which was moved from A.R.S. § 32-701 to A.R.S. § 32-725.

Sec. 6 - 32-729. Fees

24. Eliminates references to public accountants.

25. Repeals the reference to “sole practitioner” and replaces with sole proprietor or individual. This was a necessary conforming change due to the amendments to A.R.S. § 32-731 relating to firm registration.

26. Eliminates the reference to “certificate” relating to a reinstatement application fee for because firms reinstate a “registration” as well.

Sec. 7 - 32-730. Biennial registration; continuing professional education

27. Eliminates references to public accountants.

Sec. 8 - 32-730.01. Inactive status; exception

28. Adds a requirement which precludes a registrant from providing attest or compilation services in this state to qualify for or while on inactive status.

29. Clarifies that accounting services (other than attest or compilations services) cannot be provided for fee or other compensation in this state to qualify for or while on retired status.

30. Makes conforming changes to incorporate the newly defined term “CPA designation”.

31. Simplifies statute by moving the reactivation requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 9 - 32-730.02. Canceled status

32. Makes conforming changes to incorporate the newly defined term “CPA designation”.

33. Simplifies statute by moving the reinstatement requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 10 - 32-730.03. Expired status

34. Makes conforming changes to incorporate the newly defined term “CPA designation”.

35. Simplifies statute by moving the reinstatement requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 11 - 32-730.04. Retired status

36. Adds a requirement which precludes a registrant from providing attest or compilation services to qualify for or while on retired status.

37. Clarifies that accounting services (other than attest or compilations services) cannot be provided for fee or other compensation in this state while on retired status.
38. Eliminates references to public accountants.
39. Makes conforming changes to incorporate the newly defined term “CPA designation”.
40. Simplifies statute by moving the reactivation requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 12 - 32-730.05. Revoked status

41. Section A.R.S. § 32-741.03 is transferred and renumbered for placement as a newly created section A.R.S. § 32-730.05.
42. Makes conforming changes to incorporate the newly defined term “CPA designation”.
43. Eliminates the requirement to return a revoked certificate or provide an affidavit.
44. Simplifies statute by moving the reinstatement requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 13 - 32-730.06. Relinquished status

45. Section 32-741.04 is transferred and renumbered for placement as a newly created section A.R.S. § 32-730.06.
46. Clarifies that relinquishment applies to both individual certificates as well as firm registrations.
47. Simplifies statute by moving the reinstatement requirements from this section to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 14 - 32-731. Certified public accountant firm registration requirements; performance of attest and compilation services; definitions

48. Amends firm registration requirements to require a business organization that has a simple majority of the ownership, in terms of direct and indirect financial interests and voting rights, that belong to holders in good standing of certificates or licenses of CPAs in any jurisdiction that has an office in this state and either provides attest or compilation services or uses the CPA designation in its firm name to register as a firm.
49. Amends firm registration requirements to require a sole proprietorship whose owner is a CPA in good standing in this state and has an office in this state and either provides attest or

compilation services or uses the CPA designation in its firm name, unless the firm name is the name of the sole proprietor as registered with the board, to register as a firm.

50. Amends firm registration requirements to require an individual who is CPA in good standing in this state and performs attest or compilation services in this State, other than as an owner or employee of a sole proprietorship or business organization already subject to firm registration, or in the capacity as an employee of a governmental entity, to register as a firm.
51. Eliminates requirements for noncertified owners of a firm.
52. States that attest services and compilation services shall only be provided through a registered firm in good standing in this State.
53. Repeals various firm notification requirements and adds a new notification requirement regarding change in owners.
54. Eliminates references to public accountants.
55. Repeals the terms “partner” and replaces with the term “owner” which is much easier to understand since terms are different between business types (e.g., member for LLC’s, partner for partnership, shareholder for P.C.s)
56. Repeals the terms “partnership” and replaces with the term “firm” which is much easier to understand.
57. Establishes that a registrant is prohibited from using any firm name other than the firm name as registered by the Board (e.g., doing business as (DBAs).)
58. Establishes a definition of “good standing” for the purposes of the section relating to firm registration.

Sec. 15 - 32-732. Reactivation from inactive or retired status; reinstatement from canceled, expired, relinquished, or revoked status

59. Simplifies statute by creating this as a new section of law with the goal of consolidating all reactivation and reinstatement requirements in one section of law by moving the reactivation requirements for inactive and retired from A.R.S. § 32-730.01 and A.R.S. § 32-730.04 respectively and moving the reinstatement requirements for canceled, expired, relinquished, and revoked from A.R.S. §§ 32-730.02, 730.03, 32-741.04, and 32-741.03 respectively and the reinstatement requirements for firms from section A.R.S. § 32-742.
60. Provide for a new allowance for the Board to determine whether good cause exists for any conduct during the period of inactive or retired status that would have constituted a reason to revoke or suspend the certificate pursuant to A.R.S. § 32-741.

Sec. 16 - 32-741. Revocation or suspension of certificate; disciplinary action; letter of concern

61. Eliminates references to public accountants.

62. Makes conforming changes to change the term “attest function” and replaces with the term “attest services”.

Sec. 17 - 32-741.01. Suspension for nonregistration; expiration of certificate or registration

63. Makes conforming changes to incorporate the newly defined term “CPA designation”.

64. Changes from 12 to 3, the number of months before a registrant’s certificate expires for failure to timely register.

Sec. 18 - 32-741.02. Suspension for noncompliance with continuing education requirements; expiration of certificate

65. Makes conforming changes to incorporate the newly defined term “CPA designation”.

66. Changes from 12 to 6, the number of months before a registrant’s certificate expires for non-compliance with CPE.

Sec. 19 - 32-742. Revocation or suspension of firm's registration; failure to renew or reinstate; reinstatement; relinquishment

67. Eliminates the reference to public accounting which is no longer a defined term.

68. Provides flexibility through the granting of an extension to come into compliance with firm qualifications before the Board shall revoke a firm’s registration.

69. Simplifies statute by moving the reinstatement requirements from A.R.S. §32-742 to a newly created section A.R.S. § 32-732 to consolidate all reactivation and reinstatement requirements in one section of law.

Sec. 20 - 32-745. Employment of persons by accountants

70. Eliminates references to public accountants.

71. Replace the term “partnership” with “firm”.

Sec. 21 - 32-747. CPA designation; title; use; unlawful use; classification

72. Clarifies that the statute applies to a registrant which is a defined term (individual and firm) as prior statute was poorly drafted in this regard.

73. Reduces regulation by focusing only on the use of the CPA designation rather than other specific titles or titles or designations likely or intended to be confused with the CPA designation.

74. Repeals the fact that no corporation or PLLC shall be permitted to practice public accounting in this state.

75. Adds a provision to prohibit a firm from referring to itself as a CPA firm unless it has a simple majority of ownership, in terms of direct and indirect financial interests and voting rights, that belong to holders in good standing of certificates or licenses as CPAs in any jurisdiction.
76. Eliminates references to public accountants.
77. Simplifies the statute by eliminating unnecessary non-valued added language and makes technical and conforming changes to use of terms.

Sec. 22 - Repeal

78. Repeals section A.R.S. § 32-747.01 as it is no longer needed due to its incorporation into the content of section A.R.S. § 32-731 related to firm registration.

Sec. 23 - 32-748. Board review; executive director's actions

79. Provides for an appeal process for a person aggrieved by an action taken by the Executive Director.

Sec. 24 - 32-749. Confidential nature of information acquired by accountants; privilege; conditions for disclosure; public records; exceptions

80. Eliminates references to public accountants and makes technical changes.

Sec. 25 - 41-725. Comprehensive database of receipt of expenditures of state monies; local reporting; definition

81. Eliminates references to public accountants and makes technical and clarifying changes to update the word from licensed to certified.

Sec. 26 - 41-1279.07. Uniform expenditures reporting system; reports by counties, community college districts, cities and towns; certification and attestation; assistance by auditor general; violation; classification

82. Eliminates references to public accountants



SUMMARY OF NEW LEGISLATION FOR ARIZONA CPAs AND CPA FIRMS

*Arizona Society of CPA's, Arizona State Board of Accountancy (Board),
and the Board's Law Review Advisory Committee*

Laws 2018, Chapter 268, SB 1443, which is effective August 3, 2018, is a collaborative work product of the Arizona Society of CPA's, the Arizona State Board of Accountancy (Board), and the Board's Law Review Advisory Committee. SB 1443 reduces regulation, fosters lean government, improves customer service, and supports the Board's mission to protect the public.

An executive summary and a copy of SB 1443 can be found on the Board's website under News and Updates, but the following delineates the most substantive provisions of the legislation.

Reduced Regulation

Firm Registration

SB 1443 amends the definition of accounting services to include the terms attest and compilation services, which are separately defined statutory terms, and requires that the following register with the Board:

Partnership, PC, PLLC, LLC, or LLP

that meets all of the following criteria:



Has a simple majority of the ownership, in terms of direct and indirect financial interests and voting rights, that belong to holders in good standing of certificates or licenses as CPAs in any jurisdiction.

Has an office in this state.

Performs attest or compilation services OR uses the CPA designation in its business name.

Sole Proprietorship

that meets all of the following criteria:



Has an owner that is a CPA in good standing in this state.

Has an office in this state.

Performs attest or compilation services OR uses the CPA designation in its business name, unless the business name is the name of the sole proprietor as registered with the Board.

Individual

that meets all of the following criteria:



A CPA in good standing in this state.

Performs attest or compilation services in this state, other than as an owner or employee of a sole proprietorship, partnership, PC, PLLC, LLC, or LLP otherwise required to register as listed above or in the capacity as an employee of a governmental entity.



Current Law

To understand the legislative changes, it is helpful to understand the existing regulatory framework.

An individual must register a firm if the individual performs attest services.

A partnership, PC, PLLC, LLC, or LLP, that meets the statutory requirements, must register a firm if it engages in the practice of accounting, which means providing any of the following accounting services to a client or employer:

- a. Recording or summarizing financial transactions
- b. Bookkeeping
- c. Analyzing or verifying financial information
- d. Auditing
- e. Reviewing or compiling financial statements
- f. Reporting financial results
- g. Financial planning
- h. Tax services
- i. Consulting services

Unlawful Use of the Designation

Additionally, the Board’s unlawful use of the designation statute, A.R.S. § 32-747, was amended to limit its scope to the CPA designation. Current statute prohibits the use of other titles such as “chartered accountant”, “registered accountant”, “certified tax consultant”, or any other title or designation likely or intended to be confused with CPA. Modification of the unlawful use statute to focus on any unlawful use of the CPA designation allows other, new titles to come into play in the accounting profession (e.g. Chartered Global Management Accountant) without conflicting with the unlawful use statute. In practice, the Board historically has not received complaints about designations that are likely or intended to be confused with the CPA designation, while the complaints it does receive are specific to the unlawful use of the CPA designation.

Lean Government / Improved Customer Service

The Board’s statutes are also amended to streamline business procedures by allowing the Board to delegate to the Executive Director the authority to approve matters that are currently on the Board’s consent agenda.

Matters include, but are not limited to:

- ✓ The approval for applicants to sit for the Uniform CPA Exam
- ✓ The approval for applicants to be issued certificates as a CPA or to reactivate from an inactive or retired status, so individuals may more readily engage in business using the CPA designation, which they’ve worked so diligently to earn
- ✓ The approval of firm registrations so that firms may engage in business sooner
- ✓ The timely termination of discipline based on a registrant’s successful completion of requirements.

Benefits include:



Increase Efficiency



Cost Effectiveness



Customer Service

As way of background, the above-referenced matters would have previously been required to be formally approved by the Board, despite the substance of the review and work being done by the Board’s advisory committees or Board staff. Allowing the Board to delegate to the Executive Director the ability to approve these matters that have already been approved by one of the Board’s advisory committees in most instances, eliminates unnecessary administrative work, which in turn will improve business procedures and help the Board move at the speed of business. This will increase efficiency, cost effectiveness, and customer service through reducing approval times through the elimination of an additional month of wait time for a board action that does not involve any independent review by the Board.

Any recommendations for denial or non-compliance will still go before the Board for independent review and consideration. A new section of law, A.R.S. § 32-748, also provides a mechanism for registrants who are aggrieved by an action taken by the Executive Director to request Board review of the action. In practice, however, the delegation of authority will be limited to approvals which will mitigate any grievances.

Public Protection



Expiration of the CPA Certificate

To better fulfill the Board's mission to protect the public, SB 1443 reduces the time from one year to three and six months respectively before a certificate expires from being suspended for non-registration, pursuant to A.R.S. § 32-741.01, or suspended for non-compliance with CPE requirements, pursuant to A.R.S. § 32-741.02. CPAs whose certificates expire can apply for reinstatement.



Performance of Attest or Compilation Services

Pursuant to A.R.S. § 32-731(B), attest or compilation services shall be provided only through a registered firm in good standing in this state. A.R.S. § 32-731(l)(2), defines good standing for a firm as a status that allows the firm to use the CPA designation. This would mean a status of active or probation. If a firm is in a suspended status, including a suspension for non-registration, a firm would not be allowed to provide attest or compilation services.



Unlawful Use of the Designation

A firm may not refer to itself as a CPA firm unless it has a simple majority of the ownership in terms of direct and indirect financial interests and voting rights that belong to holders in good standing of certificates or licenses and CPAs in any jurisdiction. With the reduction in firm registration requirements, the Board wanted to ensure that a business that is engaged in the practice of accounting and provides accounting services for a client or employer other than attest or compilation services (e.g., tax, consulting, financial planning, bookkeeping, etc.) does not represent or hold itself out to the public via things like but not limited to their website, letterhead, or business cards as a CPA firm, unless the business has a simple majority of ownership of CPAs.



Firm Registration

Establishes that a registrant is prohibited from using any firm name (e.g., DBA) other than the firm name as registered by the Board.

Technical and Conforming Changes

Lastly, SB 1443 makes various technical and conforming changes to simplify and modernize the statutes, while also eliminating redundant and archaic language.



The consolidation of reactivation and reinstatement requirements into a new section, A.R.S. § 32-732. Currently, reactivation and reinstatement requirements are separated in their own respective sections in law. Merging these similar requirements into a single section allows for easier reference by the regulated community.



“Public accountant” is stricken throughout the statutes and will no longer be regulated since there are only three public accountants remaining; and the public accountant designation is no longer issued to applicants.



A new definition for “CPA designation” is established to simplify statutory language and conforming changes are made throughout statute.



The terms “partnership” and “partner” are repealed and replaced with the terms “firm” and “owner” respectively, which are easier to understand since terms are different between business types (e.g., member for LLC’s, partner for partnership, and shareholder for P.C.’s.)



SUMMARY OF RULEMAKING FOR UNIFORM CPA EXAM AND CERTIFICATION APPLICANTS AND ARIZONA CPAS

Arizona State Board of Accountancy

Effective February 4, 2019

The Arizona State Board of Accountancy (Board) will have new rules that impact the following:

1. Applicants for certification or who wish to sit for the Uniform CPA Exam that require a course-by-course evaluation from a foreign transcript evaluation service for education taken outside of the United States; and,
2. Continuing professional education requirements for CPAs.

A copy of this rulemaking can be found on the Board's website under News and Updates, but the following delineates the most substantive provisions of the rulemaking.



Foreign Transcript Evaluators

Currently, applicants for certification or who wish to sit for the Uniform CPA Exam, and who have taken education outside of the United States, are required to undertake a course-by-course evaluation of their education from a foreign transcript evaluation service that is a **member of either the National Association of Credential Evaluation Services (NACES) or the Association of International Credential Evaluators (AICE).**

Effective February 4, 2019, applicants for certification or who wish to sit for the Uniform CPA Exam, and who have taken education outside of the United States, are required to undertake a course-by-course evaluation of their education from the **National Association of State Boards of Accountancy International Evaluation Services (NIES).**

NIES' mission is dedicated to upholding the integrity of the U.S. CPA credential through expert evaluation of international coursework and stringent authentication of education.

For more information about NIES, see their website at:
<https://nasba.org/products/nasbainternationalevaluationservices/>



Continuing Professional Education (CPE)

CPE Reciprocity

Non-resident CPAs renewing their Arizona CPA certificate shall be determined to have met the CPE requirements of Arizona if they meet CPE requirements in the jurisdiction where the non-resident CPA's principal place of business is located.

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Nano-Learning CPE

CPAs may earn a maximum of four hours of CPE each renewal period by completing nano-learning courses. A nano-learning program is a tutorial program designed to permit a participant to learn a given subject in a ten-minute time frame, through the use of electronic media and without interaction with a real-time instructor.

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CPE Credit Increments

Apart from nano-learning, CPE will be credited in one-fifth and one-half hour increments for periods of not less than one class hour

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Reporting CPE for Renewal

CPAs will be required to report, at a minimum, only the statutorily-required hours of CPE for the registration period rather than the total CPE hours taken during the registration period. There is a continued benefit, however, to report total CPE hours taken. If CPE hours are not credited for a course during a review or audit of the CPE, then other CPE hours reported above the statutorily-required hours will be reviewed to determine if a different course can be credited prior to taking any action regarding non-compliance with CPE requirements.

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CPE Record Retention

CPAs shall maintain CPE records (transcripts, course outlines, and certificates of completion that include the registrant's name, course provider or sponsor, course title, credit hours and date of completion) for three years from the date the registration was dated as received by the Board for all CPE completed during the registration period, even if the only CPE reported on the registration was for the statutorily-required hours. Maintaining all CPE records help protect CPAs if a CPE deficiency is found.