

Professional Accounting Seminars, Inc.

Presents

**Ethics for NC CPAs:
The Keys to Integrity**

(1 CPE Credit Hour)

Instructor

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Ethics for North Carolina CPAs: The Keys to Integrity

Professional Accounting Seminars, Inc.

This seminar has the following learning objectives:

1. To learn the North Carolina ethics that relate to CPAs today.
2. To examine topics such as confidentiality, advertising and solicitation, contingent fees, commissions and referral fees, as well as the disciplinary actions that can be taken when we as CPAs fail to comply with the standards of the profession.
3. To spend time examining independence and the various ways that independence can be impaired.
4. To examine the ethics rules that apply to CPAs in industry with an emphasis on proper financial reporting practices.

The method of presentation is group-live instruction and the program level is basic. There are no prerequisites for this course nor is there any advanced preparation required.

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Introductory Discussion Questions

1. Why do we have a code of ethics in our profession? Should we eliminate the code and trust CPAs to do the right thing? If so, who should determine what is right and wrong?
2. Do you believe that management understands the ethical requirements of our profession? Why or why not? Should they understand these requirements? Give examples to support your response.
3. Does one have to be truthful all the time or are there exceptions? Do you think that competition in a world economy creates an environment for unethical behavior?
4. How did you personally establish the values you have today? What were the sources of your value system?
5. Do you believe that your values influence decisions you make on a daily basis? Why or why not? Can you give an example?
6. Can behavior be legal but not ethical? Can you provide an example of such a behavior?
7. Is ethical conduct valued in our culture in the United States?

Introduction to Ethics for CPAs

I. General Definition of Ethics

A. Ethics can be defined as a set of moral principles or values that guide one in decision-making. Examples would be:

1. Laws and regulations.
2. Code of business ethics for professional groups such as CPAs.
3. Church doctrines and beliefs.
4. Code of ethics within an organization.

B. Examples of broadly defined ethics:

1. **A concept of fairness and justice** – being impartial, equality, openness.
2. **Respect** – civility, dignity, courtesy to others, tolerance, and acceptance.
3. **Responsibility** – being accountable for one's actions, striving for excellence, perseverance, constantly improving one's skills.
4. **Trustworthiness** – honesty, loyal, reliable, a person of integrity.
5. **Caring** – being concerned for others.
6. **Being a good member of society** – obeying laws, serving others in society.

II. The Need for Ethics

A. Ethics is a necessity in order for society to function orderly. Without ethical behavior, mistrust and chaos will usually follow.

B. Many of our ethical values have found their way into our laws. However, many other values cannot be codified into law.

C. Imagine the chaos that would exist if no individual in our society ever told the truth or even if most people did not tell the truth.

III. **Reasons People Act Unethically**

- A. Unethical behavior can be defined as any behavior that differs from what society believes to be appropriate in a given circumstance.
- B. **People act unethically for two basic reason.**
 - 1. An individual's ethical standards differ from those of the society in which one lives.
 - a. An individual cheats on his or her tax return, lies to an employer, acts with hostility toward others and those behaviors are at odds with what society deems to be acceptable behaviors. This problem is often more prevalent between various cultures as well.
 - 2. The individual chooses to act selfishly.
 - a. An example of acting selfishly would be for an individual to find a wallet or purse and discover that there is a substantial amount of money in the wallet or purse. The individual takes the money and throws the wallet or purse on the ground. They brag to others about their good luck.

IV. **How Individuals Rationalize Unethical Behavior**

- A. There are many ways to resolve any ethical dilemma. However, one must be extremely careful not to fall into the following traps of rationalization:
 - 1. **"Everybody does it."** – Many will use this excuse for cheating on their tax return.
 - 2. **"I do not think I will get caught."** – An individual evaluates the probability of getting caught and suffering the consequences of an action. For example, you make a billing error for one of your customers. The customer pays the incorrect amount that is in your favor. You discover the error and decide not to tell the customer because you do not think there is a great likelihood of the customer discovering the mistake.
 - 3. **"If it is legal, it is ethical."** – There are many aspects of our judicial system based upon sound ethics. But not all ethical behavior will be deemed legal. With this philosophy, one would not attempt to find the owner of a lost object because they might not be required to do so by law.

4. **“No one told me that my behavior was unethical.”** – Many individuals can rationalize that their behavior is approved unless specifically prohibited by others.

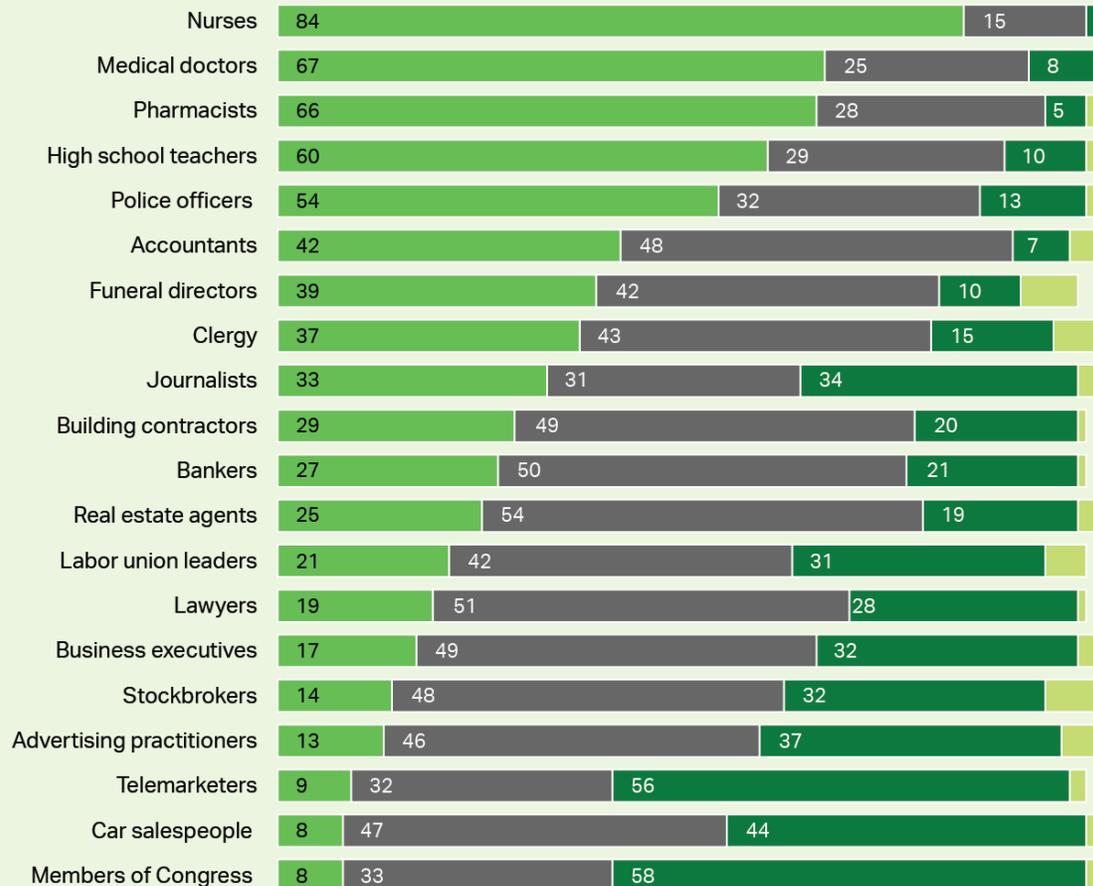
V. **The Need for Ethical Conduct in Professions Such as Accounting**

- A. Professions normally require a code of ethical conduct because outsiders do not have the knowledge necessary to evaluate the performance of the members of that profession due to the complexity of that profession. Professionals are usually required to operate at a higher level of responsibility than other jobs.
- B. In public accounting, our responsibility is different from other professions. Public accounting owes a duty to the client, to peers within the profession, and to outside parties who use the financial statements.
- C. A distinct increase in competition within our industry has put more pressure on CPAs and others within the profession to act in a professional or maybe unprofessional manner.
- D. It is vital that the public and the client view us as competent and unbiased. If we fail to persuade the users of financial data of these two goals, then the demand for our services will decline and the entire profession will suffer.

Gallup Honesty Survey of Professionals

Please tell me how you would rate the honesty and ethical standards of people in these different fields -- very high, high, average, low or very low?

■ % Very high/High ■ % Average ■ % Low/Very low ■ % No opinion



GALLUP, DEC. 3-12, 2018

It should be noted at in the most recent Gallup survey for 2020, accountants were not listed on his survey. This survey is a biennial survey.

VI. **A Framework for Resolving Ethical Dilemmas**

- A. An ethical dilemma is any situation one faces where one must choose between conflicting behaviors. There are six (6) steps to resolving ethical dilemmas.
1. Obtain the relevant facts.
 2. Identify the ethical issue(s) from the facts.
 3. Determine who is affected by the outcome of the dilemma and how each individual or group is affected.
 4. Identify the alternatives available to the individual who must resolve the dilemma.
 5. Identify the likely consequences of each alternative.
 6. Decide the appropriate action.

Practical Exercise for Application

Ethical Dilemma

Bill Fredericks is the CEO of Pegasus, Inc., a group of five successful restaurant chains in North Carolina. One member of the board of directors of Pegasus, Inc., Austin Williams, has a daughter named Maggie who just started Maggie's Linens, Inc. Her business provides restaurants with table linens. Austin approached Bill to explain Maggie's business. Maggie has adopted an environmental emphasis in the operation of the business as a way to counter the industry trend toward the use of paper products in restaurants. Austin initially recruited Bill as CEO, was instrumental in having the board select Bill, and is one of Bill's strongest backers on the board. Austin supported Bill when other board members were impatient with his new procedures, policies, and changes which have greatly enhanced the organization and made it more efficient and profitable.

Normally, when someone approaches Bill with information on a new supplier, he refers it to the purchasing department or refers the person directly to the manager of purchasing, Carly Riley. Bill offered Carly a brochure and business card for Maggie's Linens, Inc. and explained to Carly, "She is Austin Williams' daughter. She graduated in marketing from University of North Carolina last June and now has her own business. See what you can do to possibly help her. Our contract with Lily's Linens is up for renewal next month. Maybe we can do something for Maggie."

Carly evaluated Maggie's and Lily's proposals as well as that of an additional firm in making the purchasing decision. Although the pricing between Maggie's and Lily's is equivalent, Maggie's company is too young to have a track record, and Carly is not convinced that Maggie's can handle Pegasus, Inc. large account at this time. Given Austin's interest, however, Carly is confused about what recommendation to make.

1. Is there an ethical problem here? If so, what is the issue and who has the problem?
2. Would it be ethical for Bill to change Carly's decision if she decides to give all the business to Lily's?
3. Does Bill need to be concerned about how his intervention would reflect the "tone at the top"?
4. Can you solve the conflict without offending the director, Austin?

NC Code of Ethics for CPAs

SECTION .0100 – Scope and Applicability

21 NCAC 08N .0101 Scope of these Rules

(a) The rules in this Subchapter are the Rules of Professional Ethics and Conduct that G.S. 93-12(9) authorizes the Board to adopt. As such, they complement the other statutory causes for discipline set out in G.S. 93-12 (9)(a) through (d) and other provisions of G.S. 93, 55B, 57D, and 59-84.2. These Rules cover a broad range of behavior and shall not enumerate every possible unethical act.

(b) In the interpretation and enforcement of these Rules, the Board will consider the following without dispositive weight: relevant interpretations, rulings and opinions issued by the boards of other jurisdictions and by appropriately authorized ethics committees of professional organizations.

21 NCAC 08N .0102 Applicability and Organization of Rules

These Rules are applicable to all certificate holders. Rules in Section .0200 of this Subchapter relate to CPAs whether or not employed in the public practice of accountancy. Rules in Section .0300 of this Subchapter pertain to CPAs using the CPA title in connection with providing products or services to clients. Rules in Section .0400 of this Subchapter pertain to CPAs whenever engaged in attest services.

21 NCAC 08N .0103 Responsibility for Compliance by Others

A CPA and CPA firm shall be responsible for assuring compliance with the rules in this Subchapter by anyone who is the CPA's partner, fellow shareholder, member, officer, director, licensed employee, unlicensed employee or agent or unlicensed principal, or by anyone whom the CPA supervises. A CPA or CPA firm shall not permit others (including affiliated entities) to carry out on the CPA's behalf, with or without compensation, acts that if carried out by the CPA would be a violation of these Rules.

Section .0200 – Rules Applicable to All CPAs

21 NCAC 08N .0201 Integrity

The reliance of the public and the business community on sound financial reporting and advice on business affairs imposes on the accounting profession an obligation to maintain high standards of technical competence, morality, and integrity. A CPA shall at all times maintain independence of thought and action, hold the affairs of clients in strict confidence, strive continuously to improve professional skills, observe generally accepted accounting principles and standards, promote sound and informative financial reporting, uphold the dignity and honor of the accounting profession, and maintain high standards of personal conduct.

21 NCAC 08N .0202 Deceptive Conduct Prohibited

(a) A CPA shall not engage in deceptive conduct. "Deception" means any fraud, misrepresentations, representations, or omissions that a CPA either knew or should have known to have a capacity or tendency to be misleading. Deceptive conduct shall be prohibited whether or not anyone has actually been deceived.

(b) Prohibited conduct under this Section includes deception in:

(1) obtaining or maintaining employment;

(2) obtaining or keeping clients;

(3) obtaining or maintaining certification, inactive status, or exemption from peer review;

(4) reporting CPE credits;

(5) certifying the character or experience of exam or certificate applicants;

(6) implying abilities not supported by education, professional attainments, or licensing recognition;

(7) asserting that services or products sold in connection with use of the CPA title are of a particular quality or standard when they are not;

(8) creating false or unjustified expectations of favorable results;

(9) using or permitting another to use the CPA title in a form of business not permitted by the accountancy statutes or rules;

(10) permitting anyone not certified in this State (including one licensed in another jurisdiction) to unlawfully use the CPA title in this State or to unlawfully operate as a CPA firm in this State; or

(11) falsifying a review, report, or any required program or checklist of any peer review program.

21 NCAC 08N .0203 Discreditable Conduct Prohibited

(a) A CPA shall not engage in conduct discreditable to the accounting profession.

(b) Prohibited discreditable conduct includes:

(1) acts that reflect adversely on the CPA's honesty, integrity, trustworthiness, good moral character, or fitness as a CPA;

(2) stating or implying an ability to improperly influence a governmental agency or official;

(3) failing to comply with any order issued by the Board;

(4) failing to fulfill the terms of a peer review engagement contract;

(5) misrepresentation in reporting CPE credits;

(6) entering into any settlement or other resolution of a dispute that purports to keep its contents confidential from the Board; or

(7) failing to participate in a peer review program pursuant to 21 NCAC 08M .0105.

21 NCAC 08N .0204 Discipline by Federal and State Authorities

(a) **Violations of Other Authorities' Laws or Rules.** A CPA shall not act in a way that would cause the CPA to be disciplined by federal or state agencies or boards for violations of laws or rules on ethics. CPAs who engage in activities regulated by other federal or state authorities (may include the following agencies: Internal Revenue Service, Department of Revenue, U.S. Securities and Exchange Commission, State Bar, North Carolina Secretary of State, Public Company Accounting Oversight Board, National Association of Securities Dealers, Department of Insurance, Government Accountability Office, U.S. Department of Housing and Urban Development, State Auditor, State Treasurer, or Local Government Commission) shall comply with all such authorities' ethics laws and rules.

(b) **Prima Facie Evidence.** A conviction or final finding of unethical conduct by a competent authority is prima facie evidence of a violation of this Rule.

(c) **Notice to the Board Required.** A CPA shall notify the Board in writing within 30 days of any conviction or finding against him or her of unlawful conduct by any federal or state court or regulatory authority.

21 NCAC 08N .0205 Confidentiality

(a) **Nondisclosure.** A CPA shall not disclose any confidential information obtained in the course of employment or a professional engagement except with the consent of the employer or client.

(b) **Exceptions. This Rule shall not be construed:**

(1) to relieve a CPA of any reporting obligations pertaining to Section .0400 of this Subchapter;

(2) to affect in any way the CPA's compliance with an order of a court or a validly issued subpoena by this Board;

(3) to preclude the CPA from responding to any inquiry made by the AICPA Ethics Division or Trial Board, by a duly constituted investigative or disciplinary body of a state CPA society, or under state statutes;

(4) to preclude the disclosure of confidential client information necessary for the peer review process or for any quality review program;

(5) to preclude the CPA from assisting the Board in enforcing the accountancy statutes and rules;

(6) to affect a CPA's disclosure of confidential information to state or federal authorities when the CPA concludes in good faith based upon professional judgment that a crime is being or is likely to be committed; or

(7) to affect a CPA's disclosure of confidential information when such disclosure is required by state or federal laws or regulations.

21 NCAC 08N .0206 Cooperation with Board Inquiry

A CPA shall provide full cooperation in connection with any inquiry made by the Board. Full cooperation includes responding within 21 days to all inquiries of the Board or representatives of the Board and claiming Board correspondence from the U.S. Postal Service, private delivery service, or personal delivery.

21 NCAC 08N .0207 Violation of Tax Laws

A CPA shall not knowingly violate any state or federal tax laws or regulations in handling the CPA's personal business affairs, the business affairs of an employer or client, or the business affairs of any company owned by the CPA.

21 NCAC 08N .0208 Reporting Convictions, Judgments, and Disciplinary Actions

(a) Criminal Actions. A CPA shall notify the Board within 30 days of any conviction or finding of guilt of, pleading of nolo contendere, or receiving a prayer for judgment continued to any criminal offense.

(b) Civil Actions. A CPA shall notify the Board within 30 days of any judgment or settlement in a civil suit, bankruptcy action, administrative proceeding, or binding arbitration that:

(1) is grounded upon an allegation of professional negligence, gross negligence, dishonesty, fraud, misrepresentation, incompetence, or violation of any federal or state tax law and

(2) was brought against either the CPA or a North Carolina office of a CPA firm of which the CPA was a managing owner.

(c) Settlements. A CPA shall notify the Board within 30 days of any written settlement in which a client or former client releases the CPA from liability that is grounded upon an allegation of professional negligence; gross negligence; dishonesty; fraud; misrepresentation; incompetence; or violation of any federal, state, or local law, regardless of whether the client or former client has filed a civil suit or criminal charge.

(d) Investigations. A CPA shall notify the Board within 30 days of any inquiry or investigation by the criminal investigation divisions of the Internal Revenue Service

(IRS) or any state department of revenue pertaining to any personal or business tax matters.

(e) Liens. A CPA shall notify the Board within 30 days of the filing of any liens by the Internal Revenue Service (IRS) or any state department of revenue regarding the failure to pay or apparent failure to pay for any amounts due for any tax matters.

21 NCAC 08N .0209 Accounting Principles

(a) Generally Accepted Accounting Principles. A CPA shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle that has a material effect on the statements taken as a whole, unless the CPA can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases the CPA's report shall describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

(b) Financial Accounting Standards Board Accounting Standards Codification. The Financial Accounting Standards Board Accounting Standards Codification, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered generally accepted accounting principles for the purposes of Paragraph (a) of this Rule.

(c) Copies of Standards. Copies of the Financial Accounting Standards Board Accounting Standards Codification may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the FASB, Post Office Box 5116, Norwalk, CT 06856 as part of the "FASB Accounting Standards." They are available at cost, which is two hundred fifteen dollars (\$215.00) in paperback form.

21 NCAC 08N .0211 Responsibilities in Tax Practice

(a) Standards for Tax Services. A CPA shall not render services in the area of taxation unless the CPA has complied with the standards for tax services.

(b) Statements on Standards for Tax Services. The Statements on Standards for Tax Services issued by the AICPA, including subsequent amendments and editions, are hereby incorporated by reference, as provided by G.S. 150B-21.6, and shall be considered as the standards for tax services for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Standards. Copies of the Statements on Standards for Tax Services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC, 27707 as part of the "AICPA Professional Standards." They are available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in online subscription form.

21 NCAC 08N .0212 Competence

A CPA shall perform professional services competently and shall:

- (1) undertake only those engagements that the CPA or CPA's firm can expect to complete with professional competence;
- (2) exercise due professional care in the performance of an engagement;
- (3) adequately plan and supervise an engagement; and
- (4) obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

21 NCAC 08N .0213 Other Rules

A CPA shall not willfully violate any other rule in this Chapter nor any other provision of the Accountancy Statutes, the Professional Corporation Act, the Partnership Act, or the North Carolina Limited Liability Company Act.

21 NCAC 08N .0214 Outsourcing to Third-Party Service Providers

- (a) A CPA shall provide a written disclosure in advance of the outsourcing to the client that he or she is using a third-party provider to assist the CPA in providing any professional services to the client.
- (b) A CPA outsourcing professional services to a third-party provider shall be responsible for ensuring a third-party provider is in compliance with all rules of Professional of Conduct and Ethics in this Subchapter.

21 NCAC 08N .0215 International Financial Accounting Standards

- (a) International Financial Accounting Standards. A CPA shall not express an opinion that financial statements are presented in accordance with international financial accounting standards if such statements contain any departure from an accounting standard that has a material effect on the statements, taken as a whole, unless the CPA can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases, the CPA's report shall describe the departure, the approximate effect thereof if practicable, and the reason(s) why compliance with the standard would result in a misleading statement.
- (b) International Financial Accounting Standards consist of the following:
 - (1) International Financial Reporting Standards (IFRS) issued after 2001;
 - (2) International Accounting Standards (IAS) issued before 2001;
 - (3) Interpretations originated from the International Financial Reporting Interpretations Committee (IFRIC) issued after 2001; and

(4) Standing Interpretations Committee (SIC) issued before 2001.

(c) Copies of Standards. Copies of International Financial Accounting Standards may be inspected in the office of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the International Accounting Standards Board, IASC Foundation Publications Department, 30 Cannon Street, London, EC4M6XH, United Kingdom. They are available at cost, which is approximately one hundred two dollars (\$102.00) in paperback form or four hundred thirty-two dollars (\$432.00) in loose-leaf subscription form.

Section .0300 – Rules Applicable to all CPAs Who Use the CPA Title in Offering or Rendering Products or Services to Clients

21 NCAC 08N .0301 Professional Judgment

(a) Professional Judgment. A CPA shall not subordinate the CPA’s professional judgment to non-CPAs.

(b) Tax Practice. In tax practice, the CPA may resolve doubt in favor of the CPA’s client as long as there is reasonable support for the CPA’s position.

21 NCAC 08N .0302 Forms of Practice

(a) Authorized Forms of Practice. A CPA who uses CPA in or with the name of the business or offers or renders audits, reviews, compilations, agreed-upon procedure or engagement services performed in accordance with the standards in 21 NCAC 08A .0301(b)(5) in the public practice of accountancy to clients shall do so only through a registered sole proprietorship, partnership, Professional Corporation, Professional Limited Liability Company, or Registered Limited Liability Partnership.

(b) Authorized Ownership. A CPA firm may have an ownership of up to 49 percent by non-CPAs. A CPA firm shall have ownership of at least 51 percent and be controlled in law and fact by holders of valid CPA certificates who have the unrestricted privilege to use the CPA title and to practice public accountancy in a jurisdiction and at least one of whom shall be licensed by this Board.

(c) CPA Firm Registration Required. A CPA shall not offer or render professional services through a CPA firm that is in violation of the registration requirements of 21 NCAC 08J .0108, 08J .0110, or 08M .0105.

(d) Supervision of CPA Firms. Every North Carolina office of a CPA firm registered in North Carolina shall be actively and locally supervised by a designated actively licensed North Carolina CPA whose primary responsibility and a corresponding amount of time shall be work performed in that office.

(e) CPA Firm Requirements for CPA Ownership. A CPA firm and its designated supervising CPA shall be accountable for the following in regard to a CPA owner:

(1) a CPA owner shall be a natural person or a general partnership or a limited liability partnership directly owned by natural persons;

(2) a CPA owner shall actively participate in the business of the CPA firm; and

(3) a CPA owner who, prior to January 1, 2006, is not actively participating in the CPA firm may continue as an owner until such time as his or her ownership is terminated.

(f) CPA Firm Requirements for Non-CPA Ownership. A CPA firm and its designated supervising CPA owner shall be accountable for the following in regard to a non-CPA owner:

(1) a non-CPA owner shall be a natural person or a general partnership or limited liability partnership directly owned by natural persons;

(2) a non-CPA owner shall actively participate in the business of the firm or an affiliated entity as his or her principal occupation;

(3) a non-CPA owner shall comply with all applicable accountancy statutes and the rules as set forth in G.S. 93 and all rules in this Chapter.

(4) a non-CPA owner shall be of good moral character and shall be dismissed and disqualified from ownership for any conduct that, if committed by a licensee, would result in a discipline pursuant to G.S. 93-12(9); and

(5) a non-CPA owner shall report his or her name, home address, phone number, social security number, and Federal Tax ID number (if any) on the CPA firm's registration.

21 NCAC 08N .0303 Objectivity and Conflicts of Interest

(a) Personal Financial Interest in Advice. When offering or rendering accounting or related financial, tax, or management advice, a CPA shall be objective and shall not place the CPA's own financial interests nor the financial interests of a third party ahead of the legitimate financial interests of the CPA's client or the public in any context in which a client or the public can reasonably expect objectivity from one using the CPA title.

(b) Expectation of Objectivity Presumed. If the CPA uses the CPA title in any way to obtain or maintain a client relationship, the Board shall presume the reasonable expectation of objectivity.

(c) Acceptance of a Commission or Referral Fee. A CPA shall not recommend or refer to a client any product or service for a commission; recommend or refer any product or service to be supplied by a client; or receive a commission, when the CPA also performs the following for the client:

(1) an audit or review of a financial statement;

(2) a compilation of a financial statement when the CPA expects, or reasonably might expect, that a third party will use the financial statement and the CPA's compilation report does not disclose a lack of independence; or

(3) an examination of prospective financial information.

This prohibition applies during the period in which the CPA is engaged to perform any of the services listed in Paragraph (c) of this Rule and the period covered by any historical financial statements involved in such listed services.

(d) Acceptance of a Contingent Fee.

(1) The offering or rendering of professional services for, or the receipt of, a contingent fee by a CPA **shall not be prohibited except for** engaging to render or rendering by a CPA:

(A) of professional services for any person for whom **the CPA also performs attest services**, during the period of the attest services engagement, and the period covered by any historical financial statements involved in such attest services; and

(B) for the **preparation of original or amended tax returns or claims for tax refunds.**

(2) Fees **shall not be regarded as being contingent if fixed by courts or other public authorities or, in tax matters**, if determined based on the results of judicial proceedings or the findings of governmental agencies.

(e) **A CPA shall communicate in advance** to a client the scope of services or products to be rendered or referred for which the CPA will receive a commission, referral, or contingent fee. A CPA shall provide disclosure in a written statement within ten business days of the service or product to be rendered or referred with the commission, referral, or contingent fee to be charged or received by the CPA.

21 NCAC 08N .0304 Consulting Services Standards

(a) Standards for Consulting Services. A CPA shall not render consulting services unless the CPA has complied with the standards for consulting services.

(b) Statements on Standards for Consulting Services. The Statements on Standards for Consulting Services (including the definition of such services) issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for consulting services for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statements on Standards for Consulting Services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC

27707 as part of the “AICPA Professional Standards.” They are available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in on-line subscription form.

21 NCAC 08N .0305 Retention of Client Records

(a) A CPA shall return client-provided records in the CPA’s custody or control to the client at the client’s request. 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 CPA by, or on behalf of, the client.

(b) Unless a CPA and the client have agreed to the contrary, when a client makes a request for CPA prepared records or a CPA’s work products that are in the CPA’s custody or control that have not previously been provided to the client, the CPA shall respond to the client’s request as follows:

(1) The CPA shall provide CPA 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 CPA for that specific work product; and

(2) CPA’s work products shall be provided to the client, except that such work products may be withheld:

(a) if fees are due to the CPA for the specific work product;

(b) if the work product is incomplete;

(c) if for purpose of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or

(d) if threatened or outstanding litigation exists concerning the engagement or CPA’s work.

(c) CPA prepared records are accounting or other records that the CPA 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 CPA proposed or prepared as part of an engagement, (for an example, an audit). CPA’s work products are deliverables set forth in the terms of the engagement, such as tax returns.

(d) Once a CPA has complied with these requirements, he or she shall not be under any further ethical obligation to:

(1) comply with any subsequent requests to again provide records or copies of records described in Paragraphs (a) and (b) of this Rule. If subsequent to complying with a

request, a client experiences a loss of records due to a natural disaster, the CPA shall comply with an additional request to provide such records; and

(2) retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.

(e) A CPA 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, shall not be obligated to provide such records to other individuals associated with the client.

(f) Work papers shall be the CPA's property, and the CPA 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 CPA.

(g) In fulfilling a request for client provided records, CPA prepared records, or a CPA's work products, the CPA may:

(1) charge the client a fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the CPA provides the records to the client;

(2) provide the requested records in any format usable by the client. The CPA 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 CPA's custody and control, the client's request should be honored. In addition, the CPA is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records or the CPA was engaged to provide such formulas as part of a completed work product; and

(3) make and retain copies of any records that the CPA returned or provided to the client.

(h) A CPA who is required to return or provide records to the client shall comply with the client's request as soon as practicable, but no later than 45 days after the request is made.

21 NCAC 08N .0306 Advertising or Other Forms of Solicitation

(a) Deceptive Advertising. A CPA shall not seek to obtain clients by advertising or using other forms of solicitation in a manner that is deceptive.

(b) Specialty Designations. A CPA may advertise the nature of services provided to clients, but the CPA shall not advertise or indicate a specialty designation or other title unless the CPA has met the requirements of the granting organization for the separate

title or specialty designation and the individual is currently on active status and in good standing with the granting organization for the separate title or specialty designation.

(c) The CPA firm shall offer to perform or perform professional services only in the exact name of the CPA firm as registered with the Board. The exact CPA firm name as registered with the Board shall be used on the following documents:

- (1) letterhead;
- (2) contracts;
- (3) engagement letters;
- (4) tax returns; and
- (5) all professional services reports.

(d) The CPA firm may advertise professional services using the exact name of the CPA firm, a portion of the CPA firm name, or initials or acronyms derived from the exact CPA firm name as registered with the Board.

(e) Any CPA or CPA firm offering to or performing professional services via the Internet shall include the following information on the Internet:

- (1) CPA business or CPA firm name as registered with the Board;
- (2) principal place of business;
- (3) business phone number; and
- (4) North Carolina certificate number and North Carolina as jurisdiction of certification.

(f) The use of the phrase “certified public accountant(s)” or “CPA(s)” in the name of any business entity on letterhead, professional services reports, business cards, brochures, building signage, office signs, telephone directories, contracts, engagement letters, tax returns, Internet directories, or any other advertisements or forms or solicitation shall be prohibited except for registered CPA firms.

21 NCAC 08N .0307 CPA Firm Names

(a) Deceptive Names Prohibited. A CPA or CPA firm shall not trade upon the CPA title through use of any name that would have the capacity or tendency to deceive. The name or initials of one or more members of a new CPA firm, as defined in 21 NCAC 08A .0301, shall be included in the CPA firm name. The name of former members and the initials of former members that are currently in the CPA firm name and the name of current members and the initials of current members may be included in a new CPA firm name. The name, the portion of the name, the initials of the name or the acronym derived from the name of a firm network that includes names that were not previous CPA members or are not current CPA members of the CPA firm may be included in the

CPA firm name. The name or initials of a non-CPA member in a CPA firm name may be included in the CPA firm name if certified public accountant or CPA is not included in or with the CPA firm name.

(b) Style of Practice. It is misleading if a CPA firm practices under a name or style that would tend to imply the existence of a partnership or registered limited liability partnership or a professional corporation or professional limited liability company of more than one CPA shareholder or CPA member or an association when in fact there is no partnership nor is there more than one CPA shareholder or CPA member of a CPA firm. For example, no CPA firm having just one CPA member may have as a part of its name the words “associates,” “group,” “firm,” or “company” or their abbreviations. It is also misleading if a CPA renders non-attest professional services through a non-CPA firm using a name that implies any non-licensees are CPAs.

(c) Any CPA firm that has continuously used an assumed name approved by the Board prior to April 1, 1999, may continue to use the assumed name. A CPA firm (or a successor firm by sale, merger, or operation of law) using the name, or a portion of a name, or the initials of the name, or the acronym derived from the name of a firm association or firm network that was approved by the Board prior to April 1, 1999 may continue to use that name so long as that use is not deceptive. A CPA firm (or a successor firm by sale, merger, or operation of law) may continue to use the surname of a retired or deceased partner or shareholder in the CPA firm’s name so long as that use is not deceptive.

(d) Any CPA firm registered in another jurisdiction that provides notification of intent to practice pursuant to G.S. 93-10(c)(3) may practice under the name as registered with that jurisdiction.

21 NCAC 08N .0308 Valuation Services Standards

(a) Standards for Valuation Services. A CPA shall not render valuation services of a business, a business ownership interest, security, or intangible asset unless the CPA has complied with the standards for valuation services.

(b) Statements on Standards for Valuation Services. The Statements on Standards for Valuation Services (including the definition of such services) issued by the AICPA, including amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for valuation services for the purposes of Paragraph (a) of this Rule. Departures from the standards listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the statements on standards for valuation services may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the “AICPA Professional Standards.” They are available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in on-line subscription form.

21 NCAC 08N .0309 Personal Financial Planning Services

(a) Statement on Standards on Personal Financial Planning Services. A CPA shall not render personal financial planning services unless the CPA has complied with the applicable standards for personal financial planning services.

(b) Statement on Standards on Personal Financial Planning Services. The Statement on Standards on Personal Financial Planning Services (including the definition of such services) issued by the AICPA, including subsequent amendments and editions, is hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for personal financial planning services for the purpose of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statement on Standards on Personal Financial Planning Services may be inspected in the office of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is one hundred sixty-nine dollars (\$169.00) in paperback form or four hundred eighty-six dollars (\$486.00) in online subscription form.

Section .0400 – Rules Applicable to CPAs Performing Attest Services

21 NCAC 08N .0401 Public Reliance

The rules in this Section apply to any CPA who engages in attest services as defined in 21 NCAC 08A .0301(b).

21 NCAC 08N .0402 Independence

(a) A CPA, or the CPA's firm, who is performing an engagement in which the CPA, or the CPA's firm, will issue a report on financial statements of any client (other than a report in which lack of independence is disclosed) shall be independent with respect to the client in fact and appearance.

(b) Independence is impaired if, during the period of the professional engagement, a covered person:

(1) had or was committed to acquire any direct or material indirect financial interest in the client;

(2) was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client; and

(A) the covered person (individually or with others) had the authority to make investment decisions for the trust or estate;

(B) the trust or estate owned or was committed to acquire more than 10 percent of the client's outstanding equity securities or other ownership interests; or

(C) the value of the trust's or estate's holdings in the client exceeded 10 percent of the total assets of the trust or estate;

(3) had a joint closely held investment that was material to the covered person; or

(4) except as permitted in the AICPA Professional Standards Code of Professional Conduct and Bylaws, had any loan to or from the client or any officer or director of the client, or any individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.

(c) Independence is impaired if during the period of the professional engagement, a shareholder, a member, a partner or professional employee of the firm, his or her immediate family and close relatives, (as defined in the AICPA Code of Professional Conduct and Bylaws) or any group of such persons acting together owned more than five percent of a client's outstanding equity securities or other ownership interests.

(d) Independence is impaired if, during the period covered by the financial statements, or during the period of the professional engagement, a shareholder, a member, a partner, or professional employee of the firm was simultaneously associated with the client as a:

(1) director, officer, employee, or in any capacity equivalent to that of a member of management;

(2) promoter, underwriter, or voting trustee; or

(3) trustee for any pension or profit-sharing trust of the client.

(e) For the purposes of this Rule "covered person" is

(1) an individual on the attest engagement team;

(2) an individual in a position to influence the attest engagement;

(3) a partner or manager who provides non-attest services to the attest client beginning once he or she provides 10 hours of non-attest services to the client within any fiscal year and ending on the later of the date:

(A) the firm signs the report on the financial statements for the fiscal year during which those services were provided; or

(B) he or she no longer expects to provide 10 or more hours of non-attest services to the attest client on a recurring basis;

(4) a partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;

(5) the firm, including the firm's employee benefit plans; or

(6) an entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles (GAAP) for consolidation purposes) by any of the individuals or entities described in Subparagraphs (1) through (5) of this Paragraph or by two or more such individuals or entities if they act together;

(f) The impairments of independence listed in this Rule shall not be interpreted to be an all inclusive list.

21 NCAC 08N .0403 Auditing Standards

(a) Standards for Auditing Services. A CPA shall not render auditing services unless the CPA has complied with the applicable generally accepted auditing standards.

(b) Statements on Auditing Standards. The Statements on Auditing Standards issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered generally accepted auditing standards for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statements on Auditing Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in on-line subscription form.

21 NCAC 08N .0404 Accounting and Review Services Standards

(a) Standards for Accounting and Review Services. A CPA shall not render accounting and review services unless the CPA has complied with the standards for accounting and review services.

(b) Statements on Standards for Accounting and Review Services. The Statements on Standards for Accounting and Review Services issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for accounting and review services for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are

available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in on-line subscription form.

21 NCAC 08N .0405 Governmental Accounting Standards

(a) Standards for Governmental Accounting. A CPA shall not permit the CPA's name to be associated with governmental financial statements for a client unless the CPA has complied with the standards for governmental accounting.

(b) Statements on Governmental Accounting and Financial Reporting Services. The Statements on Governmental Accounting and Financial Reporting Services issued by the GASB, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered as the approved standards for governmental accounting for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statements on Governmental Accounting and Financial Reporting Standards, including technical bulletins and interpretations, may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the GASB, Post Office Box 30784, Stamford, CT 06150. They are available at cost, which is one hundred eighty-four dollars (\$184.00). In addition to the basic set, an updating subscription service is available for two hundred twenty-five dollars (\$225.00) annually.

21 NCAC 08N .0406 Attestation Standards

(a) Standards for Attestation Services. A CPA shall not render attestation services unless the CPA has complied with the applicable attestation standards.

(b) Statements on Standards for Attestation Engagements. The Statements on Standards for Attestation Engagements issued by the AICPA, including subsequent amendments and editions, are hereby adopted by reference, as provided by G.S. 150B-21.6, and shall be considered attestation standards for the purposes of Paragraph (a) of this Rule. Departures from the statements listed in this Paragraph shall be justified by those who do not follow them as set out in the statements.

(c) Copies of Statements. Copies of the Statements on Standards for Attestation Engagements may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the AICPA, 220 Leigh Farm Road, Durham, NC 27707 as part of the "AICPA Professional Standards." They are available at cost, which is one hundred ninety-four dollars (\$194.00) in paperback form or one hundred sixty-nine dollars (\$169.00) in on-line subscription form.

21 NCAC 08N .0408 Peer Review Standards

A CPA who is engaged to perform a peer review shall not violate the rules or standards as set in 21 NCAC 08M of the peer review program under which the review is made or the engagement contract connected with that peer review.

21 NCAC 08N .0409 Government Auditing Standards

(a) Standards for Government Audits. A CPA shall not render audit services to a government entity or entity that receives government awards and is required to receive an audit in accordance with Government Auditing Standards unless the CPA has complied with the applicable Generally Accepted Government Auditing Standards.

(b) Government Auditing Standards. The Government Auditing Standards issued by the United States Government Accountability Office, including subsequent amendments and additions, are hereby incorporated by reference, as provided by G.S. 150B-21.6, and shall be considered Generally Accepted Government Auditing Standards for the purpose of Paragraph (a) of this Rule. Departures from the standards listed in this Paragraph shall be justified by those who do not follow them as set out in the standards.

(c) Copies of Standards. Copies of the Government Auditing Standards may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the Government Printing Office, Washington, D.C. 20402-0001. They are available at a cost, which is sixteen dollars (\$16.00) in paperback form.

21 NCAC 08N .0410 International Standards on Auditing

(a) International Standards on Auditing. A CPA shall not render auditing services unless the CPA has complied with the applicable international standards on auditing.

(b) Statement on International Standards on Auditing. The Statement on International Standards on Auditing issued by the International Auditing and Assurance Board, including subsequent amendments and additions, are hereby incorporated by reference, as provided by G.S. 150B-21.6, and shall be considered International Standards on Auditing for the purpose of Paragraph (a) of this Rule. Departures from the standards listed in this Paragraph shall be justified by those who do not follow them as set out in the standards.

(c) Copies of the Standards. Copies of the International Standards on Auditing may be inspected in the offices of the Board, as described in 21 NCAC 08A .0102. Copies may be obtained from the International Auditing and Assurance Board at 529 5th Avenue, 6th Floor, New York, NY 10017. They are available at a cost, which is one hundred sixty dollars (\$160.00) in paperback form.