

Building a Framework for Regulatory Ethics

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Why are we talking about the AICPA Code of Professional Conduct?

- BOD of NCACPA – Policy Adopted during meeting on Sep 7, 1990
- *"We subscribes to the Code of Professional Conduct of the American Institute of CPAs and the Rules of Professional Ethics and Conduct of the North Carolina State Board of CPA Examiners. In the event of any conflict, the provision of the North Carolina Board of CPA Examiners shall prevail."*

(ncacpa.org)

AICPA Code of Professional Conduct

- Many states make the AICPA Code of Professional Conduct part of the regulatory requirements for CPA's
- Typically does not matter if you are an AICPA member
- Underwent significant revisions at the end of 2014



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AICPA Code of Professional Conduct

- New Format places members into 3 parts:
 - 1 – Members in Public Practice
 - 2 – Members in Business
 - 3 – Other Members



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What if I work for a nonprofit?

Glossary – “members in business”

- “Member(s) in business. A member who is employed or engaged on a contractual or volunteer basis in a(n) executive, staff, governance, advisory, or administrative capacity in such areas as industry, **the public sector, education, the not-for-profit sector**, and regulatory or professional bodies. This does not include a member engaged in public practice.” [Prior reference: paragraph .22 of ET section 92]

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AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .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.

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AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .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.

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AICPA Code of Conduct

- **0.300.050 Objectivity and Independence**
- .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. [Prior reference: ET section 55]

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Code Sections run parallel to each other....

1.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

2.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

3.400.001 Acts Discreditable Rule

.01 A *member* shall not commit an act discreditable to the profession. [Prior reference: paragraph .01 of ET section 501]

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AICPA Code of Professional Conduct

1.600.100 Use of the CPA Credential

.01 A member should refer to applicable state accountancy laws and board of accountancy rules and regulations for guidance regarding the use of the **CPA credential**. A member who fails to follow the accountancy laws, rules, and regulations on use of the **CPA credential** in any of the jurisdictions in which the **CPA** practices would be considered to have used the **CPA credential** in a manner that is false, misleading, or deceptive and in violation of the “Advertising and Other Forms of Solicitation Rule” [1.600.001]. [Prior reference .07 section 502.]

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NC Requirements on Advertising

- On firm's website:
 - Exact firm name as registered with the Board
 - Principal place of business address
 - Business telephone number, email addresses, mailing addresses, and fax numbers.
- Must separate licensed from unlicensed staff in a way that is not confusing and list license numbers for each CPA (as well as their jurisdiction – North Carolina).

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Case Study #1

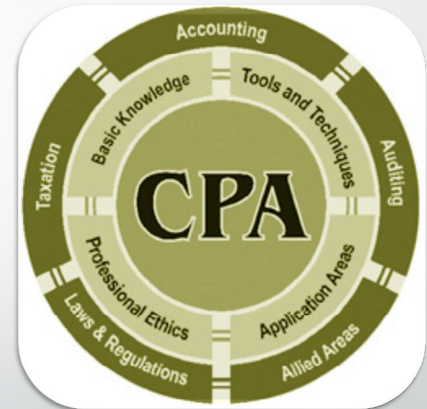
Allison had just received notice that she had passed AUD – her second CPA exam. "Two down, two to go," she thought to herself. She excitedly jumped on LinkedIn and updated her profile – "Allison, 2/4 CPA." She posted: "Half-way to being a financial expert in all areas of business and financial services!"

Evaluate Allison's actions and comments.

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AICPA Code of Professional Conduct

- Conceptual Framework:
 - Identify Threats
 - Evaluate Threats
 - Identify Safeguards
 - Apply Safeguards



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Types of Threats

- Adverse Interest
- Advocacy
- Familiarity
- Self-Interest
- Self-Review
- Undue Influence
- Management Participation



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Safeguards

Public Practice

- Laws & Industry Regulation
- Firm Safeguards
- Client Safeguards

Business (including Nonprofits)

- Laws & Industry Regulation
- Firm Safeguards

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Case Study #2

You are the CFO of a small manufacturing company in your hometown. Your organization is undergoing its first financial statement audit. You find out from the CEO that a family friend of hers is the audit partner in charge of the engagement.

Is this situation addressed by the AICPA Code of Professional Conduct?

Are there any ethical problems with this arrangement? If so, what?

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Case Study #2 – Conceptual Framework Approach

1. **Identify Threats** – There is a threat that the auditor may not be objective and independent in giving their opinion.
2. **Evaluate Threats** – How close is the auditor with the CEO? How long have they known each other? In what capacity have they known each other?

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Case Study #2 – Conceptual Framework Approach

3. **Identify Safeguards** – Safeguards may include another partner taking the engagement, audit quality control standards, concurring partner review, your company's code of ethics, and other company rules.
4. **Apply Safeguards** – Probably would apply nearly all of these.

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CPA Licensing

- State Boards of Accountancy license CPA's
- Credentialing is generally respected across state lines → Mobility
- There are several differences from one state to another

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General Commonalties Among States

- States usually license individuals as well as firms
- Firm licensing/registration is generally required, if one is performing audits, reviews, or compilations in that state
- The size of the firm is not normally considered. Sole Proprietorships are usually asked to become licensed/register

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CPA Firm Registration

- One common form of deceptive practice is not registering the CPA firm when you are required to!
- *"A CPA firm, unless it is a professional corporation (PC), professional limited liability company (PLLC), or registered limited liability partnership (LLP), must register with the Board within 30 days after opening an office in this State."*
- *"CPA firms that are professional corporations, professional limited liability companies, or registered limited liability partnerships must register with the Board prior to the formation of the CPA firm."* (ncacpa.org)

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Continuing Professional Education (CPE)

- All states generally require continuing education, but the actual number of hours may differ
- The ethics class requirement is often different from one state to the next
- Many states offer the carryover of CPE from one reporting period to another, but usually within limits that may differ

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Continuing Professional Education (CPE)

- States can differ in the amount of self-study credits and types of classes that they allow for credit
- Standardized tests are sometimes allowed for credit
- Increments of time in which CPE is rewarded may differ from one state to the next (for example, nano learning)

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Unique Requirements in NC

- Evidence of Moral Character Requirement in NC - 3 certificates signed by CPA's to get licensed!
- Only 20 hours of CPE may carryforward (not Ethics) each year
 - Must hold on to the certificates for 4 previous calendar years
 - 1 hour of ethics is unique
- No limitations on the delivery method of CPE – All Self-Study is fine.

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Typical Requirements When Moving to a New State

- Most states will honor the fact that you have been licensed as a CPA in another state before this → Reciprocity
- Normally, a state will require you to send them your college transcripts, CPA exam results, and evidence that you have met the initial ethics requirement
- States usually have an application to apply for a reciprocal license and will charge a licensing fee

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Typical Requirements When Moving to a New State

- States may or may not have a “retired” status
- Almost always, reciprocity will only be respected from active status to active status
- At the very least, states require one to catch up their CPE before one can resume active status (at worst, they can require re-taking the CPA exam)

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Summarizing the Day

- As CPA's, we are often required to follow the AICPA Code of Professional Conduct – regardless of whether or not we are a member of the AICPA
- In situations where something is not addressed directly within the AICPA Code of Professional Conduct, we use a conceptual framework approach
- The safeguards of the Conceptual Framework approach differ depending on if you are in public practice or not

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Summarizing the Day

- While regulation affecting CPA's may differ from one state to the next, there are many commonalities
- CPE is similar, but not necessarily the same, between one state and another
- Reciprocity is the term used when one moves across state lines and becomes licensed as a CPA in a new state

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