

justice
**Ethics 2012 —
Your License
Depends on It!**

trust

code

ETHICS



**Virginia Society of
Certified Public
Accountants**

choices

question





**Virginia Society of
Certified Public
Accountants**

Ethics 2012 — Your License Depends on It!

Participant Manual

*CPE presentation developed by:
Virginia Society of CPAs (VSCPA)*

*Edited by:
Brian Kush, CPA*

*Reviewed by:
Morgan Aronson, CPA
Clare Levison, CPA
Emily Walker
Colette Wilson, CPA*

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About This Course

Why Take an Ethics Class?

1. To comply with continuing professional education (CPE) requirements of the state in which you are licensed as a Certified Public Accountant (CPA).

This training has been created to help you meet the Virginia Board of Accountancy's (VBOA) annual 2-hour CPE requirement for 2012. In 2003, the Virginia General Assembly passed a law requiring all CPAs in Virginia to take an annual ethics CPE course. Each year, the VBOA provides an outline of topics to be included, which can be found at <http://tinyurl.com/2012VBOAEthicsOutline>, and this class has been designed to meet the objectives of the 2012 outline.

Additionally, this class *may* qualify for 2 CPE hours of ethics for CPAs licensed in other states. Please refer to your state's regulations for more information

2. To receive updates on some of the latest revisions to regulations and ethical guidelines applicable to Virginia CPAs.

Please note: this class was not designed to be an all-encompassing update. In addition, the information provided and scenarios presented are not intended to be official positions of the VBOA, the American Institute of CPAs (AICPA), the U.S. Internal Revenue Service (IRS), the International Ethics Standards Board for Accountants (IESBA) or any other standard-setting body. For specific advice or clarification, please research the applicable standards or seek advice from the appropriate governing/regulating organization.

3. To provide you with an opportunity to reflect on ethical responsibilities that come with holding a CPA license and practicing as a CPA.

Ethics is a branch of philosophy that can be hard to define, and many dilemmas will not have black-and-white answers. CPAs face various ethical challenges and decisions, both big and small, during their careers. The more you are educated on recent ethical guidelines, rules and principles — and the more you reflect on their practical applications — the better position you will be in when faced with ethical situations in your practice.

Resources

Publications Regarding Professional Ethics

Code of Virginia

Title 54.1 Professions and Occupations; Chapter 44 — Public Accountants
<http://tinyurl.com/CodeofVA>

AICPA Code of Professional Conduct

<http://tinyurl.com/AICPACode>

Organizations

As a licensed CPA, you are regulated by the state(s) in which you are licensed, among other bodies, depending on the nature of your work or your organization's work. The VBOA incorporates by reference (per § 54.1-4413.3) and sets forth that persons and firms using the CPA title or designation in Virginia shall follow the standards and any interpretive guidance issued by the following bodies or their successors:

- American Institute of CPAs (Code of Professional Conduct)
- Comptroller General of the United States
- U.S. Federal Accounting Standards Advisory Board (FASAB)
- Financial Accounting Standards Board (FASB)
- Government Accounting Standards Board (GASB)
- U.S. Securities and Exchange Commission (SEC)
- Public Company Accounting Oversight Board (PCAOB)
- Comparable international standard-setting authorities

Virginia Board of Accountancy (VBOA)

<http://boa.virginia.gov>

Email: boa@boa.virginia.gov

CPA Licensing Services & General Information: (804) 367-8505

CPA Examination Services: (804) 367-1111

American Institute of CPAs (AICPA)

<http://www.aicpa.org>

AICPA hotline: (888) 777-7077

Email: ethics@aicpa.org

U.S. Federal Accounting Standards Advisory Board (FASAB)

<http://www.fasab.gov>

(202) 512-7350

Financial Accounting Standards Board (FASB)

<http://www.fasb.org>

(203) 847-0700

Codification: <http://asc.fasb.org/>

U.S. Government Accountability Office (GAO)

<http://www.gao.gov>

(202) 512-3000

The Comptroller General of the United States is the Director of the Government Accountability Office

Government Accounting Standards Board (GASB)

<http://www.gasb.org>

(203) 847-0700

Public Company Accounting Oversight Board (PCAOB)

<http://www.pcaobus.org>

(202) 207-9100

Independence and Ethics Rules and Standards (including AICPA Code of Professional Conduct references): <http://pcaobus.org/Standards/EI/Pages/default.aspx>

U.S. Securities and Exchange Commission (SEC)

<http://www.sec.gov>

(888) SEC-6585

Virginia Society of CPAs (VSCPA)

<http://www.vscpa.com>

(800) 733-8272

NOTE: Website URLs, email addresses and phone numbers provided above and throughout this guide are subject to change.

Glossary

Unless otherwise noted, the following definitions are from the Code of Virginia § 54.1-4400. Definitions.

Assurance: 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.

Attest services: Audit, review or other attest services for which standards have been established by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of CPAs, or by any successor standard-setting authorities.

Compilation Services: Compiling financial statements in accordance with standards established by the American Institute of Certified Public Accountants or by any successor standard-setting authorities.

Financial Statement: A presentation of *historical or prospective* financial information about one or more persons or entities.

Licensee: A person or firm holding a Virginia license or the license of another state. However, for purposes of this document, *licensee* only refers to a person holding a Virginia license or the license of another state.

Mobility: A practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her place of business without obtaining another license. (Source: <http://www.cpamobility.org>)

Not-for-Profit Entity: An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return.
- Operating purposes other than to provide goods or services at a profit.
- Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- All investor-owned entities.
- Entities that provide dividends, lower costs or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives and employee benefit plans.

(Source: Paragraph 5, Definitions in the Providing Volunteer Services as a Virginia CPA handout — FASB Accounting Standards Codification Master Glossary)

Peer Review: A review of a firm's attest services and compilation services conducted in accordance with the monitoring program.

Practice of Public Accounting: The giving of an assurance 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.

Providing Services to the Public Using the CPA Title: Providing services that are subject to the guidance of the standard-setting authorities listed in the standards of conduct and practice in subdivisions 5 and 6 of § 54.1-4413.3.

§ 54.1-4413.3. Standards of conduct and practice. (Only the relevant portions are listed below.)

5. Follow the technical standards, and the related interpretive guidance, issued by committees and boards of the American Institute of Certified Public Accountants that are designated by the Council of the American Institute of Certified Public Accountants to promulgate technical standards, or that are issued by any successor standard-setting authorities.

6. Follow the standards, and the related interpretive guidance, as applicable under the circumstances, issued by the Comptroller General of the United States, the Federal Accounting Standards Advisory Board, the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Public Company Accounting Oversight Board, the U. S. Securities and Exchange Commission, comparable international standard-setting authorities, or any successor standard-setting authorities.

Providing Services to an Employer Using the CPA Title: Providing to an entity services that require the substantial use of accounting, financial, tax or other skills that are relevant, as determined by the Board.

Substantial Equivalency: The education, CPA Exam and experience requirements contained in the statutes and administrative rules of another jurisdiction are comparable to, or exceed, the education, CPA Exam and experience requirements contained in Chapter 44 of Title 54.1 of the Code of Virginia and the Board of Accountancy Regulations. (18VAC5-22)

Using the CPA Title in Virginia: Using "CPA," "Certified Public Accountant" or "public accountant" (i) in any form or manner of verbal communication to persons or entities located in Virginia or (ii) in any form or manner of written communication to persons or entities located in Virginia, including but not limited to the use in any abbreviation, acronym, phrase, or title that appears in business cards, the CPA wall certificate, Internet postings, letterhead, reports, signs, tax returns or any other document or device.

Common Acronyms and Abbreviations

- **AICPA** — American Institute of CPAs
- **ASU** — Accounting Standards Update — update to the Accounting Standards Codification
- **ET** — Ethics (topical index of the AICPA Professional Code of Conduct)
- **IESBA** — International Ethics Standards Board for Accountants (independent standard setting organization within IFAC)
- **IFAC** — International Federation of Accountants
- **IRC** — Internal Revenue Code
- **IRS** — Internal Revenue Service
- **GAAP** — U.S. Generally Accepted Accounting Principles
- **GAAS** — U.S. Generally Accepted Auditing Standards
- **GAGAS** — U.S. Generally Accepted Government Auditing Standards
- **PEEC** — Professional Ethics Executive Committee (of the AICPA)
- **PIOB** — Public Interest Oversight Board
- **PTIN** — Preparer Tax Identification Number
- **SSAE** — Statements on Standards for Attestation Engagements
- **SSARS** — Statements on Standards for Accounting and Review Services
- **SQCS** — Statement on Quality Control Standards
- **SSTS** — Statements on Standards for Tax Services — enforceable tax practice standards for members of the AICPA
- **VAC** — Virginia Administrative Code (“Regulations”)
- **VBOA** — Virginia Board of Accountancy, sometimes referred to as “the Board”
- **VSCPA** — Virginia Society of CPAs

Virginia-Specific Ethics Course 2012 Outline

A. Providing Volunteer Services as a Virginia CPA

(30 - 45 minutes*)

Required handout.

B. Awareness of Regulatory Issues relative to Virginia CPAs

(45 - 60 minutes*)

Practical situations, potential solutions and examples must be included and illustrated with short scenarios or simulations.

Virginia's Top 10 Issues for 2012

1. IRS PTIN Requirements
 - Circular 230 Updates
2. CPE
 - Professional Relevance (i.e., Public vs. Industry/Government)
 - New Regulations – 8 hours Annually Attest & Compilation CPE (18VAC5-22-140) Beginning in Calendar Year 2011
3. AICPA Code of Professional Conduct – Section 101 Independence
 - Section 101-3 Performance of Nonattest services (Revised)
4. AICPA Code of Professional Conduct – Section 501 Acts Discreditable
 - Section .02 501-1 Response to requests by clients and former clients for records
5. [SEC Whistleblower Rules](#)
 - Effective August 2011
 - AICPA Ethics Hotline – 1-888-777-7077
6. Board Statute - § 54.1-4412.1 Licensing requirements for firms
 - Only a firm can provide attest services or compilation services to persons or entities located in Virginia
 - Must have a firm license
 - Subject to peer review
7. Mobility – CPAmobility.org
8. New [VBOA website](#)
 - Browse for familiarity
 - [Update contact information](#)
 - [On-line chat feature](#)
 - [Investigative \(Enforcement\) results](#)

Virginia-Specific Ethics Course 2012 Outline

Virginia's Top 10 Issues for 2012, continued

9. Communication with Clients & the VBOA
 - Timeliness
 - Engagement Letters
 - AICPA Code of Professional Conduct – Section 301 Confidential Client Information
 - Importance of maintaining client confidentiality via electronic communications
 - Board Regulation 18VAC5-22-170 Communication between the Board and licensees
10. "On the Horizon"
 - Convergence - IFRS
 - Leases
 - [10 topics every CPA must examine to stay ahead of the curve](#)

C. Awareness of Behavioral Issues relative to Virginia CPAs (30 - 45 minutes*)

Handouts of actual VBOA enforcement cases (relevant cases)

For Participants:

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 boa@boa.virginia.gov, or by calling (804) 367-0728.

For CPE Providers:

Note: 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.

*Time allocations are suggestions only. Times allocated to each subject may vary depending on the appropriate emphasis for the target audience (e.g., CPAs in public practice versus CPAs in private industry or government).

Important: CPE providers should urge participants to monitor the VBOA website for updates and information regarding the VBOA. CPE providers should also urge licensees to register with the Virginia Town Hall to receive automated VBOA regulatory updates (www.townhall.state.va.us/index.cfm).

Ethics Warm-up Questions

1. Who is affected by the ethical decisions we make as CPAs and the actions that result from those decisions?
2. Let's get unethical! Name something you would consider unethical that you could get away with doing within the context of your current job that would benefit you in some way?
3. What is an ethical decision or action that you have made as a CPA in the past that had a personal cost attached to it?
4. If you had to create your own ethical code of conduct or mission statement in 20 words or less, what would it be?
5. Have you ever *not* done something because you were a CPA that you might have done if you were not?

2012 VBOA Enforcement Cases

Enforcement Cases 2012 Outline for Virginia-Specific Ethics Course

The following sample cases were adjudicated by the Virginia Board of Accountancy (VBOA) as a result of the Board's enforcement processes:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED
<p><u>CASE #1</u> CONSENT ORDER <u>18VAC5-21-170 (A) (1)</u> CPE Deficiency</p>	<p>The Respondent was randomly selected for CPE compliance review for the 2006, 2007, 2008 reporting period. The Respondent reported 137 CPE credits were obtained for the reporting cycle.</p> <p>Following a review of the documentation submitted it was determined that 60 CPE credits did not qualify as valid CPE. The Respondent was unable to provide certificates of completion and/or documentation reflecting the name of the sponsor, name of the participant, date(s)/title of the course, and the number of CPE earned and was deemed deficient 43 CPE credits.</p>	<p>The Board ordered the Respondent to pay a monetary penalty of \$2,500 to be paid in 90 days (with \$1,250 suspended if all terms are met in 60 days), completion and submission of 43 CPE hours within 60 days of the entry date of the Order, to certify having read and understood the regulations and statutes, and understands that failure to comply with the provisions of the Consent Order will result in the automatic suspension of the CPA License.</p>	<p>1/5/2010</p>
<p><u>CASE #2</u> FINAL ORDER <u>18VAC5-21-70</u> Peer Review Deficiency</p>	<p>The Respondent requested an exemption from the VBOA mandated peer review requirements. The Respondent stated that she only performed one review and unfortunately all documents (paper and electronic) related to the review (work papers, etc.) were damaged following a flooding of her home office. She stated that her computer and all original documents were contaminated and therefore she was unable to retrieve and/or recreate the information for submission. Respondent was unable to provide other supporting documentation.</p>	<p>The Board imposed a monetary penalty of \$2,000 to be paid in 90 days, submission of 120 CPE hours for 2007, 2008, and 2009 within 30 days, and to present in person an oral presentation of a 1,250 word essay regarding the Virginia Board of Accountancy peer review requirements to the full Board.</p>	<p>9/16/2010</p>

Enforcement Cases 2012 Outline for Virginia-Specific Ethics Course

The following sample cases were adjudicated by the Virginia Board of Accountancy (VBOA) as a result of the Board's enforcement processes:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED
<p><u>CASE #3</u> <u>CONSENT ORDER</u> <u>§ 54.1-111, § 54.1-4409.1 and</u> <u>§ 54.1-4414</u> Unlicensed Activity</p>	<p>The Respondent was using the CPA title by advertising on the internet. He was offering to provide services to the public using the CPA title that are subject to the guidance of the standard-setting authorities listed in the Standards of Conduct and Practice (§ 54.1-4413.3, Code of Virginia). The Respondent offered the services without holding a valid CPA license. The Respondent previously held a CPA license of another state but this license was expired at the time services were provided.</p> <p>The Respondent stated that he had been using the designation for over 40 years and was not aware that licensure was required to provide services using the CPA title. The Respondent stated, "<i>I always thought once you are a CPA, you are always a CPA.</i>"</p>	<p>The Board imposed a monetary penalty of \$20,000 to be paid in 90 days and the immediate removal of the CPA designation from all signage, business cards, letterhead, software and any and all listings or websites until duly licensed.</p>	<p>10/19/2010</p>

Enforcement Cases 2012 Outline for Virginia-Specific Ethics Course

The following sample cases were adjudicated by the Virginia Board of Accountancy (VBOA) as a result of the Board's enforcement processes:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED
<p><u>CASE #4</u> <u>CONSENT ORDER</u> <u>§ 54.1-111 and § 54.1-4409.1</u> <u>and § 54.1-4414</u> Unlicensed Activity</p>	<p>The VBOA received notification from the South Carolina Board of Accountancy that they received an Independent Auditors Report from the Respondent (with a Virginia address). Following an attempt to verify his licensure status it was determined that the Respondent had never held a valid Virginia CPA license or the license of any state/jurisdiction.</p>	<p>The Board imposed a monetary penalty of \$10,000 to be paid in 90 days and the immediate removal of the CPA designation from all signage, business cards, letterhead, software and any and all listings or websites until duly licensed.</p>	<p>11/29/2010</p>
<p><u>CASE #5</u> <u>CONSENT ORDER</u> <u>§ 54.1-4413.4 (B) (4)</u> Securities and Exchange Commission (SEC) Violation § 54.1-4413.4 gives the Board the authority to sanction any licensee that has had his privileges taken away by a governing body.</p>	<p>The VBOA received notification from the SEC that the Respondent was found in violation of improper use of accounting adjustments to company financial records. The SEC reported that the Respondents' violations included but were not limited to "<i>engaging in a scheme to assist the company in meeting or exceeding quarterly earnings per share targets.</i>"</p>	<p>The Board suspended the Respondents CPA license for a period of no less than five years beginning November 12, 2009.</p> <p>The SEC imposed a monetary penalty of \$25,000 and the Respondent was denied the privilege of appearing/practicing before the SEC beginning November 12, 2009 for a period of five years. In addition, the Respondent consented to the entry of judgments permanently enjoining him from violating Sections 17(a)(2) and 17(a)(3) of the Securities Act and Exchange Act Rules 13b2-1 and 13b2-2, and from aiding and abetting violations of the reporting, books and records, and internal controls provisions.</p>	<p>5/16/2011</p>

Enforcement Cases 2012 Outline for Virginia-Specific Ethics Course

The following sample cases were adjudicated by the Virginia Board of Accountancy (VBOA) as a result of the Board’s enforcement processes:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED
<p>CASE #6</p> <p><u>CONSENT ORDER</u> <u>§ 54.1-4413.3 (6) and</u> <u>§ 54.1-4412.1</u></p> <p>Audit Failure</p>	<p>The VBOA received notification from the Office of the Inspector General (OIG) regarding a failed audit for a not-for-profit entity. The Quality Control Review performed by the OIG’s office on behalf of the Department of Education found that the Respondent failed to adequately document proof of audit procedures as required by the Student Financial Aid (SFA) Audit Guide.</p>	<p>The Board ordered the Respondent to refrain from providing attest or compilation services other than those that are not expected to be used by a third party (management use only) without first:</p> <ol style="list-style-type: none"> 1. Notifying the Board; 2. Developing policies and procedures for ensuring the services provided are in compliance with the Standards of Conduct and Practice for those services pursuant to § 54.1-4413.3, Code of Virginia; and 3. Obtaining Board approval. 	<p>6/29/2011</p>

Enforcement Cases 2012 Outline for Virginia-Specific Ethics Course

The following sample cases were adjudicated by the Virginia Board of Accountancy (VBOA) as a result of the Board's enforcement processes:

SUMMARY OF VIOLATIONS	RATIONALE	BOARD ACTION	DATE CLOSED
<p><u>CASE #7</u></p> <p><u>CONSENT ORDER</u> <u>§ 54.1-4413.4 (B) (4) and AICPA Code of Conduct, Rule 501 - 7</u></p> <p>Failure to pay taxes in a timely manner.</p> <p>§ 54.1-4413.4 gives the Board the authority to sanction any licensee that has had his privileges taken away by a governing body.</p>	<p>The VBOA received notification that the Respondent was issued and signed an offer of consent to suspension from practice issued by the Internal Revenue Service (IRS) for failure to timely file his 2002, 2003, and 2004 individual tax returns.</p> <p>Additional disciplinary actions were taken by the Ethics Charging Authority (ECA). The ECA is composed of the AICPA Professional Ethics Executive Committee and the Virginia Society of Certified Public Accountants (VSCPA) Professional Ethics Committee. ECA imposed penalties were as follows:</p> <ol style="list-style-type: none"> 1. To waive his rights to a hearing under the AICPA bylaw section 7.4 and VSCPA bylaws; 2. To comply immediately with professional standards applicable to the professional services he performs; 3. To be suspended from membership in the AICPA and VSCPA for a period of 13 months ending July 22, 2007; 4. That the ECA shall publish his name, charges, and the terms of the settlement agreement; and 5. That the ECA shall monitor compliance with the terms of the settlement agreement and initiate an investigation where the AICPA finds there has been noncompliance. 	<p>The Board ordered the Respondent to provide copies of his Federal and State Income tax transcripts reflecting timely submission and payment for 2002 through 2008; to submit 10 CPE credits (including a minimum of 3 CPE regarding Circular 230 and 3 CPE regarding professional ethics) within 90 days of the entry date of the Consent Order; and to disclose to all current owner/partners of the firm that he is no longer authorized to practice before the IRS or file for reinstatement with the IRS within 30 days of the entry date of this Order.</p>	<p>1/20/2011</p>

VBOA Enforcement Cases — Questions

1. Do any of these cases resonate with you more with you than the others? Why?
2. In those cases, how did the Board actions compare to the known facts of the cases?
3. Which of these violations, if you were made aware of what was going on, would you have reported to the VBOA?

Highlights from the VBOA Handout — Providing Volunteer Services as a Virginia CPA

In February 2012, the VBOA produced this handout in response to the numerous inquiries received about services a Virginia CPA may and may not provide as a volunteer to a not-for-profit entity. The information was provided in response to questions from CPAs who are serving or wish to serve in volunteer roles and are unsure about whether and how providing certain services would fall under the Virginia accountancy statutes and regulations.

Two important questions to ask are:

- **What types of services are to be provided?**
An individual licensee who provides attest services or compilation services to a not-for-profit entity will be considered to be providing those services as a firm, organized as a sole proprietorship, and therefore will be required to maintain a firm license and meet the requirements of peer review. There are a host of other services CPAs can provide to not-for-profit entities that would not require maintaining a firm license and participating in a peer review program.
- **What is the role or capacity of the CPA performing the services?**
One point the VBOA made clear was that Virginia law provides an exception to CPAs if they are performing the services in their role as an officer, employee or member of a governing body of the entity or entities about whom the financial statements are provided. Typically, that means providing assurance in that role will not require you to have a firm license.

Compensation (or lack thereof) does not matter in the determination of providing such services.

Additional Points:

- Services that result in giving assurance about the financial statements of a not-for-profit entity will be assumed to be provided by a firm (and require a peer review), unless the assurance is given by an officer, employee or member of the governing body of the entity about whom the financial information is presented.
- Performing an audit or review on the financial statements of a not-for-profit entity would require one to have a firm license and complete the peer review requirements. However, procedures that may be considered “audit procedures” such as inspecting and testing a reconciliation of cash balances would only be considered audit procedures if they were part of an audit engagement. The performance of an audit is not implied solely by the performance of a certain procedure. For example, performing “accounting services” is not the same as a compilation service and therefore is not subject to peer review, nor is a firm license necessarily required. Examples of accounting services that fall under this exclusion follow in Attachment 2 of “Providing Volunteer Services as a Virginia CPA”:
 - Payroll
 - Preparing or reviewing a bank reconciliation
 - Preparing a working trial balance
 - Proposing adjusting journal entries
 - See page 39 for more guidance on the types of services a CPA can provide.

Providing Volunteer Services as a Virginia CPA



2012

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Introduction

The Virginia Board of Accountancy (VBOA) receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a not-for-profit entity. Consistent with the VBOA's mission of protecting the public, we believe that CPAs can bring valuable knowledge, experience and insights as volunteers to these types of organizations and support their involvement. The information contained herein is intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide services which may fall under the Virginia accountancy statutes and regulations.

As you deliberate the implications of providing services in this area, it is important to consider two questions. (1) Exactly what types of services are to be provided and (2) in what role or capacity are you performing them? This is important because in Virginia the law provides an exception to CPAs if they are performing the services in their role as an officer, employee, or member of the governing body of the entity or entities about whom the financial information is presented. We have provided two tools (see Attachments #1 and #2) to assist in these considerations. We encourage you to contact the VBOA with questions or suggestions.

1. Another important distinction we wish to emphasize is when does the need for a peer review arise. The Virginia accountancy statute, subsection A of § 54.1-4412.1¹, states, "Only a *firm* [emphasis added] can provide attest services or compilation services to persons or entities located in Virginia." § 54.1-4400 defines *firm* as "an entity formed by one or more licensees as a sole proprietorship, a partnership, a corporation, a limited liability company, or any other type of entity permitted by law." If the firm providing attest services or compilation services is required to obtain a Virginia firm license,² subdivision D6 of § 54.1-4412.1 requires it to:

be enrolled in the applicable monitoring program [i.e., peer review] 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.

§ 54.1-4400 defines *peer review* as a review of a firm's attest services and compilation services conducted in accordance with the monitoring program.

¹ References to § 54.1 are to the accountancy statutes, which are in Chapter 44 (§ 54.1-4400 et seq.) of Title 54.1 of the Code of Virginia. The accountancy statutes may be found on the Board of Accountancy website (www.boa.virginia.gov).

² Subsection B of § 54.1-4412.1 states, "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."

2. Accordingly, an individual licensee who provides attest services or compilation services to a not-for-profit entity will be considered to be providing those services as a firm organized as a sole proprietorship, and the services will be subject to peer review. In addition, the licensee will be required to obtain a firm license. **However, *determining whether services a licensee provides to a not-for-profit entity are attest services or compilation services and therefore subject to peer review often requires judgment based on the facts and circumstances.***
3. **The provision of services *other than attest services or compilation services* to a not-for-profit entity *does not require the licensee to obtain a firm license, and those services are not subject to peer review. As a practical matter, licensees can provide a wide variety of services that are helpful to not-for-profit entities and are not subject to peer review.***

Determining Whether Services Are Subject to Peer Review

4. See Attachment #1 for a roadmap for determining whether services a licensee provides to a not-for-profit entity are attest services or compilation services and therefore subject to peer review.

Definitions

5. **Not-for-Profit Entity.** FASB ASC Master Glossary provides the following definition of *not-for-profit entity*:

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

- a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return.
- b. Operating purposes other than to provide goods or services at a profit.
- c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

- a. All investor-owned entities.
 - b. Entities that provide dividends, lower costs or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.
6. **Attest Services.** § 54.1-4400 defines *attest services* as “audit, review, or other attest services for which standards have been established [emphasis added] by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, or by any successor standard-setting authorities.”
 7. **Compilation Services.** § 54.1-4400 defines *compilation services* as “compiling financial statements in accordance with standards established by the American Institute of Certified Public Accountants or by any successor standard-setting authorities.”
 8. **Financial Statement.** § 54.1-4400 defines *financial statement* as “a presentation of *historical or prospective* [emphasis added] financial information about one or more persons or entities.”
 9. **Practice of Public Accounting.** Two definitions are relevant—practice of public accounting and assurance:
 - a. § 54.1-4400 defines *practice of public accounting* as:

the giving of an *assurance other than* [emphasis added] (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.
 - b. § 54.1-4400 defines *assurance* as:

any form of expressed or implied opinion or conclusion about the conformity of *a financial statement* [emphasis added] with any recognition, measurement, presentation, or disclosure principles for financial statements.
 10. **Licensee.** § 54.1-4400 defines *licensee* as “a person or firm holding a Virginia license or the license of another state.” However, for purposes of this document, *licensee* only refers to a person holding a Virginia license or the license of another state.

Summary of Applicable Accounting Statutes

11. The accountancy statutes address services in two broad categories:
 - a. Services that are the practice of public accounting, as defined in paragraph 9.
 - b. Other services.
12. Two observations follow:
 - a. *All services provided by licensees* are subject to the relevant parts of the standards of conduct and practice in § 54.1-4413.3.
 - b. Application of the accountancy statutes and regulations³ *is not affected by whether compensation is received* for the service.

Considerations in Determining Whether Services are the Practice of Public Accounting and Therefore Can Be Provided to a Not-for-Profit Entity Only by a Firm

13. Services that result in giving assurance about the financial statements of a not-for-profit entity are the practice of public accounting and can only be provided by a firm, *unless* the assurance is given by an officer, employee, or member of the governing body of the entity about whom the financial information is presented. Two observations follow:
 - a. A statement by a licensee who is the treasurer of a not-for-profit entity that the entity's financial statements present its financial results determined using accounting principles generally accepted in the United States of America would not be the practice of public accounting and would not subject him to peer review. (Paragraph 43 discusses requirements that apply to making such an assertion.)

³ The accountancy regulations are in Chapter 22 of Agency 5, Title 18 of the Virginia Administrative Code (18VAC5-22). The accountancy regulations may be found on the Board of Accountancy website (www.boa.virginia.gov).

- b. Following the guidance in AU⁴ 380.03, the governing body consists of the persons “with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.” For small and midsize not-for-profit entities, the governing body is typically the board of directors or trustees. However, depending on the facts and circumstances, it may also include the audit committee or finance committee.
14. As discussed in paragraph 8, the definition of *financial statements* includes both presentations of historical financial information and presentations of prospective financial information. Therefore, the practice of public accounting consists of three services, each of which can only be performed by a firm:
- a. Assurance about a presentation of historical financial information can only be given as the result of (1) an audit or (2) a review.
 - b. Assurance about a presentation of prospective financial information can only be given as the result of (3) an examination.
15. The performance of an audit or a review of a presentation of historical financial information or an examination of a presentation of prospective financial information requires that the licensee be *engaged* to perform the service. The performance of one of these services *is not implied solely by the performance of certain procedures*.
16. As an example, a licensee who is a member of a social club may be asked to audit the club’s statement of cash receipts and disbursements. That would require the person to also have a firm license, and the audit would be subject to peer review. Two of the auditing procedures the licensee would likely perform are to inspect and test the club’s reconciliation of cash balances with the deposit balances reported by financial institutions. However, those procedures are auditing procedures only if they are performed as part of an audit. The performance of just those procedures would not imply that the licensee performed an audit and would not be subject to peer review.

⁴ References to AU are to the AU Section, *U. S. Auditing Standards*, of the AICPA Professional Standards.

Considerations in Determining Whether Services That Are Not the Practice of Public Accounting Are Nevertheless Attest Services

17. As discussed in paragraph 6, attest services are “audit, review, or *other attest services for which standards have been established* [emphasis added] by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, or by any successor standard-setting authorities.” The standards established by the Auditing Standards Board for “other attest services” are in the AT Section of the AICPA Professional Standards.
 - a. Those standards are referred to as *attestation standards*.
 - b. The introduction to AT Section 0 states that the attestation standards are designed only for licensees.
 - c. Under subdivision 5 of § 54.1-4414, persons or entities who do not hold a license are prohibited from complying with the attestation standards.
18. Services covered by the attestation standards are engagement-driven rather than procedures-driven. A licensee must be engaged to perform those services; services are not implied based on the licensee performing certain procedures.
19. A not-for-profit entity could appoint a committee or task force consisting entirely of persons who do not hold a license to perform services similar to attest services that are not the practice of public accounting. A common example is performing agreed-upon procedures. The governing body of a church may specify procedures to be performed on the financial statements of the church and communicated to the governing body and ultimately the congregation.
20. Similarly, the regional body that oversees a church may specify procedures to be performed on the financial statements and communicated to the regional body. Communicating the results of the procedures does not constitute giving an assurance, and the service is not the practice of public accounting.

21. A church may ask a member who is a licensee to serve as a member of the group. That does not make the service an attest service. AT 201.03 states, "An agreed-upon procedures engagement is one in which a [licensee] is engaged by a client to issue a report of findings based on specific procedures performed on subject matter." The church did not engage the licensee to perform the service. Instead, it appointed the group to provide the service. Even though the licensee is a member of the group, subdivision 5 of § 54.1-4414 prohibits the group from following the requirements of AT 201.

Considerations in Determining Whether a Licensee is Providing Compilation Services

22. As discussed in paragraph 7, compilation services are "compiling *financial statements* [emphasis added] in accordance with standards established by the American Institute of Certified Public Accountants, or by any successor standard-setting authorities." As discussed in paragraph 8, the definition of financial statements includes presentations of *historical* financial information *and* presentations of *prospective* financial information.
23. The standards established by the American Institute of Certified Public Accountants for compilation services are in two places:
 - a. The AR Section, *Accounting and Review Services*, of the AICPA Professional Standards for presentations of historical financial information.
 - b. AT 301 for presentations of prospective financial information.

Presentations of Historical Financial Information

24. AR 80.01 requires the licensee "to comply with the provisions of [AR 80] whenever he or she is engaged to report on compiled financial statements *or submits* [emphasis added] financial statements to a client or to third parties." AR 60.04 defines *submission of financial statements* as, "Presenting to management financial statements that *an accountant [i.e., a licensee] has prepared.*"
25. Performing accounting services does not constitute submission of financial statements, is not a compilation service, and is therefore not subject to peer review. Examples of accounting services are payroll, bank reconciliation, and other bookkeeping services; preparing a working trial balance; proposing adjusting journal entries; and consulting on accounting matters.

26. Not-for-profit entities often ask a licensee to read financial statements prepared by staff. The licensee may be asked to perform this service as an individual, but more commonly the not-for-profit entity asks the licensee to perform this service as a member of a finance or similar committee.
27. Reading financial statements as an individual or as a member of a finance or similar committee does not constitute the submission of the financial statements and therefore does not require compliance with AR 80. Rather, that is an accounting service and is not subject to peer review.
28. Interpretation 8 of AR 80 (AR 9080.23) notes that preparation of financial statements by a licensee who is a "stockholder, partner, director, officer, or employee of the entity"⁵ is not a compilation service. For example, preparation of the financial statements of a not-for-profit entity by a licensee who is an officer is not a compilation service and does not subject the engagement to peer review.
29. Positions that qualify as officers depend on the entity. For example, depending on the facts and circumstances, a church may have both a treasurer and an assistant treasurer and consider both to be officers.
30. Similarly, whether a licensee is an employee depends on the entity. A licensee may be a full-time or part-time employee, and serving as a part-time employee may require a relatively small time commitment. However, the substance of the arrangement, not the form, should govern whether the licensee is in fact serving as an employee.

Presentations of Prospective Financial Information

31. The guidance in AT 301 for presentations of prospective financial information is considerably more complex than the guidance in the AR Section for presentations of historical financial information.
32. The guidance in AT 301 looks at two types of uses of presentations of prospective financial information: general use and limited use. AT 301.09 and .10 define the two types of uses generally in terms of the relationship between the user and the entity. Generally, limited use is by the entity itself or by third parties who can ask questions of the entity and negotiate terms directly with it, and general use is by third parties who do not have that ability.

⁵ This description is substantially the same as the related description in the definition of *practice of public accounting* in the accountancy statutes, as discussed in paragraph 9. Accordingly, the roadmap found in Attachment #1 uses the description in the accountancy statutes, modified slightly to apply to a not-for-profit entity.

33. As a practical matter, presentations of prospective financial information about small and midsize not-for-profit entities ordinarily are for limited use. For example, a budget for the next year is ordinarily for use by the entity itself, and a presentation for use by a grantor or lending institution ordinarily assumes there will be interaction between the entity and the third party.
34. AT 301 also distinguishes between two types of presentations of prospective financial information: complete presentations and partial presentations. General use requires a complete presentation, but either a complete presentation or a partial presentation may be for limited use.
35. Appendix A of AT 301 prescribes the elements of a presentation that make it a complete presentation. Format is not important. For example, if the prescribed elements are in a narrative, that narrative would be considered a complete presentation. (Nevertheless, AT 301 refers to a complete presentation as *prospective financial statements*.) A partial presentation is simply a presentation that lacks one or more of the elements required for a complete presentation.
36. For a not-for-profit entity, the elements required for a complete presentation are generally the key elements of a statement of activities and significant changes in financial position. Appendix A of AT 301 notes that this requirement should be applied considering the comprehensive basis of accounting used.
37. For example, one of the required elements is revenues. If the pure cash basis of accounting is used, the counterpart to revenues is cash receipts. Similarly, under the pure cash basis of accounting, cash is the only asset recognized, no liabilities are recognized, and the changes in cash are the only changes in financial position. A statement of cash receipts and disbursements is therefore a complete presentation: it shows the key elements of a statement of activities prepared on the pure cash basis of accounting and the significant changes in financial position under the pure cash basis of accounting.
38. AT 301 discusses three types of engagements: an examination, a compilation, and an agreed-upon procedures engagement. For complete presentations, AT 301.02 states:

Whenever a [licensee] (a) *submits* [emphasis added], to his or her client or others, [a complete presentation] that he or she has assembled,⁶ or assisted in assembling, that are or reasonably might be expected to be used by another (third) party or (b) reports on [a complete presentation] that [is], or reasonably might be expected to be used by another (third) party, the [licensee] should perform [an examination, a compilation, or an agreed-upon procedures engagement].

39. Two observations follow.

- a. If the complete presentation is not reasonably expected to be used by a third party, an examination, a compilation, or an agreed-upon procedures engagement is not required. AT 301 would therefore not apply to a licensee preparing a complete presentation that is not reasonably expected to be used by a third party. Such services are typically referred to as *plain paper services* and are not subject to peer review.
- b. Following the guidance in AT 301.06, if the licensee prepares, or assists in preparing, the complete presentation as a member of management,⁷ an examination, a compilation, or an agreed-upon procedures engagement would not be permitted. For example, if the licensee is the treasurer of the entity and prepares a complete presentation for use in negotiating a grant, he would be prohibited from performing one of the prescribed services. This plain paper service would not be subject to peer review.

40. For partial presentations, AT 301.03 states:

[AT 301] also provides standards for a [licensee] *who is engaged* [emphasis added] to examine, compile, or apply agreed-upon procedures to partial presentations.

Accordingly, a licensee could prepare a partial presentation for a not-for-profit entity and submit it without complying, at a minimum, with compilation standards. Such a plain paper service is not an attest service or a compilation service and is therefore not subject to peer review.

⁶ AT 301.08 defines *assembly* as, "The manual or computer processing of mathematical or other clerical functions related to the presentation of the prospective [information]."

⁷ AT 301 states that presentations of prospective financial information are "based on the responsible party's assumptions." AT 301.08 defines *responsible party* as those "who are responsible for the assumptions underlying the prospective financial statements" and states that the responsible party "usually is management." This position is similar to the position taken in AR 60.31 and .32 for presentations of historical information.

Considerations in Determining Whether Services Provided to a Not-for-Profit Entity by a Licensee Impair Independence

41. Attest services require independence. Whether independence is impaired depends on the facts and circumstances.
 - a. The Interpretations of Rule 101 in ET⁸ 101 provide guidance for specific sets of facts and circumstances. For example, Interpretation 101-3 (ET 101.05) provides specific guidance on determining whether the performance of nonattest services impairs independence.
 - b. For facts and circumstances not addressed by Interpretations of Rule 101, ET 100.01 through .26 provides the *Conceptual Framework for AICPA Independence Standards*, which ET 100.01 describes as a “risk-based approach to analyzing independence matters.”
 - c. ET 191 provides a number of rulings on whether independence is impaired.
42. Examples of considerations in determining whether independence would be impaired by services a licensee provides to a not-for-profit entity follow:
 - a. Serving as an officer or member of the governing body of a not-for-profit entity would impair a licensee’s independence with respect to the entity.
 - b. Serving as a member of a committee that has no direct involvement with the entity’s finances, such as the program committee, would ordinarily not impair the independence of a licensee.
43. A licensee, who is not independent with respect to a not-for-profit entity, typically because he serves as treasurer, is precluded from performing an attest service. However, as discussed in paragraph 13, he can make positive assertions about the entity’s financial statements. For example, he could say that the financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. A licensee making such assertions must comply with the requirements of:

⁸ References to ET are to the ET Section, *Code of Professional Conduct*, of the AICPA Professional Standards.

a. ET 55.02 to “protect the integrity of [his] work, maintain objectivity, and avoid any subordination of [his] judgment.”

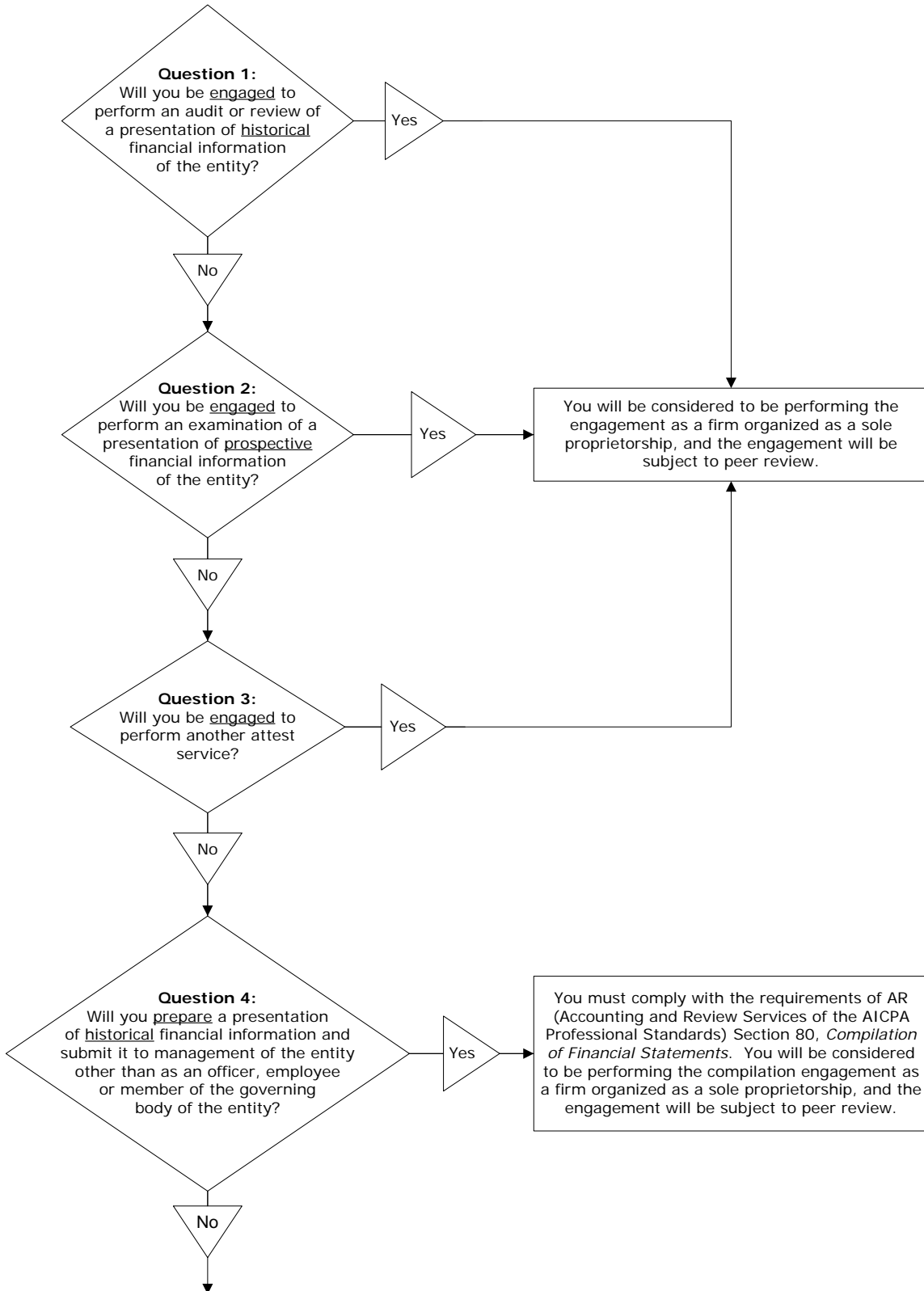
b. ET 191.131, which states:

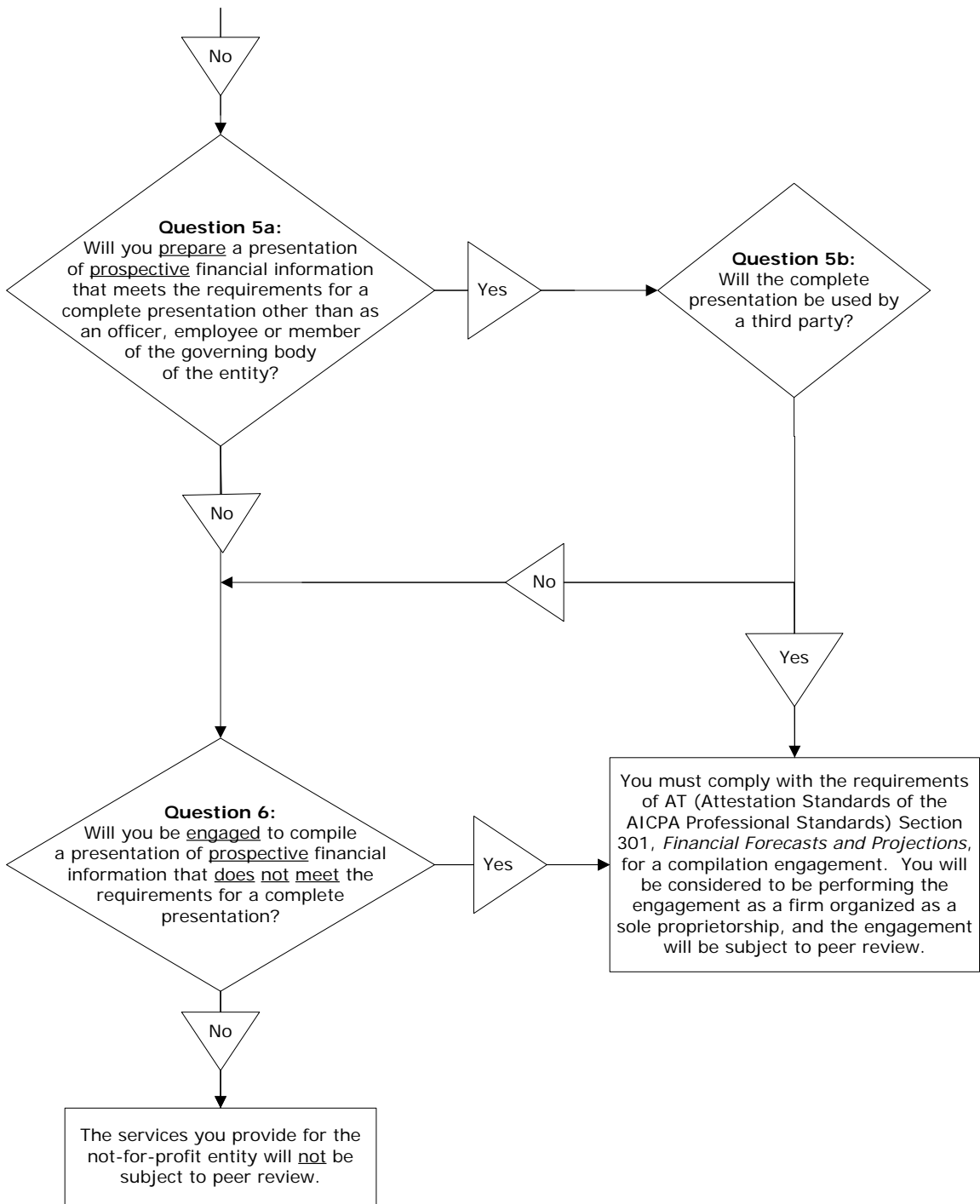
Therefore, it is advisable that in any transmittal within which the [licensee] uses [the CPA title], he...clearly indicate [his] title. In addition, if the [licensee] states affirmatively in any transmittal that a financial statement is presented in conformity with generally accepted accounting principles, the [licensee] is subject to Rule 203.

c. ET 203.05 to ensure that the statements do not “contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles that has a material effect on the statements...taken as a whole.”

Attachments

- 1 Roadmap: Determining Whether Services Provided to a Not-for-Profit Entity are Subject to Peer Review**
- 2 Chart: Examples of Providing Services to a Not-for-Profit Entity as a Virginia CPA**





Type of Service	CPA Licensee Status		
	Independent	Not Independent Owners, Officers, Employees and Members of Governing Body	Not Independent Conflicts of Interest (other than Owners, Officers, Employees and Members of Governing Body)
Audit	Must comply with technical standards.	Not Independent – You cannot provide services.	
Review	Must comply with technical standards.	Not Independent – You cannot provide services.	
Attestation (including agreed-upon procedures)	Must comply with technical standards.	Not Independent – You cannot provide services.	
Compilation	Must comply with technical standards.	You do not have to comply with technical standards.	Must comply with technical standards.
Consulting Services: <ul style="list-style-type: none"> • Accounting Consultation • Budget Preparation Assistance • Fraud Loss Quantification • Management Consulting • Other Consulting Engagements 	These are consulting services, not audit, review, or other attestation or compilation services. You do not have to comply with technical standards other than Consulting Services Standards (CS).		
Other Services: <ul style="list-style-type: none"> • Bookkeeping • General Ledger Maintenance • Working Trial Balance Preparation • Bank Reconciliation Preparation • Payroll Processing • Tax Returns Preparation 	These are not audit, review, or other attestation or compilation services. You do not have to comply with technical standards other than Tax Services Standards (TS).		
Procedures that would be performed in connection with an attest service but licensee has not been <u>engaged</u> to perform an attest service: <ul style="list-style-type: none"> • Bank Reconciliation Review • Internal Control Review • Agreed-upon Procedures of Audit Committee • Inventory Counts • Other Attest Procedures 	These are not audit, review, or other attestation or compilation services. You do not have to comply with technical standards.		

Note: The references to technical standards in this chart are to those Technical Standards encompassed in ET Appendix A of Rule 202 of the AICPA's Code of Professional Conduct.

Case Studies

NOTE: In each of the eight case study scenarios presented throughout this course, “you” are assumed to be a CPA licensed in Virginia.

Case Study No. 1: Church Financial Statements

You and your wife are active in your church. She is on the Board of Directors and you volunteer at the church on a weekly basis. You work as an internal auditor at a large corporation. You have been asked by your church to perform a review of its financial statements for the year ending Dec. 31, 2011.

What things should be considered in this scenario?

Can you perform the review?

Case Study No. 2: Parent-Teacher Association

You volunteer to assist your local parent-teacher association (PTA) in various ways. The association treasurer knows about your financial expertise and the fact that you are a CPA and requests you to complete some “financial procedures” for them.

The procedures include completing the form on the next page. Discuss with your groups your willingness to complete such a form and any hesitations you have. Utilize the document “Roadmap: Determining Whether Services Provided to a Not-for-Profit Entity Are Subject to Peer Review,” found on Attachment No. 1 of “Providing Volunteer Services as a Virginia CPA.”

What conclusions or thoughts do you have based on your review of this handout and the Roadmap?

Does your volunteer role or participation in the PTA matter?

Local Unit Audit Report

An audit for _____, on record with EIN, _____ was completed on _____ by _____.

The audit was presented to the _____ board on _____ and adopted by the general membership on _____.

The audit period was from _____ to _____. The date of the last audit was _____. A Form 990 will be filed with IRS on or before _____.

Council Membership: _____ District: _____

Signed: _____ Signed: _____
 President Treasurer
 AM phone number: (____) _____
 PM phone number: (____) _____
 Email: _____

AUDITOR or AUDIT COMMITTEE:

The records of the treasurer of _____ are correct.

The records of the treasurer of _____ were found to be inadequate to complete the audit after attempting to locate missing records. Please see attached comments.

<p>Auditor:</p> <p>Signed: _____</p> <p>Printed Name: _____</p> <p>Organization: _____</p> <p>Address: _____</p> <p>Phone number: _____</p>	<p>Audit Committee:</p> <p>Signed: _____ Audit Committee Chair</p> <p>Signed: _____ Audit Committee Member</p> <p>Signed: _____ Audit Committee Member</p>
--	--

(Space below for use by the VAPTA Treasurer or designee only).

Verified as a valid local unit audit by: _____

Print Name:

Signature

Date: _____



Audit Report for: _____ **EIN:** _____
Per Member Dues for _____ **(year)** _____ **(amount)**

The following audit information is submitted to the Virginia PTA as the annual audit of this association.

1. Beginning Balance		\$
2. Receipts	<i>Total of all receipts and credits.</i>	\$
3. Add line 1 and line 2:		\$
4. Expenses	<i>Total of all checks written and debits</i>	\$
5. Subtract line 4 from line 3 for "BALANCE ON HAND" <i>(Should match check register)</i>		\$

OUTSTANDING CHECKS AND DEPOSITS:

6. Balance on Last Bank Statement:		\$
Check #	Payable to: Amount	
TOTAL OUSTANDING CHECKS: \$		
Outstanding Checks:		
7. Subtract total for Outstanding Checks from Line 6.		\$
Outstanding Deposits		
Source of Deposit	Amount	
TOTAL OUTSTANDING DEPOSITS: \$		
8. Add total Outstanding Deposits to Line 7.		\$
9. Enter amount in line 8 to verify "BALANCE ON HAND" <i>Should match check register and amount in Line 5.</i>		\$

Auditor or Audit Committee Comments:

The auditor or audit committee may include any comments, recommendations or concerns in this section or attach separately to the audit report for consideration by the incoming treasurer and/or local unit board.

Instructions for Completing the Local Unit Audit Report

This format is not intended for electronic fill-in. If you prefer to fill in the report from your computer, download the electronic version from the FORMS section at www.vapta.org MEMBERS ONLY.

Cover Sheet Instructions:

The cover sheet is required. Fill in all information above the line.

1. Enter the name of your local unit, include PTA or PTSA.
2. Enter your Employee Identification Number (EIN)
3. Enter the date of the audit and who performed the audit. Enter only the auditor name or if an auditing committee was used, simply insert 'auditing committee'.
4. Enter the name of your local unit, the date presented to the PTA board and the date adopted by the general membership. The audit MUST be adopted by your membership at a general meeting.
5. Enter the beginning and end date of your audit period.
6. Enter the date of the last audit.
7. If you are a member of a Council, enter the name of the Council and enter the name of your District. If you are not sure what district your local unit is in, refer to the website or email info@vapta.org with your local unit name and city or county.
8. Enter the President's contact information
9. If you used an AUDITOR, enter their printed name, organization/company, address and phone number. The auditor will sign the final report. If you used an audit committee, have the committee members sign the final report.
10. Have the auditor or auditing committee chair check the appropriate box to state the audit is correct or that the records are inadequate to complete an audit after every attempt to account for missing records. If the records are inadequate, the auditor or auditing committee must include in the comments a list of what is missing and recommendations on how to prepare for the next audit.
11. Make sure you have all signatures. Send the report to:

Virginia PTA, Attention: Audits
1027 Wilmer Ave
Richmond, VA 23227-4019

Report Instructions:

Provide the amount for each line. If the number of outstanding checks exceeds the space available, annotate in the last space for checks, 'continued on a separate piece of page', however make sure the total in last line is the total for all checks. If the number of outstanding deposits is greater than the number of space, do the same as for outstanding checks. Attach any separate sheets.

Line 9 should be the same as line 5.

Comments Instructions:

If the auditor or audit committee has recommendations, concerns or comments, please type in this space.

Questions? Email: treasurer@vapta.org or if email is unavailable, call 1-866-4vakids for further assistance.

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Top 10 Issues Relevant to CPAs

1. Tax Preparer Registration/Circular 230
2. Continuing Professional Education
3. AICPA Code of Professional Conduct Section 101-3, Performance of Nonattest Services
4. AICPA Code of Professional Conduct Section 501, Acts Discreditable
5. SEC Whistleblower Rules
6. Licensing Requirements for Firms
7. CPA Practice Mobility
8. New VBOA Website
9. Communication With Clients and the VBOA
10. "On the Horizon"

1. Tax Preparer Registration

Circular 230

On May 31, 2011, the Internal Revenue Service (IRS) issued final regulations implementing parts of the agency's efforts to register and regulate paid tax return preparers, including revisions to Circular 230, *Regulations Governing Practice before the Internal Revenue Service*.

All paid tax return preparers must obtain a preparer tax identification number (PTIN) and pass a tax compliance and suitability check. Preparers who are not federally authorized tax practitioners must pass a competency test and fulfill CPE requirements. CPAs, attorneys and enrolled agents are authorized under Circular 230 and are exempt from those requirements.

The regulations officially adopt the proposed designation of "registered tax return preparer" and set forth requirements and procedures for renewing that designation. The requirements include 15 CPE hours annually, of which at least three must be federal tax law updates, as well as two hours of tax-related ethics and 10 hours of federal tax law topics.

The IRS postponed its implementation of CPE requirements for at least the first year of preparer registration, which began Sept. 30, 2010. The agency will recognize as qualified any CPE provider that has been recognized and approved by a qualifying organization with minimum education standards comparable to those in Circular 230.

The regulations do authorize the IRS to require preapproval of courses in the future and to charge a user fee for obtaining a provider or program number. There are no such fees currently proposed in either case.

The IRS also issued certain restrictions on the use of the term "registered tax return preparer" and individuals who represent themselves as such.

The IRS Office of Professional Responsibility (OPR) will continue to enforce Circular 230 provisions related to practitioner conduct and discipline, but the agency has established a Return Preparer Office (RPO) to administer the registered tax return preparer program.

PTIN Requirements

The IRS's new Preparer Tax Identification Number (PTIN) registration system was activated Sept. 28, 2010.

Since Jan. 1, 2011, tax return preparers have been required to use a PTIN on all federal returns as part of the IRS's effort to regulate the tax return preparation industry. PTINs expire on Dec. 31 of each year, so preparers must renew their PTIN or apply for a new one yearly.

On Feb. 21, 2012, the IRS removed preparers' names from its list of valid PTINs for 2012 if they had not renewed their PTIN by then. Though the IRS says it will still process returns of practitioners who have not renewed, such practitioners should expect to be contacted by the IRS. Renewals can be made at <http://www.irs.gov/ptin>.

Visit the IRS's FAQ at <http://tinyurl.com/PTINFAQ> for more information on who needs a PTIN, and more. An overview of the regulations can be found at <http://tinyurl.com/PTINOverview>.

Circular 230 can be found at <http://www.irs.gov/pub/irs-pdf/pcir230.pdf>.

Information Sharing

The IRS received requests under the Freedom of Information Act (FOIA) to provide information about PTIN holders, and has, upon request, released the following information in CD format for a fee of \$35:

- Name
- Mailing Address
- Email Address
- Business Name
- Business Address
- Business Phone
- Business Website

The AICPA has expressed concern to the IRS about this practice and has requested an "opt-out" option for PTIN holders. In the meantime, the AICPA suggests that PTIN holders update their account and make sure the information on file contains only business information.

Visit <http://tinyurl.com/PTINFOIA> for more information on this topic.

2. Continuing Professional Education

Virginia Regulations

New regulations for the CPA profession in Virginia went into effect Sept. 16, 2010, in order to better align the regulations with the statutes and reduce confusion. Virginia's accounting statutes were revised in 2007.

While Virginia statutes ("law") supersede regulations ("rules"), rules regarding the practice of public accounting were easily confused, thereby increasing the risk of noncompliance. The VBOA hopes that key changes have enhanced clarity and regulatory compliance by having matching statutes and regulations, which are clearer and easier to understand.

Visit <http://www.vscpa.com/Content/59065.aspx> to view a comparison of the new and old regulations.

Below are some of the clarifications specifically related to CPE:

- CPAs performing services for the public are still required to obtain 120 hours of education over a three-year reporting period.
- The gradual phase-up to 120 hours of education over a three-year reporting period for CPAs performing services for an employer is still intact.
- CPAs not providing services to either the public or an employer are still exempt from CPE requirements.
- CPAs are still permitted to take any CPE they deem appropriate for the manner in which they are practicing.

Learn more about CPE requirements at <http://www.vscpa.com/CPERequirements>.

Attest and Compilation CPE

To comply with subdivision D 4 of § 54.1-4412.1 of the Code of Virginia, a person who releases or authorizes the release of reports on attest services or compilation services provided for persons or entities located in Virginia shall annually obtain a minimum of eight hours of continuing professional education related to attest services or compilation services. The hours obtained to meet this requirement shall be considered in determining whether the person has complied with the requirements of 18VAC5-22-90, *Continuing Professional Education*.

The eight hours obtained to fulfill the attest or compilation services requirement also qualify to fulfill your other annual and three-year period requirements.

Attest and compilation services are defined in the Code of Virginia, § 54.1-4400, as follows:

"Attest services" is defined as "audit, review, or other attest services for which standards have been established by the Public Company Accounting Oversight Board, by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of Certified Public Accountants, or by any successor standard-setting authorities."

"Compilation services" is defined as "compiling financial statements in accordance with standards established by the American Institute of Certified Public Accountants or by any successor standard-setting authorities."

Appropriate CPE

The CPA profession prides itself on staying current, largely through continuing education. This is also one of the reasons CPAs are such trusted advisors. **But it's every CPA's professional duty to determine the appropriate type and amount of CPE.**

Note that when a complaint is made against a CPA, one of the first things the VBOA does is request CPE records from the last three years. The VBOA may compare that CPE to the CPA's practice (or the nature of the CPA's work) to ensure they have taken CPE that is *relevant* to what they actually do.

Case Study No. 3: The Right CPE

Carl Peterson Abbott is a Virginia CPA. He was born to be a CPA. (Notice his initials.) He completed his first Form 1040 when he was 4, and completed his first auditing procedure when he was 6. It was a search for unrecorded liabilities completed within his Mom and Dad's personal balance sheet. He found a lot of things off the books, including Dad's Mercedes. It's no wonder his Mom and Dad divorced and Carl ended up paying for college all by himself.

Now Carl owns his own firm, where he does personal tax planning and returns exclusively. A couple of weeks ago, somebody made a complaint against him to the VBOA. The first thing they asked for was his CPE records for the last three years. Carl went back and gathered those records and felt pretty good because he knew he had completed 40 hours of CPE each of the past three years. He attended the same 40-hour auditing conference each year.

Do you think Carl should feel "pretty good" about his CPE records and the Board's potential review of them? Why or why not?

3. AICPA Code of Professional Conduct Section 101, Independence: Section 101-3 Performance of Nonattest Services

ET Section 101 — Independence

.05 Rule 101-3 — Performance of Nonattest Services.

Before a member or his or her firm ("member") performs nonattest services (for example, tax or consulting services) for an attest client, the member should determine that the requirements described in this interpretation have been met. In cases where the requirements have not been met during the period of the professional engagement or the period covered by the financial statements, the member's independence would be impaired.

Engagements Subject to Independence Rules of Certain Regulatory Bodies

This interpretation requires compliance with independence regulations of authoritative regulatory bodies (such as the Securities and Exchange Commission [SEC], the General Accounting Office [GAO], the Department of Labor [DOL], and state boards of accountancy) where a member performs nonattest services for an attest client and is required to be independent of the client under the regulations of the applicable regulatory body. Accordingly, failure to comply with the nonattest services provisions contained in the independence rules of the applicable regulatory body that are more restrictive than the provisions of this interpretation would constitute a violation of this interpretation.

General Requirements for Performing Nonattest Services

- The member should not perform management functions or make management decisions for the attest client. However, the member may provide advice, research materials and recommendations to assist the client's management in performing its functions and making decisions.
- The client must agree to perform the following functions in connection with the engagement to perform nonattest services:
 - Make all management decisions and perform all management functions;
 - Designate an individual who possesses suitable skill, knowledge and/or experience, preferably within senior management, to oversee the services;
 - Evaluate the adequacy and results of the services performed; and
 - Accept responsibility for the results of the services;

The member should be satisfied that the client will be able to meet all of these criteria and make an informed judgment on the results of the member's nonattest services. In assessing whether the designated individual possesses suitable skill, knowledge and/or experience, the member should be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.

In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with suitable skill, knowledge and/or experience to oversee the nonattest services provided, or is unwilling to perform such functions due to lack of time or desire), the member's provision of these services would impair independence.

- Before performing nonattest services, the member should establish and document in writing his or her understanding with the client (board of directors, audit committee or management, as appropriate in the circumstances) regarding the following:
 - Objectives of the engagement
 - Services to be performed
 - Client's acceptance of its responsibilities
 - Member's responsibilities
 - Any limitations of the engagement

The documentation requirement does not apply to nonattest services performed prior to Jan. 1, 2005, or to nonattest services performed prior to the client becoming an attest client.

The above agreement and documentation requirements do not apply to certain routine activities performed by the member such as providing advice and responding to the client's questions as part of the normal client-member relationship.

General Activities

The following are some general activities that would impair a member's independence:

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client or having the authority to do so
- Preparing source documents, in electronic or other form, evidencing the occurrence of a transaction
- Having custody of client assets
- Supervising client employees in the performance of their normal recurring activities
- Determining which recommendations of the member should be implemented
- Reporting to the board of directors on behalf of management
- Serving as a client's stock transfer or escrow agent, registrar, general counsel or its equivalent
- Establishing or maintaining internal controls, including performing ongoing monitoring activities for a client

Specific Examples of Nonattest Services

The examples in the following table identify the effect that performance of certain nonattest services for an attest client can have on a member's independence. These examples presume that the general requirements in the previous section "General Requirements for Performing Nonattest Services" have been met and are not intended to be all-inclusive of the types of nonattest services performed by members.

Impact on Independence of Performance of Nonattest Services		
Type of Nonattest Service	Independence Would Not Be Impaired	Independence Would Be Impaired
Bookkeeping	<p>Record transactions for which management has determined or approved the appropriate account classification, or post coded transactions to a client's general ledger.</p> <p>Prepare financial statements based on information in the trial balance.</p> <p>Post client-approved entries to a client's trial balance.</p> <p>Propose standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the client provided the client reviews the entries and the member is satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.</p>	<p>Determine or change journal entries, account codings or classification for transactions, or other accounting records without obtaining client approval.</p> <p>Authorize or approve transactions.</p> <p>Prepare source documents.</p> <p>Make changes to source documents without client approval.</p>

<p>Non-tax disbursement</p>	<p>Using payroll time records provided and approved by the client, generate unsigned checks, or process client's payroll.</p> <p>Transmit client-approved payroll or other disbursement information to a financial institution provided the client has authorized the member to make the transmission and has made arrangements for the financial institution to limit the corresponding individual payments as to amount and payee. In addition, once transmitted, the client must authorize the financial institution to process the information.</p>	<p>Accept responsibility to authorize payment of client funds, electronically or otherwise, except as specifically provided for with respect to electronic payroll tax payments.</p> <p>Accept responsibility to sign or cosign client checks, even if only in emergency situations.</p> <p>Maintain a client's bank account or otherwise have custody of a client's funds or make credit or banking decisions for the client.</p> <p>Approve vendor invoices for payment</p>
<p>Benefit plan administration</p>	<p>Communicate summary plan data to plan trustee.</p> <p>Advise client management regarding the application or impact of provisions of the plan document.</p> <p>Process transactions (e.g., investment/benefit elections or increase/decrease contributions to the plan; data entry; participant confirmations; and processing of distributions and loans) initiated by plan participants through the member's electronic medium, such as an interactive voice response system or Internet connection or other media.</p> <p>Prepare account valuations for plan participants using data collected through the member's electronic or other media.</p> <p>Prepare and transmit participant statements to plan participants based on data collected through the member's electronic or other medium.</p>	<p>Make policy decisions on behalf of client management.</p> <p>When dealing with plan participants, interpret the plan document on behalf of management without first obtaining management's concurrence.</p> <p>Make disbursements on behalf of the plan.</p> <p>Have custody of assets of a plan.</p> <p>Serve a plan as a fiduciary as defined by ERISA.</p>
<p>Investment — advisory or management</p>	<p>Recommend the allocation of funds that a client should invest in various asset classes, depending upon the client's desired rate of return, risk tolerance, etc.</p> <p>Perform recordkeeping and reporting of client's portfolio balances including providing a comparative analysis of the client's investments to third-party benchmarks.</p> <p>Review the manner in which a client's portfolio is being managed by investment account managers,</p>	<p>Make investment decisions on behalf of client management or otherwise have discretionary authority over a client's investments.</p> <p>Execute a transaction to buy or sell a client's investment.</p> <p>Have custody of client assets, such as taking temporary possession of</p>

	<p>including determining whether the managers are (1) following the guidelines of the client's investment policy statement; (2) meeting the client's investment objectives; and (3) conforming to the client's stated investment styles.</p> <p>Transmit a client's investment selection to a broker-dealer or equivalent provided the client has authorized the broker-dealer or equivalent to execute the transaction.</p>	<p>securities purchased by a client.</p>
<p>Corporate finance — consulting or advisory</p>	<p>Assist in developing corporate strategies.</p> <p>Assist in identifying or introducing the client to possible sources of capital that meet the client's specifications or criteria.</p> <p>Assist in analyzing the effects of proposed transactions including providing advice to a client during negotiations with potential buyers, sellers, or capital sources.</p> <p>Assist in drafting an offering document or memorandum.</p> <p>Participate in transaction negotiations in an advisory capacity.</p> <p>Be named as a financial adviser in a client's private placement memoranda or offering documents.</p>	<p>Commit the client to the terms of a transaction or consummate a transaction on behalf of the client.</p> <p>Act as a promoter, underwriter, broker-dealer, or guarantor of client securities, or distributor of private placement memoranda or offering documents.</p> <p>Maintain custody of client securities.</p>
<p>Executive or employee search</p>	<p>Recommend a position description or candidate specifications.</p> <p>Solicit and perform screening of candidates and recommend qualified candidates to a client based on the client-approved criteria (e.g., required skills and experience).</p> <p>Participate in employee hiring or compensation discussions in an advisory capacity.</p>	<p>Commit the client to employee compensation or benefit arrangements.</p> <p>Hire or terminate client employees.</p>
<p>Business risk consulting</p>	<p>Provide assistance in assessing the client's business risks and control processes.</p> <p>Recommend a plan for making improvements to a client's control processes and assist in implementing these improvements.</p>	<p>Make or approve business risk decisions.</p> <p>Present business risk considerations to the board or others on behalf of management.</p>
<p>Information systems — design, installation or integration</p>	<p>Install or integrate a client's financial information system that was not designed or developed by the member (e.g., an off-the-shelf accounting package).</p> <p>Assist in setting up the client's chart of accounts</p>	<p>Design or develop a client's financial information system.</p> <p>Make other than insignificant modifications to source code underlying a client's existing</p>

	<p>and financial statement format with respect to the client's financial information system.</p> <p>Design, develop, install, or integrate a client's information system that is unrelated to the client's financial statements or accounting records.</p> <p>Provide training and instruction to client employees on an information and control system.</p>	<p>financial information system.</p> <p>Supervise client personnel in the daily operation of a client's information system.</p> <p>Operate a client's local area network (LAN) system.</p>
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Tax Compliance Services

Tax compliance services addressed by this interpretation are preparation of a tax return, transmittal of a tax return and transmittal of any related tax payment to the taxing authority, signing and filing a tax return, and authorized representation of clients in administrative proceedings before a taxing authority.

Preparing a tax return and transmitting the tax return and related tax payment to a taxing authority, in paper or electronic form, would not impair a member's independence provided the member does not have custody or control over the client's funds and the individual designated by the client to oversee the tax services:

- Reviews and approves the tax return and related tax payment; and,
- If required for filing, signs the tax return prior to the member transmitting the return to the taxing authority.

However, signing and filing a tax return on behalf of client management would impair independence, unless the member has the legal authority to do so and:

- The taxing authority has prescribed procedures in place for a client to permit a member to sign and file a tax return on behalf of the client (for example, Form 8879 or 8453), and such procedures meet, at the minimum, standards for electronic return originators and officers outlined in IRS Form 8879; or
- An individual in client management who is authorized to sign and file the client's tax return provides the member with a signed statement that clearly identifies the return being filed and represents that:
 - Such individual is authorized to sign and file the tax return;
 - Such individual has reviewed the tax return, including accompanying schedules and statements, and it is true, correct and complete to the best of his or her knowledge and belief; and
 - Such individual authorizes the member or another named individual in the member's firm to sign and file the tax return on behalf of the client.

Authorized representation of a client in administrative proceedings before a taxing authority would not impair a member's independence provided the member obtains client agreement prior to committing the client to a specific resolution with the taxing authority. However, representing a client in a court to resolve a tax dispute would impair a member's independence.

Transition

Independence would not be impaired as a result of the more restrictive requirements of the tax compliance services provisions provided such services are pursuant to engagements commenced prior to Feb. 28, 2007, and completed prior to Jan. 1, 2008, and the member complied with all applicable independence interpretations and rulings in effect on Feb. 28, 2007.

Appraisal, Valuation and Actuarial Services

Independence would be impaired if a member performs an appraisal, valuation or actuarial service for an attest client where the results of the service, individually or in the aggregate, would be material to the

financial statements and the appraisal, valuation or actuarial service involves a significant degree of subjectivity.

Valuations performed in connection with, for example, employee stock ownership plans, business combinations or appraisals of assets or liabilities generally involve a significant degree of subjectivity. Accordingly, if these services produce results that are material to the financial statements, independence would be impaired.

An actuarial valuation of a client's pension or postemployment benefit liabilities generally produces reasonably consistent results because the valuation does not require a significant degree of subjectivity. Therefore, such services would not impair independence. In addition, appraisal, valuation, and actuarial services performed for nonfinancial statement purposes would not impair independence. However, in performing such services, all other requirements of this interpretation should be met, including that all significant assumptions and matters of judgment are determined or approved by the client and the client is in a position to have an informed judgment on, and accepts responsibility for, the results of the service.

Forensic Accounting Services

For purposes of this interpretation, forensic accounting services are nonattest services that involve the application of special skills in accounting, auditing, finance, quantitative methods and certain areas of the law, and research, and investigative skills to collect, analyze, and evaluate evidential matter and to interpret and communicate findings and consist of:

- Litigation services; and
- Investigative services.

Litigation services recognize the role of the member as an expert or consultant and consist of providing assistance for actual or potential legal or regulatory proceedings before a trier of fact in connection with the resolution of disputes between parties. Litigation services consist of the following services:

- Expert witness services are those litigation services where a member is engaged to render an opinion before a trier of fact as to the matter(s) in dispute based on the member's expertise, rather than his or her direct knowledge of the disputed facts or events.

Expert witness services create the appearance that a member is advocating or promoting a client's position. Accordingly, if a member conditionally or unconditionally agrees to provide expert witness testimony for a client, independence would be considered to be impaired.

However, independence would not be considered impaired if a member provides expert witness services for a large group of plaintiffs or defendants that includes one or more attest clients of the firm provided that at the outset of the engagement: 1) the member's attest clients constitute less than 20 percent of (i) the members of the group (ii) the voting interests of the group, and (iii) the claim; (2) no attest client within the group is designated as the "lead" plaintiff or defendant of the group; and (3) no attest client has the sole decision-making power to select or approve the expert witness.

While testifying as a fact witness, a member may be questioned by the trier of fact or counsel as to his or her opinions pertaining to matters within the member's area of expertise. Answering such questions would not impair the member's independence.

- Litigation consulting services are those litigation services where a member provides advice about the facts, issues, and strategy of a matter. The consultant does not testify as an expert witness before a trier of fact.

The performance of litigation consulting services would not impair independence provided the member complies with the general requirements set forth under this interpretation. However, if the member subsequently agrees to serve as an expert witness, independence would be

considered to be impaired.

- Other services are those litigation services where a member serves as a trier of fact, special master, court-appointed expert, or arbitrator (including serving on an arbitration panel), in a matter involving a client. These other services create the appearance that the member is not independent. Accordingly, if a member serves in such a role, independence would be considered to be impaired. However, independence would not be considered impaired if a member serves as a mediator or any similar role in a matter involving a client provided the member is not making any decisions on behalf of the parties, but rather is acting as a facilitator by assisting the parties in reaching their own agreement.

Investigative services include all forensic services not involving actual or threatened litigation such as performing analyses or investigations that may require the same skills as used in litigation services. Such services would not impair independence provided the member complies with the general requirements set forth under this interpretation.

Transition

Independence would not be impaired as a result of the more restrictive requirements of the forensic accounting services provisions, provided such services are pursuant to engagements commenced prior to Feb. 28, 2007, and the member complied with all applicable independence interpretations and rulings in existence on Feb. 28, 2007.

Internal Audit Assistance Services

Internal audit services involve assisting the client in the performance of its internal audit activities, sometimes referred to as "internal audit outsourcing." In evaluating whether independence would be impaired with respect to an attest client, the nature of the service needs to be considered.

Assisting the client in performing financial and operational internal audit activities would impair independence unless the member takes appropriate steps to ensure that the client understands its responsibility for directing the internal audit function, including the management thereof. Accordingly, any outsourcing of the internal audit function to the member whereby the member in effect manages the internal audit activities of the client would impair independence.

In addition to the general requirements of this interpretation, the member should ensure that client management:

- Designates an individual or individuals, who possess suitable skill, knowledge, and/or experience, preferably within senior management, to be responsible for the internal audit function;
- Determines the scope, risk and frequency of internal audit activities, including those to be performed by the member providing internal audit assistance services;
- Evaluates the findings and results arising from the internal audit activities, including those performed by the member providing internal audit assistance services; and
- Evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining reports from the member.

The member should also be satisfied that the client's board of directors, audit committee, or other governing body is informed about the member's and management's respective roles and responsibilities in connection with the engagement. Such information should provide the client's governing body a basis for developing guidelines for management and the member to follow in carrying out these responsibilities and monitoring how well the respective responsibilities have been met.

The member is responsible for performing the internal audit procedures in accordance with the terms of the engagement and reporting thereon. The performance of such procedures should be directed, reviewed, and supervised by the member. The report should include information that allows the individual

responsible for the internal audit function to evaluate the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures. This report may include recommendations for improvements in systems, processes, and procedures. The member may assist the individual responsible for the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities. However, the member should not undertake any responsibilities that are required, as described above, to be performed by the individual responsible for the internal audit function.

The following are examples of activities (in addition to those listed in the "General Activities" section of this interpretation) that, if performed as part of an internal audit assistance engagement, would impair independence:

- Performing ongoing monitoring activities or control activities (for example, reviewing loan originations as part of the client's approval process or reviewing customer credit information as part of the customer's sales authorization process) that affect the execution of transactions or ensure that transactions are properly executed, accounted for, or both, and performing routine activities in connection with the client's operating or production processes that are equivalent to those of an ongoing compliance or quality control function
- Determining which, if any, recommendations for improving the internal control system should be implemented
- Reporting to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function
- Approving or being responsible for the overall internal audit work plan including the determination of the internal audit risk and scope, project priorities and frequency of performance of audit procedures
- Being connected with the client as an employee or in any capacity equivalent to a member of client management (for example, being listed as an employee in client directories or other client publications, permitting himself or herself to be referred to by title or description as supervising or being in charge of the client's internal audit function, or using the client's letterhead or internal correspondence forms in communications)

The preceding list is not intended to be all-inclusive.

Services involving an extension of the procedures that are generally of the type considered to be extensions of the member's audit scope applied in the audit of the client's financial statements, such as confirming of accounts receivable and analyzing fluctuations in account balances, are not considered internal audit assistance services and would not impair independence even if the extent of such testing exceeds that required by generally accepted auditing standards. In addition, engagements performed under the attestation standards would not be considered internal audit assistance services and therefore would not impair independence.

Transition

Independence would not be impaired as a result of the more restrictive requirements of interpretation 101-3, provided the provision of any such nonattest services are pursuant to arrangements in existence on Dec. 31, 2003, and are completed by Dec. 31, 2004, and the member was in compliance with the preexisting requirements of this interpretation.

[Formerly paragraph .04, renumbered by adoption of the Code of Professional Conduct on January 12, 1988. Revised, effective June 30, 1990, by the Professional Ethics Executive Committee. Revised, effective May 31, 1999, by the Professional Ethics Executive Committee. Revised, effective April 30, 2000, by the Professional Ethics Executive Committee. Revised, July 2002, to reflect conforming changes necessary due to the revision of interpretation 101-1. Revised, effective Dec. 31, 2003 (except for the documentation requirement, which takes effect for any new engagements that begin after Dec. 31, 2004), with earlier application permitted, by the Professional Ethics Executive Committee. Revised, effective Oct. 31, 2004, by the Professional Ethics Executive Committee. Revised, effective Jan. 27, 2005, by the Professional Ethics Executive Committee.]

Case Study No. 4: Filling in for the CFO

You are part of an audit team that audits a very small business that sells socks on the web. The accounting department at this company consists of a CFO and two accounting staff. The CFO is very experienced in the industry and her staff are relatively new to the company. You and the CFO have a very good working and personal relationship. Suddenly she becomes very ill and leaves you a voicemail as she is being taken into heart surgery at the hospital:

"I had some pains this morning in my chest, and long story short, I have to have heart surgery this afternoon! I am going to be out for a few days. It's a real slow period. My staff are great, but they don't know how our accounting works yet. Please just cover for me for a few days until I get back on my feet. Thanks!"

What are the potential ethical dilemma(s) related to this scenario?

Also, how *could* independence be impacted? What can be done to avoid impairing independence? What are some options?

Case Study No. 5: Controller Search

A long-time audit client of yours expresses interest in you assisting him to find a candidate for the open controller position at his company. He would like help with the following:

- Searching for potentially qualified candidates
- Reviewing resumes
- Interviewing candidates
- Negotiating a salary

Which of the above activities would constitute you impairing your independence related to this company? Before performing any of the above activities that would *not* impair your independence, what information should be documented?

4. AICPA Code of Professional Conduct Section 501, Acts Discreditable

ET Section 501 — Acts Discreditable

.01 Rule 501—Acts discreditable.

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

[As adopted Jan. 12, 1988.]

Interpretations Under Rule 501 — Acts Discreditable

.02 501-1—Response to requests by clients and former clients for records.

Terminology

- The following terms are defined below solely for use with this interpretation:
- *Client provided records* are accounting or other records belonging to the client that were provided to the member by or on behalf of the client, including reproductions of such records.
- *Client records prepared by the member* are accounting or other records (for example, tax returns, general ledgers, subsidiary journals, and supporting schedules such as detailed employee payroll records and depreciation schedules) that the member was engaged to prepare for the client.
- *Supporting records* are information not reflected in the client's books and records that are otherwise not available to the client with the result that the client's financial information is incomplete. For example, supporting records include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) that are produced by the member during an engagement (for example, an audit).
- *Member's working papers* include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses and schedules prepared by the client at the request of the member.

Interpretation

When a client or former client (client) makes a request for client-provided records, client records prepared by the member, or supporting records that are in the custody or control of the member or the member's firm (member) that have not previously been provided to the client, the member should respond to the client's request as follows:

- *Client provided records* in the member's custody or control should be returned to the client.
- *Client records prepared by the member* should be provided to the client, except that client records prepared by the member may be withheld if the preparation of such records is not complete or there are fees due the member for the engagement to prepare those records.
- *Supporting records* relating to a completed and issued work product should be provided to the client, except that such supporting records may be withheld if there are fees due to the member for the specific work product.

Once the member has complied with these requirements, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

Member's working papers are the member's property and need not be provided to the client under provisions of this interpretation; however, such requirements may be imposed by state and federal statutes and regulations, and contractual agreements.

In connection with any request for client-provided records, client records prepared by the member, or supporting records, the member may:

- Charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client;
- Provide the requested records in any format usable by the client; and
- Make and retain copies of any records returned or provided to the client.

Where a member is required to return or provide records to the client, the member should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made. The fact that the statutes of the state in which the member practices grants the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. In addition, certain states have laws and regulations that impose obligations on the member greater than the provisions of this interpretation and should be complied with.

[Revised, effective April 30, 2000, by the Professional Ethics Executive Committee. Revised, effective April 30, 2006, by the Professional Ethics Executive Committee. Revised, effective Feb. 28, 2011, by the Professional Ethics Executive Committee.]

Case Study No. 6: I Need Those Back

You work for a software development company in Tysons Corner that is working on the next greatest social networking tool. You think it is going to be "huge." You have stock options. You are pretty sure you will be rich in a few years. In short, you feel like you are an accountant who is "kind of a big deal."

The last auditing firm you hired did not think you were the big deal that you did. You had arguments with them about capitalizing certain costs and you fired them last year. Now you realize some items you are missing are in their possession:

- A few spreadsheets YOU had created on cost computations — you somehow lost your copies. You know they have them because they were initially created for the auditors. They would be almost impossible to reproduce.
- A few supporting schedules they had created for their previous audits — though they created them, you need them, and quick, as you have a meeting with the bank soon to go over some cash-flow projections.

You also are meeting with some new auditing firms to get proposals on future work, which may include going public in the next few years. (Fingers crossed, as your credit card bills are piling up and that Mercedes lease may have been going a little overboard.)

The former auditing firm did not return your calls or your emails last week when you contacted them to request those items you need.

What does the standard tell us about these items you wish to receive from the former auditing firm?

What responsibility does the former auditing firm have to fulfill?

What should you do in following up with the former auditing firm?

5. SEC Whistleblower Rules

The SEC's new whistleblower program took effect Aug. 12, 2011, complete with a new website, <http://www.sec.gov/whistleblower>, where people can report a violation of federal securities laws and apply for a financial reward.

The program is outlined at <http://www.sec.gov/rules/final/2011/34-64545.pdf>.

The Dodd-Frank Wall Street Reform and Consumer Protection Act granted the SEC the authority to pay financial rewards to whistleblowers providing new and timely information about violations of securities laws. A whistleblower's tips must lead to a successful SEC enforcement action with more than \$1 million in monetary sanctions to be eligible for a reward. Before the enactment of the Dodd-Frank Act, the SEC only had authority to reward whistleblowers in insider-trading cases.

The new rule provides incentives for employees to report wrongdoing to their company's internal compliance department before approaching the SEC. It also provides new tools to protect employees who do go to the SEC from retaliation from their employers.

The SEC approved the whistleblower program by a unanimous vote in November 2010.

Some of the rule changes to the new program are highlighted in this article on the VSCPA website: <http://www.vscpa.com/Content/58815.aspx>.

Tips can be submitted in writing by either using the SEC's Tip, Complaint or Referral (TRC) Portal online (<http://www.sec.gov/whistleblower>) or by mailing or faxing a TRC form to:

SEC Office of the Whistleblower
100 F Street NE
Mail Stop 5971
Washington, DC 20549

Fax (703) 813-9322

Case Study No. 7: Blowing the Whistle

You had a tough day. You work at a large Fortune 500 company in Richmond and you had a big fight with your boss about the treatment of certain intangible assets. It was heated. Accounting guides were referenced and thrown around the room. Words were exchanged. Yet the issue was not resolved. You have one big headache.

Now, it's 6 p.m., and you are at a sports bar trying to blow off a little steam, "throwing back" numerous Shirley Temples left and right, when an old friend walks into the bar.

After you converse for a little while, she remembers you are a CPA. She mentions she has "insider" information about a financial fraud happening at the "highest" levels at the company where she is employed. She also has heard about these new whistleblower rules where "snitches" can get rich. She wants to talk to you about it and wants help. She is excited about splitting any reward with you if you help her. She is not a CPA.

What general (further) information would you like to know?

What questions would you like to ask her?

What resources are available to you and to her in assisting with the situation?

What is your obligation if she decides to do nothing?

6. Licensing Requirements for Firms

Firm Licensing Requirements

Pursuant to § 54.1-4412.1, only a firm can provide attest services or compilation services to persons or entities located in Virginia. If such a firm has its principal place of business in Virginia, it must obtain a Virginia firm license (in addition to any individual Virginia licenses that may be required).

Pursuant to § 54.1-4412.1, D, Code of Virginia, requirements to obtain a Firm CPA License in Virginia include the following provisions:

- At least 51% of the owners and the voting equity interest of the firm must be CPAs or trustees of an eligible employee stock ownership plan (ESOP). Owners of a firm who are not licensees must participate in the firm's activities on a regular, continuous and substantial basis.
- An individual who supervises firm personnel for attest or compilation services or who releases or authorizes the release of attest or compilation reports must have (1) a Virginia Individual CPA License or (2) a valid Individual CPA License from a *substantially equivalent* state in accordance with § 54.1-4411, Code of Virginia.
- An individual who releases or authorizes the release of attest or compilation reports provided for persons in Virginia must annually obtain a minimum of 8 hours of continuing professional education (CPE) related to attest or compilation services, in accordance with subsection A of Board Regulation 18VAC5-22-140.
- Pursuant to subsection B of Board Regulation 18VAC5-22-140, firms must establish policies and procedures to provide the firm with reasonable assurance that persons who release or authorize the release of reports on attest or compilation services possess competencies that are appropriate given the facts and circumstances which include (at a minimum):
 - Required technical proficiency,
 - Familiarity with the industry and the person or entity,
 - Skills that indicate sound professional judgment, and
 - Other competencies necessary under the circumstances.
- The firm must conduct its attest and compilation services in conformity with the standards of conduct and practice in accordance with § 54.1-4413.3, Code of Virginia, and Board Regulations.
- The firm must be enrolled in a monitoring program of the American Institute of Certified Public Accountants or another Board-approved monitoring program.
- The firm's name must not be false, misleading, or deceptive.
- All firms applying for CPA licensure must provide a copy of their certificate of incorporation or organization from the Commonwealth of Virginia's State Corporation Commission. Sole proprietors are exempt from this requirement.

Peer Review Requirements

Pursuant to § 54.1-4412.1, D.6., Code of Virginia, in order for a firm to obtain a Firm CPA License, the firm must be enrolled in the applicable peer review monitoring program of the AICPA or its successor, or in another peer review monitoring program for attest and compilation services, such as one sponsored by the VSCPA that is approved by the VBOA. The enrollment requirement applies regardless of whether the licensed firm actually performs services subject to peer review. In addition, the firm must comply with any requests by the VBOA to provide proof of enrollment and/or documentation related to the acceptance of its peer review.

Pursuant to Board Regulation 18VAC5-22-150, in order to comply with subdivision D.6. of § 54.1-4412.1, Code of Virginia, a firm must comply with all components of the monitoring program in which it is enrolled, except that, depending on the facts and circumstances, the VBOA may waive the requirement for a peer review or grant additional time for complying with the requirement.

Peer Review Compliance

On a monthly basis, the VBOA randomly selects licensed Virginia CPA firms for peer review compliance. VBOA staff will notify the firm if it has been selected for a compliance review. If selected, the firm will be required to submit acceptable supporting peer review documentation to verify compliance. Additional documentation may be requested by the VBOA as a function of the peer review process.

In addition to the random selection process, licensed Virginia CPA firms will also be selected for a compliance review of their peer review as a component of any open investigation (enforcement case), or in situations where the VBOA believes that a peer review compliance review is warranted.

7. CPA Practice Mobility

A Little History

In December 2006, the National Association of State Boards of Accountancy (NASBA) and the AICPA issued an exposure draft of changes to Section 23 of the Uniform Accountancy Act (UAA).

The revisions, according to the draft, offered a comprehensive system for permitting licensee mobility while making explicit state boards' authority to regulate all who offer or render professional services within their jurisdiction, regardless of how those services are being provided.

The draft specifically explains that CPAs who render professional services "in person, by mail, telephone or electronic means" will be granted practice privileges and will not have to notify states to render those services. And the draft explicitly states that CPAs will be subject to each state's rules and regulations. That means that states will have to pass and adopt the changes without making their own modifications — no notification fees, forms or other impediments to mobility.

Here in Virginia

Virginia has had the distinction of being an excellent model for substantial equivalency, having instituted practice mobility in 1999. In February 2007, the Virginia General Assembly passed simplifying legislation from the VBOA to update the Commonwealth's Accountancy Statute with a principles-based approach that reduced licensing requirements, clarified that all persons and firms using the CPA title in Virginia or providing services to persons or entities in Virginia are subject to the same statutes and regulations and clarified the standards of conduct and practice.

The VBOA legislation changed the statute to state that if a CPA is principally located elsewhere, he or she did not need a Virginia license to use the CPA title in Virginia, but must have a license from another state and must comply with the rules of substantial equivalency.

Just as the UAA draft states, the VBOA legislation clarifies that those who use the CPA title in Virginia consent to the jurisdiction of the VBOA and its regulations, disciplinary procedures and authority.

Other Jurisdictions

As of Nov. 8, 2011, mobility statutes recognizing CPA licenses granted by other states and jurisdictions had been enacted in 47 of the 55 U.S. jurisdictions, including Virginia. (Those jurisdictions comprise the 50 United States plus Washington, D.C., Puerto Rico, Guam, the Virgin Islands, and the Commonwealth of the Northern Mariana Islands.)

Playing by the Rules

On July 28, 2011, the AICPA and NASBA announced the launch of CPAmobility.org, an online tool designed to help CPAs navigate practice privilege requirements across state borders.

The site provides regularly-updated information on state practice privilege requirements for CPAs, commonly known as mobility laws, for all 50 states and U.S. jurisdictions. CPAs can learn whether their existing home-state registration is mobile and allows them to work in other jurisdictions without additional notice or whether further paperwork is required.

The site poses three targeted questions to CPAs interested in practicing in other jurisdictions:

- Where is your principal place of business?
- Where are you going to perform services (target state)?
- What type of services will you perform?

CPAmobility.org also works on mobile platforms.

D.C. Updates

The Accountant Mobility Act of 2011, a bill allowing practice mobility for CPAs in Washington, D.C., has passed the D.C. Council and has been signed by Mayor Vincent Gray. It recently completed a 30-day judicial review process, but the bill's backers will have to secure funding in the fiscal year 2013 D.C. budget before it becomes effective.

If the backers can get funding, it is expected that the bill will be effective before the Jan. 1, 2013, license renewal date.

Other States' Websites

State boards of accountancy can be found for all 55 jurisdictions at <http://www.nasba.org/stateboards>.

8. New VBOA Website

Site Seeing

In April 2011, the VBOA launched a revised version of its website at <http://www.boa.virginia.gov>.

According to the VBOA, this is just the first step of a two-step project. Now that the VBOA has updated its look and feel and taken measures to improve navigation, it will move on to the second step: modifying the back end of the website to increase ease-of-use and functionality. The goal is to ensure CPA Exam candidates, licensees and firms can find the information they need about their professional license and requirements.

The new site was set up to make it easier to update your contact information, and find the latest news (including enforcement results) and announcements from the VBOA, among other enhancements. It also has new online chat feature.

Be sure to browse the site to become familiar with the navigation.

9. Communication With Clients and the VBOA

Timeliness

Many cases made against CPAs to the VBOA over the years have been partly the result of CPAs' lack of timely communication and responses to clients and other stakeholders. Ensure that you keep communication lines open and fulfill your obligations.

AICPA Code of Professional Conduct Section 301, Confidential Client Information **.01 Rule 301—Confidential client information.**

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

This rule shall not be construed (1) to relieve a member of his or her professional obligations under rules 202 [ET section 202.01] and 203 [ET section 203.01], (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member's compliance with applicable laws and government regulations, (3) to prohibit review of a member's professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

[As amended January 14, 1992.]
Interpretations Under Rule 301
—*Confidential Client Information*
[.02] [301-1]—[Deleted]
[.03] [301-2]—[Deleted]

.04 301-3—Confidential information and the purchase, sale, or merger of a practice.

Rule 301 [ET section 301.01] prohibits a member in public practice from disclosing any confidential client information without the specific consent of the client. The rule provides that it shall not be construed to prohibit the review of a member's professional practice under AICPA or state CPA society authorization. For purposes of rule 301 [ET section 301.01], a review of a member's professional practice is hereby authorized to include a review in conjunction with a prospective purchase, sale, or merger of all or part of a member's practice. The member must take appropriate precautions (for example, through a written confidentiality agreement) so that the prospective purchaser does not disclose any information obtained in the course of the review, since such information is deemed to be confidential client information. Members reviewing a practice in connection with a prospective purchase or merger shall not use to their advantage nor disclose any member's confidential client information that comes to their attention.
[Effective February 28, 1990.]

Importance of Maintaining Client Confidentiality Via Electronic Communications

Do you have discussions with key parties about what information and types of discussions are appropriate for communication via email or other electronic means (e.g. texting) and those that are not?

Has your organization educated your employees on the appropriateness of such practices? Do you have policies and standards related to this?

Are electronic communications documented in your engagement letters or letters that document your scope of a project?

Many of your communications will undoubtedly identify a client or other party involved in the communication. What are the protocols that are expected of both parties if a breach of client confidentiality has been made?

Some assumptions may need challenging. An example: Because a client or colleague has emailed us certain types of information, is it acceptable for us to do the same and utilize email in transferring what could be important and confidential information? One key is to set clearly-defined best practices about communication methods and safeguards in protecting confidential information.

Remember that Rule 301 [ET section 301.01] prohibits a member in public practice from disclosing any confidential client information without the specific consent of the client.

Board regulation 18VAC5-22-170, Communication Between the Board and Licensees

18VAC5-22-170. Communication Between the Board and Licensees.

A. When requested by the board:

1. Persons or firms applying for the issuance, renewal, or reinstatement of a Virginia license or for lifting the suspension of the privilege of using the CPA title in Virginia or providing attest services or compilation services for persons or entities located in Virginia shall provide the board with support for their conclusion that they have complied with applicable provisions of Chapter 44 (§ 54.1-4400 et seq.) of Title 54.1 of the Code of Virginia and this chapter.
2. Firms shall provide the board with proof of enrollment in a monitoring program and copies of reports and other documentation related to acceptance of their peer reviews.
3. Persons or firms shall provide the board documents related to the board's investigation of their possible violation of provisions of Chapter 44 (§ 54.1-4400 et seq.) of Title 54.1 of the Code of Virginia or this chapter.

Each person or firm shall respond within 30 calendar days to any request for information by the board under this subsection.

B. Each holder of a Virginia license shall notify the board in writing within 30 calendar days of any change in the holder's name or in the postal and electronic addresses where the person or firm may be reached.

C. The board shall transmit license renewal notices electronically unless a person or firm is unable to communicate electronically. However, § 54.1-4413.2 of the Code of Virginia places the responsibility for renewing a Virginia license on its holder, and that responsibility is not affected by whether the holder receives a license renewal notice.

Statutory Authority §§ 54.1-4402 and 54.1-4403 of the Code of Virginia.

Case Study No. 8: Email Error

During the winter and early spring months, you earn some extra money by providing personal tax return services to a small group of clients. Most of these clients are friends and family. This isn't your "day job." One of your simpler clients sends you copies of his tax information in an email. He has scanned most of the documents you need (Form W-2, Form 1099s, charitable contribution receipts, personal property tax bill, etc.) into PDF files, which were attached to an email sent to you. You had a few questions about some of the documents, so you listed out your questions in one email and attached the appropriate documents (PDF files) and sent these questions off in an email back to that person — or so you thought.

It seems you thought you were sending an email to your client, Michael Veck, but instead, the auto-fill in your email program filled in "Michael Vartanburg," and you hit "send" without noticing it before it was too late.

You were instantly pretty mad at yourself, but then a little bit relieved to realize it was sent to Mike Vartanburg. “Vburg,” as you call him, is one of your best friends. “Vburg” is off on vacation in Europe for a few months and probably will not be responding to any emails for a while or be easy to contact.

What should you do now?

Was it OK that you used email to send these documents back to your client?

What should you do going forward?

Does it matter if you are paid for the work or not?

10. On the Horizon

IFRS Standards Convergence

In November 2008, the SEC proposed a series of milestones (also known as the Proposed Roadmap) that would guide the Commission in determining whether to transition U.S. capital markets to International Financial Reporting Standards (IFRS).

In February 2010, the SEC published a statement, reiterating its belief that a single set of high-quality globally accepted accounting standards would benefit U.S. investors and also outlining a Work Plan to help the Commission continue moving in the right direction.

The SEC Office of the Chief Accountant (OCA) published a staff paper in May 2011 that presents the “condorsement” approach to incorporating IFRS into the U.S. financial reporting system.

The paper summarizes other jurisdictions’ approaches and details the possible option of condorsement, in which U.S. Generally Accepted Accounting Principles (GAAP) would continue to exist and the Financial Accounting Standards Board (FASB) would retain control over U.S. GAAP while working to converge it with IFRS. The concept was introduced by SEC Deputy Chief Accountant Paul Bestwick at the AICPA’s National Conference on Current SEC and PCAOB Developments in December.

The paper does not provide extensive discussion of a potential timeline for convergence.

Leases

In July 2011, the FASB and the International Accounting Standards Board (IASB) announced their intention to re-expose their revised proposals for a common leasing standard, providing interested parties an opportunity to comment on revisions the boards have undertaken since the publication of an exposure draft on leasing in August 2010.

The FASB and the IASB have been considering a structure where finance leases would be treated like an installment purchase, meaning they would be considered an asset on the balance sheet as well as a liability to be paid down over time.

Other leases would be treated like today’s operating leases because the financing element would not be considered significant enough to capitalize.

The boards’ original proposal, which treated all leases like today’s capital leases, drew criticism, and the boards have asked staff to establish indicators that would be used to identify the difference between the two types of leases.

The boards have also softened their views on how companies should account for renewal options and other factors leading to variable lease payments, opting to raise the threshold for deciding when lease

renewal options should be included in the liability. In the original proposal, such options were required to be included if it was “more likely than not” that the company would renew the lease.

CPA Horizons 2025

Earlier this year the AICPA released the findings of their research program called CPA Horizons 2025. This initiative solicited the opinions of more than 5,600 CPAs through an interactive survey, in-person forums, focus groups and online discussion forums. The objective of the program was to shed light on how trends will affect our profession over the next 15 years and actions the profession can take to meet to meet the challenges identified and leverage emerging opportunities.

Key Findings

- CPAs overwhelmingly agreed that the profession’s core purpose, “Making sense of a changing and complex world,” remains relevant today and for the future.
- The profession’s core values remained substantially unchanged.
- The profession’s core competencies evolved to reflect the 21st century.
- The services provided by CPAs have become so varied and diverse that the concept of core services is no longer representative of the profession.

Additionally, the project uncovered 10 insights and directions related to opportunities and challenges for the profession, presented below in no particular order:

- **Technology:** Understand and leverage relevant technology in conjunction with core CPA Competencies to deliver superior services.
- **Pre-certification and Lifelong Learning:** Evolve the educational framework to keep pace with the changing dynamics of business, government and our profession.
- **Worldwide Profession:** Position the CPA as a premier designation of the accounting and finance profession throughout the world.
- **Pride in the Profession:** Encourage pride among CPAs in the CPA profession and in the value CPAs create throughout society.
- **Trusted Attester:** Preserve the role of the CPA as the trusted attester of financial and other information.
- **Trusted Advisor:** Promote the CPA as the trusted advisor who, in addition to providing core CPA services, develops solutions to complex problems by integrating knowledge, expertise and resources from multiple disciplines.
- **Market Permissions:** Leverage the strengths of the profession to expand market permissions.
- **Marketplace:** Address continual changes in the marketplace, economy, businesses and regulations.
- **Value Proposition:** Increase the visibility of the profession’s value proposition by demonstrating the profession’s Core Values in multiple areas of business and society.
- **Demographic Shifts:** Continue to offer opportunities that enhance the appeal of the profession and be proactive in addressing both U.S. and global demographic shifts.

The CPA Horizons 2025 report can be found in its entirety at <http://tinyurl.com/HorizonsReport> (PDF).

Conclusion

Big ethical decisions often are not easy. They may involve risk, pressure and personal cost, and there usually is not a black-and-white, right-or-wrong answer. How conscientious will you be with the process you utilize in coming up with a decision?

- Define the dilemma you are facing
 - Gather all the information and facts needed
 - Label the dilemma
- Utilize all the resources you need
 - AICPA Code
 - Code of Virginia/VBOA Regulations
 - Peers, hotlines, etc.
- Brainstorm
 - Identify as many alternatives as you can
- Challenge your perspectives
 - On your deathbed, what would you want to say you decided?
 - What would you want to be able to present to your fellow CPAs as part of a case study?
- Decide and act! (And evaluate to continue your learning.)

Remember: The way you handle your ethical dilemmas may be visible to more people than you think. Ethics is also about leadership. How do you want to lead as it relates to ethics?

Closing Reminders

Ensure you have checked the status of your CPA license at the VBOA website (<http://www.boa.virginia.gov>).

If you have any additional questions, contact one of the organizations listed on page 6.

Please complete the class evaluations that will be sent to you via email. We appreciate any and all feedback you can provide. Your feedback helps us to make improvements to this course.

Check for updates to the course and answers to case studies at <http://www.vscpa.com/Ethics2012Updates>.

Appendix I: Video Scripts

Scenario 1: The Right CPE

Carl: Hi! My name is Carl Peterson Abbott. Notice my initials? That's right: CPA. I was born to be a CPA. I completed my first 1040 when I was only 4 and performed my first audit procedure when I was 6. It was a search for unrecorded liabilities on my parents' records. Boy, did Dad keep some things off the books — including his good old Mercedes — which is probably why they're divorced now and why I ended up having to pay for my own college. But I digress.

Anyway, now I'm doing strictly tax planning and preparation services at my own public accounting firm. I have just been informed that a past client of mine made a complaint about me to the Virginia Board of Accountancy in relation to a tax return I signed for him a few years ago. The first thing the Virginia Board of Accountancy did was to ask for my CPE records for the last three years. I know I took over 40 hours, because I attended this 40-hour auditing conference each of the prior three years.

Scenario 2: Keeping it Hush-Hush

Jeff: Hey, Lisa.

Lisa: Hey, Jeff! How are you?

Jeff: I'm good! How are you doing?

Lisa: I'm doing pretty good. Good to see you.

Jeff: Good to see you, too. I've actually been hoping to run into you. I have this advice that I need on a client of mine that works in government contracting, like you do.

Lisa: OK, I suppose I can help.

Jeff (voiceover): I don't think I can share with her who my client is, and they're probably a competitor. So I'm going to have to do this 007-style and keep their name hush-hush.

Jeff: I have a client that has about \$10 million in revenues, and they're based in Alexandria, like you are. They have this deferred revenue issue that's really puzzling me.

On the Horizon

The job of a CPA is always changing, with financial developments and regulatory updates coming fast and furious. I'm here to brief you on some of the biggest issues that could change in 2012.

The Securities and Exchange Commission has been discussing the issue of International Financial Reporting Standards, or IFRS, for several years. After reiterating its belief that a single set of high-quality, globally-accepted accounting standards could be beneficial for U.S. investors, the SEC published a staff paper in May 2011 outlining an approach to converging IFRS with U.S. GAAP known as "condorsement." When this course was created, the SEC had not yet decided whether to incorporate IFRS into the U.S. financial reporting system or the way the new standards would be incorporated. Originally, the agency had set a decision date at the end of 2011, but slower-than-expected convergence efforts from standard-setters have delayed that decision.

One of the standards in question is a common leasing standard between the Financial Accounting Standards Board and the International Accounting Standards Board. The boards had originally proposed to treat all leases like today's capital leases, but that proposal drew criticism over the treatment of finance leases. The boards intend to re-expose their proposals for a common leasing standard. They are considering a structure where finance leases would be treated as an installment purchase, considered an asset on the balance sheet as well as a liability to be paid down over time. Other leases would be treated like today's operating leases.

The issue of financial reporting standards for private companies was a point of contention for most of 2011. In January, the Blue Ribbon Panel on Standard Setting for Private Companies recommended the creation of a new board that would set standards for private companies. In October, the Financial Accounting Foundation proposed the creation of the Private Company Standards Improvement Council,

which would propose and vote on exceptions to standards for private companies, subject to FASB ratification. Proponents of a completely new board say that private companies need a board focused solely on their specific needs, arguing that FASB's focus is correctly on public companies. FAF and FASB representatives argue that the proposed council would be a significant improvement over past practice and that the simplicity of using the same board to set standards for public and private companies would lead to more effective standards.

The Internal Revenue Service has temporarily delayed its requirement to fingerprint tax preparers as part of their registration process. CPAs are exempt from the fingerprinting requirements, along with attorneys and enrolled agents. Non-CPA preparers at CPA firms fall into the "supervised preparer" category for testing and continued education, and the IRS is debating whether they will be required to be fingerprinted when the requirement goes into place. The IRS also will require so-called "registered tax return preparers" to add a disclaimer to their advertising to avoid implying that they have received an IRS endorsement.

The Public Company Accounting Oversight Board has issued several proposals aimed at bringing greater transparency and independence to audits of public companies. Regulations proposed in October would require registered accounting firms to disclose the name of the engagement partner in the audit report, as well as the names of other firms and persons who participated in the audit. The PCAOB also proposed a requirement for public companies to change their auditing firms after a certain number of years. The board argues that setting a term limit on the audit relationship could free the auditor from the effect of client pressure. Opponents have expressed concern about the costs of changing auditors and say that audit quality may suffer in the early years of an engagement.

These are just a few of the issues that could affect you in 2012. Please stay tuned to the VSCPA for updates on these issues and others.

Appendix II: PowerPoint Slides

Ethics 2012 — Your License Depends on It!

The image shows a blackboard with several sticky notes. The word 'ETHICS' is written on a central note and circled in white. Other notes contain the words: 'trust', 'code', 'concern', 'philos', 'lif', 'wrong', 'choic', 'justice', and 'evil'. The Virginia Society of Certified Public Accountants logo is in the bottom left corner.

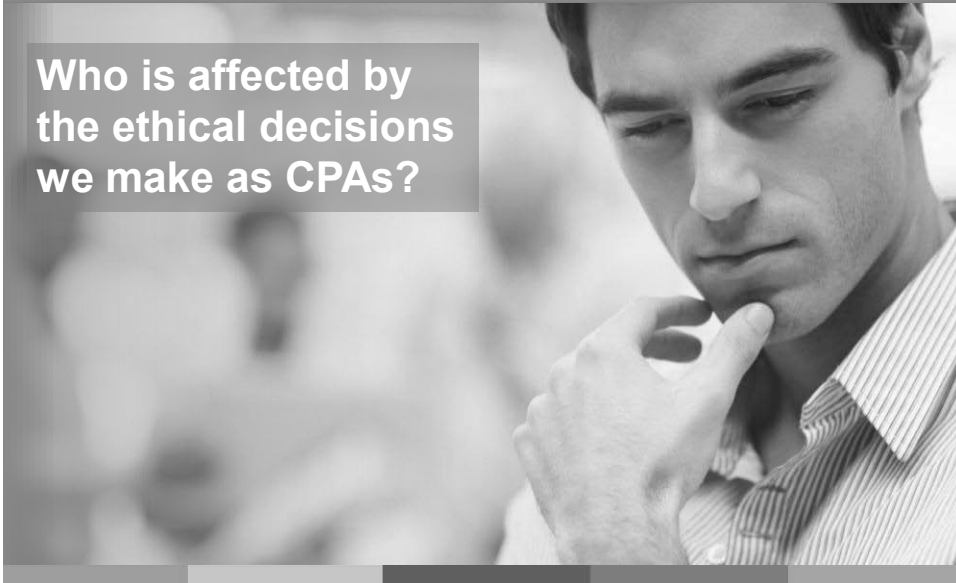
Virginia Society of
Certified Public
Accountants

Let's Get "Ethical!"

A man in a dark suit and tie looks directly at the camera with a serious expression. Two tiny figures are on his shoulders. The figure on the left is dressed in a dark vest and pants, holding a pitchfork. The figure on the right is dressed in a white uniform and cap, standing with hands on hips.

Affecting Others

Who is affected by the ethical decisions we make as CPAs?



Let's Get "Unethical!"

What is something you would consider "unethical" that you could do, currently within the context of your job, and possibly get away with it — that could benefit you in some way?

VBOA Enforcement Cases

Seven cases adjudicated by the VBOA during 2010 and early 2011:

- CPE and Peer Review deficiencies
- Unlicensed activity (two cases)
- SEC violation
- Audit failure
- Failure to pay taxes in a timely manner

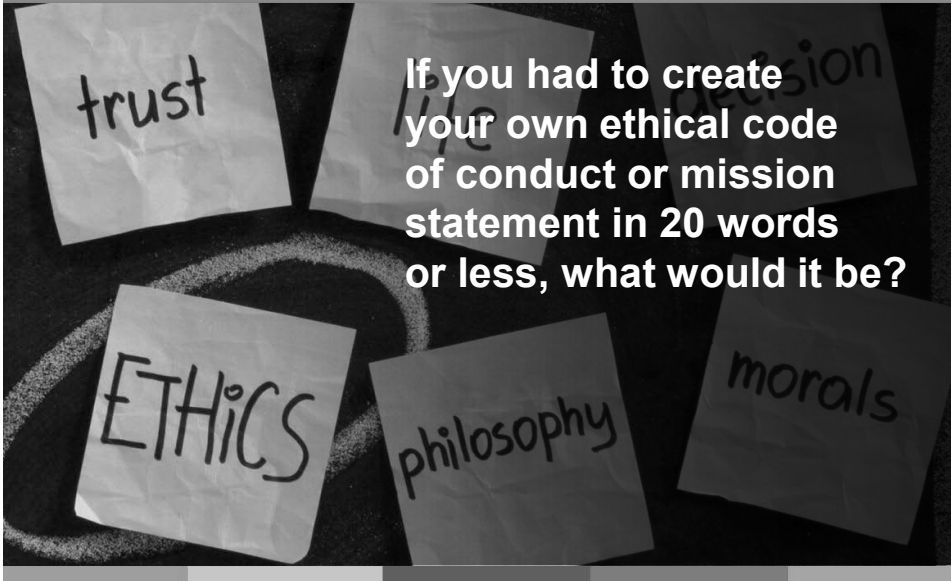


Personal Cost

What is an “ethical” decision or action that you have made in the past that had a personal cost attached to it?



My Code



Restrictions



Providing Volunteer Services

The VBOA created a handout this year in response to numerous inquiries from Virginia CPAs regarding services provided as a volunteer to a not-for-profit.

Providing Volunteer Services

The VBOA handout is intended to provide guidance for CPAs when asked to provide services which may fall under Virginia accountancy statutes and regulations.

Risks in Providing Services

If I, individually, provide certain “services” to a nonprofit, I may be:

- Considered a “firm” (public accounting firm) as a sole proprietor, and would therefore have to ensure I have an active firm license
- Required to be subject to peer review



Providing Volunteer Services

Two questions to consider

- Exactly what type of services are to be provided?
- In what role or capacity will I be providing them?



Providing Volunteer Services

What type of services?

- Attestation and compilation services require a firm license and peer review
- Non-attestation and non-compilation services do not require a firm license or peer review
 - Consulting services
 - Other services
 - Specific procedures



Providing Volunteer Services

Notes on “other services”

- The performance of an audit or review (or examination of prospective information) requires the licensee to be **ENGAGED** to perform that service
- Procedures that might normally be part of such an engagement (e.g. audit) can be performed on their own and would not require a firm license or peer review



Providing Volunteer Services

What is your role/status as it relates to the services?



Providing Volunteer Services

“Services that result in giving assurance about the financial statements of a not-for-profit entity are the practice of public accounting and can only be provided by a firm, *unless* you qualify under the exception...”

Exception

Assurance can be provided as long as “the assurance is given by an officer, employee, or member of the governing body of the entity about whom the financial information is presented.”

Providing Volunteer Services

ALL SERVICES PROVIDED BY LICENSEES are subject to the relevant parts of the standards of conduct under § 54.1-4413.3.

- Exercise professional and moral judgment
- Do not engage in activity that is false, misleading, or deceptive.

Top 10 Issues to Follow



Top 10 Issues to Follow

Video

1. Tax Preparer Registration

On Feb. 21, 2012, the IRS removed names of preparers who had not renewed their Preparer Tax Identification Number (PTIN).

PTIN contact information is shared with those who request it under the Freedom of Information Act (FOIA).



2. Continuing Professional Education

For the current reporting period, all CPAs (performing services for an employer or for the public) are required to obtain:

- 120 hours over the three-year period
- Minimum of 20 per year including annual Ethics requirement



2. Attest & Compilation CPE

If you release or authorize the release of attest or compilation reports, you must earn 8 specific CPE hours related to attest or compilation services.

The 8 hours needed is not in addition to the other requirements, but can be counted toward them.



2. The Right CPE for Me

Virginia does not have a lot of specific requirements for CPE in terms of specific content.

It is up to the individual CPA to determine the right amount and right type of CPE.



2. The Right CPE for Me

If a complaint is ever made against you to the VBOA, the first thing they typically request is your CPE records.

2. The Right CPE for Me

Video

3. AICPA Code Section 101-3

Performance of Nonattest services

- What services can be rendered while still maintaining independence?
- What roles should we not assume if we want to keep independence?



4. AICPA Code Section 501

Section .02 501-1 Response to requests by clients and former clients for records

Distinguish between:

- Client-provided records
- Client records prepared by the member
- Supporting records
- Member's working papers



4. AICPA Code Section 501

Section .02 501-1 Response to requests by clients and former clients for records

Requests by clients for records:

- Should be fulfilled within 45 days
- Only need to be fulfilled once
- Can be fulfilled for a reasonable fee



5. SEC Whistleblower Rules

New rules enacted to protect employees from employer retaliation

Tips can be submitted to the U.S. Securities and Exchange Commission (SEC)



5. SEC Whistleblower Rules

The Dodd-Frank Wall Street Reform and Consumer Protection Act allows the SEC to pay financial rewards to whistleblowers proving information that leads to a successful SEC enforcement action with more than \$1 million in monetary sanctions.

6. Firm Licensing Requirements

Only a firm can provide attest or compilation services to a person or persons in Virginia.

6. Firm Licensing Requirements

A firm can only obtain a firm license if it is enrolled in a peer review program.

6. Firm Licensing Requirements

Other firm licensing requirements and peer review provisions are found at § 54.1-4412.1. Licensing requirements for firms, and the applicable regulations.

7. CPA Practice Mobility

As of late 2011, mobility statutes had been enacted in 47 of 55 U.S. jurisdictions

www.cpamobility.org: A tool launched to help CPAs navigate practice privilege requirements across state/jurisdiction borders

Washington, D.C., expected to finalize mobility on Jan. 1, 2013

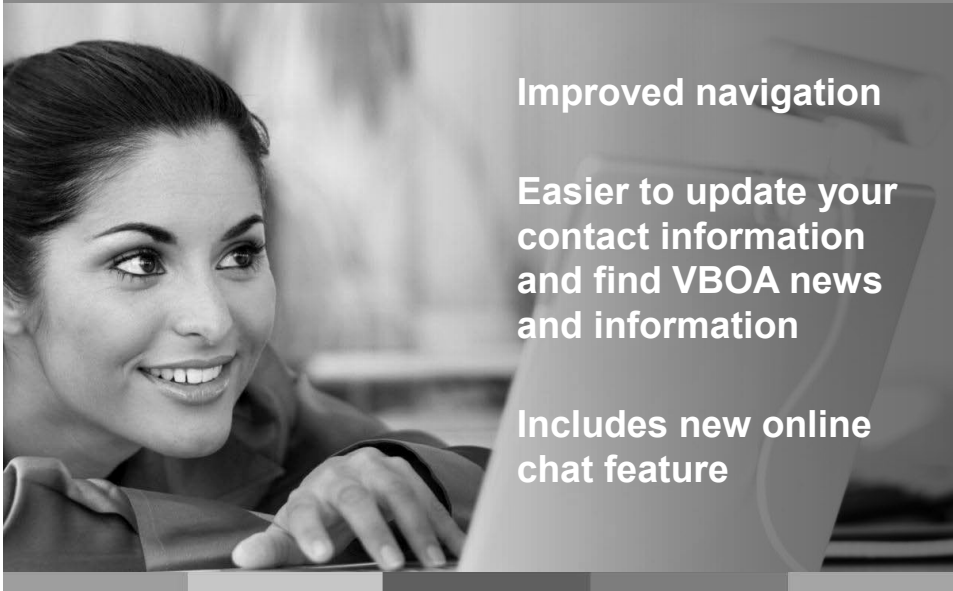


7. CPA Practice Mobility

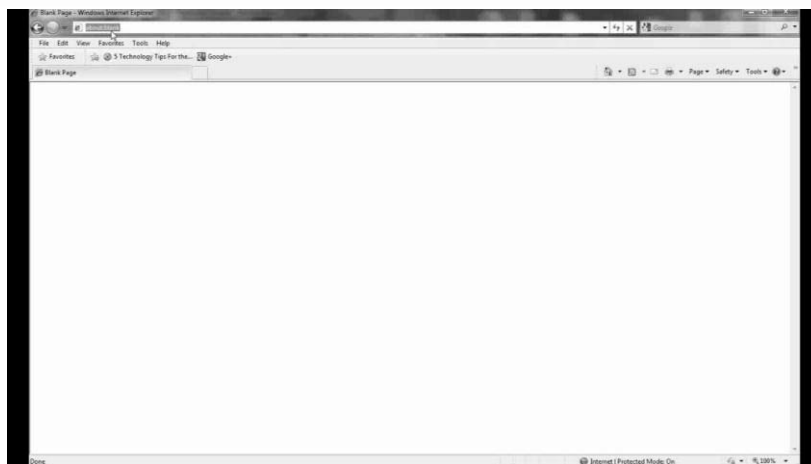
Video



8. New VBOA Website



8. New VBOA Website



9. Communication With Clients and the VBOA

ET Section 301, Confidential Client Information, states:

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



9. Communication With Clients and the VBOA

Video



9. Communication Between VBOA and Licensees

When requested by the VBOA:

- Persons/firms will provide support for conclusions that they have complied with Chapter 44

Each person/firm should:

- Respond within 30 days to a request made by the VBOA
- Notify the VBOA of any name or address change within 30 days



9. Communication Between VBOA and Licensees

The first (default) way renewal notices are transmitted from VBOA is an email to the address on file with the Board.

The responsibility to renew your license remains with its holder (not the VBOA) and is not dependent on the holder receiving a renewal notice.



10. On the Horizon

- IFRS convergence
- Leases
- Topics to stay ahead of

CPA HORIZONS 2025
REPORT



10. CPA Horizons 2025

**Solicited opinions from more than
5,600 CPAs**

**Designed to shed light on how trends
will affect our profession over the next
15 years**

**Uncovered “key findings” and
10 Insights and Directions**



10. On the Horizon

Video



In Most BIG Ethical Dilemmas

- CPAs must make ethical decisions under pressure
- Decisions can come at a personal cost
- Right or wrong is not black and white



How Conscientious Will You Be?

Define the dilemma you are facing

- Gather all the information you need!
- Label the dilemma

Utilize all the resources you need

- *Code of Conduct*, Virginia Regulations/Code, ethics hotlines, colleagues, etc.



How Conscientious Will You Be?

Brainstorm

- What are all the alternative answers?

Challenge your Perspectives

- What would you want to say you decided on your deathbed?
- What would you want to present as a case study to fellow CPAs?



Decide and

ACT



**“It’s not who you
are underneath ...**



Remember Our Warm-up?

Who is affected by the ethical decisions and actions we make as CPAs?



In Most Big Ethical Decisions

You have:

- The opportunity to learn more about yourself
- The opportunity to grow
- The opportunity to be a ...

LEADER



Closing Reminders

Ensure your license is up to date at boa.virginia.gov

Reference pages 6-7 of the participant manual to contact the appropriate organization if you have further questions

Check for new updates at townhall.virginia.gov

Complete the evaluation that will be emailed to you shortly. We appreciate all feedback!

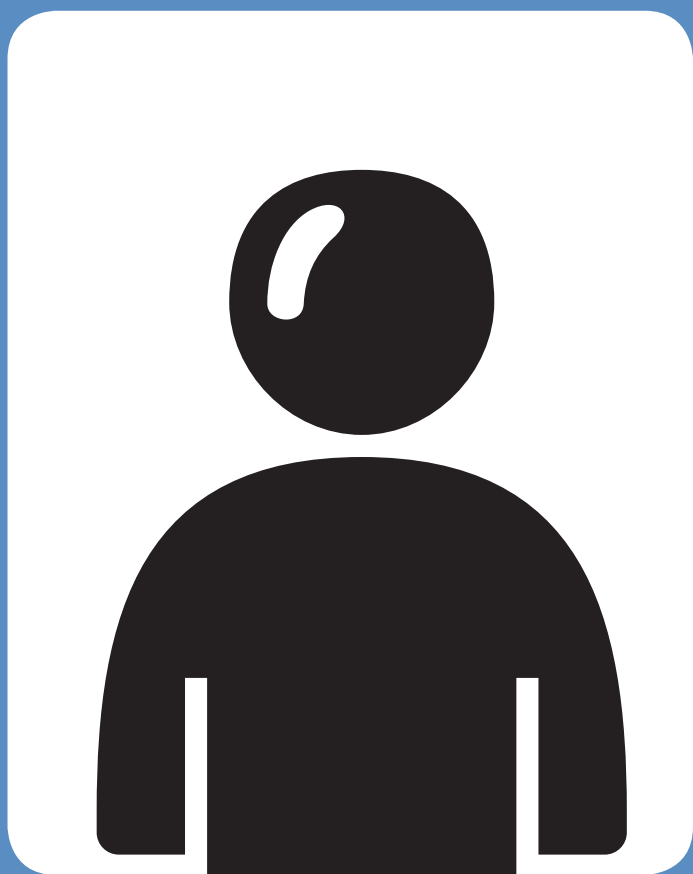


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Accountants



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