



### Ethics 2010 — Your License Depends On It!

Instructor Manual

CPE presentation developed by: Virginia Society of CPAs

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### **Course Information**

In 2003, at the request of the Virginia Board of Accountancy (BOA), the Virginia General Assembly passed a law requiring all CPAs in Virginia to take an annual ethics CPE course. The BOA then adopted regulations outlining specific criteria for the course.

Ethics 2010 — Your License Depends On It! has been carefully and thoroughly developed to give you the important information you need to meet the BOA's 2010 ethics requirement. The course content changes every year based on guidance from the BOA.

### Who Must Take This Course?

All Virginia CPAs must take two hours of ethics CPE every year. CPAs in Maryland and the District of Columbia may use this course to satisfy two hours of their biennial ethics requirements. In addition, non-resident North Carolina certificate holders may satisfy the North Carolina ethics requirement by completing the ethics requirement in the state in which they reside. To qualify for non-resident status, the North Carolina certificate holder may not live in or maintain an office in North Carolina. For other jurisdictions, please go to www.aicpa.org/licensing.

### Who Developed This Course?

The Virginia Society of CPAs (VSCPA) worked with Virginia CPAs to develop the most comprehensive and up-to-date course to meet this requirement.

Please note the amount of time the BOA recommends devoting to the situations in the last portion of the outline.

### Where Can CPAs Get More Information?

(PowerPoint Slide 2)

### **General Information**

### **Virginia Society of CPAs**

www.vscpa.com

Phone: (804) 270-5344

Toll-free phone: (800) 733-8272 CPE Hotline: (800) 341-8189

Fax: (804) 273-1741

Street address: 4309 Cox Road, Glen Allen, VA 23060

E-mail: vscpa@vscpa.com

### **Professional Ethics**

#### **American Institute of CPAs**

www.aicpa.org

AICPA Ethics Hotline: (888) 777-7077 E-mail ethics inquiries: <a href="mailto:ethics@aicpa.org">ethics@aicpa.org</a>

Code of Professional Conduct: www.aicpa.org/about/code/index.htm

#### **International Ethics Standards Board**

www.ifac.org

Phone: (212) 286-9344

### **Virginia Society of CPAs**

Toll-free phone: (800) 733-8272

E-mail ethics inquiries: ethics@vscpa.com

### Virginia Town Hall

http://townhall.virginia.gov

### **Virginia Accountancy Laws and Regulations**

### **Virginia Board of Accountancy**

www.boa.virginia.gov Phone: (804) 367-8505

Address: 9960 Mayland Drive Suite 402, Richmond, VA 23233

E-mail: boa@boa.virginia.gov

### **For Tax Preparers and Consultants**

### **Internal Revenue Service**

www.irs.gov: Circular 230 for tax preparation services

**American Institute of Certified Public Accountants** www.aicpa.org: Standard on Consulting Services 1

### Introduction (PowerPoint Slides 4–5)

Welcome to the Virginia Society of CPAs (VSCPA) continuing professional education (CPE) course, *Ethics 2010 — Your License Depends On It!* 

This course engages you through the use of practical scenarios involving ethics violations. The course material provides a review of Virginia Board of Accountancy (BOA) and American Institute of CPAs (AICPA) Professional Ethics Executive Committee (PEEC) recent activities along with an overview of selected provisions of the Virginia accountancy statutes, the BOA regulations and the AICPA *Code of Professional Conduct* (the *Code*). You will have an opportunity to participate in group discussion of various scenarios to determine the best course of action for each. Through discussion of the correct answers, you will be exposed to new provisions of the Virginia accountancy statutes and the *Code* as well as existing rules and regulations.

In addition, the recent Internal Revenue Service proposed regulation of tax preparers requires reference to Circular 230 and tax ethics. Tax ethics will be part of the required continuing education for registered tax preparers.

Please note that this course only provides an overview of recent changes and existing provisions in ethical standards and regulations. The scenarios are not intended to be the official positions of the BOA or PEEC or the Internal Revenue Service. For specific advice related to ethical standards or BOA regulations, please research the applicable standards and/or seek advice from the AICPA, Virginia Society of CPAs (VSCPA) or BOA, as appropriate. Contact information for these organizations is located on the page 4. The *Code* is easily accessible through the AICPA and BOA websites.

### **Ethics CPE Requirements**

Developed in accordance with the BOA's required outline, this course meets Virginia's annual two-hour ethics requirement. This course also satisfies two hours of the Maryland State Board of Public Accountancy and District of Columbia Board of Accountancy ethics requirements. In addition, CPAs residing in Virginia and holding certificates in North Carolina may satisfy the North Carolina State Board of CPA Examiners' ethics requirement by completing the in-person, group study ethics course in Virginia. To qualify, you must not live in or maintain an office in North Carolina. For further information, please visit <a href="https://www.vscpa.com">www.vscpa.com</a>.

### **Ethics** — An Introduction

The most common use of the term "ethics" is related to regulatory ethics. As defined in the American Heritage Dictionary, ethics are "the rules or standards governing the conduct of the members of a profession." The Virginia Board of Accountancy (BOA) is the arbiter of regulatory ethics for CPAs using the title in Virginia. The rules promulgated by the BOA mandate the professional behavior of CPAs in Virginia in providing services regulated by the BOA.

Other interpretations of the word "ethics" relate to behavioral ethics, the process by which we make decisions regarding right and wrong. The word "ethics" comes from the Greek "ethos," meaning character. In most discussions on ethics, the term is used in reference to the individual character of a person or persons. In philosophy, the term ethics refers to the

area of morality, concentrating on human conduct and human values. In Virginia, ethics as applied to the CPA profession encompass the rules and standards established by the BOA. However, in recent years, the BOA Enforcement Committee has resolved complaint cases by addressing the behavioral issues related to violations of statutes or regulations. This course will examine both the regulatory ethics and the behavior ethics of CPAs in providing professional services.

The following examples are from *E Is for Ethics,* a book by Ian James Corlett. Feel free to choose one or more of these for your presentation:

- You are walking with your child and suddenly the child finds some money on the ground. A few minutes later another person claims to have lost some money. What would your reaction be?
- You are teamed with others in the workplace to prepare a report for your employer. One of the teammates shows up with a completed report and admits to having cut and pasted the report from the Internet. What would you do?
- You are part of a project team and, because it is not something that interests you, you permit others to do all the work and yet you claim some of the credit. Where does responsibility fit into this picture?
- You are a manager and you notice that members of your group are not either acting or dressing professionally. What is your responsibility?
- You are aware of your employer's code of conduct and the profession's rules of conduct and discover that those above you are asking people to perform tasks that do not comply with either the employer or professional codes. What is your course of action?

Ethics comprise several important concepts, including:

- Honesty
- Integrity
- Understanding
- Tact
- Responsibility

The following sections provide an update to the current regulatory environment for CPAs practicing in Virginia. In each section, examples are provided of some of the consequences of decisions based on Virginia law and the AICPA *Code of Professional Conduct*.

## Virginia Board of Accountancy (BOA) Highlights

### **BOA Activities** (PowerPoint Slides 6–8)

During the 2007 session, the Virginia General Assembly passed legislation to modify the Virginia accountancy statutes. The responsibility of the Virginia Board of Accountancy (BOA), like other regulatory boards in Virginia, is to protect the health, safety and welfare of the citizens of the Commonwealth. Because persons other than CPAs can provide services such as tax preparation and planning, consulting and business valuations, much of the BOA focus is on attest and compilation services in accordance with standards established by American Institute of CPAs (AICPA)-designated bodies. The AICPA *Code of Professional Conduct*, however, must cover all areas of practice by CPAs and is incorporated by reference in the BOA statutes.

## Unlicensed Practice: When Must an Individual or Firm Be Licensed? (PowerPoint Slides 9–11)

Unlicensed practice is one of the most common disciplinary complaints addressed by the BOA Enforcement Committee. The responsibility to maintain a valid license rests solely on the individual CPA and CPA firm's management. To check the status of a CPA license, visit the BOA website at <a href="www.boa.virginia.gov">www.boa.virginia.gov</a>. Under the heading "CPA Licensure Services," select "CPA Lookup" and choose Virginia as the state licensing board you wish to search. Then type in the individual or firm name to obtain the current license status.

Oftentimes, participants ask what they should do if they know of someone practicing in the Commonwealth without a license. Consider addressing telling participants that they have some responsibility to advise the BOA if they are aware of unlicensed activity.

The BOA will send license renewal notices to the last known e-mail address (or mailing address if no e-mail address is available or the e-mail renewal notice is rejected) approximately 30 days prior to your renewal date and again 30 days after the renewal date if the license has not yet been renewed. The CPA is responsible for maintaining current e-mail and mailing addresses with the BOA.

You can renew late for up to one year following your renewal date, after which your license completely expires and you must reinstate.

The 2007 legislation clarified the ability of the BOA to impose penalties on individuals practicing without a current license. Penalty assessments are at the discretion of the BOA and based on the severity of the violation as well as the individual's cooperation or lack thereof. The BOA is authorized to impose monetary penalties of up to \$100,000.

#### § 54.1-4409.1. Licensing requirements for persons. (PowerPoint Slide 12)

A. A person must be licensed in order to use the CPA title in Virginia. (Using the CPA title in Virginia means using CPA, Certified Public Accountant, or public accountant

in any form or manner of verbal or written communication to persons or entities located in Virginia.)

- 1. The person shall hold a Virginia license if he provides services to the public using the CPA title and the principal place of business in which he provides those services is in Virginia.
- 2. Other persons shall not be required to hold a Virginia license in order to use the CPA title in Virginia provided they hold the license of another state and comply with the substantial equivalency provisions of § 54.1-4411.
- B. The Board shall prescribe the methods, fees, and CPE requirements for a person to apply for the issuance, renewal, or reinstatement of a Virginia license.
- C. The Board has the authority to refuse to grant a person the privilege of using the CPA title in Virginia if, based upon all the information available, the Board finds that the person is unfit or unsuited to use the CPA title in Virginia. The Board shall not refuse to grant a person the privilege of using the CPA title in Virginia solely because of a criminal conviction.

### § 54.1-4411. Substantial equivalency provisions for persons who hold the license of another state. (PowerPoint Slides 13–14)

(Visit <u>www.boa.virginia.gov</u> for the list of states that are substantially equivalent on education, CPA Exam and experience requirements.)

- A. A person who holds the license of another state shall be considered to have met requirements that are substantially equivalent to those prescribed by the Board if:
  - 1. The Board has determined that the education, CPA examination, and experience requirements of the state are substantially equivalent to those prescribed by the Board, or
  - 2. The person has demonstrated meeting education, CPA examination, and experience requirements that are substantially equivalent to those prescribed by the Board.
- B. A person who holds the license of another state and meets the substantial equivalency provisions of subsection A shall not be required to hold a Virginia license to use the CPA title in Virginia provided that either (i) he provides services to the public using the CPA title and the principal place of business in which he provides those services is in other states or (ii) he does not provide services to the public using the CPA title. However, to use the CPA title in Virginia, the person shall:
  - 1. Consent to be subject to:
    - a. The provisions of this chapter and regulations promulgated by the Board that apply to the holder of a Virginia license,
    - b. The jurisdiction of the Board in all disciplinary proceedings arising out of matters related to his use of the CPA title in Virginia, and
    - c. The Board's authority to revoke or suspend his privilege to use the CPA title in Virginia and to impose penalties for the person's violations of the provisions of this chapter and regulations promulgated by the Board.
  - Consent to the appointment of the executive director of the board of accountancy of the state that issued the license as his agent, upon whom process may be served in any action or proceeding by the Board against the person, or in any civil action in Virginia courts arising out of his using the CPA

- title in Virginia. In the event he holds a license from more than one state, the Board shall establish which executive director shall serve as the person's agent.
- 3. Consent to the personal and subject matter jurisdiction of the courts of Virginia in any civil action arising from his use of the CPA title in Virginia and agree that the proper venue for such actions is in Virginia.
- 4. Agree to cease using the CPA title in Virginia if he is no longer licensed.
- C. A holder of a Virginia license who is using the CPA title in another state under substantial equivalency provisions of statutes of the state or regulations promulgated by the board of accountancy of the state shall be subject to disciplinary action by the Board for an act or omission committed in that state. The Board may investigate any complaint made to or by the board of accountancy of any state related to the person's use of the CPA title in that state.

### § 54.1-4412.1. Licensing requirements for firms. (PowerPoint Slides 15–18)

- A. Only a firm can provide attest services or compilation services to persons or entities located in Virginia. However, this shall not affect the privilege of a person who is not licensed to say that financial statements have been compiled or to use the compilation language, as prescribed by subsections B ad C of 54.1-4401.
- B. A firm that provides attest services or compilation services to persons or entities located in Virginia shall obtain a Virginia license if the principal place of business in which it provides those services is in Virginia.
- C. A firm that that is not required to obtain a Virginia license may provide attest services or compilation services to persons or entities located in Virginia if:
  - 1. The firm's personnel working on the engagement either (i) hold a Virginia license or (ii) hold the license of another state and comply with the substantial equivalency provisions of § 54.1-4411, or
  - 2. The firm's personnel working on the engagement are under the supervision of a person who either (i) holds a Virginia license or (ii) holds the license of another state and complies with the substantial equivalency provisions of § 54.1-4411.
- D. For a firm to obtain a Virginia license:
  - 1. As determined on a firm-wide basis:
    - a. At least 51 percent of the owners of the firm shall be licensees, trustees of an eligible employee stock ownership plan as defined in § 13.1-543, or a firm that meets this requirement, and
    - b. At least 51 percent of the voting equity interest in the firm shall be owned by persons who are licensees, by trustees of an eligible employee stock ownership plan as defined in § 13.1-543, or by a firm that meets this requirement. If a death, retirement, or departure of an owner causes either of these requirements not to be met, the requirements shall be met within one year after the death, retirement, or departure of the owner.
  - 2. The Board shall prescribe requirements concerning the hours that owners who are not licensees work in the firm and may prescribe other requirements for those persons.
  - 3. All attest services and compilation services provided for persons and entities located in Virginia shall be under the supervision of a person who either (i)

- holds a Virginia license or (ii) holds the license of another state and complies with the substantial equivalency provisions of § 54.1-4411.
- 4. Any person who releases or authorizes the release of reports on attest services or compilation services provided for persons or entities located in Virginia shall:
  - a. Either (i) hold a Virginia license or (ii) hold the license of another state and comply with the substantial equivalency provisions of § 54.1-4411, and
  - b. Meet any additional requirements the Board prescribes.
- 5. The firm shall conduct its attest services and compilation services in conformity with the standards of conduct and practice in § 54.1-4413.3 and regulations promulgated by the Board.
- 6. The firm shall be enrolled in the applicable monitoring program of the American Institute of Certified Public Accountants or its successor, or in another monitoring program for attest services and compilation services that is approved by the Board. In addition, the firm shall comply with any requirements prescribed by the Board in response to the results of peer reviews.
- 7. The name of the firm shall not be false, misleading, or deceptive.
- E. The Board shall prescribe the methods and fees for a firm to apply for the issuance, renewal, or reinstatement of a Virginia license.
- F. An entity may not use the CPA title in Virginia unless it meets the requirements of subdivision D.

**Note:** Principal place of business is not defined in the statutes. The definition will be included in the revised regulations under consideration by the BOA.

The AICPA Peer Review Program in Virginia is administered by the Virginia Society of CPAs (VSCPA). To obtain additional information on the registration requirements for this program, refer to the VSCPA website or call (800) 733-8272.

### § 54.1-4414. Prohibited acts. (PowerPoint Slides 19–20)

Neither (i) a person who does not hold a Virginia license or who does not meet the requirements to use the CPA title in Virginia under the substantial equivalency provisions of § 54.1-4411 nor (ii) an entity that does not meet the criteria prescribed by subsection D of § 54.1-4412.1 shall:

- 1. Practice public accounting;
- 2. Claim to hold a license to use the CPA title;
- 3. Make any other claim of licensure, registration, or approval related to the preparation of financial statements that is false or misleading;
- 4. Use the CPA title; or
- 5. Refer to any of the standard-setting authorities listed in the standards of conduct and practice in § 54.1-4413.3 or refer to or use any of the terminology prescribed by those authorities for reporting on financial statements, in any form or manner of communication about services provided to persons or entities located in Virginia.

A non-CPA may issue a compiled financial statement without footnote disclosures as long as the report letter does not reference any professional standards. When a CPA is performing significant work for a client in adjusting, reconciling or compiling a client's books, the CPA needs to look to professional standards and determine whether a financial statement should be issued for the work performed. Professional standards are available on the AICPA website, <a href="https://www.aicpa.org">www.aicpa.org</a>, under "Professional Resources."

Some important terms to understand:

**Substantial equivalency:** This relates to education requirements and core competency requirements among jurisdictions. Substantial equivalency is the core idea that will allow CPAs to practice across jurisdictions easily. It was first introduced into the UAA-Third Edition in January 1998.

**Mobility:** Practice mobility for CPAs is the ability of a licensee to gain a practice privilege outside of his or her home jurisdiction without obtaining an additional license in another state where he or she will be serving a client or an employer. There are varying rules for tax, consulting and attest functions, each having its own interpretation.

These two items should be emphasized, as there is a common misinterpretation regarding these two definitions.

Also explain the 120-hour rule to sit for the CPA Exam and the 150-hour rule for licensure.

## American Institute of CPAs (AICPA) Peer Review Program (PowerPoint Slides 21–23)

As of July 1, 2007, the American Institute of CPAs (AICPA) Peer Review Program is cited as the applicable monitoring program in Code of Virginia §54.1-4412.1.D.6. The AICPA Peer Review Program requires firms to submit to an initial peer review within 18 months of providing services covered by the program. Follow-up peer reviews are due three years and six months after the initial peer review date. There are two types of peer reviews: system and engagement. To which type the firm is subject depends on the services provided.

As of January 1, 2009, the AICPA Peer Review Program underwent significant changes to allow for a simplified reporting process and increased usability. For full details of the new peer review process, go to the AICPA website, <a href="www.aicpa.org">www.aicpa.org</a>, and download the AICPA's peer review white paper, "Navigating Through the Revised AICPA Standards for Performing and Reporting on Peer Reviews and Related Interpretations." (www.aicpa.org/download/centerprp/White\_Paper\_final\_6\_23\_08.pdf.)

According to the white paper: "It is important for reviewed firms and the public, including governmental entities and regulators, to have access to understandable peer review results that clearly articulate the quality of the CPA firm's practice. The board believes that the changes to the reporting model meet these objectives, and that the users of peer review reports will have the information they need to make informed decisions about reviewed firms in a more consistent and understandable format."

Among the major changes to the program, the report terms have been revised. In the past, firms received either an unmodified, modified or adverse report. The new terms for reports are pass, pass with deficiency and fail. The change in terms is intended to provide more clarity to users of peer review reports. The following table illustrates the changes in report types:

Previous Standards	Revised Standards

Unmodified — No LOC (Matter — MFC) -or- Unmodified — LOC (Finding — in LOC)	Pass (Matter — MFC) (Finding — FFC)
Modified — LOC (Deficiency — in report) (Finding — in LOC)	Pass With Deficiency (Deficiency — in report)
Adverse (Deficiency — in report)	Fail (Significant deficiency — in report)

For those firms that pass, any matter or finding is documented separately within either a Matter for Further Consideration (MFC) or Finding for Further Consideration (FFC) form. Neither type of finding is significant enough to warrant inclusion in the report. A firm receiving a pass with deficiency report will have those deficiencies described in the report.

Deficiencies, whether significant or not, must be addressed by the firm through a corrective plan. Based on training and professional judgment, the peer reviewer will determine how far to elevate an initial matter or finding.

For further details on the AICPA Peer Review Program, go to the AICPA website, <a href="https://www.aicpa.org">www.aicpa.org</a>, and click on "Peer Review" in the "Professional Resources" section. The website contains significant information on how the Peer Review Program operates, details on how to register for the program, and a helpful question-and-answer section.

In Virginia, the AICPA Peer Review Program is administered by the Virginia Society of CPAs (VSCPA). The VSCPA website, <a href="www.vscpa.com">www.vscpa.com</a>, also contains information on the Peer Review Program. If you have additional questions, you can obtain assistance through AICPA or VSCPA contact information listed on page 5 of this manual.

## Virginia Board of Accountancy (BOA) Disciplinary Process (PowerPoint Slide 24)

Flowcharts have been provided that detail the procedures the Virginia Board of Accountancy (BOA) follows when a complaint is filed alleging improper conduct by an accounting practitioner (whether a licensed CPA or not). The following terms, which are abbreviated in the flowcharts, will aid in your understanding of the process.

### **Terms**

**Administrative Processes Act (APA)** — The formal process, as specified by state law, for administering complaints against those regulated by agencies of the Commonwealth of Virginia.

**Consent Order** — A means of resolving a complaint prior to conducting procedures under the Administrative Processes Act (APA). A Consent Order offers a means to obtain a negotiated settlement between the regulant and the BOA.

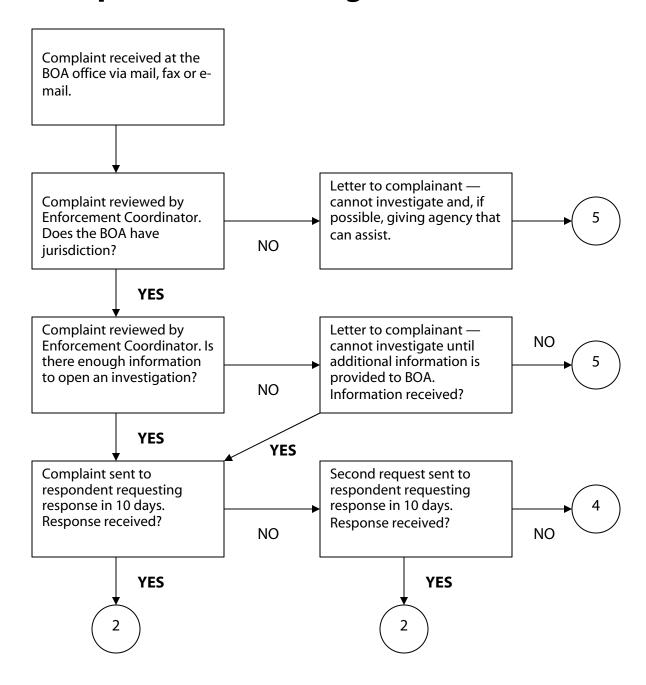
**Enforcement Coordinator** — Staff position at the BOA that handles the administrative efforts involved in handling complaints filed with the BOA. In addition, the Enforcement Coordinator is a certified investigator that investigates all facts regarding all enforcement cases prior to submitting the case to the Enforcement Committee for review and recommendation.

**Enforcement Committee** — A BOA committee whose responsibility it is to investigate complaints, conduct Informal Fact-Finding Conferences (IFF) and recommend actions to the full Board.

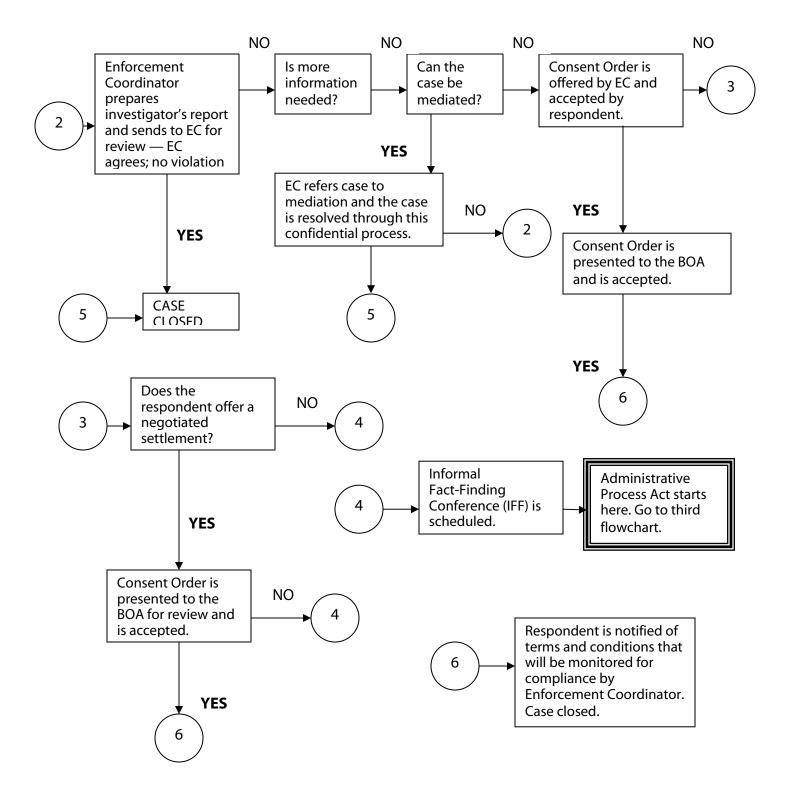
**Informal Fact-Finding Conference (IFF)** — The first step in the Administrative Processes Act (APA), whereby an informal (not under oath) hearing is held to review evidence regarding a complaint, resulting in recommended actions to the full Board.

**Mediation** — A confidential means of resolving minor complaints against regulants who do not have a history of complaints on their record.

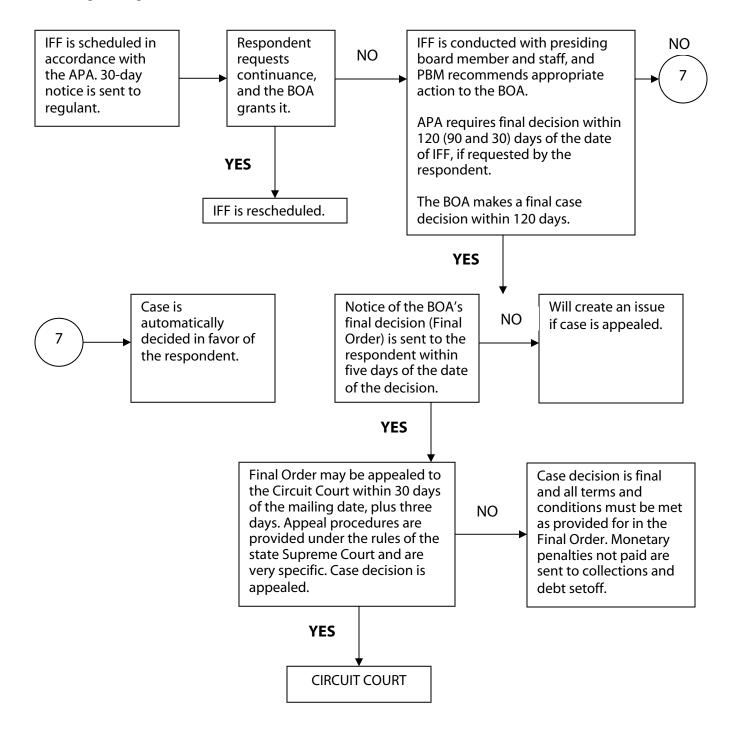
## Virginia Board of Accountancy (BOA) Complaint and Investigation Process



## **Enforcement Committee (EC) Review Process**



# Administrative Processes Act (APA) and the Informal Fact-Finding Conference (IFF) Process



## AICPA Professional Ethics Executive Committee (PEEC) (PowerPoint Slides 25–29)

The American Institute of CPAs (AICPA) *Code of Professional Conduct* (the *Code*) is integrated by reference into the statutes of the Commonwealth of Virginia as a standard of conduct and practice for all licensed CPAs. The *Code* lists principles in Section 50, the applicability and definitions for rules in Section 90, and the enforceable rules in Sections 100 through 500. The purpose of the AICPA Professional Ethics Executive Committee (PEEC) is to continually monitor and revise the *Code* to ensure an enforceable modern standard of professional conduct. PEEC is a senior technical committee of the AICPA, charged with the responsibility of interpreting and enforcing the *Code*.

The following are proposed updates to the *Code*, currently under consideration by PEEC at press time. To obtain the most recent status of proposed changes to the *Code*, go to the AICPA website at <a href="https://www.aicpa.org">www.aicpa.org</a> and click on "Professional Ethics" under "Professional Ethics/Code of Conduct" in the "Professional Resources" section. The "Exposure Drafts/Standard Setting" section lists all past and current activity of PEEC as well as applicable enactment dates.

If possible, bring to your session a copy of *The Journal of Accountancy (JOA)* and hold up the pages in the back of each issue, which outline the projects currently out for comment, and the blue pages at the back of each issue. Most people are not aware that unless a pronouncement has another specific effective date, the month of the *JOA* publication is the effective date for ethics rulings and interpretations.

## Revisions to Definitions of Firm, New Definitions of Network and Network Firm and New Interpretation 101-17

PEEC proposed the following changes to AICPA *Code* Section 90, *Rules: Applicability and Definitions*, and an additional Interpretation under Section 100, *Independence, Integrity, and Objectivity*:

**92.10 Firm.** A firm is a form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the American Institute of Certified Public Accountants and that is engaged in the practice of public accounting. "Firm" includes the individual partners thereof except for purposes of applying Rule 101: *Independence* [ET Section 101.01]. For purposes of applying Rule 101, firm includes a network firm when the engagement is either a financial statement audit or review engagement for which the audit or review report is not restricted for use by only the intended users specified in the report.

Effective date: The additions to this definition would be effective for engagements covering periods beginning on or after December 15, 2010.

**92.28 Network.** For purposes of Interpretation 101-17, *Networks and Network Firms*, a network is an association of entities that includes one or more firms (as defined in ET

Section 92.10) that (a) cooperate for the purpose of enhancing the firms' capabilities to provide professional services and (b) share one or more of the following characteristics:

- The use of a common brand name (including common initials) as part of the firm name
- Common control (as defined by generally accepted accounting principles in the United States of America) among the firms through ownership, management, or other means
- Profits or costs, excluding costs of operating the association; costs of developing audit methodologies, manuals, and training courses; and other costs that are immaterial to the firm
- Common business strategy that involves ongoing collaboration among the firms whereby the firms are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy
- Significant part of professional resources
- Common quality control policies and procedures that firms are required to implement and that are monitored by the association

A network may comprise a subset of entities within an association if that subset of entities cooperate and share one or more of the characteristics set forth in the preceding list.

Effective date: This definition would be effective for engagements covering periods beginning on or after December 15, 2010.

**92.29 Network Firm.** A network firm is a firm or other entity that belongs to a network, as defined in ET Section 92.28. This would include any entity (including another firm) that the network firm, by itself or through one or more of its owners, controls (as defined by generally accepted accounting principles in the United States of America), is controlled by, or is under common control with.

Effective date: This definition would be effective for engagements covering periods beginning on or after December 15, 2010.

#### **Interpretation 101-17: Networks and Network Firms**

#### General

15. To enhance their capabilities to provide professional services, firms frequently join larger groups, which typically are membership associations that are separate legal entities that are otherwise unrelated to their members. These associations facilitate the use of association services and resources by their members. Such associations do not themselves typically engage in the practice of public accounting or provide professional services to clients of the association members or to other third parties. This interpretation covers firms that are members of such an association and, under the circumstances described in paragraph 6, components of such a firm that have been separated from the firm. Those firms cooperate with the firms and other entities that are members of the association to enhance their capabilities to provide professional services. For example, a firm may become a member of an

association refer work to or receive referrals from other association members. That characteristic alone would not be sufficient for the association to constitute a network or for the firm to be considered a network firm. However, an association would be considered a network under this interpretation if one or more other characteristics of a network are shared in addition to cooperation among member firms. [ET section 92.28] These additional characteristics are discussed in this interpretation.

- 16. A network firm is required to be independent of financial statement audit and review clients of the other network firms in the network if the audit or review report for the client is a general use report (that is, the use of the report is not restricted to specified users). For all other attest clients, consideration should be given to any threats the firm knows or has reason to believe may be created by network firm interests and relationships and, if those threats are not at an acceptable level, safeguards should be applied to eliminate the threats or reduce them to an acceptable level. The independence requirements apply to any entity within the network that meets the definition of a network firm [ET Section 92.29].
- 17. The determination of whether an association is a network or an entity is a network firm should be applied consistently by all members of the association. Due consideration should be given to what a reasonable and informed third party would be likely to conclude after weighing all the specific facts and circumstances. The determination that a firm or other entity or an association of firms or other entities meets the definition of a network firm and a network, as herein defined, is solely for purposes of this interpretation and should not be used or relied upon in any other context. In particular, the determination of whether a firm or other entity is a network firm or an association of firms or other entities is a "network" for purposes of defining legal responsibilities from one firm to the other, or to third parties, is beyond the scope of this interpretation, and the definitions contained herein should not be used or relied upon for that purpose.

#### Characteristics of a Network

Sharing Common Brand Name

- 18. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and when the members of the association or entities controlled by members of the association share the use of a common brand name or share common initials as part of the name of the firm, those members and entities are considered to be a network.
- 19. A firm that does not use a common brand name as part of its firm name but makes reference in its stationery or promotional materials to being a member of an association of firms should carefully consider how it describes that membership and take steps to avoid the perception that it belongs to a network. The firm may wish to avoid such a perception by clearly describing the nature of its membership in the association, for example, by stating on its stationery or promotional material that it is "an independently owned and operated member firm of XYZ Association."

20. If a firm that is a member of a network sells a component of its practice and allows the component to use the firm's name or an element of the firm's name for more than two years, the component entity will be considered to be part of the network even though the entity is no longer connected to the firm or the association that the firm belongs to. If the firm allows the component to use the firm's name or an element of the firm's name for less than two years the firm and the component entity should disclose that they are separate legal entities and are not network firms when presenting themselves to outside parties.

### Sharing Common Control

21. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and the entities within the association are under common control (as defined by generally accepted accounting principles in the United States of America) with other firms in the association through ownership, management, or other means (for example, by contract), it is considered to be a network. However, an obligation to comply with certain association requirements as a condition of membership in the association does not indicate that the entities within the association are under common control; rather, it reflects the type of cooperation that is expected when an entity joins the association.

### Sharing Profits or Costs

22. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and when the firms share profits or costs, the association is considered to be a network. However, the sharing of immaterial costs or costs related to operating the association would not by itself create a network. In addition, the sharing of costs related to the development of audit methodologies, manuals, and training courses would not by itself create a network. Further, an arrangement between a firm and an otherwise unrelated entity to jointly provide a service or develop a product would not by itself create a network.

### Sharing Common Business Strategy

23. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and when the entities within the association share a common business strategy, the association is considered to be a network. Sharing a common business strategy involves ongoing collaboration among the firms whereby the firms are responsible for implementing the association's strategy and are held accountable for performance pursuant to that strategy. An entity's ability to pursue an alternative strategy may be limited by the common business strategy because it must act in accordance with the common business strategy and therefore in the best interest of the association. An entity is not considered to be a network firm merely because it cooperates with another entity solely to market professional services or respond jointly to a request for a proposal for the provision of a professional service.

### Sharing Significant Professional Resources

- 24. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and when the entities within the association share a significant part of professional resources, it is considered to be a network.
- 25. Professional resources include:
  - Common systems that enable firms to exchange information such as client data, billing, and time records;
  - Partners and staff;
  - Technical departments to consult on technical or industry-specific issues, transactions, or events for assurance engagements;
  - Audit methodology or audit manuals; and
  - Training courses and facilities.

The determination of whether the professional resources shared are significant should be made based on both qualitative and quantitative factors.

- 26. When the entities within the association do not share a significant amount of human resources or significant client information (for example, client data, billing, and time records) and have the ability to make their own independent decisions regarding technical matters, audit methodology, training, and the like, the entities would not be considered to be sharing a significant part of professional resources.
- 27. When the shared professional resources are limited to a common audit methodology or audit manuals or common training courses and facilities, with no sharing of a significant amount of human resources or significant client or market information, the shared professional resources would not be considered significant. However, when the shared professional resources involve the exchange of client information or personnel, such as where staff are drawn from a shared pool, or a common technical department is created within the association to provide participating firms with technical advice that the firms are required to follow, a reasonable and informed third party is more likely to conclude that the shared professional resources are significant. An entity generally would not be deemed to be a network firm merely because it occasionally uses personnel of another firm in the association to assist with an engagement, such as observing a client's physical inventory count at a particular location.

#### Sharing Common Quality Control Policies and Procedures

28. When the association is formed for the purpose of enhancing the firms' capabilities to provide professional services and when the entities within the association are required to follow common quality control policies and procedures monitored by the association, it is considered to be a network. Monitoring is the process comprising an ongoing consideration and evaluation of the firm's system of quality control, the objective of which is to enable the association to obtain reasonable assurance that the firm's system of quality control is designed appropriately and operating effectively.

Effective date: This interpretation would be effective for engagements covering periods beginning on or after December 15, 2010.

This section below should be reviewed due to various privacy rulings and concerns about unauthorized disclosure of client information.

### "Guide for Complying with Rules 102–505"

The "Guide for Complying with Rules 102–505" is proposed as a non-enforceable tool to assist CPAs in applying the conceptual framework. The guidance is proposed to appear after the appendix in the *Code* and will not be part of the rules sections. PEEC made this determination after the July 2008 meeting and after legal counsel recommended the guide appear after all authoritative text of the rules, interpretations and rulings.

The guide uses a threats and safeguards approach to assist practitioners in complying with the rules when the guidance in the interpretations and rulings within the *Code* does not explicitly address the situation encountered. First, the CPA should identify threats to compliance with the rules and evaluate the significance of those threats. If the threats are not at an acceptable level, the practitioner should determine whether a safeguard is available to eliminate or reduce the threat to an acceptable level.

The presence of a threat does not automatically mean the CPA is not in compliance with the rules. The CPA must determine whether the threat, when viewed by a reasonable and informed third party and having weighed the facts and circumstances, would likely compromise the practitioner's compliance with the rules. This evaluation process also includes determining how safeguards might reduce the threats to acceptable levels.

### **Future Activities of PEEC**

Additional activity is underway with PEEC in addressing the following issues:

- Public interest entities under the conceptual framework
- Interpretation 101-3, assisting clients with IFRS-related services
- Participation in retirement or savings plans by immediate family members
- Inadvertent violations

The complete listing of PEEC's three-year agenda is available at <a href="www.aicpa.org">www.aicpa.org</a>. Click on "Professional Ethics Executive Committee" under "Professional Ethics" in the "Professional Ethics/Code of Conduct" section of "Professional Resources."

In addition to the activities of PEEC, the Statements on Standards for Tax Services (SSTS) have been revised to reflect changes in the Internal Revenue Code related to preparer positions on tax returns and client confidentiality. The new SSTS statements became effective January 1, 2010.

### Additional Ethical Standard Setters (PowerPoint Slide 30)

Pursuant to Code of Virginia §54.1-4413.3, *Standards of Conduct and Practice*, we are required to follow the standards of conduct promulgated by not only the AICPA, but also other government agencies and bodies including:

### **International Accounting Standards Board (IASB) (PowerPoint Slide 31)**

At the May 18, 2008, AICPA Council meeting, the Council voted to recognize the IASB as a designated standards setter. This change impacts the AICPA *Code of Professional Conduct* Appendix A to Rules 202 and 203. IASB standards, known as International Financial Reporting Standards (IFRS), are now available as an option for CPAs reporting on financial statements, in place of generally accepted accounting principles (GAAP) issued by the Financial Accounting Standards Board (FASB). In 2007, the U.S. Securities and Exchange Commission (SEC) adopted IFRS as allowed reporting standards. For complete details on the impact of IFRS and continued SEC and AICPA activity, refer to the AICPA's IFRS website, <a href="https://www.ifrs.com">www.ifrs.com</a> The actions by the SEC and AICPA bring IFRS into the Code of Virginia automatically under §54.1-4413.3.6.

### International Ethics Standards Board (IESB) (PowerPoint Slides 32–34)

Developed by the IESB, Sections 290 and 291 of the *International Code of Ethics*, regarding independence of audit and review engagements and other assurance engagements, become effective January 1, 2009.

This relates to the proposed ethical standard regarding network firms, as many U. S. accounting firms have networks or have affiliated abroad. Copies of this pronouncement can be obtained at www.ifac.org.

### Illustrations:

- You are providing attest services to a U.S. entity that is acquired by an international company. You are asked by the international accounting firm to confirm that you are independent pursuant to the international standards.
- Your firm is a part of an international network of firms. As such, all firms in the network must be independent of the other firms' attests clients under the international standards.
- You are providing attest services to an American company that acquires a foreign entity. The shareholders and lenders of the foreign entity expect that you will meet the international standard for independence.
- You are providing attest services to a company that opens a subsidiary in a foreign country and is dealing with lenders in that foreign country. The company expects that you will meet the international independence standards.

### Internal Revenue Service (IRS) (PowerPoint Slides 35–38)

For tax practitioners, there are new laws and regulations regarding tax practice and procedure as well as client privacy rights.

For those practice units using preparers outside of the United States, be aware of the addendum to the privacy rules, which requires that you inform your clients of this fact and obtain client permission in writing. This is pursuant to a change in Internal Revenue Code Section 7216 regarding privacy of client data.

Each practice unit must demonstrate it has protected the integrity of client information, to prevent identity theft.

Practitioners must adhere to the new regulations regarding substantial authority for a position on a tax return to avoid disciplinary action from the IRS Office of Professional Responsibility. The head of that office has already indicated that violations under the Internal Revenue Code that are deemed to be ethical violations or failure to follow the rules and regulations will bring disciplinary action and referral to any state in which the practitioner is licensed.

In December 2009, the Internal Revenue Service began implementing a tax return preparer regulation program, which involves monitoring tax preparers and preparation services.

To date, CPAs are exempt from the registration process, but their actions in regard to compliance and adherence to the Circular 230 rules will be monitored.

It is important that you emphasize that this applies to any information provided to prepare tax returns. For those preparing financial statements and in industry, be aware of the new project requiring disclosure of the FIN 48 items.

#### Other (PowerPoint Slides 39–41)

Also, the Public Company Accounting Oversight Board (PCAOB), Securities and Exchange Commission (SEC) and other organizations and agencies have recently updated their standards of conduct, requiring applicable practice units to adjust their practice procedures.

The Auditing Standards Board adopted Statement on Quality Control Standards (SQCS) No. 7, *A Firm's System of Quality Control*, which is effective January 1, 2009. The purpose of this SQCS is to establish standards and provide guidance for CPA firms in creating their accounting and auditing practices' system of quality controls. This statement describes the elements of quality control and other matters essential to the effective design implementation and maintenance of the system. This statement is to be used in conjunction with the AICPA *Code of Professional Conduct*.

### Ethical Decision Model (PowerPoint Slides 42–43)

This is the predominant piece of this year's presentation, and considerable time should be spent on each of the examples that you choose. See the BOA outline as to the number of cases or situations that you must select.

There are countless models practitioners can employ to assess their decisions and ensure they are making ethical choices. The Ethics Resource Center, a nonprofit organization devoted to the advancement of organizational ethics by helping leaders identify ethical risks and establishing systems to emphasize higher standards for business conduct, offers a six-step decision-making model as well as four PLUS ethics filters that CPAs can use in making daily decisions. Visit <a href="https://www.ethics.org">www.ethics.org</a> for detailed information on the PLUS model.

According to this model, the six steps to ethical decision-making are:

- Step 1: Define the problem.
- Step 2: Identify available alternative solutions to the problem.
- Step 3: Evaluate the identified alternatives.
- Step 4: Make the decision.
- Step 5: Implement the decision.
- Step 6: Evaluate the decision.

It is then critical to apply ethical filters to the critical steps (1, 3 and 6) to ensure choices are ethical. Those filters are:

- P = Policies
  - Is it consistent with my organization's policies, procedures and guidelines?
- L= Legal
  - Is it acceptable under the applicable laws and regulations?
- U = Universal
  - Does it conform to the universal principles/values my organization has adopted?
- S= Self
  - Does it satisfy my personal definition of right, good and fair?

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### **Ethics Example**

Using the Ethics Resource Center's decision-making model and PLUS filters, the CPA should take the following steps:

- Step 1: Define the problem. (Apply PLUS filters.)
- Step 2: Identify available alternative solutions to the problem.
- Step 3: Evaluate the identified alternatives. (Apply PLUS filters.)
- Step 4: Make the decision.
- Step 5: Implement the decision.
- Step 6: Evaluate the decision. (Apply PLUS filters.)

## Principles of Professional Conduct and 2010 Ethics Topics (PowerPoint Slide 44)

The American Institute of CPAs (AICPA) *Code of Professional Conduct* (the *Code*) discusses the principles of professional conduct as well as the standards of conduct. The broad principles in the *Code* establish the foundation for the ethics rules, interpretations and rulings, and are incorporated by reference into the statutes for the Virginia Board of Accountancy (BOA) in Code of Virginia §54.1-4413.3.

(PowerPoint Slide 44) The BOA outline for the 2009 ethics CPE course lists three required topics along with three additional topics from which to choose, with only one of the three required. The two required topics are:

- Integrity and Objectivity
- Professional Competence

Responses to the situations would require some knowledge of both the domestic and foreign rules due to the convergence of U.S. and foreign standards.

Bear in mind that there are no specific direct answers to the situations selected. Use your judgment and allow the group to discuss possible courses of action and their consequences. Guide the group by providing your insight and asking leading questions.

Also be mindful of your audience. Ensure you build upon these scenarios to encompass situations that might reasonably impact CPAs in public practice, industry, government, education and other practice areas.

Integrity and Objectivity — VBOA regulation 18 VAC 5-21-120 C and Article III and Rule 102 of the AICPA *Code of Professional Conduct* (PowerPoint Slides 45–46)

Integrity and objectivity. A regulant shall perform all professional responsibilities with the highest sense of integrity, maintain objectivity and freedom from conflicts of interest in discharging professional responsibilities and avoid knowingly misrepresenting facts of inappropriately subordinating his judgment to others.

**Situation 1:** (PowerPoint Slide 47) The CPA sits on the board of an organization for which his/her firm is providing attest services. This involves the appearance of impropriety. Would any third-party users of the financial information believe there was true independence?

**Situation 2:** (PowerPoint Slide 48) The CPA has a direct or indirect financial interest in a client. Can he or she truly be objective in his or her determinations? Are there consequences of being a creditor of a client for whom you are providing attest services?

**Situation 3:** (PowerPoint Slide 49) An employee (a licensed CPA) is told to ignore a known fact and complete worksheets for the auditor (Prepared By Client information) that the auditor will use during an attest engagement. What should the employee do?

Professional Competence — VBOA regulation 18 VAC 5-21-120 E and Rule 201 A of the AICPA *Code of Professional Conduct* (PowerPoint Slides 50–51)

Professional Competence. A regulant shall undertake only those professional services that can reasonably be expected to be completed with professional competence.

**Situation 4:** (PowerPoint Slide 52) The CPA is approached by a prospective client regarding a consulting situation that could result in an attest engagement or tax services. Neither the individual nor the firm have ever handled an engagement regarding this issue. What is the recommended course of action?

**Situation 5:** (PowerPoint Slide 53) A client enters into a complex transaction that neither the CPA nor the firm have previously seen. The CPA or firm advises the client it can accurately complete the necessary tax work and any related financial statements. What would proper planning entail?

**Situation 6:** (PowerPoint Slide 54) The CPA or firm accepts an engagement and then proceeds to obtain the required education and expertise to complete it. This is done without advising the client. What are the ramifications of this action?

**Situation 7:** (PowerPoint Slide 55) An employee (a licensed CPA) is asked to perform an accounting entry for which he or she has not had ample opportunity to obtain experience or verify data. This will have significant impact on the employer's financial statements. What actions are available to the employee?

(PowerPoint Slide 56) The three additional topics from which to choose one include:

- Independence
- Confidential Client Information
- Sufficient Relevant Data

Independence — VBOA regulation 18 VAC 5-21-120 D and Article IV and Rule 101 of the AICPA *Code of Professional Conduct* (PowerPoint Slides 57–58)

Independence. A CPA certificate holder and registration certificate holder shall be independent in fact and appearance when offering to provide services pursuant to the standards listed in the definition of "standards of practice for CPA certificate holders."

**Situation 8:** (PowerPoint Slide 59) In light of the recent financial climate, the practitioner becomes aware of client actions and events subsequent to the issuance of the financial statements and tax returns. What responsibility does the practitioner have to the client, third-party users of the information and tax agencies?

**Situation 9:** (PowerPoint Slide 60) The CPA prepares tax returns for a client and, during preparation, makes tax decisions affecting deductions and or credits without consulting the client. What are the consequences of such actions, if attest work is also being performed?

**Situation 10:** (PowerPoint Slide 61) The practitioner prepares financial statements and tax returns for a client. Conflicting decisions are made regarding FIN 48 and actual tax work done for the client. What are the CPA or firm's responsibilities?

Confidential Client Information — VBOA regulation 18 VAC 5-21-120 J and Rule 301, Client Confidential Information of the AICPA *Code of Professional Conduct* (PowerPoint Slide 62)

**Situation 11:** (PowerPoint Slide 63) The professional owns a CPA firm in which he or she has a controlling interest and also owns a controlling interest in a firm that provides consulting or investment services to the CPA firm clients. Is this permitted, and if so, what are the ramifications?

**Situation 12:** (PowerPoint Slide 64) The practitioner is a member of a referral network that meets on a regular basis. The purpose of the network is to exchange clients to benefit other members of the network. What steps should the CPA take to advise the client about potential use of the client's name to other service or product suppliers?

**Situation 13:** (PowerPoint Slide 65) An employee of a CPA firm discusses client situations with friends who are employed by other CPA firms to gain some insight on how to handle certain tax and accounting situations with which he or she is confronted. What is the appropriate action to be taken?

Sufficient Relevant Data — VBOA regulation 18 VAC 5-21-120 H and Rule 201, General Standards of the AICPA *Code of Professional Conduct* (PowerPoint Slides 66–67)

Sufficient relevant data. A regulant shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

**Situation 14:** (PowerPoint Slide 68) The CPA or firm has exceeded budget on the engagement and ceases field work. He or she proceeds to prepare financial statements and tax returns based on information already collected. What are the ramifications of such actions?

**Situation 15:** (PowerPoint Slide 69) Due to an impending deadline, an employee of a member in government is told to complete a job without all the relevant data having been collected. What course of action is available to the employee?

### Conclusion (PowerPoint Slide 70)

Hopefully the course material has provided a useful update on standard-setting activities related to the Virginia Board of Accountancy (BOA) and ethics for CPAs and also provided a review of topics selected by the BOA for emphasis in this year's course. Please check the status of your CPA license at the BOA website, <a href="www.boa.virginia.gov">www.boa.virginia.gov</a>. If you have additional questions, contact the Virginia Society of CPAs (VSCPA), American Institute of CPAs (AICPA) or BOA using the information on page 2 of this manual.

## Appendix I

# VIRGINIA BOARD OF ACCOUNTANCY 2010 ETHICS CPE COURSE OUTLINE

(A copy of this outline must be presented to each participant prior to the class.)

- Updates on current code of conduct and regulatory developments (30 45 minutes\*)
  - Virginia Board of Accountancy (VBOA)
    - Regulatory update
    - Practice without a current license
      - Checking BOA website for license expiration date
    - CPE requirements effective January 1, 2009
    - Ten Myths of Ethics\*\*
    - Handouts of actual VBOA enforcement cases (relevant cases)\*\*
  - Understanding Peer Review Requirements
    - Providing audit services without registering for peer review
    - Firm registration requirements
  - Update on IFRS
  - FASB Standards Codification effective July 1, 2009
  - o Circular 230
- Core Content (60 75 minutes\*)
   (These topics should be covered by referring to relevant VBOA regulations and AICPA Code of Professional Conduct sections. Practical situations and potential solutions must be included and illustrated with short scenarios or simulations.)

#### Required:

- Integrity and Objectivity VBOA regulation 18 VAC 5-21-120 C and Article III and Rule 102 of the AICPA Code of Professional Conduct
- Professional Competence VBOA regulation 18 VAC 5-21-120 E and Rule 201 A of the AICPA Code of Professional Conduct

# VIRGINIA BOARD OF ACCOUNTANCY 2010 ETHICS CPE COURSE OUTLINE

(A copy of this outline must be presented to each participant prior to the class.)

#### One of following three is required:

- Independence VBOA regulation 18 VAC 5-21-120 D and Article
   IV and Rule 101 of the AICPA Code of Professional Conduct
- Confidential Client Information VBOA Regulation 18 VAC 5-21-120 J and Rule 301, Client Confidential Information of the AICPA Code of Professional Conduct
- Sufficient Relevant Data VBOA regulation 18 VAC 5-21-120 H and Rule 201, General Standards of the AICPA Code of Professional Conduct
- Process for ethical decision making (5 minutes) \*\* (A handout shall be provided.)

<u>Note</u>: CPE providers must provide a copy of this outline to each participant. It is recommended that CPE providers make cases and other materials available to participants in advance, e.g., by posting them on provider websites.

If the participant is not satisfied with the content of this course, the instructor, or does not believe that the course satisfies the requirements of this outline, the participant is encouraged to contact the VBOA at <a href="mailto:boa@boa.virginia.gov">boa@boa.virginia.gov</a>, or by calling (804) 367-0728.

Important: During 2010, the Virginia Board of Accountancy will continue the process of revising the regulations. CPE providers should include this information in their materials and urge participants to monitor the VBOA website for more information. The new regulations will be posted on the website when they become effective. Providers should also urge licensees to register with the Virginia Town Hall to receive VBOA regulatory updates (<a href="http://www.townhall.state.va.us/index.cfm">http://www.townhall.state.va.us/index.cfm</a>).

<sup>\*</sup>Time allocations are suggestions only. Times allocated to the Core Content subjects may vary depending on the appropriate emphasis for the target audience (e.g., CPAs in public practice versus CPAs in private industry or government).

<sup>\*\*</sup>Available to CPE providers at the Virginia Board of Accountancy website: <a href="http://www.boa.virginia.gov">http://www.boa.virginia.gov</a>. Also see the Virginia Board of Accountancy website for more information on the accountancy statute, regulations, and other important information.

# Appendix II

# VBOA Ethics Outline Handouts

- What are the 10 myths of ethics?
- ➤ License Renewal Process
- ➤ CPE Non-Compliance & License Renewal
- ➤ VBOA Enforcement Cases/Disciplinary Actions
- > Firm Registration Requirements

#### What are the 10 myths of ethics?

- It's ethical if it's legal and permissible. Loopholes, lax enforcement, and/or personal moral
  judgment do not outweigh what's right or lawful.
- 2. It's ethical if it's part of the job. Separating personal ethics from work ethics can cause decent people to justify actions at work that they would never do at home. Everyone's first job is to be a good person.
- 3. It's ethical if it's for a good cause. People can be vulnerable to rationalizations when advancing a noble aim. This can lead to deception, concealment, conflicts of interest, favoritism, or other departmental violations.
- 4. It's ethical if no one's hurt. Ethical values are not factors to be *considered* in decision-making; they are ground rules.
- 5. **It's ethical if everyone does it.** Treating questionable behaviors as ethical norms under the guise of "safety in numbers" is a false rationale.
- 6. It's ethical if I don't gain personally. Improper conduct done for others or for institutional purposes is wrong. Personal gain is not the only test of impropriety.
- 7. It's ethical if I've got it coming. Being overworked or underpaid doesn't justify accepting favors, discounts, or gratuities. Nor is abusing sick time, insurance claims, or personal use of office equipment fair compensation for one's services or underappreciated efforts.
- 8. **It's ethical if I'm objective.** By definition, if you've lost your objectivity, you don't know you've lost it. Gratitude, friendship, or anticipation of future favors can subtly affect one's judgment.
- 9. It's ethical if I fight fire with fire. Promise-breaking, lying, or other misconduct is unacceptable even if others routinely engage in them.
- 10. It's ethical if I do it for you. Committing white lies or withholding information in professional relationships (such as performance reviews) disregards the fact that most people would rather know unpleasant information than soothing falsehoods.

-Michael Josephson

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# VBOA License Renewal Process

Effective February 18, 2009, the Virginia Board of Accountancy (VBOA) implemented a new licensing system.

Because this is a brand new system, all existing licensees <u>must</u> create/register a login account (user id & password). This process will link your new login and password with your existing records.

The new system (eGov) will allow you, our customer, to manage more of your online transactions with the staff at the Board. You'll be able to view your historical transactions with the Board, print your transaction receipts in real time, download CPA listings for free; and, much, much, more!

#### Registration of user id & password:

- 1. Go to <a href="www.boa.virginia.go">www.boa.virginia.go</a> and select CPA Licensure Services Once inside the link select License Renewal
- 2. You will be taken to the Person Sign Up Steps page
   Enter your last name:
   License number:
   Date of Birth:
   Click "Search"
  - Some of your personal information should be returned (it will be grayed out and not all information will be filled in)
- 3. Scroll down and the user id/password fields will be blank You will need to create a user id and password The secret question field is not a required field
- 4. Click "Register"
  - You will receive a message indicating that you have "successfully registered."
  - To the left you will see "Login"

    Enter the user id & password you just created
- 5. Click "Renew License" (this is to the left in the menu panel). Follow the prompts to renew your license.

# **CPE Non-Compliance & License Renewal**

Mr. CPA just realized that he did not complete the 2008 Ethics CPE requirement and it is time to renew his license, what does he need to do to be in compliance?

- The previous year's annual ethics course is no longer available after January 31 of each year. If you did not complete the required CPE for the three years prior to the current year, you should **NOT** renew your license at this point in time:
  - O Submit a letter to the Board explaining your reason for non-compliance and your plan of action to avoid this deficiency from occurring in the future.

#### 18 VAC 5-21-80. Requirement for renewal.

F. Representations. An individual holding a CPA certificate issued by the board shall submit a renewal application provided by the board, which application shall contain a statement that the applicant has (i) complied with the board's standards of conduct and applicable standards of practice; (ii) met the applicable CPE requirements set forth in 18 VAC 5-21-170 for the three years prior to the year the renewal application is submitted; . . .

VBOA regulations require a licensed CPA to attest to the fact that they comply with the required CPE at the time of renewal. If you failed to complete the required number of CPE for the reporting period, you are NOT in compliance. Submission of your letter of explanation for review will enable the board to make a determination.



You should not use the CPA designation/hold yourself out as a CPA if you have not met the CPE requirements. Failure to provide the Board with an explanation of your non-compliance and continuing use of the CPA designation will require disciplinary action.

- A permanent hold will be placed on your Board record indicating your noncompliance. This information will be made available to anyone requesting verification of your license in the Commonwealth.
- o Should you wish to renew or reinstate your license after its expiration, this matter will become a competence and character issue that will be reviewed by the Board.
- The Board is mandated by law to protect the citizens of the Commonwealth and has determined that completion of CPE is an essential measure to ensure that protection.

#### How do I rectify my deficiency?

- ♦ Following submission and review of your letter of explanation the VBOA Enforcement Manager will contact you.
- ♦ You will be offered a Consent Order in lieu of administrative proceedings. The terms and conditions of the Consent Order will offer you the opportunity to comply with the Board's requirements.
  - The signed and returned agreement will deem you in compliance and you will be allowed to renew your license.
    - PLEASE NOTE: Should another deficiency occur, you will be required to come before the Board to satisfy the Board that this will not re-occur.

#### VIRGINIA BOARD OF ACCOUNTANCY DISCIPLINARY CASES

The following cases were adjudicated by the Virginia Board of Accountancy as a result of the Board's enforcement process:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED BY THE BOARD
18 VAC 5-21-60 (B) Registration of firms  Regulant provided services involving the practice of public accounting and failed to obtain the required peer review.	The Regulant performed an audit of one single church on a pro bono basis with the sole objective of helping the church save money and had not done any other public accounting work of any nature under his firm registration. The revenues under the business license had cumulatively been \$0 since the year he first obtained the firm registration. The Regulant did not intend to renew his firm registration after it expired in 2007 and will not be providing any future services to the church in question.	Commonwealth providing or offering to provide services involving the practice of public accounting obtain a firm registration.  Firm registration is required regardless of whether the	<u>2007</u> July 31
FINAL ORDER  Regulations 18 VAC 5-21-120 (I) and 18 VAC 5-21-130  The Respondent failed to uphold the accounting principles and standards of practice in the performance of an audit.	Audit failure, licensed in VA, MD and Texas. Regulant failed to uphold the Accounting principles and standards of practice in the performance of a substandard audit. AICPA was contacted and stated Regulant was listed in a category that did not require peer reviews and was advised by this office that he performed an audit.	Review has been completed, at which time his license will be reinstated, placed on probation for 2 years and, may practice only under the supervision of a VA CPA approved	2008 October 21
CONSENT ORDER 54.1-4413.4 Regulation 18 VAC 5-21-120 (F) Due Professional Care Regulation 1alled to meet deadlines in the filing of the Trust and Estate Accountings for his client which resulted in additional related fees charged to his client.		The Board imposed a reprimand which will remain permanently on the Respondents record.	2008 December 17
	of audits for a small Home Owners Association (HOA) and	The Board imposed a monetary penalty of \$500 and required the Regulant to submit a written summary encompassing the Board's Regulations and Statutes pertaining to the registration of firms in Virginia.	2008 December 17
FINAL ORDER 54.1-111 and 54.1-4414 Unlicensed Activity-The Regulant continued to practice on an expired CPA license. This violation was reported by one of his clients.	Advertising as a CPA on the Internet, in business e-mails, in his software and on his facsimile copies and in a local newspaper including an ad in the Old Bridge Observer.	relating to CPA, to include making full disclosure to all	2009 February 14

CONSENT ORDER 54.1-4413.4 Regulation 18-VAC-5-21-170 (D) CPE Deficiency The Respondent failed to meet the continuing professic education (CPE) requirements for the required course ethics for CPA's for 2008.		<u>2009</u> <b>April 22</b>
FINAL ORDER 54.1-111 and 54.1-4414 Unlicensed Activity-The Regulant continued to practice or expired CPA license. This violation was provided by the Department of Treasury by the auditing of IRS Form 2848.		200 <u>9</u> May 11
with the highest sense of integrity, maintain objectivity freedom from conflicts of interest in discharging profession	The Regulant borrowed money from his client, prepared the loan himself, did not advise the client to have legal counsel review the note for legal content, appropriateness of investment and risk, or to be present during the negotiations or signing of the note and did not advise the client to discuss the matter with family members or other competent person who would have been able to evaluate the note objectively for risk/return. The Regulant also failed to provided the lender (client) with annual personal and business financial statements as would be expected in a normal lending situation.	2008 <b>April 30</b>
FINAL ORDER Regulations 18 VAC 5-21-120 (F) (I) and 18 VAC 5-21-130 Regulant failed to provide due professional care in performance of the audit of the financial statements of small town in Southwestern Virginia by failing to check accuracy upon completion.	expressed an opinion that the inflation statements were not	2007 September 12

# UNDERSTANDING VBOA PEER REVIEW REQUIREMENTS

On July 1, 2007, the law was amended in Virginia to require only those CPA firms performing public accounting requiring Peer Review to be licensed with the Board.

\* Practice of public accounting is defined as the giving of an assurance ("Assurance" means any form of expressed or implied opinion or conclusion about the conformity of a financial statement with any recognition, measurement, presentation, or disclosure principles for financial statements) other than (i) by the person or persons about whom the financial information is presented or (ii) by one or more owners, officers, employees, or members of the governing body of the entity or entities about whom the financial information is presented.

Specifically, if you are performing accounting services that require a peer review, your firm must be licensed in Virginia. Prior to the change in the statute in July 2007, firms including sole proprietorships that used the CPA title in the name of the firm had to be a licensed firm—that requirement has been eliminated. The majority of firms in the latter category were sole proprietors providing tax services.

#### Do I need a firm license if the highest level of service is SSARS 8 compilations?

Yes, you are required to maintain a firm license if the highest level of service are compilations described in the SSARS 8. You would not be subject to Peer Review however; your firm should be registered with the Board.

# UNDERSTANDING VBOA PEER REVIEW REQUIREMENTS

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# Appendix III

From: VSCPA Tax Online Community < tax@lists.vscpa.com > To: VSCPA Tax Online Community < tax@lists.vscpa.com > Reply-To: VSCPA Tax Online Community < tax@lists.vscpa.com >

Date: June 24, 2009, 11:04am

I am posting the following information on behalf of Art Auerbach to provide some clarification on this issue. Please feel free to contact Art or me directly if you'd still like additional information.

#### Section 7216 and the VSCPA Listserve

There have been a number of inquiries lately concerning the application of Internal Revenue Code (IRC) Section 7216 to the VSCPA Taxation E-mail Listserve.

VSCPA e-mail listserves are posting boards for the membership to share knowledge in performing various tax functions in their respective practices. Therefore, the VSCPA is merely performing a membership service by providing the Taxation Listserve and does not gather any information from clients for tax preparation purposes. Thus, the maintenance of the listserve is not an item covered by Section 7216.

Practitioner members who utilize the listserve should not disclose any client-specific information gathered from a client for purposes of a tax engagement without obtaining express written permission from the client prior to posting on the listserve.

Listserve users should use generic examples only. The examples should be presented in such a way that other listserve users could not determine the taxpayer's (client's) identity from the post. Of particular concern are practitioners in the same geographic area who may be able to identify the client from the facts presented.

The listserve should be used for general information only. Here are examples:

- Provide a generic example of an issue and ask if anyone who has researched the issue can provide advice.
- Ask about compliance-related issues, such as the appropriate elections to attach, disclosure issues on tax filings, which forms should be used in certain situations, etc.
- Present procedural questions regarding notice responses, examination procedures, etc.

This is by no means a complete listing, but gives an idea of how to utilize the experience of those who regularly monitor and respond to the listserve. Specific client fact patterns should be avoided at all costs.

We are all awaiting further guidance from the Internal Revenue Service regarding the application of Section 7216. In the meantime, I hope this clarifies some of the concerns that have been posted. If you have additional questions please let me know.

Emily P. Walker Government Affairs Director Virginia Society of CPAs ewalker@vscpa.com (804) 612-9428 www.vscpa.com

# Appendix IV



#### Ethics — Resources

Important websites:

- Virginia Town Hall http://townhall.virginia.gov
- Virginia Board of Accountancy www.boa.virginia.gov
- Virginia Society of CPAs www.vscpa.com
- AICPA/Mobility www.aicpa.org/mobility

Virginia Society of Certified Public Accountants

2

#### Ethics — Resources

Other important websites:

- International Federation of Accountants www.ifac.org
- Internal Revenue Service www.irs.gov



#### Ethics — Introduction

#### Regulatory

- "The rules or standards governing the conduct of the members of a profession."
  - The American Heritage Dictionary

#### **Behavioral**

- Ethics is derived from the Greek ethos, meaning character.
- In philosophical terms, *ethics* refers to morality, concentrating on human conduct and values.





#### **Ethics** — Introduction

Ethics comprise several important concepts, including:

- Honesty
- Integrity
- Understanding
- Tact
- Responsibility

5



# Virginia Board of Accountancy

The role of the Virginia Board of Accountancy (BOA), as with all professional regulatory boards in Virginia, is to protect the health, safety and welfare of the citizens of the Commonwealth.

This course is designed to comply with the BOA outline for 2010. A copy of the outline is included in the manual.



# BOA Highlights — Revised Accountancy Statutes

In 2007, the Virginia Accountancy Statute was modified by the General Assembly.

- The enactment date for changes was July 1, 2007.
- The AICPA Code of Professional Conduct is incorporated by reference into the statutes.
- On December 23, 2009, the BOA submitted revised regulations governing Virginia CPAs into the "fast-track" regulatory process.

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# **BOA Highlights — Revised Accountancy Statute**

This course will examine the following changes:

- · Unlicensed practice
- · Licensing requirements for individuals
- · Substantial equivalency
- · Licensing requirements for firms
- Peer review requirements and the new AICPA Peer Review Program
- CPE requirements effective January 1, 2009

3

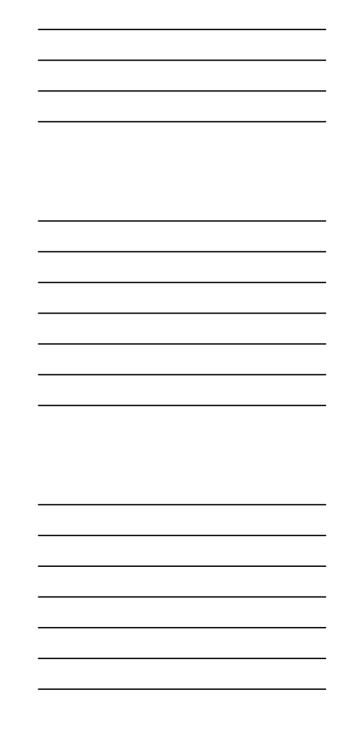


# **BOA Highlights — Revised Accountancy Statutes**

Practice without a license:

- Unlicensed practice is one of the most common disciplinary complaints the BOA receives.
- Check the status of your license online at the BOA website, www.boa.virginia.gov!
- Renewal notices are sent to your last known email address. Paper notices are only sent if an e-mail is undeliverable or no e-mail address exists for the licensee.
- Keep your contact information current!





# **BOA Highlights — Revised Accountancy Statutes**

#### License renewal:

- The first notice is e-mailed approximately 30 days prior to your renewal date.
- Paper renewal notices are sent only if no e-mail address is on file or e-mail notices are undeliverable.
- If you have not renewed, the BOA sends a notice 11 months after the renewal date (just before expiration date).

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# BOA Highlights — Revised Accountancy Statutes

#### Common terms:

- Substantial equivalency: Substantial equivalency is the core idea that will allow CPAs to practice across jurisdictions easily. It was first introduced into the UAA-Third Edition in January 1998.
- **Mobility:** Practice mobility for CPAs is the ability of a licensee to gain a practice privilege outside of his or her home jurisdiction without obtaining an additional license in another state where he or she will be serving a client or an employer. There are varying rules for tax, consulting and attest functions, each having its own interpretation.

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#### Virginia Society of Certified Public Accountants

# BOA Highlights — Revised Accountancy Statutes

#### § 54.1-4409.1. Licensing requirements for persons

- A person must be licensed in order to use the CPA title in Virginia. This includes the use of knowledge, experience and education.
- · Changes to the statute:
  - If your principal place of business is in Virginia, you must have a Virginia license.
  - If principally located elsewhere, you do not need a Virginia license, but you do need a license from another state and must comply with substantial equivalency.



# **BOA Highlights — Revised Accountancy Statutes**

§ 54.1-4411. Substantial equivalency provisions for persons who hold the license of another state.

Substantially equivalent means:

 The BOA has evaluated and listed the state as substantially equivalent

(or)

 The person has demonstrated meeting education, CPA Exam and experience requirements that are substantially equivalent to those in Virginia.

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# **BOA Highlights — Revised Accountancy Statutes**

## § 54.1-4411. Substantial equivalency provisions (cont.)

The statute clarifies that when you use the CPA title in Virginia, you consent to the jurisdiction of the BOA and the requirements of its regulations, disciplinary procedures and authority to revoke the ability to use the CPA title in Virginia.

This also involves equivalent education requirements.

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# BOA Highlights — Revised Accountancy Statutes

#### § 54.1-4412.1. Licensing requirements for firms

- The statute changes licensure so that only a firm may perform attest services.
- Individuals doing an attest engagement (even for free) may require a firm license.
- This change pulls all attest functions under peer review requirements.
- Firms must have a Virginia license if their principal place of business is in Virginia.

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# BOA Highlights — Revised Accountancy Statutes

## § 54.1-4412.1. Licensing requirements for firms (cont.)

Firms not primarily located in Virginia may perform attest work here if:

 The personnel of the firm working on the engagement are licensed in Virginia or are licensed elsewhere and comply with substantial equivalency

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# **BOA Highlights — Revised Accountancy Statutes**

## § 54.1-4412.1. Licensing requirements for firms (cont.)

Firms not primarily located in Virginia may perform attest work here if:

 The personnel of the firm working on the engagement are supervised by someone who is either licensed in Virginia or licensed elsewhere and comply with substantial equivalency

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#### Virginia Society of Certified Public Accountants

# BOA Highlights — Revised Accountancy Statutes

### § 54.1-4412.1. Licensing requirements for firms (cont.)

- Principal place of business is not defined in the Statute and is expected to be defined in the revised regulations.
- Sole proprietors need two licenses individual and firm — to provide attest services or compiled financial statements under professional standards.
- The AICPA Peer Review Program is the current peer review standard. The program is administered by the VSCPA in Virginia.

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# BOA Highlights — Revised Accountancy Statutes

#### § 54.1-4414 Prohibited acts

Anyone who does not hold a Virginia license or does not meet the requirements to use the CPA title in Virginia and any entity that does not comply with §54.1-4411.D shall not:

- · Practice public accounting
- · Claim to hold a license to use the CPA title
- Make any claim of licensure, registration or approval related to preparation of financial statements that is misleading

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# BOA Highlights — Revised Accountancy Statutes

#### § 54.1-4414 Prohibited acts (cont.)

Anyone who does not hold a Virginia license or does not meet the requirements to use the CPA title in Virginia and any entity that does not comply with §54.1-4411.D shall not:

- Use the CPA title
- Refer to any standard-setting authorities listed in §54.1-4413.3 in any manner of communication about services to persons or entities located in Virginia

**Note:** The BOA may impose up to \$100,000 in fines for violations of the *Code* and regulations.

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#### Virginia Society of Certified Public Accountants

#### **AICPA Peer Review Program**

- Incorporated into Virginia statutes at §54.1-4412.1.D.6
- First peer review due within 18 months of providing services covered by the program
- Follow-up peer reviews due three years and six months after the initial peer review date



#### **AICPA Peer Review Program**

Two types of peer reviews:

- System
- Engagement

The type of peer review needed is determined by the services provided by the firm.

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#### **AICPA Peer Review Program**

New report types:

- Pass (replaces Unmodified)
- Pass With Deficiency (replaces Modified)
- Fail (replaces Adverse)

The goal of these revisions is to make peer review reports more understandable to the users.

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#### Virginia Society of Certified Public Accountants

#### **BOA Disciplinary Process**

Complaints are often filed because of poor communication and failure to resolve issues.

- Communicate with your clients.
- Resolve disputes before clients feel their only recourse is to seek the BOA's assistance.
- All complaints become a permanent part of your record.

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#### **AICPA Activity**

#### AICPA Code Format

- Section 50: Principles
- Section 90: Applicability & Definitions
- Sections 100 through 500: Enforceable Rules, Interpretations and Rulings

Professional Ethics Executive Committee (PEEC) continually monitors and revises the *Code*.

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#### **AICPA Activity**

Exposure Draft — Interpretation 101-17, Networks and Network Firms and Proposed New Definitions of Network and Network Firms and Proposed Revised Definition — Firm under Section 92

- Identifies common characteristics for network status of associations with others
- Requirement for independence with network to provide audit and review services when report not restricted to specified users
- Need to consider threats and apply safeguards to reduce threats to acceptable levels
- · Proposed effective date December 15, 2010
- If there is a foreign relationship, what are the ramifications of IRC Section 7216?

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#### **AICPA Activity**

Guide for Complying with Rules 102 & 505:

- Initially presented as a proposed interpretation
- Now anticipated as non-enforceable guidance, located after the appendix of the Code
- Threats and safeguards guidance to assist CPAs with compliance



#### **AICPA Activity**

Future planned issues activity for PEEC:

- Public interest entities under conceptual framework
- Interpretation 101-3, assisting clients with IFRS-related services
- Participation in retirement or savings plans by immediate family members
- Inadvertent violations

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#### **AICPA Activity**

Other important AICPA/FASB projects:

- Subsequent events
- Going concern
- Trust services
- And several others see the latest issue of the *Journal of Accountancy*

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# Other Ethical Standards Setters

Pursuant to Section 54.1-4413-3, Standards of Conduct and Practice, we are required to follow the standards of conduct promulgated by not only the AICPA, but other government agencies and bodies as well.



#### **IASB**

- International Accounting Standards Board (IASB) recognized by AICPA as designated standard setter at the May 18, 2008, Council meeting
- New international standards for small and medium-sized businesses have been approved for comment.
- International Financial Reporting Standards (IFRS) adopted by Securities and Exchange Commission (SEC) as allowed by reporting standards in 2007
- Both automatically incorporated into Code of Virginia §54.4-4413.

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Virginia Society of Certified Public Accountants

#### **IESB**

- On January 1, 2009, Sections 290 and 291 of the International Code of Ethics, developed by the International Ethics Standards Board (IESB) regarding independence and other assurance engagements, became effective.
- This relates to the proposed ethical standard regarding network firms, as many U.S. accounting firms have networks or have affiliates abroad.
- Copies of this pronouncement may be obtained at www.ifac.org.

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Virginia Society o Certified Public Accountants

#### **IESB**

#### Some illustrations:

- You are providing attest services to a U.S. entity that is acquired by an international company. You are asked by the international accounting firm to confirm that you are independent pursuant to the international standards.
- Your firm is a part of an international network of firms. As such, all firms in the network must be independent of the other firms' attests clients under the international standards.



#### **IESB**

Illustrations (cont.):

· You are providing attest services to a company that opens a subsidiary in a foreign country and is dealing with lenders in that foreign country. The company expects that you will meet the international independence standards.

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#### **IRS**

- For those practitioners in tax, there are new laws and regulations regarding tax practice and procedure as well as client privacy rights.
- For those practice units using preparers outside of the United States, be aware of the addendum to the privacy rules which requires that you inform your client of this fact and obtain client permission in writing. This is pursuant to a change in Internal Revenue Code Section 7216 regarding privacy of client data.

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#### **IRS**

- · The IRS has instituted a program involving regulation of tax preparers.
- This includes monitoring the practice and procedure of individuals and firms.
- · Basic rules for this were introduced in December of 2009 and will be implemented beginning in December 1, 2010.
- See Circular 230, paragraph 10.33.



#### **IRS**

- Each practice unit must demonstrate it has protected the integrity of client information, to prevent identity theft.
- Practitioners must adhere to the new regulations regarding substantial authority for a position on a tax return to avoid disciplinary action from the IRS Office of Professional Responsibility.

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#### **IRS**

- The regulations pursuant to Code Section 7216 have become final
- There are two penalty provisions:
  - Criminal under Section 7216
  - Civil under Section 6713

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#### Other

- The new Statements on Standards for Tax Services (SSTS), which are the basic standards by which all CPA tax preparers will be held accountable, are available on the AICPA website. These have been rewritten to coincide with the new Internal Revenue Code requirements. Effective date is January 1, 2010.
- The Public Company Accounting Oversight Board (PCAOB), Securities and Exchange Commission (SEC) and other organizations and agencies have recently updated their standards of conduct, requiring applicable practice units to adjust their practice procedures.

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#### Other

- The Auditing Standards Board adopted Statement on Quality Control Standards (SQCS) No. 7, A Firm's System of Quality Control, which was effective January 1, 2009.
- The purpose of this SQCS is to establish standards and provide guidance for CPA firms in creating their accounting and auditing practices' system of quality controls.

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# IRS and Accounting Bridge

 Circular 230, paragraph 10.33, and SQCS 7 bring tax and accounting practices regarding quality control standards closer together.

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#### **Ethical Decision Model**

The Ethics Resource Center offers a six-step decisionmaking model as well as four PLUS ethics filters that CPAs can use in making daily decisions:

- · Step 1: Define the problem.
- Step 2: Identify available alternative solutions to the problem.
- Step 3: Evaluate the identified alternatives.
- Step 4: Make the decision.
- Step 5: Implement the decision.
- Step 6: Evaluate the decision.



#### **Ethical Decision Model**

It is then critical to apply ethical filters to the critical steps (1, 3 and 6) to ensure choices are ethical. Those filters are:

- P = Policies
   Is it consistent with my organization's policies, procedures and guidelines?
- L= Legal
- Is it acceptable under the applicable laws and regulations?
- U = Universal
  - Does it conform to the universal principles/values my organization has adopted?
- S= Self

Does it satisfy my personal definition of right, good and fair?





#### Principles of Professional Conduct

The BOA outline for the 2010 ethics course includes two required topics:

- Integrity and objectivity
- Professional competence

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#### Principles of Professional Conduct

Integrity and objectivity: BOA
Regulation 18 VAC 5-21-120 C and Article
III and Rule 102, of the AICPA Code of
Professional Conduct



Integrity and objectivity: A regulant shall perform all professional responsibilities with the highest sense of integrity, maintain objectivity and freedom from conflicts of interest in discharging professional responsibilities and avoid knowingly misrepresenting facts or inappropriately subordinating his judgment to others.

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#### Principles of Professional Conduct

**Situation 1:** The CPA sits on the Board of an organization for which his/her firm is providing attest services. This involves the appearance of impropriety. Would any third-party users of the financial information believe there was true independence?

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#### Principles of Professional Conduct

**Situation 2:** The CPA has a direct or indirect financial interest in a client. Can he or she truly be objective in his or her determinations? Are there consequences of being a creditor of a client for whom you are providing attest services?



**Situation 3:** An employee (a licensed CPA) is told to ignore a known fact and complete worksheets for the auditor (Prepared By Client information) that the auditor will use during an attest engagement. What should the employee do?

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#### Principles of Professional Conduct

**Professional competence**: BOA Regulation 18 VAC 5-21-120 E and Rule 201 A, of the AICPA *Code of Professional Conduct* 

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#### Principles of Professional Conduct

**Professional competence:** A regulant shall undertake only those professional services that can reasonably be expected to be completed with professional competence.



**Situation 4:** The CPA is approached by a prospective client regarding a consulting situation that could result in an attest engagement or tax services. Neither the individual nor the firm have ever handled an engagement regarding this issue. What is the recommended course of action?

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#### Principles of Professional Conduct

**Situation 5:** A client enters into a complex transaction that neither the CPA nor the firm have previously seen. The CPA or firm advises the client it can accurately complete the necessary tax work and any related financial statements. What would proper planning entail?

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#### Principles of Professional Conduct

**Situation 6:** The CPA or firm accepts an engagement and then proceeds to obtain the required education and expertise to complete it. This is done without advising the client. What are the ramifications of this action?



**Situation 7:** An employee (a licensed CPA) is asked to perform an accounting entry for which he or she has not had ample opportunity to obtain experience or verify data. This will have significant impact on the employer's financial statements. What actions are available to the employee?

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# **Principles of Professional Conduct**

The three additional topics from which to choose one include:

- Independence
- Confidential client information
- · Sufficient relevant data

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#### Principles of Professional Conduct

**Independence:** VBOA regulation 18 VAC 5-21-120 D and Article IV and Rule 101 of the AICPA *Code of Professional Conduct* 



**Independence:** A CPA certificate holder and registration certificate holder shall be independent in fact and appearance when offering to provide or providing services pursuant to the standards listed in the definition of "standards of practice for CPA certificate holders."

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#### Principles of Professional Conduct

**Situation 8:** In light of the recent financial climate, the practitioner becomes aware of client actions and events subsequent to the issuance of the financial statements and tax returns. What responsibility does the practitioner have to the client, third-party users of the information and tax agencies?

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#### Principles of Professional Conduct

**Situation 9:** The CPA prepares tax returns for a client and, during preparation, makes tax decisions affecting deductions and/or credits without consulting the client. What are the consequences of such actions, if attest work is also being performed?



**Situation 10:** The practitioner prepares financial statements and tax returns for a client. Conflicting decisions are made regarding FIN 48 and actual tax work done for the client. What are the CPA or firm's responsibilities?

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#### Principles of Professional Conduct

**Confidential client information:** VBOA Regulation 18 VAC 5-21-120 J and Rule 301 of the AICPA *Code of Professional Conduct* 

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#### Principles of Professional Conduct

**Situation 11:** The professional owns a CPA firm in which he or she has a controlling interest and also owns a controlling interest in a firm that provides consulting or investment services to the CPA firm clients. Is this permitted, and if so, what are the ramifications?



**Situation 12:** The practitioner is a member of a referral network that meets on a regular basis. The purpose of the network is to exchange clients to benefit other members of the network. What steps should the CPA take to advise the client about potential use of the client's name to other service or product suppliers?

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# **Principles of Professional Conduct**

**Situation 13:** An employee of a CPA firm discusses client situations with friends who are employed by other CPA firms to gain some insight on how to handle certain tax and accounting situations with which he or she is confronted. What is the appropriate action to be taken?

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#### Principles of Professional Conduct

**Sufficient relevant data:** VBOA Regulation 18 VAC 5-21-120H and Rule 201 of the AICPA *Code of Professional Conduct* 



**Sufficient relevant data:** A regulant shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

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#### Principles of Professional Conduct

**Situation 14:** The CPA or firm has exceeded budget on the engagement and ceases field work. He or she proceeds to prepare financial statements and tax returns based on information already collected. What are the ramifications of such actions?

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#### Principles of Professional Conduct

**Situation 15:** Due to an impending deadline, an employee of a member in government is told to complete a job without all the relevant data having been collected. What course of action is available to the employee?



Resources
The BOA website is <b>www.boa.virginia.gov</b> .
Check to be sure your individual/firm license is current.
The VSCPA website is www.vscpa.com.
Check for updates on BOA activity and find resources to help you and your firm.
Window Sections of



# **VSCPA Social Media**

New ways to connect with the Virginia CPA community!

The Virginia Society of CPAs (VSCPA) offers several social media options to make it easy for you to generate important networking connections and stay up-to-the-minute on VSCPA and professional news!

Make new relationships with peers and colleagues, discuss professional situations, get the absolute latest professional news, recruit new talent to your firm or company and much more.

#### Social Networking

Connect with past, present and future colleagues.

#### **CPA Café Blog**

Learn about and comment on recent VSCPA news and professional issues.

#### E-mail Listserves

Practice- and interest-specific e-mail listserves facilitate online dialogue among members.

#### Online Communities

Packed with practice-specific resources and opportunities to connect with peers, VSCPA Online Communities include an RSS feed. e-mail listserve, announcements, upcoming events and more.

#### RSS Feeds

Subscribe to the news you need on a variety of topics in one easy step, and receive alerts that your favorite websites have new content.

#### **Podcasts**

Expert analysis and insight into what is happening in the area of federal taxation.

Check out www.vscpa.com to sign up today!









