MILL CREEK PUBLISHING

– ETHICS – GENERAL OVERVIEW

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Ethics – General Overview

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General Ethics - Exam

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Ethics-General Overview Exam EMCGST

Please select the best answer and clearly mark it beside the number of the question. Then transfer the answers to the answer key on p.9.

1. Which of the following will impair independence with respect to an audit client?
    a. Immediate family member in a key position with a client company
    b. A direct financial interest in a client company
    c. A material indirect financial interest in a client company
    d. All of the above
2. Which of the following will not impair independence with respect to an audit client?
    a. Audit fees that are unpaid more than one year from the report date
    b. A direct material joint investment
    c. Unpaid audit fees from a client in bankruptcy
    d. None of the above
3. Which of the following services may the CPA perform for a client and still be independent for purposes of an attest engagement?
    a. Help management interpret financial statements
    b. Authorizing and executing transactions
    c. Supervising client employees
    d. Establishing internal controls

4. Which of the following tax services will not impair independence with respect to an audit client?
    a. Reviewing, approving and signing the tax return on behalf of the client
    b. Preparing an amended tax return that has been signed, reviewed and approved by client management
    c. Writing a check from the client's bank account for the tax due related to a tax return
    d. None of the above
5. Which of the following are designated by the Council to promulgate standards:
    a. Governmental Accounting Standards Board
    b. Public Company Accounting Oversight Board
    c. International Accounting Standards Board
    d. All the above
6. May a CPA, who is not independent with respect to the client, issue a compilation report?
    a. No, independence is required
    b. Yes
    c. Yes, but the lack of independence must be disclosed
    d. No, but he may issue a review report
7. In which of the following situations may a CPA disclose confidential client information?
    a. A court ordered subpoena
    b. A letter to the client from the IRS
    c. A request from a successor CPA firm
    d. None of the above
8. Which of the following contingent fee arrangements would generally be permitted?
    a. A contingent fee for a review report
    b. A contingent fee for an audit report
    c. A fee related to a tax only client paid by a software manufacturer and disclosure of the fee was made to the client
    d. None of the above
9. Which of the following are considered acts discreditable
    a. Retention of client prepared records when requested by the client
    b. Failure to pay personal income taxes
    c. Discrimination in employment practices
    d. All of the above
10. Under what circumstances can a CPA accept a commission
    a. The commission relates to an audit client
    b. The commission relates to a prospective review of financial information
    c. The commission is for new software for an audit client and proper disclosure is made
    d. None of the above
11. Accounting is the only profession with ethical rules of conduct
    a. True
    b. False
12. Under the Joint Ethics Enforcement Program, the usual duties of an ad hoc investigator are to:
    a. Gather and examine evidence

   b. Develop interrogatories and requests of relevant documents.
   c. Identify additional respondents
   d. All of the above

13. When an AICPA Ethics Committee is investigating a tax matter, and the tax return is a document necessary to that investigation, which of the following is true:
   a. Permission should be sought and received from the taxpayer(s) who signed the return before it is transmitted to the ethics committee
   b. No permission is necessary to transmit the return to the ethics committee
   c. Permission of the preparer being investigated is sufficient to transmit a return to the ethics committee
   d. None of the above
14. The willful failure to file any income tax return required by law by a member of the AICPA will result in:
   a. An investigation by the ethics committee
   b. A hearing in front of the Joint Trial Board
   c. Suspension of membership without a hearing
   d. None of the above
15. If there is evidence of a violation of the AICPA Code of Professional Conduct, which of the following sanction will not be published?
   a. Letter of required corrective action
   b. A settlement
   c. Joint trial board judgments
   d. All of the above

Ethics – General Overview

Name: (First and Last) ________________________________

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Exam Name: Ethics-General Overview EMCGST 2.5 Credits

If you wish to fax the exam please transfer your answers to the answer sheet and fax it so that you do not have to fax all the pages. Please make sure that your answers are clearly circled.

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

Program Evaluation Form

Participant Name (optional): ____

Program Name: Ethics for Indiana____

Program Date: ______________________ Program Instructor (if applicable) _________ _________

Instructions: Please comment on all of the following evaluation points for this program and assign a number grade, using a 1-5 scale with 5 as the highest by circling it.

1. **Were the stated learning objectives met?**
   1 2 3 4 5 N/A
2. **If applicable, were prerequisite requirements appropriate?**
   1 2 3 4 5 N/A
3. **Were program materials accurate?**
   1 2 3 4 5 N/A
4. **Were program materials relevant and did they contribute to the achievement of the learning objective?**
   1 2 3 4 5 N/A
5. **Was the recommended study time appropriate?**
   1 2 3 4 5 N/A
6. **If applicable, were the individual instructors effective?**
   1 2 3 4 5 N/A
7. **Were the facilities and/or technological equipment appropriate?**
   1 2 3 4 5 N/A
8. **Were the handout and/or advance preparation materials satisfactory?**
   1 2 3 4 5 N/A
9. **Were the audio and visual materials effective?**
   1 2 3 4 5 N/A
10. **What was your estimated completion time in hours?**
    ____
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12. **What courses would you like to see added?**
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13. **What can we do to improve our courses?**
    ____

14. **What can we do to improve our website?**

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15. **Other Comments?**

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________Twitter
_______A friend/co-worker
_______ Other

Other comments: ____

Section 1: Ethics Overview

Ethics

The study of ethics involves questions of moral principles and addresses concepts such as good and bad, right and wrong, justice, virtue and good conduct. The study of ethics has been ongoing for centuries and begins with the Greek philosophers.

History of Ethical Study

Socrates

Socrates was one of the first philosophers to introduce ethics or the concept of doing good. To Socrates, self-knowledge is the pinnacle of knowledge and an essential good. People will do what is good if they know what is right. Wrongdoing is the consequence of ignorance. Socrates stressed that "virtue was the most valuable of all possessions; the ideal life was spent in search of the Good. Truth lies beneath the shadows of existence, and it is the job of the philosopher to show the rest how little they really know."

Socrates valued self-knowledge and morality over physical wealth and comforts. He stated, “Virtue does not come from wealth, but. . . wealth, and every other good thing which men have. . . comes from virtue.” While he asserted that knowledge resulted in virtue, he also taught that virtue resulted in happiness. “The truly wise man will know what is right, do what is good, and therefore be happy.”

Aristotle

Aristotle, a student of Socrates, relied on self-realizationism. This theory asserts that people are not complete until they have reached their inherent potential or certain inborn abilities that constitute an ideal self. When a person’s inherent potential is reached, he will do good and be content due to reaching the possibilities of one’s character. However, if there is unrealized potential, the result is unhappiness and frustration.

Reaching one’s inherent potential required work and was developed by habit. Aristotle said, “Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act but a habit.” The natural capacity for good character was developed by acts which then become habits. The practice of good character or virtue develops good character.

Kant

Immanuel Kant (1724-1804) is best known for his theory of the Categorical Imperative. A Categorical Imperative is a rule that is based on pure reason and is good. It must be obeyed in all situations and circumstances if our behavior is to observe moral law.

Categorical Imperatives are unconditional obligations and have no exceptions. Lying is always wrong. Killing is always wrong. The action is independent of surrounding circumstances. There is no exception such as lying to avoid hurting someone’s feelings or killing in self-defense.

The moral obligation of the Categorical Imperative follows from a sense of duty. Kant understood that morality involved a struggle with our emotions and people often follow their desire for what they want rather than their desire to do good. Kant believes only actions performed for the sake of duty have moral worth. He seems to suggest that the greater one's disinclination to act for the sake of duty, the greater the moral worth of the action.

Utilitarianism

Utilitarianism generally credits its roots with Jeremy Bentham (1748-1832) and holds that the purpose of morality is to make the world a better place. Whatever will bring the most benefit to all of humanity should be done. Producing good consequences is the goal. Having good intentions does not matter. Whereas Socrates, Aristotle and Kant emphasized intentions, utilitarianism is focused on consequences.

The imperative of utilitarianism is to act in the way that will produce the greatest overall good in the world. It asks us to do the most to maximize good and to set aside self-interest for the sake of the greater good.

Professional Ethics

Professionals are regarded as being able to make decisions and judgments that the general public cannot because they do not possess the training and qualifications necessary to do so. Ethics are rules and responsibilities in a professional setting. Many professions have ethical rules of conduct.

The medical profession’s ethical values are generally summarized by the following common values:

- First, do no harm
- All acts should be in the best interest of the patient
- The patient has the right to dignity
- The patient has the right to choose or refuse treatment
- Informed consent
- Confidentiality

The legal profession is governed by a code of professional conduct which dictates rules of ethics and is generally enforced by a state governing body. The American Bar Association Model Rules of Professional Conduct has been adopted by many state legislatures or judicial systems. Some of the defining features of legal ethics include:

- Truthfulness in statements to others
- Candor toward the tribunal
- Conflict of interest
- Maintaining the integrity of the profession
- Public service
- Advertising
- Professional independence
- Client-attorney relationship

- Dealing with persons other than clients
- Attorney as advocate

Ethics in Accounting

The accounting profession also has ethical rules of conduct. While promulgated by state, most ethical rules conform to the *AICPA Code of Professional Conduct*. The AICPA Code of Professional Conduct is comprised of Principles of Professional Conduct and Rules of Professional Conduct. Included in the literature are interpretations and rulings, which provide more specific guidance.

The second section of this course covers the AICPA Code of Professional Conduct in detail.

Notable Accounting Scandals

Phar-Mor

Phar-Mor was a chain of discount drug stores. By 1992, the chain had grown to over 300 stores. An accounting fraud was perpetrated by Michael Monus, its CEO and Patrick Finn, its CFO, to hide losses from operations and move approximately $10 million from Phar-Mor to the World Basketball League, which had been founded by Monus.
Monus and Finn kept two sets of books. One for the auditors, banks and vendors and one which reflected the reality of a money losing operation. Losses from operations were hidden by overstating inventory. This was done through the use of fake journal entries which increased inventory values and decreased cost of sales and over-counted and double counted merchandise during physical inventories. They also issued fake invoices for merchandise purchases and failed to accrue liabilities to vendors. This deception had two effects; first, it hid the losses that were being sustained by the company. Secondly, it inflated inventory values, allowing the company to borrow more money from banks to cover losses from operations as well as fund the World Basketball League.

Audit procedures performed by Coopers & Lybrand were inadequate to detect the fraud. They observed the physical inventory in only four stores and informed Phar-Mor of the four stores that they would examine months before the physical inventory. As a result, Phar-Mor ensured that the four stores examined had no inventory issues while the remaining stores had inflated inventory.

Phar-Mor filed for bankruptcy protection. Monus was convicted and sentenced to 11 years in prison, after his appeal. Finn, who did not personally profit from the scheme, was convicted and sentenced to 33 months in prison. In 1996, a jury decided that Coopers & Lybrand committed fraud by falsely representing that they had performed GAAP audits when they had failed to do so. This determination resulted in over $300 million in civil judgments.

Ethics – General Overview

World Com

WorldCom's stock price had started to decline in themed part of the year 2000. In an attempt to prop up the price of WorldCom stock, CEO Bernard Ebbers along with CFO Scott Sullivan and Controller David Myers used fraudulent accounting methods to inflate earnings.

One method that was utilized was to underreport the expenses associated with connecting to other telecommunication companies. Rather than report them as expense, they were capitalized on the balance sheet. The second method was to use accounting entries to inflate revenue.

The scheme was uncovered in 2002 by a group of WorldCom internal auditors. After notification was made to the audit committee and board of directors, Sullivan was fired and Myers resigned. WorldCom's auditor, Arthur Andersen, withdrew its audit opinion for the 2001. The estimate was that WorldCom's assets had been inflated by approximately $11 billion.

Enron

Enron took advantage of its own business complexities and the use of complex accounting techniques to obfuscate their financial performance. Enron was a global energy company but also had businesses engaged in commodities trading as well as broadband communications. The complex accounting fraud was perpetrated by Kenneth Lay, CEO, Jeffrey Skilling, COO and Andrew Fastow, CFO.

One of the complexities introduced was the use of mark to market accounting. Enron had many long-term contracts that provided a revenue flow. Rather than report the actual revenues received and the actual expenses associated with the arrangement in an accounting period, income was estimated using the present value of future cash flows. This accelerated income into the period in which the contract was signed. Enron expanded the use of this technique into other areas of the business so that they could show continued rising revenues and profits.

Another complexity introduced was the use of *Special Purpose Entities* (SPE's). An SPE is generally a separate entity whose ownership is unrelated that purchases an asset and arranges its own financing or uses its own equity to consummate the purchase. As an example, if Company A wanted to reduce its leverage, it could sell its headquarters building to SPEA. SPEA would have independent investors who would either obtain financing or use their capital to buy the building. Company A would then lease back the building from SPEA. The effect of the transaction would be to reduce the debt of Company A. This would be a legitimate SPE transaction.

Enron used the SPE's to purposefully keep debt off their books. It was not an unrelated transaction because Enron guaranteed the debt of the SPE and the SPE's were formed by officers of Enron. By 2001, Enron had hundreds of SPE's to hide its debt.

Ethics – General Overview

While it's difficult to explain such a complex accounting fraud in a couple of paragraphs, the acceleration of revenue and the misuse of SPE's were the two primary fraudulent accounting practices at Enron. Enron aggressively used GAAP to its advantage and exploited any weaknesses.

Arthur Andersen served as Enron's auditor during this period. The revelation of the Enron fraud and the appearance of Andersen's inadequate audit role ultimately caused the failure of Arthur Andersen. Andersen succumbed to pressure from Enron to overlook accounting irregularities. When news of the SEC investigation of Enron was made public, Andersen personnel shredded several tons of audit supporting documents and deleted E mails and computer files. It was later determined that Arthur Andersen did not fulfill its professional responsibilities in connection with the audits of Enron's financial statements.

Ethics Education

In the 1980's, many university accounting programs started teaching ethics. This focus on ethics has expanded. Currently, many states require the completion of continuing professional education related to ethics.

Review Questions

1) Which philosopher/philosophical theory focuses on consequences?
    a. Socrates
    b. Aristotle
    c. Kant
    d. Utilitarianism

Answers to Review Questions

1) The correct answer is d.
   Answer a. is incorrect as Socrates emphasized knowing what is right to do what is right; virtue is the result of knowledge.
   Answer b. is incorrect as Aristotle's focus was reaching one's ideal self through the habit of acting rightly.
   Answer c. is incorrect as Kant focused on the categorical imperative which is an absolute statement that disregards specific consequences.
   Answer d. is correct as the focus of utilitarianism is to produce good consequences for the greatest number of people.

Many states incorporate the AICPA Code of Professional Conduct into their ethics rules by reference to it within the applicable state code or have simply adopted all of these rules. References in the Code are to members of the AICPA. However, in those states that incorporate these rules by reference or have adopted the rules, a CPA is bound to abide by these rules whether or not the CPA is a member of the AICPA. While the code refers to "members", this course assumes that the code applies to all CPA's and refers to "members" as "CPA's".

Section 2: AICPA Code of Professional Conduct

About the AICPA Code

The AICPA Code of Professional Conduct is comprised of Principles, Rules and, within each rule, Interpretations and Ethical Rulings. The Principles themselves provide ideal standards of ethical conduct and are not enforceable. The Rules represent minimum standards of ethical conduct and are enforceable against AICPA members. The AICPA's Division of Professional Ethics publishes interpretations of rules when questions arise. These interpretations are subjected to professional comment before being published. Departures from the Interpretations must be justified by the practitioner. Ethical rulings are the result of questions submitted to the AICPA. Once again, departures must be justified.

The Council of the AICPA is authorized to designate which rulemaking bodies can promulgate technical standards. The bylaws require that members abide by these rules.

Rule 101—Independence.

> *A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council.*[1]

The AICPA independence rules broadly state that a CPA must be independent of a client in both fact and appearance during the course of a professional attest engagement. Both actual and apparent conflicts of interest m43.ust be avoided so that there is no question that an objective examination of the financial statements has been performed and that they may be relied upon. Independence is required for Audit engagements and Review engagements. A lack of independence must be disclosed on the Compilation report related to a Compilation engagement.

Read the Interpretations of Rule 101 at www.aicpa.org/about/code

Independence is impaired if the CPA has (a) a direct financial interest in the client, (b) a material indirect financial interest in the client (c) is a trustee, executor or administrator of a trust or estate that has a direct financial interest in the client or a material indirect financial interest in the client. A direct financial interest is the ownership of stock or other equity shares by a CPA or his immediate family. An indirect financial interest is one which is not directly controlled by the CPA but the CPA is the beneficiary and an independent intermediary controls the investment. A mutual fund would be an example in this

[1] AICPA Code of Professional Conduct

case. In determining whether an indirect financial interest is material, it should be measured against the CPA's net worth, including that of his immediate family.

Example: A mutual fund with assets of $5,000,000 has 5% of its assets invested in an attest client. The CPA who audits the attest client owns 2% of the outstanding shares of the mutual fund with a value of $100,000. The indirect financial interest of the CPA in the mutual fund is $5,000 (2% x 5% x $5,000,000). This amount should be measured against the net worth of the CPA and his immediate family to determine if it is material.

The CPA's immediate family and close relatives must be considered when making a determination of independence. Immediate family consists of a spouse, spousal equivalent and/or dependent. Close relatives include the CPA's nondependent children, siblings and parents. If a member of the immediate family or close relative has a key position with the client, independence is impaired. A key position is defined in the "Definitions" section of the AICPA Code of Conduct. If a close relative had a financial interest in the client, it must be evaluated to determine if it is material to the close relative and whether it enabled the close relative to exercise influence over the client.

Note: The rules provide that independence must be in fact. There must be no bias on the part of the professional in rendering an attest opinion. If a CPA had a material financial interest in an entity, the ability to render an objective opinion would be impaired. Having a close relative with a material financial interest in an entity may not impair the CPA's independence in fact. However, there would be an appearance of impairment to the outside public. A reasonable person, with knowledge of the situation, could conclude that the professional in an attest engagement would not be capable of rendering an objective judgment.

One issue alluded to in this section is that a CPA may not have any loans to the client. Ethics ruling 52 clarifies the impact of this on unpaid fees. The ruling indicates that unpaid fees would impact independence if they remain unpaid for any professional services provided more than one year from the report date. However, unpaid fees from a client in bankruptcy do not violate this rule.

Ownership in a joint investment may also impair independence. If the CPA and the client, or a key member of client's management, both have a direct ownership interest in a non-client and the ownership interest to the client or client's management is material, independence is impaired. If the CPA has an indirect ownership investment in a joint investment, then it must be material to the CPA to impair independence.

Example: If a CPA owned a vacation home jointly with the officer of a client. Assuming that this investment was material to the officer of the client, it would impair independence as the CPA has a direct financial interest in an entity that is material to the client.

An employment association with an attest client or the appearance of an employment association will impair independence. The rules regarding actual employment of a professional by an attest client, how that employment impacts the determination of independence and measures that may be taken are explained in Interpretation 101-2.

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The performance of non-attest services by a CPA is one of the more complex issues surrounding the question of independence. The basic rule is that the CPA should not perform management functions or make management decisions for the attest client. A list of general activities that would impair independence is provided that includes authorizing executing or consummating a transaction, preparing source documents, having custody of client assets, supervising client employees and establishing or maintaining internal controls for a client.

Tax compliance services do not impair independence as long as the CPA does not step into the management role. The CPA should not have custody or control over the client's funds and the client must be responsible for reviewing and approving the tax return and related payment and must also sign the return prior to filing.

Note: If the covered member performs services that are construed to be management functions, independence in an attest engagement is impaired. These functions include supervision, check signing, approval, decision making, etc. However, if a covered member's involvement is advisory in nature, independence is not impaired. Advisory functions would include helping to interpret financial statements, attending board meetings, assisting in obtaining bank relationships, etc.

Example situation: A CPA performed an audit of a corporation. During the same year, the CPA created journal entries and coded deposits and disbursements for reporting in the general ledger without the approval of his client. The CPA was charged with violating Rule 101 with respect to independence as he was performing management functions and, in effect, auditing his own work.

A CPA that has an unsecured loan that is not material to his/her net worth, a mortgage loan or other secured loans from a client financial institution client is "grandfathered" if three conditions are met. (1) The loan must have been made under normal lending procedures, terms and requirements. (2) The loan is kept current at all times and the terms have not been altered. (3) The loan was obtained PRIOR to the financial institution becoming a client.

There are also other specifically permitted loans. The most common of these are automobile loans and leases collateralized by the automobile where the loan or lease was obtained under the institution's normal lending procedures, terms and requirements and is kept current at all times.

Example situation: An accounting firm was engaged to audit the financial statements of a financial institution. A partner in the firm spent approximately 11 hours in connection with the audit and approximately 329 hours in connection with non-audit services. During the audit engagement period, the particular partner purchased a home and sought a mortgage loan through a broker. The broker selected the financial institution that was audited by the partner's firm to provide the mortgage loan. This was done during a period that was audited by the firm.

The partner was charged with violating the AICPA code of professional conduct as he obtained a loan from the financial institution during the period the firm was engaged to audit the financial institution.

Review Questions: Answers can be found at the end of the section

2) A member's independence with respect to a client would be compromised if his wife was employed at the client as a:
   a. Secretary
   b. Chief Financial Officer
   c. Both a. and b.
   d. Neither a. nor b.
3) Mortgage loans from a financial institution audited by a member are:
   a) Grandfathered if they were obtained under the institution's normal lending procedures, terms and requirements.
   b) Grandfathered if they are kept current as to all terms and those terms do not change from the original loan agreement.
   c) Grandfathered if they were obtained from the institution prior to its becoming an audit client.
   d) Grandfathered only if all the conditions in a., b., and c. are met.
4) An automobile loan collateralized by the automobile where the loan is obtained under standard procedures and terms and is kept current is a permitted loan and will not impair a member's independence?
   a) True
   b) False
5) In performing non-attest services, a member may maintain independence by:
   a) Making management decisions and perform management functions
   b) Authorizing transactions on behalf of the client
   c) Maintaining and monitoring internal controls
   d) None of the above
6) Preparing and transmitting a tax return signed by the client will impair a member's independence?
   a) True
   b) False

Note: The AICPA has published a Guide for Complying with rules 102-505. This guide acknowledges that every situation, relationship or circumstance cannot be addressed with regard to Code of Professional Conduct. However, the member must address the threat of impairment, use safeguards to eliminate or reduce threats and to ensure that any threats that could compromise a member's compliance with the rules are reduced to an acceptable level. An acceptable level is that which a reasonable and informed third party would be likely to conclude that compliance with the rules is not comprised.

Rule 102—Integrity and objectivity.

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.[2]

Read the Interpretations of Rule 102 at www.aicpa.org/about/code

Objectivity refers to being unbiased and not influenced by personal prejudices. A CPA must maintain an impartial attitude in the performance of professional responsibilities. Integrity refers to the CPA's adherence to an ethical code which requires the CPA to be honest and not subordinate his judgment to personal gain.

One of the most common ethics violations by a CPA in business relates to subordination of judgment.

Example situation: A CPA who was the controller and chief financial officer of a public company backdated shipping documents and then signed the management representation letter stating that the financial statements were prepared in conformity with GAAP. This individual was charged with violating Rule 102, specifically a departure from Interpretation 102-1, Knowing misrepresentations in the preparation of financial statements or records as well as Interpretation 102-4, Subordination of judgment by a member.

Example situation: A CPA who was chief financial officer of a financial institution did not correct customer loans that were altered to appear current by deferring payment due dates. This CPA signed the form 10-K knowing that the financial statements were materially misstated. This individual was charged with violating Rule 102, specifically a departure from Interpretation 102-1, Knowing misrepresentations in the preparation of financial statements or records and Interpretation 102-3, Obligations of a member to his or her employer's external accountant.

Rule 201—General standards.

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.

[2] AICPA Code of Professional Conduct

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.[3]

Rule 202—Compliance with standards.

A member who performs auditing, review, compilation, management consulting, tax, or other professional services shall comply with standards promulgated by bodies designated by Council.[4]

Rule 203—Accounting principles.

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.[5]

Read the Interpretations of Rule 201, 202 and 203 at www.aicpa.org/about/code

Note that Rule 201 requires Professional Competence. While this can be obtained through education or other means, a CPA may not perform work for which he does not have the requisite skills.

Example situation: A CPA who was not independent audited the financial statements of a client. Upon review it was noted that amounts on the footnotes did not correspond to the related amount on the financial statements and unbilled receivables were presented on the balance sheet as work in progress. The CPA was charged with violating Rule 201 (B), Due Professional Care.

Additionally, upon review, it was noted that the audit planning was not documented, there were no audit programs and competent evidential matter was not obtained to support several balance sheet accounts. The CPA was charged with violating Rule 202, Compliance with Standards.

[3] AICPA Code of Professional Conduct
[4] Ibid
[5] Ibid

Lastly, the review noted that required disclosures were not evident in the financial statements. The CPA was charged with violating Rule 203, Accounting Principles.

Example situation: A CPA undertook an engagement to perform an audit of an employee benefit plan. After reviewing the work, it became apparent that the CPA was unfamiliar with this type of audit. Along with being charged under Rule 202, Compliance with Standards, he was charged under Rule 201 (A), Professional Competence in that it was judged that he did not have adequate technical competence to perform the audit of an employee benefit plan.

Rule 202 requires compliance with standards promulgated by the Council. The following are designated to promulgate standards under Rule 202:

- Governmental Accounting Standards Board (GASB)
- Public Company Accounting Oversight Board (PCAOB)
- International Accounting Standards Board (IASB)
- Accounting and Review Services Committee (ARSC)
- Auditing Standards Board (ASB)
- Management Consulting Services Executive Committee
- Tax Executive Committee (TEC)
- Forensic and Valuation Services Executive Committee

Example Situation: A CPA audited the financial statements of a bank. Upon review, it was noted that the auditor failed to (a) Document all procedures performed and conclusions reached, (b) Obtain a representation letter, (c) Obtain adequate evidence, (d) Perform alternative procedures with respect to accounts receivable confirmations mailed with no reply, (e) Gain an understanding of internal controls in planning the audit, (f) Document the reasons for not recording certain valuation allowances. The auditor was charged with violating rule 202.

Rule 203 requires that in forming an opinion, GAAP must be followed and any departure from GAAP must be justified. GAAP is considered to be any statement by an authoritative body designated by the AICPA. It is incumbent on the auditor to ensure that the financial statements on which an opinion is being rendered comply with GAAP. The following bodies are designated by the Council to promulgate technical standards under Rule 203:

- Federal Accounting Standards Advisory Board (FASAB)
- Financial Accounting Standards Board (FASB)

- Governmental Accounting Standards Board (GASB)
- International Accounting Standards Board (IASB)

Rule 301—Confidential client information.

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

This rule shall not be construed (1) to relieve a member of his or her professional obligations under rules 202 [ET section 202.01] and 203 [ET section 203.01], (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.[6]

Read the Interpretation of Rule 301 at www.aicpa.org/about/code

A CPA should obtain the consent of the client before disclosing any confidential client information. There are 3 general exceptions within the rule: Compliance and ethics inquiries made by a recognized investigative or disciplinary body, Subpoenas or summons enforceable by court order and Peer review.

Note that the prohibition specifically relates to confidential information. It is permissible to name clients for whom a CPA provided services as long as the disclosure does not release any confidential information. Ruling 7 uses, as an example, a CPA whose practice is limited to bankruptcy matters. In this case, revealing the client's name would suggest that the client is experiencing financial difficulties, a piece of confidential information.

Questions have arisen regarding the use of third party service providers and revealing client information to prospective purchasers of a CPA's firm. In both instances, a confidentiality agreement or other

[6] AICPA Code of Professional Conduct

appropriate precautions should be used prior to revealing confidential client information. When a third party service provider is used, the CPA must also be reasonably assured that there are appropriate procedures in place to prevent the unauthorized release of confidential client information. In the case of a third party service provider, if a confidentiality agreement is not obtained, specific client consent should be obtained prior to releasing confidential client information.

The CPA may defend himself against actual or threatened litigation by a client. The rules are not designed to prevent a CPA from releasing information to a liability insurance carrier, an attorney representing the CPA or a court of law.

Loss of confidential client data through theft of a laptop computer or computer "hackers" is an area not specifically addressed in the Interpretations. The CPA should note that a majority of states have passed laws requiring companies to notify consumers whose personal information has been compromised. Most of these data breach disclosure laws are strict and include civil or criminal penalties as well as private right of action in a court of law. Many of the states that have enacted these laws provide exemptions from the notification requirements if the data is encrypted.

Rule 302—Contingent fees.

A member in public practice shall not

(1) Perform for a contingent fee any professional services for, or receive such a fee from a client for whom the member or the member's firm performs,

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

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

(*c*) an examination of prospective financial information;

or

(2) Prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client.

The prohibition in (1) above applies during the period in which the member or the member's firm is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in any such listed services.

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

A member's fees may vary depending, for example, on the complexity of services rendered.[7]

Read the Interpretation of Rule 302 at www.aicpa.org/about/code

Contingent fees are those that are dependent upon and determined by a certain result. CPA's may not accept contingent fees related to attest engagements nor may a CPA accept any contingent fees for any service from an attest client except for specific tax services noted below. In general, a CPA may not charge a contingent fee for tax return preparation or amendment of a tax return for inadvertent omissions of data. There are specific examples in tax matters where a contingent fee is appropriate, even for an attest client. These examples generally revolve around the expectation that the issue at hand is subject to interpretation by a governmental agency or court. Specific examples include filing an amended return that is the subject of a test case (for another taxpayer) or is in respect to an issue for which the taxing authority is developing a position, protesting an assessed value of property and obtaining a private letter ruling.

Example situation: A CPA firm with a tax client, who is also an attest client, enters into a contingent fee arrangement to protest a property valuation for local property taxes. This is an acceptable contingent fee arrangement.

Example situation: A CPA firm with an audit client charges a contingent fee to the client for providing investment advisory services. This is a prohibited contingent fee arrangement as it relates to an attest client.

Rule 501—Acts discreditable.

A member shall not commit an act discreditable to the profession.[8]

Read the Interpretation of Rule 501 at www.aicpa.org/about/code

Acts discreditable include:

- Improper retention of client records when requested by the client
- Discrimination or harassment in the workplace
- Failure to follow government auditing standards in addition to generally accepted auditing standards
- Negligence in the preparation of financial statement or records
- Failure to file a tax return or pay a tax liability

[7] AICPA Code of Professional Conduct
[8] AICPA Code of Professional Conduct

Most of these rules are self-explanatory. There are some more complex issues surrounding client records, though. If a client requests his records, a CPA should respond as follows:

Records provided by the client should be returned. It does not matter if there are outstanding engagement fees due to the CPA.

Records prepared by the CPA and supporting records should be provided if they are complete or the work product has been completed. These records would include information not in the client's records without which, the client's financial information is incomplete. Examples of these records are adjusting, closing, or consolidating journal entries along with supporting computations. These records may be withheld if there are fees due related to the preparation of the records.

A CPA's work papers, which include audit programs, analytical review, results of statistical sampling and analysis, are the property of the CPA and do not need to be provided to the client.

Example situation: An audit client of a CPA firm changed auditing firms. They demand the CPA firm work papers which include audit programs and planning documents to help prospective audit firms prepare a bid for the engagement. The CPA firm refuses and prevails because it is the owner of the work papers and these do not need to be provided to the client.

Rule 502—Advertising and other forms of solicitation.

> A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited.[9]

Read the Interpretation of Rule 502 at www.aicpa.org/about/code

The Interpretation of this rule offers four specific examples of unacceptable advertising or other forms of solicitation. They are advertising which:

- Creates false or unjustified expectations of favorable results
- Implies the ability to influence a court, regulatory agency or some similar body
- Represents that a service or future service will be performed for a stated fee when it is likely that the fee will be increased
- Contains representations that would cause a reasonable person to misunderstand or be deceived

Example situation: A CPA firm advertises that "We will lower your taxes". This is unacceptable as it implies a guarantee of favorable results.

[9] Ibid

Example situation: A CPA firm advertises, "Audit experts". Without any statement regarding from whom this designation was received or any clarification of why this firms' skills would surpass those of other CPA firms, this form of advertising would be misleading. It would be preferable to use a phrase such as "limits practice to audit".

Rule 503—Commissions and referral fees.

A. *Prohibited commissions*

A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or the member's firm also performs for that client

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

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

(*c*) an examination of prospective financial information.

This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

B. *Disclosure of permitted commissions*

A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

C. *Referral fees*

Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.[10]

Read the Interpretation of Rule 503 at www.aicpa.org/about/code

CPA's are prohibited from receiving commissions from a client when they perform attest functions for the client, compile financial information without disclosure of a lack of independence or examine prospective financial information. If a CPA receives a permitted commission or referral fee, he must disclose the fee to the client or the person/entity to whom the compensation relates.

[10] AICPA Code of Professional Conduct

Example situation: A CPA firm with a tax client, who is not an attest client, receives a commission from a software company for recommending new tax software to the client. Assuming appropriate disclosure of the commission to the client, this is permitted.

Rule 505—Form of organization and name.

A member may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of Council.

A member shall not practice public accounting under a firm name that is misleading. Names of one or more past owners may be included in the firm name of a successor organization.

A firm may not designate itself as "Members of the American Institute of Certified Public Accountants" unless all of its CPA owners are members of the Institute.[11]

Read the Interpretation of Rule 505 at www.aicpa.org/about/code

CPA firms must be owned by a majority of licensed CPA's if they are to provide traditional attest functions. Any entity that holds itself out to be a CPA firm must also be owned by a majority of CPA's. The CPA firm name may not include the name of any non-CPA. This ensures that the public is not mislead and assures that the firm is controlled by CPA's.

Example situation: A CPA firm is comprised of Smith, Jones, Adams and Wallace. Smith, Jones and Adams are all CPA's. Wallace is not a CPA. A firm name of Smith, Jones, Adams, Wallace, CPA's would not be permitted as it includes the name of a non-CPA.

Review Questions: Answers can be found at the end of the section

7) Rule 102 states that a CPA should maintain integrity and objectivity. Integrity refers to
   a. Being unbiased and not influenced by personal prejudices
   b. Subordinating his or her personal judgment to personal gain
   c. The adherence to an ethical code which requires the CPA to be honest and not subordinate his judgment to personal gain
   d. None of the above

8) Which of the following are not designated to promulgate standards under Rule 203?
   a) Accounting Principles Board
   b) Financial Accounting Standards Board
   c) International Accounting Standards Board
   d) None of the above

[11] AICPA Code of Professional Conduct

9) If a CPA uses a third party service provider, before releasing confidential client information to the service provider, the CPA should:
    a) Enter into a confidentiality agreement with the service provider
    b) Obtain reasonable assurance that the service provider has procedures in place to prevent the release of confidential client information to others
    c) Never use a third party service provider
    d) Both a. and b.
10) A CPA may use a contingent fee arrangement for:
    a) An audit of financial statements
    b) Preparation of a tax return
    c) Obtaining a private letter ruling from the IRS
    d) An examination of prospective financial information
11) When a client requests that his records be returned and the engagement is complete and all related fees have been paid, the CPA is obligated to return:
    a) Records provided by the client
    b) Records prepared by the CPA
    c) Supporting records related to the work product
    d) The CPA's working papers
    e) a., b., and c.

Answers to Review Questions:

2) The correct answer is b. This is correct as the Chief Financial Officer is a key member of the client's management which would impair the CPA's independence.

   A. is incorrect as a secretary would not impair independence as this position does not exert influence over the client's financial or accounting functions or policies nor has responsibility for the preparation of the financial statements. In addition, a secretary would not be a member of the board of directors nor an officer of the company in the capacity of chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

   Both a. and b. are incorrect in that only b. would impair independence.

   Neither a. nor b. is incorrect as employment of the CPA's wife as Chief Financial Officer would impair independence.
3) The correct answer is d. A mortgage loan is grandfathered if is obtained under the lending institutions normal lending procedures, terms and requirements, if it is kept current and it's terms do not change from the original loan and it was obtained prior to the lending institution becoming an audit client.

   Items a., b., and c. are incorrect as each, individually, does not satisfy the requirements.
4) The correct answer is a. This is a permitted loan under the Code as long as the loan was obtained under the institutions normal lending procedures, terms and requirements and is kept

current at all times.
Answer b. is incorrect as automobile loans collateralized by the automobile are a permitted loan under the Code.

5) The correct answer is d. None of these are correct. The performance of management functions, management decisions or the maintenance or monitoring of internal controls for the client will all impair independence with respect to that client.
6) The correct answer is b. As long as the CPA does not have control over the client's funds and a representative of the client reviews and approves the tax return and related payment and signs the return prior to its filing, preparing and transmitting a tax return will not impair independence.
Answer b. is incorrect as the preparation and transmitting of a tax return will not impair independence.
7) The correct answer is c. Integrity refers to a CPA acting honestly, within the confines of an ethical code and not subordinate judgment to personal gain.
Answer a. is incorrect as this better defines the concept of objectivity.
Answer b. is also incorrect as subordinating his or her judgment to personal gain is the opposite of integrity.
Answer d. is incorrect as there is a correct answer, which is c.
8) The correct answer is a. The Accounting Principles Board was a former authoritative body that was replaced by the Financial Accounting Standards Board in 1973.
Answers b. and c. are incorrect as the Financial Accounting Standards Board and the International Accounting Standards Board are both designated by the AICPA to promulgate standards.
Answer d. is incorrect as there is a correct answer which is a.
9) The correct answer is d. Before using a third party service provider, the CPA should enter into a confidentiality agreement with the service provider and take steps to obtain reasonable assurance that the service provider has procedures in place to prevent the release of confidential information to others.
Answer a. or b. individually is incorrect as both steps should be performed.
Answer c. is incorrect as the CPA may use a service provider if the reasonable steps in both a. and b. have been performed or the consent of the client has been obtained.
10) Answer c. is correct. Obtaining a private letter ruling from the IRS is an example of a situation where substantive consideration by a government agency will be given to the client's request.
Answer's a. and b. are both specifically excluded from permitted contingent fees as is answer d.
11) The correct answer is e. In a situation where the engagement is complete and all fees have been paid, the CPA is obligated to return records provided by the client as well as records prepared by the CPA and supporting records. These records would include adjusting entries, closing entries, consolidating entries as well as supporting computations.
Answer d. is incorrect as the CPA's work papers belong to the CPA and are not required to be returned to the client.

Section 3: Joint Ethics Enforcement Program
Joint Ethics Enforcement Program (JEEP) Manual of Procedures

Overview

The Professional Ethics Executive Committee (PEEC) of the AICPA is charged with interpreting and enforcing the AICPA Code of Professional Conduct. The AICPA bylaws state that this committee shall investigate potential disciplinary matters involving members, present a case before the joint trial board where it finds prima facie evidence of infraction of the bylaws or the Code of Professional Conduct and interpret the Code of Professional Conduct and propose amendments thereto. Investigation of potential disciplinary matters is performed by the Professional Ethics Division which is part of the PEEC.

JEEP is a joint AICPA and state CPA society program for ethics enforcement. JEEP allows the AICPA and state CPA societies to conduct a single investigation of potential disciplinary matters. The overall process follows:

Complaint Receipt

Information alleging misconduct is brought to the attention of the Professional Ethics Division. This information may be presented by outside parties such as clients or the general public. It may also come from state boards of accountancy and various state and federal government agencies. In addition, information regarding potential misconduct may be brought to the attention of the Professional Ethics Division from newspapers, other publications, SEC Accounting and Auditing Enforcement Releases and Litigation Releases and Quality Control Inquiry Committee referrals from the SEC Practice Section.

Complaint Evaluation

An initial review is performed to determine if further investigation is necessary. If the Professional Ethics Division determines that an investigation is not warranted, the matter is dismissed. However, if an investigation is warranted, the following procedures will be utilized;

Investigation Procedures

1) Opening letter

a. Advises the member that the Professional Ethics Division has received information that s/he may have violated the Code of Professional Conduct.
b. Includes requests for information and interrogatories.
c. Describes member's right to defer the investigation if there is:
    i. A formal legal proceeding lending
    ii. A formal proceeding or investigation by a state or federal regulatory agency
    iii. A formal appeal of a decision of a state or federal civil or criminal court or regulatory agency.

2) Obtaining evidence

a. May use an ad hoc investigator who is not a member of the PEEC to help gather evidence.
b. May review engagement working papers.
c. May review firm files
d. May interview members

3) Conclusion

a. If there is no evidence that a violation of the Code of Professional Conduct exists, a "no violation" or "no further action" letter will be sent.
b. If there is evidence of a violation of the Code of Professional Conduct, one of the following three sanctions will be imposed:
   i. Letter of Required Corrective Action
      1. Letter is confidential and may include more CPE, future work evaluation, etc. The issuance of this letter is not published.
   ii. Joint Trial Board Referral/Settlement Agreement.
      1. If settlement is reached, may stay referral to Joint Trial Board. If the matter is settled, a summary of the sanction is published. Joint Trial Board judgments are also published.
   iii. Failure to cooperate with investigation
      1. Subject to disciplinary action, including expulsion. This would be published.

Automatic Discipline

An automatic suspension or termination of a member without an investigation is warranted for the following:

- A criminal conviction punishable by imprisonment for more than one year
- Willful failure to file a tax return
- Filing a false or fraudulent tax return
- Suspension or revocation of a CPA certificate or license to practice public accounting.

Read the Joint Ethics Enforcement Program and answer the following review questions. This manual can also be found at AICPA.org site - http://www.aicpa.org/Professional+Resources/Professional+Ethics+Code+of+Professional+Conduct/Professional+Ethics/Resources+and+Tools/Members+in+Business+and+Industry/jointenforceprocedures.htm)

Review Questions –Answers can be found at the end of the section

12) Ethics enforcement by the AICPA derives its authority from:
   a. State CPA societies
   b. State Boards of public accountancy
   c. The bylaws of the AICPA
   d. None of the above

13) An ad hoc investigator
    a) Must be a member of the AICPA or participating state society
    b) Must not be a member of the PEEC or its staff
    c) Both a. and b.
    d) Neither a. nor b.

14) If a firm refuses access to working papers or requested documents
    a) Such refusal will be referred to full committee for action against the member due to failure to cooperate under section 7.4.6 of the bylaws
    b) This usually results in a trial board referral
    c) Both a. and b.
    d) Neither a. nor b.

15) Which of the following will result in suspension of AICPA membership without a hearing?
    a) Failure to pay state CPA society dues
    b) The willful failure to file a tax return that the member is required to file by law
    c) Peer review deficiencies
    d) None of the above

Answers to Review Questions

12)The correct answer is c.
Answer a. is incorrect in that a state CPA society may discipline its own members, it may not enforce discipline on behalf of the AICPA.
Answer b. is incorrect in that a state board of public accountancy may discipline licensees in that state, it may not enforce discipline on behalf of the AICPA.
Answer c. is correct. The bylaws of the AICPA, section 3.6.2.2 establishes an ethics division with powers to investigate and enforce ethics rules.
Answer d. is incorrect as one answer.

13.) The correct answer is c.
Answer a. is incorrect as a. combined with b. is a more complete answer.
Answer b. is incorrect as a. combined with b. is a more complete answer.
Answer c. is correct. An ad hoc investigator must be both a member of the AICPA or participating state society and must not be a member of the PEEC or its staff.
Answer d. is incorrect as there is a correct answer.

14.) The correct answer is c.
Answer a. is incorrect as a. combined with b. is a more complete answer.
Answer b. is incorrect as a. combined with b. is a more complete answer.
Answer c. is correct. Such refusal will be referred to full committee for action against the member for failure to cooperate under section 7.4.6 of the bylaws and this usually results in a trial board referral.
Answer d. is incorrect as there is a correct answer.

15.) The correct answer is b.
Answer a. is incorrect as failure to pay state society dues may result in suspension of state society membership, it will not result in suspension of AICPA membership.
Answer b. is correct. The willful failure to file a tax return that a member is required by law to file is a cause for automatic suspension under AICPA bylaws section 7.3.1.2
Answer c. is incorrect as peer review deficiencies, while undesirable, will not result in suspension of AICPA membership.
Answer d. is incorrect as answer b. is correct.

Glossary

Attest services – Relates to services provided by the CPA that are audit, review or compilation services.

Close relatives – Consists of nondependent children, siblings and parents.

Contingent fees –Fees that are dependent upon and determined by a certain result.

CPA Work Papers – include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the CPA.

Direct financial interest – The ownership of stock or other equity shares by a CPA or his/her immediate family.

Grandfathered loans – Loans that are not material to the CPA's net worth, mortgage loans or other secured loans that are made under normal lending procedures, terms and requirements, kept current at all times with no alteration of the original terms and obtained prior to the institution making the loan becoming a client of the CPA.

Immediate family – Consists of spouse, spousal equivalent and/or dependents.

Independence – A concept that requires the CPA to recognize both actual and apparent conflicts of interest with an attest client.

Indirect financial interest – The ownership of an investment which is not directly controlled by the CPA, but controlled by an intermediary.

Integrity – Refers to the adherence to an ethical code which requires honesty and objective professional judgment.

Joint investment – An investment held by both the CPA and the client, or members of client's management, in a non-client entity.

Key position – A position that exerts influence over the financial or accounting policies or prepares financial statements of a client. Also included are members of the Board of Directors, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer or other equivalent position.

Objectivity – Refers to being unbiased and not influenced by personal prejudices.

Permitted loans – An automobile loan or lease collateralized by the automobile, loan collateralized by the cash surrender value of an insurance policy, loan fully collateralized by cash deposits or aggregate outstanding balances from credit cards or overdraft reserve accounts that are less than $10,000 that were obtained under the institution's normal lending procedures, terms, and requirements and must, at all times, be kept current as to all terms.

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