

Ethics 2013 — Your License Depends on It!



Virginia Society of
Certified Public
Accountants



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Certified Public
Accountants**

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Student Manual With Leader's Guide

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Disclaimer

This training has been created to help you meet the Virginia Board of Accountancy's (VBOA) annual 2-hour CPE requirement for 2013. 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/2013VBOAEthicsOutline>, and this class has been designed to meet the objectives of the 2013 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.

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.

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About This Course

Why Take an Ethics Class?

Accountants Behaving Badly

In 2003, as a response to the steady uptick of audit failures occurring around the dawn of the new millennium and the far-reaching impact of those failures upon society (think Waste Management, Inc., Xerox, One.Tel, Adelphia, Freddie Mac, Halliburton, Tyco, WorldCom and, of course, Enron), the Virginia General Assembly instituted an annual ethics requirement for all Virginia CPAs. The Virginia Board of Accountancy (VBOA) is empowered to standardize the topics of discussion, and provides an annual outline to that end. This course complies with the VBOA outline, thus satisfying the annual CPE requirement.

In addition, this class *may* qualify for 2 CPE hours of ethics for CPAs licensed in other states, including:

- Maryland and Washington, D.C., CPAs, who have a biennial ethics requirement
- North Carolina non-resident certificate holders
- For other states, please refer to your state's specific regulations.

Ignorantia Juris Non Excusat

"Ignorance of the law does not excuse." This maxim is applicable to civil as well as criminal jurisprudence in the United States. Hence, this course undertakes to expose participants to recent changes and additions to regulations and ethical guidelines pertinent to Virginia CPAs. (In other words, how can you keep from stepping in it if you don't know it's there?) However, the course is not intended to provide an in-depth review of those topics. The participant is obligated to undertake further study as he or she deems appropriate. (In other words, the participant must decide if he or she needs to equip with Wellingtons or waders.)

Practice Makes Perfect

The nebulous concept of ethics warrants deliberate reflection. A common reflexive response to an unexpected ethical dilemma is something akin to a "deer in the headlights." Through practical application using case study and discussion, this course attempts to mitigate such visceral reactions.



Protect the Value of the CPA Credential

CPAs aspire to be viewed not simply as bean-counters, but also as trusted advisers. As the economy struggles, fraud escalates. Within this climate, CPAs may work to become a primary source of trust, the ethical standard-bearer, the guardian of integrity and, consequently, the **preeminent trusted adviser**. The Gallup poll below (from December 2011) evaluating honesty and ethical standards saw accountants continue to improve from a 2002 low of 32 percent (very high/high) rating.

The information provided and scenarios presented are not intended to be official positions of the VBOA, American Institute of CPAs (AICPA), U.S. Internal Revenue Service (IRS), International Ethics Standards Board for Accountants (IESBA) or other standard-setting bodies. For specific advice or clarification, please research the applicable standards or seek advice from the appropriate governing/regulating organization.

*Please tell me how you would rate the honesty and ethical standards of people in these different fields — very high (VH), high (H), average (Avg.), low (L), or very low (VL)?**

	% VH/H	% Avg.	% VL/L
Nurses	84	15	1
Pharmacists	73	23	4
Medical doctors	70	23	6
High school teachers	62	29	8
Accountants	43	49	7
Bankers	25	48	26
Lawyers	19	43	37
Car salespeople	7	44	47
Members of Congress	7	27	62

Gallup, Nov. 28 – Dec. 1, 2011

* Some entries have been removed.

Resources

Publications (Professional Ethics)

Code of Virginia

Title 54.1 Professions and Occupations; Chapter 44 — Public Accountants: <http://tinyurl.com/6f9ucox>

Virginia Board of Accountancy 2013 ethics outline: <http://tinyurl.com/bpotajh>

AICPA Code of Professional Conduct

In standard form: <http://tinyurl.com/2cyfzcx>

In topical (indexed) form: <http://tinyurl.com/4p64my2>

Organizations

Virginia Board of Accountancy (VBOA)

www.boa.virginia.gov

Email: boa@boa.virginia.gov

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

CPA Examination Services: (804) 367-1111

townhall.virginia.gov (source for all regulatory updates from state of Virginia, not just VBOA)

Virginia Society of CPAs

www.vscpa.com

CPE Hotline: (800) 341-8189

Other Regulatory Organizations

You, as a licensed CPA, 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 in Virginia shall follow the standards and any interpretive guidance issued by the following bodies:

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

American Institute of CPAs (AICPA)

www.aicpa.org

AICPA hotline: (888) 777-7077

Email: ethics@aicpa.org

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

www.fasab.gov

(202) 512-7350

Financial Accounting Foundation (FAF)

www.accountingfoundation.org

Financial Accounting Standards Board (FASB)

www.fasb.org

(203) 847-0700

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

U.S. Government Accountability Office (GAO)

www.gao.gov

(202) 512-3000

The Comptroller General of the United States is the Director of the GAO.

Governmental Accounting Standards Board (GASB)

www.gasb.org

(203) 847-0700

Public Company Accounting Oversight Board (PCAOB)

www.pcaobus.org

(202) 207-9100

Independence and Ethics Rules and Standards (including AICPA Code of Professional Conduct references):

<http://tinyurl.com/cxwr417>

U.S. Securities and Exchange Commission (SEC)

www.sec.gov

(888) SEC-6585

Regulatory Guidance and Resources

When you are uncertain, get help. Why risk your career?

AICPA Technical Hotline

<http://www.aicpa.org/Research/TechnicalHotline/Pages/TechnicalHotline.aspx>

(877) 242-7212

AICPA Ethics Hotline

The AICPA Ethics Hotline provides nonauthoritative guidance to members on questions related to ethics, including independence. Each year, staff members respond to more than 4,000 inquiries. The Ethics Hotline is open from 9 a.m. to 5 p.m. EST on weekdays. A staff member can be reached via email at ethics@aicpa.org or via phone at (888) 777-7077, option 6, followed by option 1.

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

Glossary of Terms

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

Assurance means any form of expressed or implied opinion or conclusion about the conformity of a financial statement with any recognition, measurement, presentation or disclosure principles for financial statements.

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

Compilation services means compiling financial statements in accordance with standards established by the AICPA or by any successor standard-setting authorities.

Financial statement means a presentation of *historical or prospective* information about one or more persons or entities.

Financial reporting framework (FRF) are the standards used to measure, recognize, present and disclose all material items within an entity's financial statements. Examples include U.S. Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS), and special purpose frameworks (formerly OCBOA). (*AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*)

Financial Reporting Framework for Small-and-Medium-sized Entities (FRF-SME) is a principle-based special purpose framework for preparing financial statements of privately held small- to medium-sized entities. It was developed under the guidance of the AICPA *FRF for SMEs* task force and is therefore nonauthoritative. (*AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*)

Licensee means 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 means 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. (per www.cpamobility.org)

Owner-managed entities are closely held companies run by the individuals who own a controlling ownership interest; a stark contrast to public companies, which by definition have an obvious separation between ownership and the management. (*AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*)

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

Practice of public accounting means 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 means 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. (5 and 6 only 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 means 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.

Small- and medium-sized entities (SMEs). There is no standard definition in the United States or under the AICPA. (AICPA's *Financial Reporting Framework for Small- and Medium-sized Entities FAQ*)

Special purpose framework is a financial reporting framework for use in those situations where GAAP may not be required. Examples include tax and modified cash bases. The former term, OCBOA, was replaced with this term under SAS No. 122 section 800, effective December 15, 2012. (AICPA's *Financial Reporting Framework for Small- and Medium-sized Entities FAQ*)

Substantial equivalency means that 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 means 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
- **AU-C** — Temporary section identifier (instead of "AU") to avoid confusion with references to "AU" sections. The AU-C identifier will become simply AU in 2014, at which time the audit documentation section of the codification will become fully effective for all engagements.
- **IQEX** — International Qualification Examination
- **ET** — Ethics (topical index of the AICPA Professional Code of Conduct)
- **FAF** — Financial Accounting Foundation
- **FRF** — Financial reporting framework
- **GAO** — U.S. Government Accountability Office
- **IESBA** — International Ethics Standards Board for Accountants (independent standard-setting organization within IFAC)
- **IFAC** — International Federation of Accountants (established in 1977 to strength worldwide accountancy profession)
- **IQAB** — International Qualification Appraisal Board (a joint body of AICPA and NASBA)
- **IRC** — U.S. Internal Revenue Code
- **IRS** — U.S. 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
- **NASBA** — National Association of State Boards of Accountancy
- **OCBOA** — Other Comprehensive Basis of Accounting (now referred to as: special purpose framework)
- **PCAOB** — Public Company Accounting Oversight Board
- **PCC** — Private Company Council. After years of discussion, studies and committees, the Financial Accounting Foundation (FAF) established the PCC, a new body to improve the process of setting accounting standards for private companies.
- **PEEC** — Professional Ethics Executive Committee (of the AICPA)
- **PIOB** — Public Interest Oversight Board
- **PTIN** — Preparer Tax Identification Number
- **SME** — Small- and Medium-sized Entities
- **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 2013 Outline

A. VBOA Fee Changes – Required discussion and handouts.

- New Fee Schedule – Effective January 1, 2013
- Q&A with the VSCPA

B. Enforcement Cases – Required discussion and handout.

- Trends
- Disciplinary actions

C. AICPA Professional Ethics Executive Committee (PEEC) Update

- [Proposed Revised and New Interpretations and Proposed Deletions of Ethics Rulings](#)

AICPA Accounting & Review Services Committee (ARSC) Update

- Note: At the time this outline was developed, the AICPA had published an Exposure Draft entitled: *Proposed Statements on Standards for Accounting and Review Services Association With Unaudited Financial Statements; Compilation of Financial Statements; and Compilation of Financial Statements-Special Considerations*. In January 2013 the ARSC voted to withdraw its [compilation and association exposure draft](#) in response to comment letters from stakeholders. The ARSC immediately began work on a proposal that will respond to these major concerns. A new Exposure Draft is expected to be issued in the late spring or early summer. Sponsors of the 2013 Virginia-specific Ethics Course should check back periodically to determine the current status of this AICPA Exposure Draft.

D. Documentation

- To include organization, workflow, retention (electronic)
- [AU-C Section 230](#)
- PRP Sections [4300](#) & [4400](#) Quality Control Policies & Procedures
- [SSARS No. 19](#)
- [SSAE No. 11](#)
- IRS Circular 230
- Sample links:
 - [Auditing Standard No. 3](#)
 - PCAOB [Case Study](#)

Virginia-Specific Ethics Course 2013 Outline

E. Virginia's Top 10 Issues for 2013 *

1. Ownership of Information** - Who owns the information involved in a professional service affects the rights and responsibilities of those involved. It affects confidentiality issues, workpaper ownership and availability, the use of data for research and statistical analysis, oral assurance, and other issues. This affects CPAs in practice, industry, government and academe.
 - [Code of Professional Conduct - 501-1 – Records](#)
 - Tax Advisor Articles – Textron case, etc – April 2009, October 2009, May 2010 - Supreme Court Declines to Hear Textron Work Product Privilege Case
2. VBOA Requirements for Licensure/Renewal
 - [Initial License – Individual](#)
 - [Initial License – Firm](#)
 - [Renew License – Individual](#)
 - [Renew License - Firm](#)
3. CPE Reporting Requirements
 - [Board Regulation 18VAC5-22-40](#)
 - [Board Regulation 18VAC5-22-90](#)
 - [Board Regulation 18VAC5-22-140](#)
 - [Summary](#)
4. Behavioral Ethics
 - Example: [Kohlberg's Stages of Moral Development](#)
5. Enforcement FAQs
 - [Use of CPA Title in Virginia](#)
 - [General FAQs](#)
6. VBOA Social Media
 - Access/sign up from [home page](#)
 - Twitter
 - LinkedIn
 - Facebook
7. [Board Policies](#)
8. International Ethics Convergence
 - [Accounting WEB article - 8/28/09](#)
 - [AICPA article - 5/08](#)
 - [Journal of Accountancy article – 10/10](#)

Virginia-Specific Ethics Course 2013 Outline

9. Fiduciary Responsibilities
 - AICPA Practice Guide (attached)
 - [AICPA/fi360 Publishes Handbook for Investment Advisors](#)
 - [AICPA Fiduciary Responsibility Fact Sheet](#) (Available to AICPA members only)
 - [AICPA Fiduciary Standard of Care](#)
 - [Fiduciary Responsibilities for CPAs in Industry](#) (Available to AICPA members only)

10. AICPA vs. Private Company Council - "Method of Accounting"
 - [AICPA's Financial Reporting Framework for Small- and Medium-sized Entities - FAQs](#)
 - [AICPA's Exposure Draft – Proposed Financial Reporting for Small- and Medium sized Entities](#)
 - [Private Company Financial Reporting - FAQs](#)

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/Course Instructors:

Notes: 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.

* Virginia's Top 10 Issues for 2013 - Awareness of Regulatory Issues Relative to Virginia CPAs. Provider/Instructor may use discretion as to topic selection from the provided list. Practical situations, potential solutions and examples must be included and illustrated with short scenarios or simulations. Course content (topic selections) should be tailored to best suit the audience (private and/or public practice).

Virginia-Specific Ethics Course 2013 Outline

****Ownership of Information – Discussion of this topic should also include confidentiality issues, rule 301 of the Code of Conduct.**

Discussion Topics/ Examples:

- A CPA is asked to provide client data (without identification of the client) for academic or other third-party research or analysis – can he?
- A CPA in industry moves to another employer. What information can he take with him for use there (i.e., client lists, accounting methods, calculations, or records)?
- An auditor applying analytical procedures on a client would like to compare ratios to those of another client in the same industry, can he?
- A CPA is the auditor for two companies that do business with each other. Can he/should he look at the records of one to provide evidence on the audit of the other?
- A banker calls the CPA and asks questions regarding the financial statement he compiled. Can he provide information orally? Can he provide assurance to its accuracy?

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.virginia.gov).

Slide: Cover Title Slide

Welcome to Ethics 2012 — Your License Depends on It! This course is based on the outline created by the Virginia Board of Accountancy, meaning it will fulfill your annual ethics requirement for 2013.

That outline is found on page 10 in your Participant Manual.

Slides 2–3: Why Take an Ethics Class?

Accountants behaving badly:

Increase in audit failures (think Waste Management, Inc., Adelphia, WorldCom and, of course, Enron)

Response: Sarbanes-Oxley Act (federal), annual ethics CPE requirement (Virginia)

Ignorance of the law does not excuse:

In other words, just because you don't know an action violated ethical or legal guidelines, you can still be punished for it.

This course aims to help you keep up with changes to those guidelines.

Practice makes perfect:

Ethical behavior requires deliberate reflection. This course attempts to mitigate visceral responses to unexpected ethical dilemmas.

Protect the value of the CPA profession:

As CPAs, we want the public to see us as trusted advisors. It's up to us to earn and justify that trust.

Slide 4: Ethics Warm-Up

We'll start with a series of short warm-up questions and exercises to get you thinking about ethics.

NOTE: Questions are in the Participant Manual (next page) for them to fill out.

Ethics Warm-Up

“
There’s one way to find out if a man is honest — ask him. If he says, ‘yes,’ he is a crook.
— Groucho Marx

1. You are a partner in your CPA firm, and one of your audit clients offers you box seats to a basketball game. Do you accept the tickets?
2. A large potential client asks you about one of his competitor’s reputations. One of your other clients had a very bad experience with this competitor. What information do you share with the prospective client?
3. Your daughter calls you at the office in a panic. She needs a folder and some paper clips for her school project that is due the next day. It’s late, and you’re tired. Do you take those supplies from the office supply closet?
4. You were recently chosen by your partners to serve two years as managing partner. Your firm outsources all large printing projects. Your brother owns a print shop. Do you hire him to handle your firm’s work?

Slide 7: Ownership of Information

There are exceptions to the last bullet: Unpaid fees, incomplete work product, to comply with professional standards or threatened or outstanding litigation concerning the engagement.

Compliance is required only once under most circumstances. The practitioner may charge for time and expense to supply requested records, make and retain copies of items returned to client and provide records in any usable format.

If client requests a specific format which is available, practitioner must comply. Practitioner should comply with requests within 45 days, regardless of any liens on such records.

Slide 8: VBOA Licensure Requirements

Caveat to firm bullet: Firms that provide attest or compilation services must hold a firm license. However, that license does not have to be a Virginia license if the firm's principal place of business is outside Virginia and certain other conditions are met.

Application requirements can be found in your Participant Manual and on the VBOA website.

Slide 9: CPE Reporting Requirements

The VBOA determines the CPE validity of educational offerings and gives credit for presenters at conferences.

CPAs who provide attest and compilation services must take 8 hours of attest or compilation CPE each year (part of, not in addition to, 120-hour requirement).

Slide 10: Behavioral Ethics

Ethics is about right and wrong. Business Ethics is about right and wrong or appropriate behavior in business.

Ethical Dilemma? A problem situation exists when you must make a choice among alternative actions and the right choice is not absolutely clear.

An ethical problem exists when the choice affects the well-being of others. Who are the others to be considered? The individual faced with the ethical dilemma must identify the "stakeholders."

Who are the stakeholders? Anyone who is affected by or can affect the objectives of the organization.

When solving an ethical problem, the decision maker is often faced with the choice of "should" vs. "want."

Slide 11: Behavioral Ethics

Pressure: "I need to hit my monthly targets."

Opportunity: "Nobody checks, so I won't get caught."

Rationalization: "Everyone is doing it."

The easiest element for a company to address is opportunity. Companies can address this by establishing effective internal controls.

Do effective internal controls include work culture? In other words, does the culture of the work environment have an impact on your view toward misconduct?

Studies show that work culture and "tone at the top" has a profound impact on behavior. If management behaves unethically, the work staff generally adopts the view that such behavior is acceptable.

Slide 12: Behavioral Ethics

This video and the next one deal with studies conducted by Dan Ariely, a professor of behavioral economics at Duke University's Fuqua School of Business

Slide 13: Behavioral Ethics

Here's another study from Dan Ariely.

Slide 14: Behavioral Ethics

Preconventional morality: Usually applies to young children

Two stages in this level:

Obey the rules and get a reward, disobey and be punished

“What’s in it for me?” mentality — the best choice is the one that promotes the child’s self-interest

Conventional morality: Usually applies through adolescence

Two stages in this level:

Desire to be viewed as “good boy” or “good girl” — acceptance in society is vital and rules are rarely questioned

Desire for orderly society, with emphasis on respect for authority and performing one’s “duties”

Postconventional morality: Usually applies to adults

Two stages in this level:

Focus on creating a “good” society — laws should promote the best for the most

Independent thought juxtaposed with personal belief system becomes moral guide — can result in civil disobedience

Slide 17: VBOA Policies

Trust account: Any operating funds in excess of three months of operating budget are transferred to trust account

CPE sponsors: The VBOA does not maintain agreements with or pre-qualify CPE sponsors

Substantially equivalent jurisdictions: VBOA generally accepts as substantially equivalent those jurisdictions approved as meeting Uniform Accountancy Act (UAA) requirements

CPE guidelines:

Publication of disciplinary action: We’ll cover that in a moment

CPA and IQEX: Uniform CPA Examination is the only acceptable examination for Virginia CPA licensure, and IQEX is the only acceptable international examination. The VBOA approves of the AICPA’s grading method on both exams.

Peer Review Oversight Committee: VBOA established PROC to ensure organizations administering peer reviews are doing so in accordance with AICPA standards.

Slide 19: New VBOA Policies

The VBOA publishes this information when:

It takes disciplinary action resulting in suspensions or revocations

Other professional violations

CPE credit-hour deficiencies (only in the event of a previous violation)

Slide 20: International Ethics Convergence

Other differences:

IESBA Code provides unique guidance for accountants in different fields, AICPA applies same code to all accountants

The IESBA Code uses the conceptual framework to evaluate ethical conduct, while the AICPA Code only requires members to use such an approach when rules do not address the situation

The IESBA Code covers independence matters not covered by the AICPA Code

As member body of IFAC, AICPA agrees to make its ethics standards no less stringent than IESBA standards

Slide 21: Fiduciary Responsibilities

Examples of traditional fiduciary roles include:

Officer of a corporation

Member of a board of directors

Trustee of a legal trust

Executor of an estate

Slide 23: Fiduciary Responsibilities

Significant remedies are available for breach of fiduciary duty, including returning fees and profits and revocation of fiduciary role. Proof of claimant financial loss is NOT required.

Virginia's Top 10 Issues for 2013

1. Ownership of Information

Who owns the information involved in a professional service affects the rights and responsibilities of those involved. It affects confidentiality issues, workpaper ownership and availability, the use of data for research and statistical analysis, oral assurance, and other issues. This affects CPAs in practice, industry, government and academia.

Interpretations Under Rule 501 — Acts Discreditable .02 501-1 — Response to Requests by Clients and Former Clients for Records

This rule is applicable to former and current clients. **Client-provided records** should be returned to the client upon request. **Practitioner-prepared records** to a completed and issued work product should be provided to the client upon request, *except* if there are fees due for that work product. **Practitioner's work products** should be provided to the client, *except* under the following circumstances:

- Unpaid fees
- Work product is incomplete
- To comply with professional standards (i.e. withhold an audit report due to outstanding audit issues)
- Threatened or outstanding litigation concerning the engagement or associated work product

Compliance is required only once, *except* in cases when the client's loss of records is due to natural disaster or an act of war. The **practitioner's working papers** need **not** be provided upon client request (unless so required under state and federal statutes or contractual agreements).

Upon fulfilling a client request, the practitioner may:

- Charge for time and expense to supply requested records
- Make and retain copies of items returned to client
- Provide records in any usable format

However, if the client requests a specific format which is available, the practitioner must comply. The practitioner should comply with such requests within 45 days. A lien on such records, permissible under some state statutes, does not relieve the practitioner from obligation to comply.

Issues of Federal Law Under This Requirement

In some instances, the practitioner may fall under the umbrella of the attorney-client privilege. The U.S. Supreme Court extended the attorney-client privilege to the work product of an attorney known as *work-product doctrine* (later codified in Federal Rules of Civil Procedure). The purpose is to prevent a litigant from taking advantage of the opposing lawyer's reasoning and thinking. However, it is only applicable when litigation has neither begun nor is imminent

(but rather was considered remotely possible when the work was produced).

In some circumstances, the privilege extends to the attorney's agents (including accountants). The primary issue surrounding this doctrine is in what circumstances the doctrine is applicable.

During an IRS audit of Textron, a major aerospace and defense company, the IRS issued an administrative summons for their tax accrual work papers. Textron refused, arguing in district court that the tax accrual work papers (prepared by attorneys and CPAs working for Textron) were protected under the *work-product privilege*, since the accrual work papers were necessary to prepare only because of potential litigation, not imminent litigation. The IRS argued the privilege did not apply because the documents were required under financial reporting rules, not anticipated litigation.

The district court held that the privilege applied, finding that the "driving force" for document preparation was the need to reserve funds in anticipation of IRS disputes (i.e. litigation). Upon appeal to the First Circuit, a three-judge panel of the court affirmed the district court decision, reasoning that there would be no need for workpapers which analyze potential litigation if there was no chance of litigation.

The IRS petitioned the First Circuit to hear the case *en banc*. The full court reversed the district court and held that the work-product privilege **did not** apply. Upon review of the facts, the full court found that the creation of the workpapers was primarily for financial reporting purposes and were therefore prepared in the ordinary course of business, and would not be of practical use in litigation. Textron's writ of certiorari to the Supreme Court was denied.

Issues of Confidentiality Under This Requirement (ET Section 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 does not affect any obligation to comply with applicable laws and government regulations.

In one intriguing example of an accountant running afoul of this requirement, Guy Enright, an accountant with KPMG in Bermuda, was approached by "Nick Hamilton," a British intelligence officer who asked him to deposit confidential audit documents at drop sites around the country as part of "Project Yucca."

Unfortunately for Enright, KPMG and the client in question, IPOC International Growth Fund, "Nick Hamilton" was



actually Nick Day, a co-founder of Diligence Inc., a private intelligence firm that was gathering information for one of IPOC's competitors.

The scam was an elaborate one. "Hamilton" put Enright through a detailed background check that included faked government documents before he could participate in "Project Yucca." The project came to an abrupt end when an unknown party dropped off a package of Diligence business records and emails about the project at a KPMG office. KPMG sued Diligence, which paid \$1.7 million in damages.

Intent doesn't matter, either. Donna Murdoch used a dating website for extramarital relationships to find prominent married bankers. She used her relationships with those

bankers to glean insider stock tips, which she used to turn a tidy \$390,000 profit.

Murdoch initially lied to federal investigators, but eventually decided to come clean and become a cooperating witness. She testified for four days against Ernst & Young partner James Gansman, CPA, one of the men she met online. Gansman, who was unaware that any trading was taking place and made no money from the transactions, was sentenced to one year and one day in prison. Investment banker Richard Hansen, who also made trades based on Murdoch's information, pleaded guilty and was sentenced to three months in jail. Murdoch was spared prison time in exchange for her testimony against Gansman and another paramour.

Resources

ET Section 501 — Acts Discreditable: <http://tinyurl.com/a6ah8aa>

ET Section 301 — Confidential Client Information: <http://tinyurl.com/ajwf3vp>

Accountant Workpaper Privilege Upheld by First Circuit, Nevius, Alistair, *Tax Adviser*, April 2009, Vol. 40, Issue 4, p. 194.

Tax Accrual Workpapers Not Protected by Work-Product Privilege, Beavers, James, *Tax Adviser*, October 2009, Vol. 40, Issue 10, p. 723–724.

Supreme Court Declines to Hear *Textron* Work Product Privilege Case, *Journal of Accountancy*, Web, May 24, 2010: <http://tinyurl.com/24ptoso>

How might you resolve each of the following dilemmas?

A CPA is asked to provide client data (without identification of the client) for academic or other third-party research or analysis. Is that allowed?

A CPA in industry moves to another employer. What information can he or she take with him or her for use there (i.e., client lists, accounting methods, calculations or records)?

An auditor applying analytical procedures on a client would like to compare ratios to those of another client in the same industry. Is that allowed?

A CPA is the auditor for two companies that do business with each other. Can he (or should he) look at the records of one to provide evidence on the audit of the other?

A banker calls the CPA and asks questions regarding the financial statement he compiled. Can he provide information orally? Can he provide assurance to its accuracy?

Case Study No. 1: Playing Hardball

A CPA prepares an individual tax return for a client. Upon completion of the tax return, the client has not paid the fees in full for the preparation of that return, yet has requested to receive the return from the CPA.

May the CPA withhold the tax return until such payment has been received?

Case Study No. 2: That's Personal

You're employed by a corporation whose fiscal year end coincides with the deadline for personal income tax filing. Since you're always so busy working on your company's finances, you've failed to file your own personal income tax returns for the last two years. You figure it's no big deal since you're not in public practice. You'll get to it eventually.

Does your failure to file your individual tax return constitute an ethics violation?

Case Study No. 3: Unfriendly Competition

A CPA works for a manufacturing company as a senior financial analyst. The CPA resigns from the company and is subsequently hired by that company's main competitor.

Can the CPA disclose to the new employer what his former employer's profit margins were on products?

Case Study No. 4: Quick Turnaround

A CPA firm has acquired a new client. The client's financial records were prepared by the predecessor CPA firm in QuickBooks.

Is the predecessor CPA firm required to provide, upon the client's request, the client's records in a QuickBooks data file to the client?

Below are official answers to cases 1 and 4, which are excerpted from "Ethics IQ quiz," *Journal of Accountancy*, October 2012. The quiz can be found at <http://tinyurl.com/9kh9u5b>.

Case Study No. 1. **Yes.** Interpretation 501–1, Response to Requests by Clients and Former Clients for Records, states that a member may withhold his or her work product, such as a tax return, if the client has not paid the fees for preparing the specific work product. The member may withhold only work products for which fees are owed. However, it should be noted that the member must also comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory body. For example, certain state boards of accountancy do not permit a member to withhold certain records notwithstanding fees due to the member for the work performed. If the member's state board's rules are more restrictive than the code, the member must comply with the state board's rules.

Case Study No. 4. **Yes.** Interpretation 501–1, Response to Requests by Clients and Former Clients for Records, states that if the client requests records in a specific format and the records are available in such format within the member's custody and control, the client's request should be honored. However, the member is not required to provide the client with underlying formulas unless the formulas support the client's underlying accounting or other records, or the member was engaged to provide such formulas as part of a completed work product.

2. VBOA Requirements for Licensure/Renewal

Initial License — Individual

An individual must hold a Virginia CPA license if providing services to the public using the CPA title and his or her principal place of business is in Virginia.

To obtain an initial CPA License in Virginia, a candidate must:

- Pass all four parts of the Uniform CPA Examination within an 18-month period
- Complete a one-time AICPA professional ethics course
- Apply for a license via the VBOA website. An application requires supporting documentation of the following:
 - Education
 - Experience qualifications
 - CPE (to include the annual Virginia-specific ethics course)
 - Additional hours of CPE required under the following conditions:
 - Application was not made by the end of the first calendar-year following the calendar year of passing the CPA Exam: 40 hours
 - Application was not made by the end of the second calendar year following the calendar year of passing the CPA Exam: 80 hours
 - Application was not made by the end of the third calendar year following the calendar year of passing the CPA Exam: 120 hours
- If the applicant passed the CPA Exam in another state, he or she must **also** have his or her CPA Exam scores transferred to the VBOA.

Initial License — Firm

A firm must hold a firm license in Virginia if it provides attest or compilation services to persons or entities located in Virginia. If the firm's principal place of business is in Virginia, it **must** hold a Virginia firm CPA license. Firms with a principal place of business outside of Virginia that perform attest or compilation services to persons or entities located in Virginia must also have Virginia firm CPA licenses, except in the following circumstances:

- The individual providing the attest or compilation services has a Virginia individual CPA license or meets the substantial equivalency requirements, or
- The individual is under the supervision of a CPA with a Virginia individual CPA license, or a licensee who meets the substantial equivalency requirements

To qualify for a firm license in Virginia, at least 51 percent

of the owners (with voting equity interest) must be CPA licensees (or trustees of an eligible employee stock ownership plan). Non-licensed owners must undertake regular, continuous and substantial participation in firm activities. The firm also must:

- Assure that an individual who supervises firm personnel for attest or compilation services or has authority for the release of reports for those services must be either a Virginia CPA licensee or substantially equivalent
- Assure that an individual with authority to release attest or compilation reports must annually obtain 8 hours of CPE related to attest or compilation services
- Establish policies and procedures to provide the firm with reasonable assurance that persons authorized to release (includes self-authorization) attest or compilation services reports are competent, as appropriate, to include at least:
 - Technical proficiency
 - Familiarity with the industry and the person or entity, and
 - Sound professional judgment
- Assure that attest and compilation services are conducted in accordance with applicable standards under the Code of Virginia's and Board Regulations
- Be enrolled in a Board-approved monitoring program
- Not use a false, misleading or deceptive firm name
- Provide a copy of the firms' certification of incorporation upon applying for licensure (sole proprietors exempt from this requirement)

Renew License — Individual

Individual CPA licenses must be renewed annually. The license expires on last day of the month in which it was initially issued. Licensees can check the date of expiration on the VBOA website using "Licensee Search." Licenses must be renewed within 40 days of expiration.

The VBOA transmits renewal notices electronically 30 days prior to expiration. Notices are sent via the U.S. Postal Service (USPS) in cases where licensee is unable to communicate electronically. A second notice is sent 60 days after expiration. Regardless of reminder notices, the responsibility of the license renewal rests solely with the licensee. (*§ 54.1-4413.2 of the Code of Virginia*)

The VBOA grants a 12-month grace period after license expiration for the licensee to renew his or her license, during which time the license status will be flagged as a late renewal. The individual is deemed to be holding a Virginia license during this period. If not renewed by the close of this additional 12-month period, the license is deemed "Expired," and reinstatement would be required to

be licensed.

Late fees apply upon reinstatement, and use of the CPA title when individual's status is "Expired" is prohibited. Renewal requires affirmation of meeting CPE requirements.

The VBOA does not authorize a retired/inactive CPA status. A licensee must continue to renew or voluntarily surrender the CPA license. If license is not renewed, use of the CPA title in Virginia is not permitted. If the licensee voluntarily surrenders his or her license, he or she must contact VBOA to avoid "Expired" status. A voluntarily surrendered license may be reinstated at a later date if the individual chooses to provide services, but CPE "catch-up" will be required prior to reinstatement. CPAs not providing services to the public or to an employer may continue to renew their licenses without obtaining CPE.

Renew License — Firm

Firm licenses must be renewed annually. The license expires on last day of the month in which it was initially issued. Firms can check the date of expiration on the VBOA website using "Licensee Search." Licenses must be renewed within 40 days of expiration.

The VBOA transmits renewal notices electronically 30 days prior to expiration. Notices are sent via the U.S. Postal Service (USPS) in cases where the licensee is unable to communicate electronically. A second notice is sent 60 days after expiration. Regardless of reminder notices, the responsibility of the license renewal rests solely with the licensee. (§ 54.1-4413.2)

The VBOA grants a 12-month grace period after license expiration for the firm to renew its license, during which time the license status will be flagged as a late renewal. The firm is deemed to be holding a Virginia license during this period. If not renewed by the close of this additional 12-month period, the license is deemed "Expired," and reinstatement would be required to be licensed.

Late fees apply upon reinstatement. A firm's CPA license must be maintained in order to continue to provide attest or compilation services. If a firm elects to voluntarily surrender its license, the license will be deemed "Expired." A voluntarily surrendered license may be reinstated at a later date if the firm chooses to provide attest or compilation services.



3. CPE Reporting Requirements

Determining whether a person who holds a Virginia license is providing services to the public using the CPA title or to an employer using the CPA title. (18VAC5-22-40)

If the individual holds a Virginia license, then he or she is using the CPA title because he or she is represented as such on the VBOA website. Accordingly, such an individual:

- Is providing services to the public (using the CPA title) if the individual provides services subject to standard-setting authorities (as specified in the Code of Virginia)
- Is providing services to an employer (using CPA) if the services provided require substantial use of accounting, financial, tax or comparable skills

If you meet the preceding determination, you are required to obtain CPE as follows (18VAC5-22-90):

A CPA who **provides services to the public** must accrue 120 hours of CPE during the three-calendar-year period ending with the current calendar year. A minimum of 20 hours must be earned each year, and two of those hours must be earned for the ethics course you're taking right now, or a similar course that satisfies VBOA requirements.

A CPA who **provides services to his or her employer** must meet the same requirements as a CPA who provides services to the public.

Requirements differ for **new licensees** depending on when they were licensed:

- A CPA who obtained his or her license in the current year is deemed to have complied with the three-year requirements

- A CPA who obtained his or her license in the preceding year must complete at least the minimum required hours for the current year, including the ethics requirement
- A CPA who obtained his or her license in the year prior to the preceding year must complete at least the minimum required hours for the current year and the preceding year, including the ethics requirement

A CPA who does not provide services to the public or his or her employer is not required to stay current on CPE. However, if and when that CPA begins providing such services, he or she must first meet the three-year, 120-hour requirement.

A first-time applicant for licensure must meet the requirements detailed on the next page.

What Is CPE? (18VAC5-22-90 continued)

The VBOA accepts the following forums for CPE:

- Seminars and educational conferences, provided the instructors have up-to-date knowledge of the subject matter, give out appropriate supplemental materials and verify attendees' presence
- Courses for credit at an accredited institution
- Self-study courses with verification
- Presenting at a professional seminar, education conference or in a classroom, provided the presenter has up-to-date knowledge of the subject matter and gives out appropriate supplemental materials
- Writing materials that are useful for your employer, peers or the public (must be formally reviewed by an independent party and published in a source useful to individuals using the CPA topic)

Continuing Professional Education (CPE) Requirements

Licensure Status	Calendar Year (CY)	Total Hours Required	Minimum Hours Required	Virginia-Specific Ethics (included in total hours)	Providing Attest & Compilation Services
Applying for Initial License					
The candidate has passed the CPA Exam and is applying for licensure	CY of licensure	0	0	N/A	N/A
	First CY after CPA Exam	40	40	2 hours in CY of licensure	N/A
	Second CY after CPA Exam	80	80	2 hours in CY of licensure	N/A
	Third CY (or more) after CPA Exam	120	120	2 hours in CY of licensure	N/A
Licensed					
Licensee provides services to public	Any 3-CY reporting cycle	120 hours in 3-CY reporting cycle	20 hours per CY	2 hours per CY	8 hours per CY (included in total hours)
Licensee provides services to employer, but does NOT provide services to public	CY 2009–CY 2011 (and later) reporting cycle	120 hours in 3-CY reporting cycle	20 hours per CY	2 hours per CY	N/A
Licensee does NOT provide services to the public or to an employer	N/A	N/A	N/A	N/A	N/A
Reinstatement of License					
Candidate submits reinstatement application	Current CY	120 hours in 3-CY reporting cycle	120 hours in 3-CY reporting cycle	2 hours in CY of reinstatement	N/A

This list is not exhaustive — CPAs can earn CPE credit through other venues, but should check with the VBOA to ensure they will receive credit. The VBOA does not restrict CPE to certain sponsors.

How Does CPE Add Up? (18VAC5-22-90 continued)

For presenters, repeat presentations do not count. A CPA can include a maximum of 30 hours of presentation prep time during each three-year period.

For CPAs taking courses at accredited institutions, one semester hour of credit is equivalent to 15 hours of CPE. One quarter-hour of credit is equivalent to 10 CPE hours. For attendees of seminars and conferences, 50 minutes of CPE participation are equivalent to 1 hour of CPE credit.

The VBOA has final discretion in assessing each individual's CPE.

CPAs who provide certain services must sometimes take CPE on specific subject matter. Individuals who authorize the release of reports (including those who authorize themselves) on attest or compilation services must obtain at least 8 hours of attest or compilation service CPE annually. This is part of, not in addition to, the 120-hour requirement.

Firms that provide attest and/or compilation services must be certain that their employees remain up to date on the correct CPE. These firms are required to establish policies and procedures to provide assurance that appropriate levels of competency are attained.

In general, the chart above outlines Virginia's CPE requirements. For more information, consult VBOA Regulations 18VAC5-22 at <http://www.boa.virginia.gov/Docs/Board%20Regulations.pdf> (PDF).

Case Study No. 5: But I'm Not Public

You are a CPA working in industry. Your department consists mostly of accountants who are not CPAs. That being the case, you do not put CPA after your name on your company correspondence for fear of looking pretentious and showy. Your company provides you with the specific training they want you to have regarding their policies and procedures and is not concerned with you obtaining any CPE acceptable to the VBOA. Because you're not providing services to the public and because you're not using the CPA title at work, you feel that you don't need to accrue your 120 hours.

In addition, your employer doesn't care if you obtain your CPE, so why should you? Are you correct?

4. Behavioral Ethics

Will 2 hours annually really make me ethical?

Perhaps the answer to that question depends on how ethics is defined. Please provide your definition of ethics below.

Years ago, sociologist Raymond Baumhart, who is often considered the first individual to teach and study ethics in business, asked some individuals in business, “What does ‘ethics’ mean to you?” Here are some of the responses he received:

“Ethics has to do with what my feelings tell me is right or wrong.”

“Ethics has to do with my religious beliefs.”

“Being ethical is doing what the law requires.”

“Ethics consists of the standards of behavior our society accepts.”

“I don’t know what the word means.”¹

What are the distinctions between ethics and business ethics?

Perhaps your thoughts are something along the lines of, “I’m already ethical. I’m not a member of the mob and I’m never going to pull a Bernie Madoff, or an Andrew Fastow. I don’t wield that kind of power. I’m just a cog. Isn’t this required CPE primarily about making us (the CPA profession) **feel better** about helping to rid our society of the Enron-type debacles?”

It’s true that we typically only hear about the big acts of ethical misconduct, and often those events seem so far removed from our world that they just don’t resonate. When we hear such reports, we are very likely to think two things:

- That individual (who committed the big fraud violation) is a narcissistic thoughtless individual.
- Therefore, that would never happen to me.

Nonetheless, it’s important to consider why such types of violations occur.

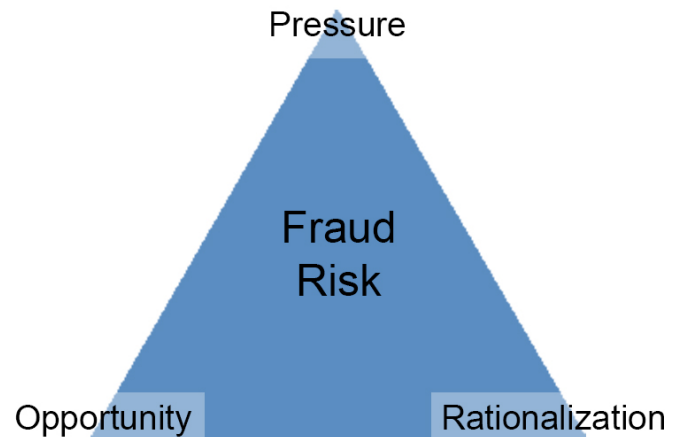
The Fraud Triangle

Fraud experts generally agree that three elements need to coalesce for such a violation to occur:

- Pressure (i.e. “I need to hit my monthly targets.”)
- Opportunity (i.e. “Nobody checks, so there is little risk of being caught.”)
- Rationalization (i.e. “Everyone is doing it.”)

So if these are three elements necessary for an ethical violation to occur, what might you do to prevent it from happening?

“**It’s not personal, Sonny. It’s strictly business.**
— Michael Corleone (Al Pacino), “The Godfather”



Breaking the Fraud Triangle

The easiest element for a company to address is opportunity. A company can address this issue by establishing internal controls.

Do effective internal controls include work culture? In other words, does the culture of the work environment have an impact on your view toward misconduct?

Studies show that work culture and “tone at the top” has a profound impact on behavior. If management behaves unethically, work staff generally adopts the view that such behavior is acceptable.

It is crucial to a company’s success for executives and management to set an ethical example (or tone) of how their employees should behave in the workplace. When those in top positions set an unethical example by committing fraud, their employees will take heed and follow in their bosses’ fraudulent footsteps, creating an entire culture of workplace fraud. When executives put pressure on their employees to meet unrealistic goals to yield profits for the company, they are essentially forcing employees to do whatever it takes to achieve those goals, whether they achieve those goals improperly or not. In their minds, the end justifies the means.

The National Commission on Fraudulent Reporting (called the Treadway Commission) released a groundbreaking study in 1987 that reported the casual factors that lead to fraudulent behavior and financial statement fraud. According to the Commission, the tone at the top plays a crucial and influential role in creating an environment in which fraudulent financial reporting is ripe to take place.

To set the right tone, those in top positions of management

have to follow four very important steps: communicate to employees what is expected of them; lead by example; provide a safe mechanism for reporting violations; and reward integrity.

The Story of a Convicted Criminal: Walt Pavlo

Walt Pavlo is a convicted white-collar criminal who claims that he was pressured by his bosses to commit financial statement fraud at MCI/WorldCom. In January of 2001, Pavlo received a 41-month federal prison sentence for money laundering, wire fraud, and obstruction of justice.

Pavlo was a Senior Manager in Billing Collections at MCI/WorldCom and dealt with customer payments, credits, and reconciliations of accounts. He felt pressure from upper management at MCI/WorldCom to constantly achieve revenue growth in the company. Revenue projections for the company were laid out beforehand for each period, and employees were pressured to meet or exceed these projections.

As Pavlo watched his bosses manipulate the company's financial records, he soon began to manipulate them himself. Soon after, Pavlo's own employees would learn to conduct fraudulent activity under their boss. Pavlo and his supervisors met to devise ideas on how to cook the company's books. Financial records were manipulated by Pavlo, his superiors, and his colleagues in a widespread effort to fraudulently make the company look like it was meeting revenue growth projections, even though it wasn't. Pavlo learned how to conceal uncollectible debt, which boosted the company's assets and profits. Auditors eventually found unusual journal entries made by Pavlo and confronted him about it. It was then that he confessed to his fraudulent behavior.

Similar to many other people who commit white collar crime, Pavlo didn't feel as though he was doing anything wrong in the beginning. He felt that he was doing his job and making his employers happy by altering the company's financial data. In the long run, he incorrectly thought, the problem would remedy itself.

Even a highly educated and experienced employee can become a white collar criminal. Pavlo received an Industrial Engineering degree from West Virginia University and his MBA from the Stetson School of Business at Mercer University in Atlanta, Ga. He left behind his wife and two young sons when he served a two-year prison sentence for his financial crimes.

Do others' violations (outside of our workplace) have any impact on us, even in those cases where the connection seems remote?

Let's consider the results of a study conducted by Behavioral Economist Dan Ariely, the James B. Duke Professor of Behavioral Economics at Duke University's Fuqua School of Business: <http://youtu.be/T4sylvCx3MA?t=21s>

If your work environment does not utilize **good** internal controls, what could you do to protect yourself?

Perhaps you had a difficult time answering this question

because you simply do not cheat. Let's consider another study by Ariely: <http://youtu.be/EDFI9WKVp68?t=29s>

When the internal controls are securely set and enforced, is the risk of fraud mitigated?

According to a KPMG whitepaper from 2006, "fraud" is any intentional act committed to secure an unfair or unlawful gain. According to the Association of Certified Fraud Examiners (ACFE), fraud can lie undetected for as long as two years when perpetuated by managers or executives.

“

In a time of universal deceit, telling the truth is a revolutionary act.

— George Orwell

Pressures can cause individuals to unthinkingly fool themselves, approving behaviors that they would ordinarily denounce when it is in their best interest to do so. In a *New York Times* opinion piece entitled "Stumbling Into Bad Behavior,"² Max Bazerman, professor of business administration at Harvard University, refers to this behavior as "ethical fading." He postulates that there are times when rules and sanctions purposed to discourage bad behaviors can actually have the opposing effect — increase unethical behavior. Unlike the situations where individuals may bend the rules, sometimes they are intentionally broken as a viable option to resolving the dilemma.

Ethical Fading

Ethical fading involves the elimination of the ethical dimension of a decision.

Motivated Blindness

We often are blind to behaviors that don't help us and we too often gravitate to unethical behaviors that help us get what we want.

For more of Bazerman's ethics work, see the book *Blind Spots: Why We Fail to Do What's Right and What to Do About It*, which he co-authored with Ann Tenbrunsel.

Bazerman cites a study³ about the impact of sanctioning systems on the decision-making process. Study participants were to assume the role of manager of a manufacturer within an industry that emits toxic gas. Study participants were told that the pressure from environmentalists led their industry to agree to run costly equipment in order to **limit** the toxic emissions. (The agreement was made to avoid legislation that would require a more costly approach requiring near-**elimination** of all toxic emissions.) Some of the participants were warned that they would face modest financial sanctions if this agreement was violated, while others were told there were no sanctions.



Intuitively, we would expect the threat of sanctions to increase compliance. However, the results of the study showed that those participants faced with a potential fine “cheated” more than those who believed that there was no sanction. The results support the view that a sanctioning system lacking any real bite can change the perception of the situation. According to participant comments, the lack of a penalty created an ethical dilemma, whereas the presence of a penalty changed the decision-making process to a simple cost-benefit analysis.

In another study⁴ co-conducted by Bazerman, participants were asked to estimate the value of a fictitious company. Participants were assigned the role of buyer, seller, buyer’s auditor or seller’s auditor. Each participant was given the same information. As one might expect, the sellers provided higher estimates than those of the buyers. Interestingly, the auditors also showed a strong bias favoring the interest of their respective clients. The results indicated that the auditors incorporated the given information into the decision-making process in a biased way, as opposed to a conscious decision to exercise favoritism. (This study yielded similar results when replicated using auditors from one of the Big Four accounting firms.)

In the world of accounting, this lack of objectivity is often addressed by requiring increased transparency through conflict of interest disclosures. According to some studies, this may actually create a greater potential for unethical behavior. Individuals often feel that objectivity is not required once the conflict has been disclosed. Additionally, those relying on such disclosure may have a false sense of security.

Bazerman suggests that unintentional ethics violations have an equally damaging effect on society as those committed willfully. Yet such unwitting violations are potentially more dangerous because the culpable individuals view themselves as perfectly upright.

Can an Old Dog Learn New Tricks?

While many experts in the field of ethics hold that ethics must be learned at a young age — making it the exclusive responsibility of parents — others believe that ethical behavior is a continual progression occurring over one’s lifetime. One of the best known theories supporting this view is Lawrence Kohlberg’s theory of moral development. Kohlberg, a psychology professor at the University of Chicago and Harvard University, breaks moral development into three levels, each of which has two stages. As you read through these stages, determine where you would place yourself on the continuum.

Level 1: Preconventional morality (*usually applies to young children*)

- Stage 1: Obey the rules and receive a reward. Disobedience results in punishment. At this stage, the rules (usually established by the parent) are the defining moral law. Morality is external because individuals at this stage do not yet see themselves as members of a society. The associated punishment is what “proves” disobedience is wrong.
- Stage 2: The child has “progressed” to a “What’s in it for me?” mentality. The concept of negotiation enters the paradigm. The right thing becomes the choice which promotes the child’s self-interest. He

or she is still concerned about punishment, but see it as a risk to be avoided. He or she still does not identify themselves as a member of a community or society.

Level 2: Conventional morality (*usually applies up to the age of adolescence*)

- Stage 1: Society begins to take a role, and therefore fitting in and attaining acceptance is vital. The individual desires to be viewed as a “good boy” or “good girl.” Society’s rules are rarely questioned at this point of the progression. However, they are applied on an individual level (empathizing with an individual and making judgments based upon that empathy). “Good” now means having good motives and positive relational feelings. At this level, the individual assumes that everyone would have the same view of a given situation (which is why it is termed conventional).
- Stage 2: At this point, the desire for an orderly society takes on a greater value. Consequently, the emphasis is now on social order, which requires respect of authority and performance of one’s “duties.” The motivations and feelings of the previous level are now applied more broadly (to society at large). Law and order are supreme.

Level 3: Postconventional/principled morality (*usually applies to adults*)

- Stage 1: The individual recognizes that conflicting points of view exist among different groups and cultures, but believes that the laws should promote the best for the most. (In other words, the greatest benefit to the greatest number of people.) The focus shifts from maintaining social order to creating a “good” society.
- Stage 2: Independent thought juxtaposed with the individual’s personal belief system becomes the moral guide (even when conflicting with laws and rules). Consequently, justice is determined by the circumstances, which at times could lead to civil disobedience.

Like most ethicists, Kohlberg believes few people consistently act within the final stage. Additionally, he holds that these stages occur neither as the result of the natural maturation process nor as the result of socialization (i.e. parents, teachers, etc. directly teaching new forms of thinking). Rather, he asserts that the stages emerge from our own reflection on moral dilemmas. Social experiences serve to promote development by stimulating our cognitive processes. Debates, discussions and role-playing opportunities are excellent catalysts for developmental change according to Kohlberg. (Presumably, Kohlberg would readily endorse this CPE session.)

In light of Kohlberg’s theory, consider former Enron CFO

Andrew Fastow’s comment when speaking to an audience of university students after his release from jail: “When I went to jail, I still thought I was innocent because I had followed the rules.”⁵

Based on this comment, where would you place him within Kohlberg’s scale?

“

Things that are bad for business are bad for the people who work for business.

— Thomas Dewey

Now consider his statement when he testified under oath as a government witness prior to incarceration: “I pled guilty because I am guilty and I thought that decision would be in the best interest of my family.”⁶

Based on this comment, where would you place him within Kohlberg’s scale?

Finally, consider this statement made later in the same address to students referenced above: “There are people who look at the rules and find ways to structure around them. The more complex the rules, the more opportunity. The question I should have asked is not ‘What is the rule?’, but ‘What is the principle?’”⁵

Based on this comment, where would you place him within Kohlberg’s scale?

Andrew Fastow was the CFO for Enron. Fastow was indicted on 78 counts including fraud, money laundering, and conspiracy. He served over five years in federal prison.

Fastow’s story is a perfect case study for business school students on the blurry line between genius problem solving and fraud. The same much-lauded “off-balance-sheet” strategies that Fastow innovated to make Enron seem financially healthy were the ones that, upon closer review, landed him in jail. His main mistake, he said, was ignoring the principles behind the rules he creatively circumvented. “I used loopholes in the rules to get around the principles of the rules,” he explained. “But it’s not always easy to know when you’re doing that.”⁶

Do the Little Things Matter?

How many of you have cheated since the beginning of 2013? How many of you have lied since the beginning of 2013? How many of you have exceeded the speed limit anytime in the last three months? How many of you consider yourself to be a good, honest trustworthy individual?

Please reconsider the question discussed earlier: If your work environment does not utilize **good** internal controls, what could you do to protect yourself?

Resources

Kohlberg's Stages of Moral Development, W.C. Crain. (1985). *Theories of Development*. Prentice-Hall. p. 118–136.

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<http://tinyurl.com/b6z5sx3>

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<http://youtu.be/Bo7zkd0kRS4>

AICPA Code of Professional Conduct (updated for all Official Releases through Jan. 31, 2013):
<http://tinyurl.com/atuot67>

Code of Professional Conduct and Bylaws, as of June 1, 2011: <http://tinyurl.com/b249es3>

Norms, Conformity, and Controls. William B. Tayler and Robert J. Bloomfield. *Journal of Accounting Research*. Jun2011, Vol. 49 Issue 3, p753-790. 38p.

Notes

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<http://tinyurl.com/asfpvvr>

²Max H. Bazerman, Ann E. Tenbrusel. "Stumbling Into Bad Behavior," *New York Times*, April 20, 2011, Web. Dec. 27, 2012.

³Ann E. Tenbrunsel, David M. Messick., "Sanctioning Systems, Decision Frames, and Cooperation," *Administrative Science Quarterly*, Vol. 44, No. 4 (Dec., 1999), PP. 684-707.

⁴Don A., Moore, Lloyd Tanlu and Max H. Bazerman. "Conflict of Interest And The Intrusion Of Bias." *Judgment And Decision Making* (2010): 37, *Directory of Open Access Journals*, Web. Dec. 27, 2012.

⁵Mark Jaffe, "Fastow draws on Enron failure in speech on ethics at CU," *The Denver Post*, March 19, 2012. Web:
<http://tinyurl.com/aart2px>

⁶Sheila McNulty, "Enron chief knew of fraud, says key witness," *The Financial Times (FT.com)*, March 8, 2006. Web. Jan. 2, 2012:
<http://tinyurl.com/bcg2ly8>

⁶Kirk Kardashian, "Andrew Fastow, Former Enron CFO, Talks Ethics With Students," October 2012. Web:
<http://tinyurl.com/bnvh5yv>

5. Enforcement Frequently Asked Questions (FAQ)

Use of the CPA Title in Virginia

Q: Can I continue using the CPA title when I retire?

A: Only if you continue to renew your license.

Q: Can I use the CPA title without the requisite CPE?

A: Only if **no service is provided** to either the public or employer. If you decide to provide services, you must catch up on your CPE (see page 23).

Q: I teach at the College of Virginia University. I am not licensed in Virginia, but I am licensed in Kencalarkoklazona (a substantially equivalent jurisdiction). Can I use the CPA title in Virginia?

A: Yes. However, if you provide any services, you will be in violation.

Q: Am I using the CPA designation?

A: If you are a Virginia CPA licensee, then yes, because all licensees are listed on the VBOA website.

Q: Am I providing services to the public?

A: If you are providing any service listed in § 54.1-4413.3 of the Code of Virginia, yes.

Q: Am I providing services to my employer?

A: If the work that you do for your employer involves accounting, finance, tax, or other such nifty skills, yes. This is true even if your employer takes issue with the term *service*.

Logistics of an Investigation

Q: How long does an investigation take?

A: It depends upon:

- Type and difficulty
- Respondent's cooperation
- VBOA workload

The VBOA's goal is to close a case within 180 days from the date it is opened.

Q: Does the VBOA communicate the investigation status with the complainant?

A: Notice is provided as to the whether the case was opened (which requires probable cause). Generally, updates are **not** provided unless additional information is needed or the complainant is to appear as a witness. The complainant is notified of the final resolution.

Q: Does the VBOA communicate the investigation status with the public?

A: Closed complaints are available to the public under the Virginia Freedom of Information Act (FOIA).

Q: Is the individual or firm allowed to respond to the complaint?

A: If a case is opened (which requires probable cause), the respondent is notified **in writing** and has 30 days to respond **in writing**.

Q: If I'm sanctioned, will the complainant get any of my money?

A: The VBOA is not authorized to award damages.

Q: Can penalties be imposed?

A: Yes. The VBOA may impose penalties as described under § 54.1-4413.4 of the Code of Virginia.

Q: How long are people going to know that I messed up?

A: Forever. All investigations of CPAs or CPA firms remain permanently on record with the VBOA.

Resources

Use of the CPA Title in Virginia: <http://tinyurl.com/ayvnmvh>

Investigation & Enforcement FAQ: <http://tinyurl.com/bewoq9j>

6. VBOA Social Media

The *unknown unknowns* can often lead to unexpected negative consequences. Minimize the *unknowns* by keeping abreast of relevant information.

Access/sign up to follow the VBOA from their home page, <http://www.boa.virginia.gov>, using Twitter (@VBOANews), Facebook and LinkedIn. You can also register with Virginia Town Hall to receive automated VBOA regulatory updates at <http://www.townhall.virginia.gov/>.

7. New Board Policies

Policy No. 1: Trust Account

From § 54.1-4405.1 of the Code of Virginia: The Trust Account shall provide a supplemental source of funds to the Board on a timely basis for (1) its use in the study, research, investigation or adjudication of matters involving possible violations of the provisions of Virginia accountancy statutes or Board regulations or (2) any other purpose that the Board determines germane to its statutory purposes.

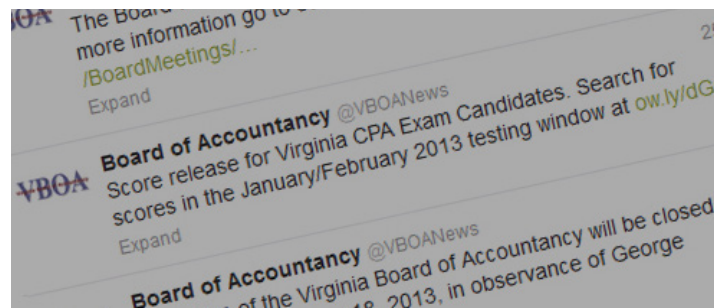
It shall be the policy of the Board to maintain funds equal to approximately three months of the operating budget. Funds exceeding this amount shall be transferred to the Trust Account on at least a quarterly basis, to include a final fund transfer by June 30 of each fiscal year (if necessary). Annually, the Board shall evaluate the balance in the Trust Account to determine if a fee adjustment is necessary. The annual evaluation shall consider the Board's needs as it relates to the purpose for the Trust Account, and on the national climate and experiences of other boards of accountancy.

Policy No. 2: Sponsors Providing Continuing Profession Education

From Board Regulation 18VAC5-22-90: Currently, the Board does not maintain agreements with sponsors, pre-qualify sponsors or individual courses, or require a licensee to obtain CPE from specific sponsors. However, sponsors are encouraged to comply with the Statement on Standards for CPE Programs issued jointly by the AICPA and National Association of State Boards of Accountancy (NASBA).

The Board generally accepts relevant and qualifying CPE from the following sponsors:

- National Registry of CPE Sponsors in affiliation with the National Association of State Boards of Accountancy (NASBA);
- Quality Assurance Service in affiliation with NASBA;
- Accredited college or university offering semester or quarter-hour credits;
- Employer of a CPA;
- Federal, state or local government;
- State CPA society; and
- American Institute of CPAs (AICPA).



The Board may accept CPE credit from other sponsors. However, CPE obtained from sponsors not listed above may be subject to further examination and additional documentation requirements.

Sponsors who provide a Virginia-specific ethics course must ensure that the course content is in compliance with the VBOA annual outline. Virginia licensees must complete the required annual ethics course no later than January 31 of each year to meet the previous calendar-year requirement. Therefore, no sponsor should provide the annual ethics course later than January 31 for the previous calendar-year.

At a minimum, sponsors must provide licensees a certificate of completion or some other form of documentation that includes the sponsor's name, participant's name, course/content name, date taken, and CPE hours earned.

Policy No. 3: Substantially Equivalent Jurisdictions

From § 54.1-4411 of the Code of Virginia: Under Section 23 of the Uniform Accountancy Act (UAA), a licensed CPA in good standing from a jurisdiction with CPA licensing requirements that are substantially equivalent to those outlined in the UAA (degree with 150 hours, minimum one year experience and successful completion of the Uniform CPA Examination) may be granted a privilege to practice in another jurisdiction that is not the CPA's principal place of business.

The National Qualification Appraisal Service (NQAS) of the National Association of State Boards of Accountancy (NASBA) has reviewed the CPA licensure requirements of Virginia and has determined that Virginia is substantially equivalent to the licensure requirements of the UAA.

The Board accepts the jurisdictions approved by NASBA as substantially equivalent (for the purposes of licensure and/or mobility), with the following exceptions:

- If the jurisdiction is listed as substantially equivalent with one asterisk, the jurisdiction is deemed substantially equivalent only if the licensee holds an active CPA license/permit with that jurisdiction.
- If the jurisdiction is listed as substantially equivalent with two asterisks, the jurisdiction is not deemed substantially equivalent.

Policy No. 4: Continuing Professional Education (CPE) Guidelines

From §§ 54.1-4409.2 and 54.1-4413.2 of the Code of Virginia and Board Regulations 18VAC5-22-90 and 18VAC5-22-140: Specific CPE requirements of the Board are listed in the authority sections named above. This policy details the guidelines approved by the Board for administering the CPE requirements.

General Guidelines

Board Regulation 18VAC5-22-90 requires licensees who are not currently performing any services and who resume providing services to the public or to an employer to first obtain at least 120 hours of CPE prior to providing those services. The 120 hours must include a two-hour Virginia-specific ethics course (an annual requirement).

The Board recognizes that 50 minutes of CPE participation equals one hour of CPE credit. One semester hour of credit for courses at an accredited college or university constitutes 15 hours of CPE and one quarter-hour of credit constitutes 10 hours of CPE.

CPE requirements may be adjusted depending upon when a Virginia CPA begins or ceases to provide services to the public or to an employer in accordance with Board Regulation 18VAC5-22-90. Specific questions may be addressed by contacting the VBOA.

Virginia-Specific Ethics Course

The VBOA requires that all licensees providing services to the public or to an employer complete on an annual basis a Virginia-specific ethics course that complies with Board Regulation 18VAC5-22-90, and the annual outline approved by the Board. The 2-hour Virginia-specific ethics course is a separate and distinct annual requirement from the one-time American Institute of Certified Public Accountants (AICPA) ethics course needed for initial licensure.

Sponsors who provide a Virginia-specific ethics course must ensure that the course content is in compliance with the VBOA annual outline. Virginia licensees must complete the required annual ethics course no later than January 31 of each year to meet the previous calendar-year requirement.

Therefore, no sponsor should provide the annual ethics course later than January 31 for the previous calendar-year. At a minimum, sponsors must provide licensees a certificate of completion or some other form of documentation that includes the sponsor's name, participant's name, course/content name, date taken, and CPE hours earned.

It is the responsibility of the licensee to ensure that the Virginia-specific ethics course taken (online or classroom) complies with Board Regulations and the outline referenced above. If the licensee is not satisfied with the content of the course, the instructor, or does not believe the course taken satisfies the requirements of Board Regulations and/or the outline, the licensee is encouraged to contact the VBOA.

Qualifying CPE

It is the intent of the VBOA that all CPE (1) meet the requirements of Board Regulations 18VAC5-22-90 and 18VAC5-22-140; (2) provide course content pertinent to the profession; and (3) assist the licensee in becoming a better accounting professional. The VBOA accepts CPE obtained through a variety of forums, providing that the licensee is able to demonstrate that learning objectives were met. A variety of continuing professional education is acceptable, including:

- Attending a Seminar or Educational Conference. Instructors must have up-to-date knowledge of the subject matter and use appropriate teaching materials. Attendance should be monitored in a manner that can be verified by the VBOA.
- Earning Course Credit at an Accredited College or University.
- Completing a Self-Study Course. Licensee must be able to demonstrate that learning objectives were met.
- Making a Presentation. The licensee may present at a professional seminar, educational conference or classroom setting, provided that up-to-date knowledge of the subject matter is demonstrated and appropriate teaching materials are used.
- Producing Written Materials. The topic must be relevant to providing services to the public or an employer using the CPA title. The material is formally reviewed by an independent party and must be published in a book, magazine, or similar publication used by individuals who provide services to the public using the CPA title or to an employer using the CPA title.
- Additional Board approved CPE. The Board has approved the following CPE (without a certificate of completion indicating CPE hours earned) for passing the following exams (in the year passed), not to exceed a total of 60 hours over a 3-year rolling period:
 - o 30 CPE hours for passing each section of the CFA (Chartered Financial Analyst) Exam; and
 - o 15 CPE hours for passing the CTP (Certified Treasury Professional) Exam.

The Board will determine on a case-by-case basis the acceptability of other forms of CPE.

The VBOA has restrictions on the CPE hours a licensee may regard as valid:

- Repeat presentations may not be counted as additional CPE.
- During each 3-year period, a maximum of 30 hours for preparing and making presentations is allowable.
- One semester-hour of credit for courses at an accredited college or university constitutes 15 hours of CPE and one quarter-hour of credit constitutes 10 hours of CPE.

The Board has also approved that Continuing Education (CE), Continuing Education Units (CEU), Continuing Legal Education (CLE), Continuing Medical Education (CME), Quality Assurance Service (QAS) and semester and quarter-hour credits are acceptable as CPE credits.

The VBOA does not currently require licensees to obtain CPE from specific or approved sponsors. However, all licensees are required to obtain on an annual basis 2 CPE hours of a Virginia-specific ethics course. In addition, pursuant to Board Regulation 18VAC5-22-140, individuals who release or authorize the release of reports on attest or compilation services provided for persons or entities located in Virginia must obtain on an annual basis a minimum of 8 hours of CPE related to attest or compilation services.

CPE Reporting Period

The VBOA uses a rolling 3 calendar-year period to determine CPE compliance. This period includes the 3 calendar-years prior to the current calendar-year. For example, if asked by the VBOA to produce evidence of CPE compliance, submit such evidence for the 3 calendar-years prior to the current calendar-year.

CPE Compliance Reviews

On a monthly basis the VBOA randomly selects licensed CPAs in Virginia for CPE compliance. The VBOA will notify licensees selected for a CPE compliance review. If selected, licensees will be required to submit the CPE Reporting Form and acceptable supporting CPE documentation to verify compliance. As a function of this CPE review process, licensees may be required to provide additional documentation as requested by the VBOA to support compliance.

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

Licensees should not submit CPE documentation during the annual renewal process unless specifically asked to by the VBOA. However, CPE documentation must be retained for the 3 calendar-years preceding the current calendar-year.

CPE Documentation Requirements

Required documentation can generally be satisfied by providing:

- Certificates of Completion or some other form of documentation from the CPE sponsor(s) including the sponsor(s)' name, participant's name, course/content name, date taken, and CPE hours earned when attending a seminar, educational conference or completing a self-study course.
- Official Transcript of the College or University for earning course credit at an accredited college or university.
- Syllabus/Agenda and Signed Statement indicating the length of the presentation when making a presentation.
- Copy of Published Article, Book or Written Material (or proof of publication) when producing written material used by individuals who provide services to the public using the CPA title or to an employer using the CPA title.

The VBOA has restrictions on the types of documentation it regards as acceptable. The VBOA will not accept receipts, registration confirmations, cancelled checks, outlines, PowerPoint presentations or sign-in sheets, etc., as valid CPE documentation.

The VBOA will determine on a case-by-case basis whether other forums are acceptable for CPE credit. The VBOA may also request additional documentation to support compliance. For a complete summary of CPE accepted by the VBOA, see Board Regulation 18VAC5-22-90F.

Retention Requirements for CPE Documentation

Licensees must retain CPE documentation for the 3 calendar-years preceding the current calendar-year.

CPE Violations

As the result of a CPE Compliance Review, the VBOA may find that a licensee has violated the CPE requirements during the reporting period. In such cases enforcement action will be taken and the licensee will generally be offered a consent agreement and be subject to disciplinary action.

A licensee may also determine on their own (outside of the CPE Compliance Review program) that they are deficient CPE for a specific reporting period. The licensee should notify the VBOA immediately when it is determined that a CPE deficiency has occurred.

In accordance with Board Regulation 18VAC5-22-90H, depending on the facts and circumstances, the VBOA may waive all or part of the CPE requirement for one or more calendar-years or grant additional time for complying with the CPE requirement, provided that the waiver or deferral is in the public interest. However, requests for a waiver or a deferral must generally be received in advance of the deadline for CPE completion. It is the policy of the VBOA that such waivers or deferrals be considered only in situations resulting from extreme medical hardship or active military deployment. Requests for a waiver or deferral made under this section will be considered on a case-by-case basis. Such approvals are rare.

Policy No. 5: Publication of Board Disciplinary Action

From §§ 54.1-4402, 4403, 4413.3, 4413.4, and 4414 of the Code of Virginia: It is the policy of the Board to publish the information of licensees against whom the Board has taken a disciplinary action resulting in suspensions and revocations, and for other professional violations.

The Board publishes information of licensees found to be deficient in CPE credit-hours only in the event of a previous CPE deficiency or previous professional violation.

This policy is subject to change without notice.

Policy No. 6: CPA and International Qualification Examinations

From § 54.1-4409.2 of the Code of Virginia and Board Regulation 18VAC5-22-80: The Board approves the following aspects of the CPA Examination and International Qualification Examination:

1. Recognition of the Uniform CPA Examination (Exam) developed by the American Institute of CPAs (AICPA) as the only examination acceptable for CPA licensure in Virginia;
2. Recognition of the International Qualification Examination (IQEX) developed by the International Qualification Appraisal Board (IQAB), a joint body of the AICPA and NASBA, as the only international examination acceptable (for those who qualify) for CPA licensure in Virginia;
3. Recognition of the AICPA's psychometrically developed standard-setting procedure for determining a uniform grade on each section of the Exam and the IQEX;
4. Recognition of a minimum passing score of 75 on each section of the Exam and the IQEX;
5. Recognition of the examination score as official for each section of the Exam and the IQEX as determined by the AICPA and transmitted to NASBA; and
6. Recognition of the candidate misconduct guidelines relative to the Exam and the IQEX as defined in the Candidate Bulletin and the IQEX Candidate Bulletin produced by the AICPA, NASBA, and Prometric.

Policy No. 7: Peer Review Oversight Committee (PROC)

From §§ 54.1-4403, 54.1-4412.1 and 54.1-4413.3 of the Code of Virginia and Board Regulations 18VAC5-22-150: (I) The Virginia Board of Accountancy (VBOA) shall establish and maintain the Peer Review Oversight Committee (PROC) for the purpose of:

- (A) monitoring sponsoring organizations (defined as administering organizations set up to carry out peer reviews in conformity with AICPA Peer Review standards) to provide reasonable assurance that peer reviews are being conducted and reported in accordance with Standards for Performing and Reporting on Peer Reviews (the Standards) promulgated by the AICPA Peer Review Board;
- (B) reviewing the policies and procedures of sponsoring organization applicants as to their conformity with the peer review standards; and
- (C) reporting to the VBOA on the conclusions and recommendations reached as a result of performing the functions in paragraphs (A) and (B) of this subsection.

(II) Information concerning a specific firm or reviewer obtained by the PROC during oversight activities shall be confidential, and the firm's or reviewer's identity shall not be reported to the VBOA. Reports submitted to the VBOA will not contain information concerning specific firms or reviewers. Members of the PROC will be required to execute a confidentiality statement for the sponsoring organization which they review.

(III) Effective July 1, 2010, the PROC shall consist of one or more members who are active licensed Virginia CPAs. No member of the PROC shall be current members of the VBOA or one of its committees, the VSCPA's Peer Review or Professional Conduct Committee, or the AICPA Professional Ethics Executive Committee (including subcommittees). The members should have extensive experience in accounting and auditing and currently or recently be in the practice of public accountancy at the partner level (or an otherwise appropriate level as determined by the VBOA), and shall be members of the VSCPA and the AICPA. The member's current or former firm must have received a report with a rating of pass or an unmodified opinion from its last peer review. The PROC member will be reimbursed for any out-of-pocket expenses by the VBOA.

(IV) The PROC shall make an annual recommendation to the VBOA as to the qualifications of an approved sponsoring organization to continue as an approved sponsoring organization on the basis of the results of the following procedures:

- (A) Where the sponsoring organization is the AICPA, state CPA societies other than Virginia fully involved in the administering AICPA Peer Review Programs, or the PCAOB, PROC shall review the published

reports of those entities or successors, to determine that there is an acceptable level of oversight;
(B) With respect to the VSCPA's Peer Review Committee (PRC), PROC shall perform the following functions:

- (1) A member of the PROC shall attend selected meetings of the PRC. Certain PRC meetings may be conducted via telephone. In those instances, the PROC member may join the conference call.
- (2) During such visits, the PROC member shall:
 - (i) meet with the PRC during the committee's consideration of peer review documents;
 - (ii) evaluate the VSCPA's procedures for administering the peer review program;
 - (iii) examine, on the basis of a random selection, a number of reviews accepted by the PRC to include, at a minimum, a review of the report on the peer review, the firm's response to the matters discussed, the PRC's letter of acceptance outlining any additional corrective or monitoring procedures, and the required technical documentation maintained by the PRC on the selected reviews; and
 - (iv) expand the examination of peer review documents if significant deficiencies, problems, or inconsistencies are encountered during the analysis of the materials.

assurance that peer reviews are being conducted and reported on consistently and in accordance with the Standards for Performing and Reporting on Peer Reviews (the Standards) promulgated by the AICPA Peer Review Board. A summary of oversight visits shall be included with the annual report.

These policies can be found at <http://tinyurl.com/ca9fyf9>

(V) In the evaluation of policies and procedures of the VSCPA, the PROC shall:

- (A) examine the policies as drafted by the VSCPA to determine that they provide reasonable assurance of conforming with the standards for peer reviews;
- (B) evaluate the procedures enacted by the VSCPA to determine that:
 - (i) assigned reviewers are appropriately qualified to perform the review for the specific firm;
 - (ii) reviewers are using appropriate materials;
 - (iii) the PRC has provided for consulting with the reviewers on problems arising during the review and that specified occurrences requiring consultation are outlined;
 - (iv) the PRC has provided for the assessment of the results of the review; and (v) the PRC has provided for an independent report acceptance body that considers and accepts the reports of the review and requires corrective actions by firms with significant deficiencies;
 - (vi) the VSCPA has a bi-annual oversight visit and subsequent report issued by the AICPA Peer Review Board Oversight Task Force.

(VI) Annually the PROC shall provide the VBOA with a report on the continued reliance of sponsoring organizations' peer reviews. The PROC report shall provide reasonable

8. International Ethics Convergence

The International Federation of Accountants' (IFAC) International Ethics Standards Board for Accountants (IESBA), the agency responsible for creating the *Code of Ethics for Professional Accountants (IESBA Code)*, made significant revisions to the IESBA Code in July 2009. Those revisions went into effect Jan. 1, 2011, and serve to clarify all requirements and strengthen independence requirements.

The IESBA and AICPA codes are largely similar, but with some significant differences:

- **Application:** The IESBA Code is divided into parts providing unique guidance to professional accountants, public accountants and those in business. The AICPA Code applies to all accountants. However, in many instances, applying the unique codes to the same situation produces similar results.
- **Structure:** The IESBA Code uses a “conceptual framework approach” (principles-based). It includes specific guidance for common situations and requires the accountant to exercise professional judgment in most circumstances. The AICPA Code provides specific guidance (rules-based).
- **Approach:** The IESBA Code uses the conceptual framework to evaluate ethical conduct. The AICPA Code only requires members to use such an approach when rules do not address the situation.
- **Independence:** The IESBA Code covers potential independence matters not addressed under the AICPA rules, such as relative size of audit fees and partner rotation. As a member body of IFAC, the AICPA agrees to make their ethics standards no less stringent than IESBA standards.



Under its Ethics Codification Project, the AICPA is currently restructuring its ethics literature to combine and synthesize disjointed components, utilize a topical format, apply consistent drafting and style conventions and incorporate a conceptual framework. The AICPA is using a “threats and safeguard” approach similar to the IESBA Code. The project, started in 2008, is currently in the “pilot testing” phase.

Resources

A Global Standard for Professional Ethics, Catherine Allen, CPA, and Robert Bunting, *AICPA IFRS Resources*, Web, May 2008: <http://tinyurl.com/afudf2z>

New Code of Ethics will facilitate global convergence, *AccountingWeb*, Aug. 28, 2009: <http://tinyurl.com/cxzc99b>

Comparing the Ethics Codes: AICPA and IFAC, *Journal of Accountancy*, October 2010: <http://tinyurl.com/btvtd9>

AICPA and IESBA Independence Rules: A Comparison for AICPA Members Performing Attest Services under IFAC Standards, Oct. 1, 2010: <http://tinyurl.com/d65gxvx> (PDF)

International Ethics Standards Board for Accountants Fact Sheet, September 2012: <http://tinyurl.com/cmazyf> (PDF)

Improving the Code of Professional Conduct, *Journal of Accountancy*, Catherine Allen, June 2011: <http://tinyurl.com/blsex9k>

AICPA Letter to IESBA re: Exposure Draft: Responding to a Suspected Illegal Act, Dec. 15, 2012: <http://tinyurl.com/cyda48n> (PDF)



9. Fiduciary Responsibilities

What is a fiduciary?

According to Black's Law Dictionary, a fiduciary is "a person holding the character as a trustee, or a character analogous to that of a trustee, in respect to the trust and confidence involved in it and the scrupulous good faith and candor which it requires."

That was a waste of paper. Once again, what is a fiduciary?

Perhaps a definition using more contemporary language will elucidate the meaning. According to the late Judge Benjamin Cardozo, who served as Chief Justice of the New York Court of Appeals as well as an Associate Justice of the Supreme Court, "*a trustee is held to something stricter than the morals of the market place. Not honesty alone, but the punctilio of an honor the most sensitive, is the standard of behavior ...*".

Punctilio?

A minute detail of conduct in a ceremony or in observance of a code. One more time: A fiduciary is an individual legally obligated to act solely for the benefit of another on matters within the scope of the relationship. (Under Cardozo's definition, one must do so to the n^{th} degree.)

When is a CPA a fiduciary?

Any time a CPA agrees to take on a traditionally fiduciary role, he or she is acting as a fiduciary. Some examples are:

- Officer of a corporation
- Member of a board of directors
- Trustee of a legal trust
- Executor of an estate

Additionally, courts have considered accountants to be acting as a fiduciary to their clients when providing services such as tax services, asset management and general business consulting.

Generally, any time the following three elements are present in a client relationship, an accountant may be considered to be acting as a fiduciary to their client:

- The accountant represents himself or herself as an expert with respect to some facet of business
- The client places a high level of trust in the accountant
- The client is relying on the accountant's counsel

CPAs in industry may take on the fiduciary role (sometimes inadvertently) when serving as the company's retirement plan manager.

The fiduciary duty includes four fundamental obligations:

- The duty of management
- The duty of loyalty or preference
- The duty to account
- The duty to disclose

The discovery of a fiduciary relationship creates the potential for extraordinary legal consequences. Here's why: Unlike in other relationships where negligence must be shown using an expert witness, the fiduciary relationship is considered so sacred that proof of negligence is not needed to show duties were not fulfilled. The plaintiff or beneficiary is only required to prove the fiduciary's breach of duties. The burden of proof shifts to the fiduciary to prove that he or she properly fulfilled his or her duties with conduct above reproach. (Typically, the burden of proof rests on the one accusing, not the one being accused.)

Comparative or contributory negligence (the defense that the problem was caused or caused in part by the claimant) will not work as a defense for a fiduciary (because the issue is about conduct above reproach, and not one of neglect). In other words, there is no "it's not my fault alone" defense.

Significant remedies are available for breach of fiduciary duty, including returning fees and profits, as well as revoking the fiduciary role. Proof that the claimant actually suffered financial loss is not required.

Fiduciaries can minimize liability exposure by exercising vigilance in all client relationships, obtaining necessary expertise for all fiduciary positions, seeking input from an expert for any uncertainties and maintaining proper liability insurance coverage. At the very least, if you **know** that you are **servicing as a fiduciary**, become well acquainted with your duties.

Resources

AICPA/fi360 Publishes Handbook for Investment Advisors: <http://tinyurl.com/aa7ocsc>

AICPA Fiduciary Standard of Care: <http://tinyurl.com/a26uhcq>

The dangers of fiduciary duty, *Accounting Today*, Web, Aug. 16, 2010: <http://tinyurl.com/b2tbg5t>

Case Study No. 6: Fish Story*

Mick McCale, CPA, has prepared tax returns and provided tax advice to his client, Lyle Lackey, each year for the past 10 years. When Lyle's father died, Lyle and his brother, Kyle, decided they would take their inheritance and start a business. Mick agreed to introduce the Lackeys to Mr. Fish, the president of a seafood broker. McCale told the Lackeys that Mr. Fish was a person that they could trust. The Lackeys invested their inheritance in seafood sales, using Mr. Fish's company as the broker. The Lackeys lost most of their investment in the process.

Lyle and Kyle sued McCale for breach of his fiduciary duty. Was McCale serving as fiduciary for the Lackeys?

* In *Dominguez v. Brackey Enterprises, Inc.*, investors who had advanced money to a seafood broker sued the accountant whom, according to the plaintiffs, recommended the investment. One of the plaintiffs testified regarding his relationship with his accountant as: "I did nothing without Joe's approval." The jury rendered a verdict against the accountant. On appeal, the court rejected the accountant's argument that there was insufficient evidence to support the jury's finding of a fiduciary relationship, stating that "where a party is accustomed to being guided by the judgment or advice of another in legal and accounting matters relating to income taxation, and there exists a long association in a business relationship, as well as a personal friendship, the first party is justified in placing confidence in the belief that the other party will act in his best interest. Under these circumstances, a fiduciary relationship has been held to exist." *Dominguez v. Brackey Enterprises, Inc.*, 756 SW 2d 788 – Tex: Court of Appeals, 8th Dist. 1988.

10. AICPA vs. Private Company Council — “Method of Accounting”

AICPA Develops Framework

Convinced that privately-owned small- and medium-sized for-profit companies that are not mandated to follow U.S. GAAP would benefit from a less complicated, less costly reporting system, the AICPA appointed a task force to develop such a system. The exposure draft, *Proposed Financial Reporting Framework for Small- and Medium-Sized Entities*, developed by the AICPA FRF for SME task force, was released for public comment on Nov. 1, 2012. Some of the key features under the proposed reporting option include:

The framework was developed to address reporting needs of small- to medium-sized, owner-managed, for-profit entities. It may also be useful to nonprofit organizations and entities that are not owner-managed.

It draws upon a blend of accrual income tax methods and other reliable and comprehensive traditional accounting methods. It contains less complicated, leaner, more relevant reporting principles, including historical cost as measurement basis. It does not require complicated accounting for derivatives, hedging activities or stock compensation.

The framework is intended to be less costly to employ because it would require fewer disclosures. It utilizes a special-purpose framework, formally referenced as “other comprehensive bases of accounting” (OCBOA). It does not include industry-specific guidance. It provides a stable framework with little future modification anticipated.

The framework is nonauthoritative and had not been finalized as of the production date of this course.

Small- and Medium-Sized Entities

There are 20 million such entities, the target audience for the framework, in the United States. More than 99 percent of U.S. companies have fewer than 50 employees. These companies

are often owner-managed entities (closely held companies run by the individuals who own a controlling ownership interest). They are usually not required to comply with U.S. GAAP.

Private Company Council

After years of discussion, the Financial Accounting Foundation (FAF) established a panel to improve the standard-setting process for private companies, known as the Private Company Council (PCC). The panel is made up of an independent group of private-company investors, lenders, preparers and auditors of private-company financial statements.

The PCC focuses on modifications to U.S. GAAP for private companies when GAAP is required. PCC decisions are subject to endorsement from the Financial Accounting Standards Board (FASB). The council is tasked with reviewing current U.S. GAAP to identify areas where modifications or exceptions are justified for private companies, as well as serving as the principal advisory body to FASB regarding appropriate technical items affecting private companies under active consideration by FASB.

The PCC held its inaugural meeting Dec. 6, 2012.

Are the AICPA FRF for SMEs Task Force and the PCC redundant?

Each is committed to the private-company financial reporting constituency. That commitment is carried out through different objectives:

- The AICPA task force is focused on a concise framework for stakeholders of small- and medium-sized private-company financial statements where the use of U.S. GAAP is not required
- The PCC is focused on modifications to U.S. GAAP for private companies when GAAP financial reporting is necessary

Resources

Proposed Financial Reporting Framework for Small- and Medium-Sized Entities, AICPA FRF for SMEs Task Force, released Nov. 1, 2012: <http://tinyurl.com/cnggmno> (PDF)

AICPA’s Financial Reporting Framework for Small- and Medium-sized Entities FAQs: <http://tinyurl.com/d83doll> (PDF)

Private Company Financial Reporting Frequently Asked Questions, AICPA: <http://tinyurl.com/bwlffct>

Discussion of the Financial Reporting Framework for Small- and Medium-Sized Entities exposure draft, Bob Durak, Director-Private Company Financial Reporting: <http://tinyurl.com/bpp7ma3>

From the President’s Desk of the FAF, Terri Polley, December 2012: <http://tinyurl.com/cg6xd5j>

IRFS for SMEs in your pocket 2010, Deloitte Global Services Limited: <http://tinyurl.com/dxm5etk>

Slide 26: VBOA Fee Changes

A full list of the new fees can be found on page 41 of your Participant Manual. You can read an interview with VBOA Executive Director Wade Jewell on the changes on pages 42–43.

VBOA Fee Changes

On Jan. 1, 2013, the VBOA implemented its new fee structure, which raised fees associated with CPA licensure in Virginia. In addition to some new fees, there are also new differences in fees for issuance of an initial license and license renewal. See below for a list of fees, and see page 42 for an interview with VBOA Executive Director Wade Jewell discussing the changes.

Frequently Asked Questions

Q: When do I pay?

A: Licensure renewal is an annual fee. Renewal dates vary by individual or firm, primarily dependent upon the date your first license was obtained.

Q: How can I be certain of my specific due date?

A: The VBOA sends annual reminders via email. It is **your responsibility** to keep your email address current. In fact, it's the law! (See 18VAC5-22-170(B)) You may also check a license expiration date using the *Licensee Search* available on the VBOA's website, free of charge. Regardless of reminder notices, the responsibility of the license renewal rests **solely with you, the licensee.** (§ 54.1-4413.2 of the Code of Virginia)

Q: How should I remit fees?

A: The VBOA accepts electronic transfers or credit card payments through their website, or the licensee may pay with a check. An additional fee of \$25 will be assessed to licensees who do not use the online payment system.

VBOA Fees (effective Jan. 1, 2013)	
Action	Fee
Processing an initial application to take one or more sections of the CPA examination	\$120
Processing additional applications to take one or more sections of the CPA examination	\$20
Preliminary evaluation of whether a person has met the requirements to take the CPA examination	\$25
Processing an application for issuance of a Virginia license to a person	\$75
Processing an application for issuance of a Virginia license to a firm	\$100
Processing an application for the timely renewal of a person's Virginia license	\$60
Processing an application for the timely renewal of a firm's Virginia license	\$75
Additional fee for processing an application for the renewal of a person's Virginia license that is not timely	\$100
Additional fee for processing an application for the renewal of a firm's Virginia license that is not timely	\$100
Processing an application for reinstatement of a person's Virginia license	\$350
Processing an application for reinstatement of a firm's Virginia license	\$500
Processing an application for lifting the suspension of the privilege of using the CPA title in Virginia	\$350
Processing an application for lifting the suspension of the privilege of providing attest services or compilation services for persons or entities located in Virginia	\$500
Providing or obtaining information about a person's grades on sections of the CPA examination	\$25
Processing requests for verification that a person or firm holds a Virginia license: Online request	\$25
Processing requests for verification that a person or firm holds a Virginia license: Manual request	\$50
Providing an additional wall certificate	\$25
Additional fee for not responding within 30 calendar days to any request for information by the board under subsection A of 18VAC5-22-170	\$100
Additional fee for not using the online payment option for any service provided by the board	\$25

VBOA Executive Director Jewell Discusses Changes to Licensure Fees

Published April 18, 2012
at www.VSCPA.com

The Virginia Board of Accountancy (VBOA) is in the process of updating its CPA licensure fees. Gov. Bob McDonnell approved the revised fee proposal in February, moving it into the public comment stage. The VSCPA spoke with VBOA Executive Director Wade Jewell (right) to shine some light on the potential changes from the Board's perspective.

This interview was conducted via email.

VSCPA: In a big-picture sense, what was the decision-making process that led you to decide to increase licensure fees?

Wade Jewell: The Virginia Board of Accountancy (VBOA) was re-established as an independent board effective July 1, 2001. As an independent, nongeneral fund agency, fees the VBOA charges for services it provides are its only source of revenues. Penalties assessed by the VBOA for violations of the accountancy statutes and regulations do not provide revenues for the VBOA. Instead, they are deposited into the Commonwealth's Literary Fund. In addition to maintaining an Operating Account, the VBOA is required to maintain a separate Trust Account. The Trust Account (internally referred to as the "Madoff Fund") is primarily designed to have sufficient cash to fund expenses incurred in the study, research, investigation or adjudication of matters involving possible violations of the accountancy statutes or regulations.

Fees the VBOA charges for services it provides must be sufficient to fund both its operating expenses and the needed accumulation of cash in the Trust Account. Virginia CPA licensure fees have not been increased since 1991 (over 20 years). During this time, the profession has continually grown, technology has changed with



significantly increased expenditures as a result of the Virginia Information Technologies Agency (VITA) and Northrop Grumman partnership, overall expenses have risen with inflation, and the need for staff resources has increased. As a result, the VBOA has run an operating deficit for five consecutive years. Projections indicate the VBOA will exhaust all cash balances by early calendar year 2013.

A significant portion of the VBOA expenditures are state-mandated. Excluding salaries and fringe benefits of a lean staff operation, only 6 percent of the VBOA budget is considered "discretionary." Additionally, the process for changing a regulatory agency's fee structure is very time-consuming, often taking up to three years from initial notification to implementation, and regulatory agencies must often wait at least six years between fee increases. Many factors can change during this lengthy process that can affect a nongeneral fund agency's cash position.

VSCPA: How do the increased fees compare to licensure fees for other professions in Virginia? How do they compare to individual CPA and firm licensure fees in other states?

WJ: Examples of other professional licensure fees in Virginia include:

- **Lawyers** — Original Application: \$375; Annual Dues for Active Members: \$250
- **Landscape Architects** — Original Application: \$125; Annual Renewal: \$55
- **Chiropractors** — Original Application: \$277; Annual Renewal: \$156
- **Licensed Practical Nurses (LPN)** — Original Application: \$170; Annual Renewal: \$60
- **Barbers, Cosmetologists and Nail Technicians** — Original Application: \$70; Annual Renewal: \$70; "Shop" (i.e. firm) license — Original Application: \$112.50; Annual Renewal: \$112.50

Each state board of accountancy has a unique fee structure relative to their specific licensing statuses. Virginia currently ranks the lowest in fees out of 55 jurisdictions, while maintaining the eighth-largest number of individually licensed CPAs.

VSCPA: What is the financial situation at the VBOA? What steps has the Board taken to reduce its expenses?

WJ: For reasons explained above, the VBOA has run an operating deficit for five consecutive years, projecting that at the current rate of expenditures, it will

exhaust all cash balances by early calendar year 2013 without a fee increase.

The following is a breakdown of the VBOA's current budget:

- **Salaries and benefits:** 65 percent
- **Fixed costs:**
 - **Information technology (IT)-related:** 17 percent
 - **Support services and insurance:** 7 percent
 - **Building/space rental:** 5 percent
 - **Discretionary costs:** 6 percent

While only 6 percent of the VBOA budget is considered "discretionary," the Executive Director continually looks for opportunities to improve efficiencies and to reduce costs.

The VBOA has reduced expenditures where appropriate, to include information technology expenses associated with hardware and telecommunications (fixed costs). Day-to-day operating expenses are monitored frequently, with monthly financial reports reviewed by the Executive Director and Board members to ensure resources are effectively utilized while ensuring the VBOA mission to protect the citizens of the Commonwealth is not compromised.

In conclusion, the VBOA takes its fiduciary responsibilities seriously and must balance the need to provide outstanding customer service, processes and products with associated costs.

VSCPA: Virginia licensure fees have not been increased since 1991. What was the VBOA's reasoning behind keeping them the same for so long?

WJ: The fact that licensure fees have not been increased for such a long period of time has been intentional. The VBOA remains prudent with regard to all expenditures, believing that fees should only be changed when absolutely necessary.

VSCPA: How have state-mandated expenses affected the VBOA's financial status?

WJ: As an independent, nongeneral fund agency, fees the VBOA charges for services it provides are its only

source of revenues. All increases in expenditures must be absorbed by the existing fee structure (revenues). Comparing fiscal year 2003 expenditures to the fiscal year 2012 budget, the following are highlights of significant increases in state mandated expenditures during this time:

- Nearly 800 percent increase in information technology-related expenses paid to the Virginia Information Technologies Agency (VITA) and a partnership with Northrop Grumman
- Nearly 200 percent increase in building rental expenses (2007 consolidation with other state agencies).
- State-mandated employee salary increases and bonuses approved by the General Assembly and the Governor
- Compliance with new internal control requirements as a result of the Sarbanes-Oxley Act (Agency Risk Management and Internal Control Standards)

Rising or new costs relative to state-mandated expenditures, coupled with no fee increase for over 20 years, have led to the VBOA's current financial status.

VSCPA: Under the proposal, the additional fee for processing an application of a license renewal that is not timely would quadruple to \$100. What is the reason for such a dramatic increase?

WJ: The VBOA mission is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of CPAs and CPA firms. A key component of this mission is to ensure that Virginia CPAs maintain or renew their license on an annual basis. Failure to renew a license and to continue practicing and/or using the CPA title may result in disciplinary action. The increased fee for the late renewal of a license is meant to encourage compliance to avoid further potential disciplinary action and to protect the citizens of the Commonwealth of Virginia from unlicensed activity. It is the goal of the VBOA to have no late renewals.

VSCPA: There are several new fees being instituted, such as those for official licensure verification and transcript

evaluations. Could you provide some information about the reasoning for instituting these fees?

WJ: This fee package does not in any way affect an individual's ability to verify an individual or firm's licensure status in Virginia, for no fee. The VBOA provides that ability on its website [in a section] called "Licensee Search." This is a free service to anyone. In addition, the National Association of State Boards of Accountancy (NASBA) has launched a new website called CPAVerify. This website allows consumers to search a national database for CPAs and CPA Firms for participating states. Virginia is one of 24 states and jurisdictions currently participating in CPAVerify. The VBOA also provides a link on its website homepage to this national database.

The proposed fee for verification of licensure is for requests we receive from currently licensed CPAs, firms and businesses that seek an "official letter of verification" from the VBOA to be sent to other individuals or organizations, and often request more detailed information than the general licensure status of individuals and firms found on our website. This information is often sent to employers, other state boards of accountancy, various societies and even other countries. These requests require staff research, preparation of a letter and mailing costs.

A new fee has also been proposed for a preliminary evaluation of "unofficial" transcripts. Students often request that VBOA staff perform an evaluation of [their] current transcripts, prior to their graduation, to ensure they will meet VBOA requirements to sit for the CPA exam upon graduation and/or become licensed in Virginia. The VBOA publishes these requirements on our website and in a student handbook. Therefore, the request for a "pre-evaluation" is an interim, non-required step in the application process. Upon graduation, students must submit an "official" transcript(s) that must be evaluated once again. The pre-evaluation of a transcript is time consuming and duplicates the work of VBOA staff. The proposed fee for a preliminary evaluation of transcripts has been set to cover administrative costs incurred to perform this service.

Proposed Revisions to Professional Standards Regarding Nonattest Services

On June 29, 2012, AICPA's Professional Ethics Executive Committee (PEEC) issued the exposure draft *Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings* proposing to amend Interpretation No. 101-3, which addresses "Nonattest Services" under Rule 101, *Independence*.

The change would serve to clarify that certain services, such as financial statement preparation, would be deemed a nonattest service (regardless of whether CPA is also engaged to compile, review or audit).

At the same time (June 29, 2012), the AICPA's Accounting and Review Services Committee (ARSC) issued the exposure draft *Proposed Statements on Standards for Accounting and Review Services Association With Unaudited Financial Statements; Compilation of Financial Statements; and Compilation of Financial Statements-Special Considerations*.

In January 2013, in response to comment letters from stakeholders, ARSC voted to withdraw the proposal. The purpose of the draft was to revise the applicability of the compilation standard while retaining the compilation service as an attest service. The proposal addressed the accountant's responsibilities when associated with financial statements that have not been compiled, reviewed or audited.

ARSC plans to issue a new Exposure Draft addressing stakeholders' concerns in late spring or early summer 2013.

Is this really necessary?

Yes. There is currently a lot of confusion under the present standards, which has created practice inconsistencies. Additionally, addressing the financial statements as a nonattest service (PEEC's proposed revisions) requires revision of the compilation service standard (ARSC).

An **attest engagement** (audit, review, compilation, examination or agreed-upon procedures) **requires independence**. The standards for performing and reporting on such engagements are contained in Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, and Statements for Attestation Engagements.

Nonattest engagements, by definition, **do not require**



independence. This means that the requirements of Interpretation No. 101-3 apply if the practitioner plans to perform nonattest and attest services for the same client. The practitioner's independence is considered impaired if he/she is unable to satisfy those requirements.

Consequently, correctly identifying a service as attest or nonattest is paramount.

So what's the problem?

Just distinguish the service as attest or nonattest and consult the appropriate literature, right?

Therein lies the problem. The nonattest literature and the attest literature each address the topic of financial statement preparation. So those in public practice who perform attest functions as well as prepare or assist their clients with preparing financial statements are uncertain if they only need to follow the compilation, review or audit guidance or also meet the Interpretation No. 101-3 requirements.

Some CPAs engaged to compile, review or audit a client's financial statements took the position that drafting the financial statements for that client could be treated as part of the attest service, exempting the engagement from the requirements under Interpretation No. 101-3.

The PEEC proposal clarifies that when a CPA assists a client in preparing or drafting financial statements, he/she will be required to comply with Interpretation No. 101-3 as it pertains to that piece of the engagement. Additionally, the proposed revisions also serve to harmonize the standards with existing U.S. Government Accountability Office (GAO) standards.

Resources

The complete **AICPA PEEC Omnibus Proposal** is available at: <http://tinyurl.com/6utpebb>

Proposed revisions clarify responsibilities for preparers, *Journal of Accountancy*, August 2012:
<http://tinyurl.com/c4pmtml>

Preparation as a Nonattest Service: What Does it Mean and Why Should I Care? Charles E. Lanes, CPA:
<http://tinyurl.com/8fk3yfr>

Financial Statement Preparation and the Attest Function, PEEC question and answer document:
<http://tinyurl.com/9q99lyu>

AICPA Plain English Guide to Independence, Nov. 1, 2012: <http://tinyurl.com/bqoxnwj>

Professional Ethics Executive Committee Fact Sheet 2012: <http://tinyurl.com/bnkfyv2>

Case Study No. 7: Wearing Multiple Hats

You are a CPA who audits a small, privately held company. The company's sole bookkeeper left to take another position earlier in the year. To date, the position has not been filled. The owners ask you to prepare the financial statements.

Are you able to provide both services to the company?

What rules and regulations are applicable in this situation?

Assuming this takes place in Virginia, what licenses are required of you? Why?

Slide 31: Documentation Requirements

Documentation may be in the form of paper, electronic files or other media

Documentation of specific significant findings is left to auditor's judgment

Goal for documentation: "Experienced auditor" could understand procedures and evidence

Slide 32: Documentation: Audit

Documentation may be in the form of paper, electronic files or other media

Documentation of specific significant findings is left to auditor's judgment

Goal for documentation: "Experienced auditor" could understand procedures and evidence

Slide 34: Documentation: Compilation

Compilations (objective is solely to assist management with assembling financial statements, with no assurance provided): Under SSARS No. 19, accountant must document understanding with client for all engagements (written engagement letter), document any findings or issues that accountant deems significant. Requirement to document any communications to management regarding fraud or illegal acts remains in place.

Review (objective is to obtain limited assurance that no material modifications are warranted for presented financial statements to conform to applicable reporting framework): Under SSARS No. 19, accountant must document understanding with client for all engagements (written engagement letter), accountant must document significant matters covered during inquiry procedures and responses to that inquiry, accountant must document any findings or issues he or shee deems significant.

Slide 37: Documentation: Audit

Auditor must document auditing procedures that involve inspection of documents or confirmation, auditor independence and staff proficiency, significant findings and actions taken to address them, and basis for conclusions reached. No documentation should be deleted or discarded. Auditor must retain or have access to documentation of work performed by other auditors.

Incomplete engagements are included in seven-year retention requirement (clock starts upon cessation of audit work).

Documentation Requirements: Organization, Workflow and Retention

1. AU-C Section 230, *Audit Documentation*

This standard is part of AICPA's Auditing Standards Board *Clarity Project* for GAAS and is effective for audits of financial statements for periods ending on or after Dec. 15, 2012. It serves to finalize a clarified Statement on Auditing Standards (SAS) subsequently designated as AU-C Section 230 under the recodification and addresses financial statement auditor responsibilities regarding audit documentation, which according to the standard must provide:

- An adequate record of the basis for the auditor's report, **and**
- Evidence that the audit was planned and performed in accordance with GAAS (as well as any additionally applicable legal and regulatory requirements)

The standard supplements (rather than supersedes) audit documentation requirements included in other AU-C Sections. It does, however, supersede AU section 339 (SAS No. 103), but does not significantly change or expand extant AU section 339.

Audit documentation is defined as the record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached.

Form, Content and Extent of Audit Documentation

Audit documentation may be in the form of paper, electronic files or other media. The content and extent necessary depend on such factors as entity size and complexity, the nature of the audit, identified risks of misstatement, audit methodology used and extent of judgment exercised.

Examples of audit documentation include:

- Audit plans
- Confirmations
- Management representation letters
- Correspondence (including email)
- Memoranda
- Analyses
- Abstracts or copies of client documents
- Client-prepared or auditor-prepared schedules

The documentation of significant findings or issues arising during the audit is not defined, but is left to the auditor's judgment. Documentation should be sufficient that an "experienced auditor" could understand the audit procedures performed and audit evidence obtained. An "experienced auditor" is defined as an individual, internal or external to the firm, who has practical audit experience, and a reasonable understanding of audit processes, GAAS, the



The skill of an accountant can always be ascertained by an inspection of his working papers.

— Robert H. Montgomery
Montgomery's Auditing, 1912

germane business environment and auditing and financial reporting issues relevant to the entity's industry.

The standard also addresses issues of departure from a relevant requirement, the handling of matters arising after the date of the auditor's report and assembly and retention of the final audit file. Auditors should retain the final audit file for a period not less than five years from the report release date. SQCS-8 mandates that firms establish retention policies and procedures.

2. PRP Sections 4300 & 4400 (Quality Control Policies & Procedures)

Both of these questionnaires provide documentation of a firm's policies and procedures for its system of quality control. Effective Jan. 1, 2012, they assure compliance with SQCS-8, superseding all existing SQCSs, and deal comprehensively with a firm's quality control practices in the areas of audits, reviews, compilations and attestations engagements. They should be provided to the peer reviewer prior to the start of a review.

PRP Section 4300, *Quality Control Policies and Procedures Documentation Questionnaire for a Sole Practitioner With No Personnel*, was developed for sole practitioners with no personnel. PRP Section 4400, *Quality Control Policies and Procedures Documentation Questionnaire for a Firms With Two or More Personnel*, was developed for sole practitioners with two or more personnel.

3. SSARS No. 19 (Compilation and Review Engagements)

This standard, effective for periods ending on or after Dec. 15, 2010, establishes a framework for the performance and reporting on compilation and review engagements. It establishes standards and provides guidance on compilations and reviews.

"Compilation" is defined as a service where the objective is to assist management with assembling financial statements, only. No assurance is provided and no material modifications are advised. No evidence is obtained to attest to accuracy or completeness of those statements.

For compilations, SSARS No. 19 enhances documentation requirements as follows:

- Prior to SSARS No. 19, the accountant was only required to document the understanding of services with the client only if using nonreporting to third-party option.
- Under SSARS No. 19, the accountant must document understanding with client for **all** engagements (written engagement letter).
- Under SSARS No. 19, the accountant must document any findings or issues that accountant deems significant.
- The requirement to document any communications to management regarding fraud or illegal acts remains in place.

“Review” is defined as a service where the objective is to obtain limited assurance that no material modifications are warranted for the presented financial statements to conform to the applicable financial reporting framework. Evidence is obtained to grant a limited level of assurance.

For reviews, SSARS No. 19 enhances documentation requirements as follows:

- The accountant must document understanding with client for **all** engagements (written engagement letter).
- The accountant must document significant matters covered during inquiry procedures and responses to that inquiry using memorandum, checklist or other means.
- The accountant must document any findings or issues that accountant deems significant, such as:
 - Results of procedures indicating financial statements could be materially misstated
 - Actions taken to address findings in preceding
 - Basis for final conclusions

Important: A written engagement letter is now required to perform **any compilation or review services**.

4. SSAE No. 11 (*Attest Documentation*)

Under SSAE No. 11, the practitioner should prepare and maintain attest documentation which best meets the circumstances of the engagement. The documentation provides support for the practitioner’s work and aids to direct the engagement. The documentation must be sufficient for understanding when reviewed by the engagement team superior or reviewer. The documentation is the property of the practitioner.

The practitioner is ethically bound to maintain the confidentiality of client information and is obligated to adopt reasonable procedures that prevent unauthorized access to documentation.



5. IRS Circular 230

Under IRS Circular 230, best practices (§10.33) require clear communication between the practitioner and the client regarding the term of the engagement. Although the IRS does not specify the form of communication, an engagement letter would minimize the practitioner’s exposure.

Practitioner Standards (§10.34): Under this section, the Service expands “position” standards beyond tax returns exclusively to also include any document submitted to the IRS. Accordingly, the practitioner is not released from the responsibility to clear the “not frivolous” standard, even if he or she did not prepare the supporting documentation.

Covered Opinions (§10.35): This section details “covered opinions” (any written tax advice not otherwise disclaimed within the advice, with some exception). A taxpayer may rely on a covered opinion. Although the rule was not intended to apply to routine types of documents (those not generally construed as tax advice), most professional firms now include a disclaimer in nearly all written communications such as:

“To ensure compliance with IRS Circular 230, any U.S. federal tax advice provided in this communication is not intended or written to be used, and it cannot be used by the recipient or any other taxpayer (i) for the purpose of avoiding tax penalties that may be imposed on the recipient or any other taxpayer, or (ii) in promoting, marketing or recommending to another party

a partnership or other entity, investment plan, arrangement or other transaction addressed herein.”

Compliance (§10.36): Any practitioner with (or each practitioner who shares) the principal responsibility for overseeing a firm’s practice of preparing tax returns, claims for refunds or other documents for submission to the IRS must ensure that the firm has adequate procedures in effect assuring compliance with Circular 230 throughout the entire organization.

Written Advice (§10.37): A practitioner may not give written or electronic advice based on unreasonable legal or factual assumptions or representations nor advice that considers the possibility of an audit if the issue will be raised during an audit or, if raised, resolved through settlement.

On Sept. 17, 2012, the IRS issued proposed regulations to amend Circular 230. The proposed regulations streamline the existing rules for written tax advice by eliminating the complicated covered opinion rules in §10.35. The complexity of the covered-opinion provisions of current §10.35 has resulted in an “unrestrained use” of disclaimers on nearly all communication from tax professionals regardless of whether the practitioner is actually providing tax advice, which in turn led clients to ignore the disclaimers. The proposed regulations establish a general standard that a practitioner must exercise competence when engaged in practice before the IRS. Proposed Section 10.35 defines competent practice as requiring “the knowledge, skill, thoroughness, and preparation necessary for the matter for which the practitioner is engaged.”

The final regulations are expected to be issued sometime in 2013.

6. Auditing Standard No. 3 (*Audit Documentation*)

Under the Sarbanes-Oxley Act of 2002 (SOX), the Public Company Accounting Oversight Board (PCAOB) was created and empowered to establish regulatory documentation and records-retention standards. Up to this point, the Statements

on Auditing Standards relating to working papers provided only broad guidelines. Additionally, few explicit requirements were prescribed elsewhere within the professional standards.

PCAOB Auditing Standard No. 3 supersedes AU Sec. 339 and SAS No. 96. It establishes documentation requirements for audits of financial statements, audits of internal controls over financial reporting and reviews of interim financial statements conducted pursuant to the standards of the PCAOB.

The standard defines “audit documentation” as written record of the basis for the auditor’s conclusions. The auditor must document procedures performed, evidence obtained and conclusions reached. The auditor must document specific matters to include:

- Auditing procedures that involve the inspection of documents or confirmation
- Auditor independence and staff proficiency
- Significant findings and actions taken to address them
- The basis for the conclusions reached

The auditor must document all significant findings in an “engagement completion document” and retain audit documentation for seven years from the report release date. This includes incomplete engagements (as of cessation of audit work). The auditor must obtain and document sufficient evidence which supports the auditor’s report and augment audit documentation after the report release date as circumstances warrant (including any subsequent procedures performed). No documentation should be deleted or discarded after the documentation completion date. According to prescribed circumstances, the auditor must either retain (or have access to) documentation of work performed by other auditors.

Resources

AU-C Section 230: <http://tinyurl.com/bugggco>

AU-C Section 9230. Audit Documentation: Auditing Interpretations of Section 230: <http://tinyurl.com/cm7mlkv>

AICPA Statement on Auditing Standards (AU-C Section 230), Audit Documentation. Georgiades, George, GAAS Update Service; April 30, 2012, Vol.12 Issue 8, p. 1–8.

Peer Review & Quality Control Document Guidance, which includes peer review decision tree to assist in determining your firm’s peer review requirements: <http://tinyurl.com/bsco45j>

PRP Section 4300: <http://tinyurl.com/c27l4ur>

PRP Section 4400: <http://tinyurl.com/bp2hkhb>

SSARS No. 19, *Compilation and Review Engagements*: <http://tinyurl.com/c7dc8wj>

New SSARS to Usher in Big Changes for Compilation and Review Engagements, *Journal of Accountancy*, Jan. 4, 2012. <http://tinyurl.com/cg8529j>

Changes on Tap for Compilation and Review Standards, *Journal of Accountancy*, McNERNEY, C., Landes, C., Glynn, M., May 2010: <http://tinyurl.com/d4w7zo5>

Mike Glynn, AICPA staff liaison to the ARSC, discusses SSARS 19: <http://bcove.me/s6r4em6k>

Non-Attest Services (an excerpt from the AICPA Webcast “2011 Professional Ethics Update”), AICPA TV, June 30, 2011: <http://bcove.me/kg0bkud5>

AT Section 101 Attest Engagements: <http://tinyurl.com/btg25go>

AT Section 9101 Attest Engagements: Attest Engagements Interpretations of Section 101: <http://tinyurl.com/cxrayxl>

Circular No. 230: Regulations Governing Practice before the Internal Revenue Service: <http://www.irs.gov/pub/irs-utl/pcir230.pdf>

Auditing Standard No. 3: Audit Documentation: <http://tinyurl.com/aztkyts>

Audit Documentation: It’s a Whole New World, *The CPA Journal online*, Howard B. Levy, June 2005: <http://tinyurl.com/b33uarj>

PCAOB Gives Ernst & Young Manager the Charlie Rangel Treatment, Caleb Newquist, *goingconcern*, Dec. 6, 2010: <http://tinyurl.com/a2rpy7v>

Case Study No. 8: The Case of the Missing Papers

Upon graduation from Best University, you were hired as an audit associate for a large publicly traded company. Riding the fast track, you become a manager after only four years. On April 12, the CPA firm that audits your company’s financials gives you notice that they will be auditing your gross margin loss reserve account as of the end of March. The documentation they’ve requested is due to them April 19. This will be the first audit you go through as a manager.

A little nervous, you immediately began to review the files and noted the following:

- The sign-off sheet is missing
- The calculation checklist is missing
- An out-of-date version of the calculation sheet was used instead of the appropriate version
- Some of the costs that should have been included as part of the calculation have been omitted

Upon discovering these issues, you notify the controller. He assures you that these items are no cause for worry and are easily resolved. Accordingly, he directs that you do the following:

- Create the missing sign-off sheet, sign it, backdate it and add it to the documentation
- Have the accountant who was supposed to prepare the checklist create it, sign it and backdate it
- Populate the new version of the calculation sheet and backdate it
- Provide only the documentation that ties to the costs in the calculation sheet, even though it excludes costs that should have been included

You recently bought a lovely home in an affluent neighborhood. Although the mortgage was a little bit of a stretch for your current salary, based upon your past experience with the firm, you anticipated a raise soon. You greatly enjoy your job and the professional reputation that you have acquired. How would you address each of the preceding issues?

Enforcement Cases 2013 Outline for Virginia-Specific Ethics Course

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

SUMMARY OF VIOLATIONS	RATIONALE	VBOA ACTION	DATE CLOSED
<p>CASE #1</p> <p><u>FINAL ORDER</u> <u>§ 54.1-4413.3</u> <u>18VAC5-22-90</u></p> <p>Acts Discreditable CPE Deficiency</p>	<p>The Regulant violated the Standards of Conduct and Practice by falsely obtaining \$500,000 in life insurance proceeds from the Trust of his deceased wife as noted in the court documents from United States District Court, Eastern District of Virginia.</p> <p>The Regulant was charged and convicted of Conspiracy to Commit Wire Fraud and Aggravated Identity Theft.</p> <p>The VBOA also found the Regulant to be in violation of allowing a false statement to be filed with the Social Security Administration knowing the signature was a forgery.</p>	<p>The VBOA ordered the immediate revocation of the CPA's license with a requirement to return the wall certificate within 30 days of the entry date of the Final Order.</p> <p>The VBOA imposed a monetary penalty of \$100,000 to be paid within 90 days of the entry date of the Order.</p> <p>The Regulant shall reimburse the VBOA for the reasonable cost of \$500 within 90 days of the entry date of the Order for the investigation of this matter.</p>	8/21/2012
<p>CASE #2</p> <p><u>FINAL ORDER</u> <u>§54.1-4413.3</u> <u>§54.1-4412.1(B),(D)</u> <u>18VAC5-22-90 (A)</u> <u>18VAC5-22-140 (A)</u> <u>18VAC5-22-170 (B)</u></p> <p>Violation of Standards of Conduct and Practice;</p> <p>Providing public accounting services without a valid CPA firm license;</p>	<p>The Regulant provided attest and compilation services without a valid CPA firm license and failed to enroll in a peer review program.</p> <p>The Regulant also violated the Standards of Conduct and Practice by:</p> <p>Failing to supervise his employees who did not advise him of client calls and thus made him unavailable to clients;</p> <p>Failing to test software for accuracy which would have confirmed that e-filed returns were accepted or rejected by the Internal Revenue Service.</p>	<p>The VBOA ordered the immediate revocation of the CPA license with a requirement to return the wall certificate within 30 days of the entry date of the Final Order.</p> <p>The VBOA imposed a monetary penalty of \$10,000 to be paid within 90 days of the entry date of the Order.</p> <p>The Regulant shall reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter within 90 days of the entry date of the Order.</p>	8/21/2012
<p>Failure to obtain a peer review;</p> <p>Failure to provide the VBOA with CPE certificates of completion; and</p> <p>Failure to report a new address to the VBOA.</p>	<p>This failure caused his client to have his 501 (C) 3 status revoked by the IRS for failure to file a timely tax return; and</p> <p>Failing to properly manage his accounting practice in that rather than determine why the e-filed returns were not being accepted by the IRS he merely requested that they paper file their returns. Practitioners who prepare more than 11 tax returns are required to e-file tax returns.</p> <p>The Regulant violated 18VAC5-22-90 (A) by failing to submit the required 120 CPE certificates of completion to the VBOA, to include the required 8 hours of CPE in attest and compilation.</p> <p>The Regulant violated 18VAC5-22-170 (B) of the VBOA's regulations by failing to properly notify the VBOA of his change of address within the required 30 calendar days.</p>	<p>The Regulant shall notify all clients by letter that he is no longer licensed by the VBOA as a CPA with a copy of such letter to the VBOA. He shall advise all attest clients that they should seek an alternate CPA to provide their services.</p> <p>The Regulant shall remove all CPA signage from business cards, newspapers, business letterhead, computer software, any and all advertisement, social media, email signatures, email addresses or any document or signature using the CPA designation.</p> <p>As a condition of consideration for any future applications for CPA licensure the Respondent is required to provide the VBOA with the following:</p> <p>Obtain an additional 20 hours of CPE in Peer Review; and,</p> <p>Obtain an additional 20 hours of CPE in management of an accounting practice.</p> <p>The additional CPE will not be considered as part of the standard requirements of 120 CPE required for reinstatement to include the 2 hours of Virginia-specific Ethics CPE to become licensed in Virginia as a CPA.</p> <p>The Respondent shall demonstrate to the VBOA's satisfaction he has obtained knowledge of how to effectively manage the administrative and personnel side of a public accounting practice.</p>	

Enforcement Cases
2013 Outline for Virginia-Specific Ethics Course

SUMMARY OF VIOLATIONS	RATIONALE	VBOA ACTION	DATE CLOSED
<p>CASE #3</p> <p><u>FINAL ORDER</u> <u>§ 54.1-4413.3</u> <u>18VAC5-22-90</u></p> <p>Acts Discreditable CPE Deficiency</p>	<p>The Regulant violated the Standards of Conduct and Practice by pleading guilty and being convicted of 41 felonies.</p> <p>The felonies include 21 charges of Check Forgery and 20 charges of Grand Larceny for the unlawful forging of payroll checks from the client while employed at the Complainant's firm.</p> <p>The CPA communicated with the client directly and supervised the work that was being done by the staff of the Complainant's firm with no check signing authority for this client.</p> <p>The Respondent deposited the client's checks into his personal bank account.</p> <p>The Respondent was ordered to pay restitution to the Clerk of Courts in the amount of \$101,000.</p> <p>The sum of \$21,000 is owed to the client, and \$80,000 is owed to the insurance company.</p> <p>The Respondent also failed to submit the required 120 CPE certificates of completion for the calendar years of 2009, 2010 and 2011.</p>	<p>The VBOA ordered the immediate revocation of the CPA license with a requirement to return the wall certificate within 30 days of the entry date of the Final Order.</p> <p>The VBOA imposed a monetary penalty of \$50,000 within 90 days of the entry date of the Order.</p> <p>The Regulant shall reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter within 90 days of the entry date of the Order.</p> <p>The Regulant shall remove all CPA signage from business cards, letterhead, computer software, advertisement, email signatures or any document in that he cannot use the CPA designation.</p>	<p>8/21/2012</p>
SUMMARY OF VIOLATIONS	RATIONALE	VBOA ACTION	DATE CLOSED
<p>CASE #4</p> <p><u>FINAL ORDER</u> <u>§ 54.1-4413.3</u> <u>IRS Circular 230 subsection 10.28</u> <u>ET Section 02.501-1</u> <u>ET Section 53-Article II</u> <u>18VAC5-22-90</u> <u>18VAC5-22-170</u></p> <p>Standards of Conduct and Practice Due Professional Care Acts Discreditable CPE Deficiency</p>	<p>The Regulant failed to exercise due professional care in the performance of professional services by:</p> <p>Failing to complete his client's tax returns in a timely manner;</p> <p>Failing to return client records upon several requests for tax documents made by the client beginning in early September 2009;</p> <p>Failing to provide copies of tax returns he insinuated that he had prepared upon several requests made by the client beginning in early September 2009;</p> <p>Failing to discharge his responsibility with integrity, objectivity, due professional care and genuine interest by failing to prepare timely tax returns;</p> <p>Failing to advise the client that he had not prepared the returns and failing to convey the seriousness of the matter when the IRS and the IRS Agent made a request for the tax returns of his clients;</p> <p>Failing to provide the VBOA with any CPE; and</p> <p>Failing to respond to the VBOA regarding a request to respond to the allegations as referenced in the complaint.</p>	<p>The VBOA ordered that the Regulant's license be placed on suspension for a period of no less than one year from the entry date of the Final Order.</p> <p>The Respondent shall remove all CPA designation signage until the CPA license has been reinstated by the VBOA.</p> <p>Reinstatement requires the following:</p> <p>Certificates of completion for 8 hours of CPE in IRS Circular 230, the AICPA Code of Conduct, Statement on Standards for Tax Services (SSTS), and Ethics; and</p> <p>Certificates of completion for 20 hours of CPE in Practice Management.</p> <p>The Respondent will be required to present before the full Board what his responsibilities to his clients and to a regulatory Board are.</p> <p>The VBOA imposed a monetary penalty of \$2,750 to be paid within 90 days of the entry date of the Order.</p> <p>The Regulant shall reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter.</p>	<p>5/2/2012</p>

Enforcement Cases 2013 Outline for Virginia-Specific Ethics Course

SUMMARY OF VIOLATIONS	RATIONALE	VBOA ACTION	DATE CLOSED
<p>CASE #5</p> <p><u>FINAL ORDER</u> <u>§54.1-4413. (3) and (4) (B) 4</u></p> <p>SEC Violation</p> <p>This section of the <u>Code of Virginia</u> provides the VBOA with the authority to sanction a licensee for the suspension of practice before the SEC in that the VBOA may impose penalties, revoke or suspend his CPA license in Virginia.</p>	<p>The VBOA received notice from the SEC that the Regulant entered into an Offer of Settlement to suspension from practice before the SEC.</p> <p>The court ordered the Regulant to pay \$19,080 in disgorgement fees, \$9,078 in prejudgment interest, and a \$175,000 civil monetary penalty totaling \$203,158.</p> <p>The SEC's complaint alleged that the Regulant directed and engaged in improper accounting which resulted in a company filing materially false and misleading financial statements and that the Company fraudulently committed accounting violations through the conduct of the Regulant and others.</p>	<p>The VBOA ordered that the Respondent be reprimanded for his lack of due professional care regarding the improper accruals.</p> <p>The Regulant shall reimburse the VBOA for the reasonable cost of \$1,000 for the investigation of this matter.</p>	5/2/2012
<p>CASE #6</p> <p><u>CONSENT ORDER</u> <u>§54.1-111, §54.1-4409.1 and §54.1-4414</u></p> <p>Unlicensed Activity</p>	<p>The VBOA received notification from several anonymous citizens by way of phone call and a written complaint regarding the unlicensed use of the CPA designation by a firm in Lynchburg, Virginia.</p> <p>The firm was also offering to perform CPA services without a valid firm license stating the firm would provide audits, reviews and compilations.</p>	<p>The owner of the firm consented to:</p> <p>A monetary penalty of \$2,000 to be paid within 90 days of the entry date of the Order.</p> <p>Reimbursement to the VBOA for the reasonable cost of \$500 for the investigation of this matter.</p> <p>Immediately removing all signage, to include her website address, business cards, circulars, letterhead, newspaper and/or Internet ads indicating she is a CPA or her firm is a CPA firm.</p>	4/26/2012

Enforcement Cases Follow-Up

Do you note a common thread among any of these cases? If so, what is it?

Based on the information provided on these cases, do you think the VBOA actions are appropriate?

Slide 48: Making Ethical Choices

This model was adapted from framework developed by Markkula Center for Applied Ethics at Santa Clara University

Five potential value systems to use:

Utilitarian (greatest good for the greatest number of people)

Rights (actions taken determined based on not infringing upon individuals' rights)

Fairness/Justice (action must be fair to everyone)

Common Good (actions taken must serve the common good and preserve community)

Virtue (actions taken propel us toward our aspired humanity)

Slide 49: Making Ethical Choices

Or ask yourself: "What would my mother say?"

Conclusion

To fail to plan is to plan to fail.

— Unknown

On a daily basis, we are each faced with choices, very few of which are morally equivalent. Consequently, how to process those decisions is vital to every individual's success, professionally and personally. Additionally, for the CPA to be regarded as the preeminent trusted adviser, the profession must first be thought of as the ethical standard-bearer. Consequently, your choices matter!

Following is a model* (one of many) that could be used when facing ethical dilemmas.

1. Get the facts.
 - Although an obvious step, it is often inadequately performed
2. Apply a system of values to the facts.
 - Philosophers have developed five systems, which follow (presented in abject brevity):
 - i. Utilitarian Approach: The ultimate action is the one that provides the greatest good for the greatest number.
 - ii. Rights Approach: Actions are determined based upon individuals' rights (actions are wrong to the degree that those actions infringe upon those rights).
 - iii. Fairness or Justice Approach: The action must be fair to everyone (without favoritism or discrimination).
 - iv. The Common-Good Approach: Actions taken serve the common good (assumes preservation of community is critical).
 - v. The Virtue Approach: Actions taken propel us toward our aspired humanity.
3. Think carefully about the impact of the action which may be undertaken using questions such as:
 - Benefits and harms?
 - Individuals affected?
 - Favoritism or discrimination?
 - Serve the common good?
 - Advance humankind?

“

To fail to plan is to plan to fail.

— Unknown

This is unarguably an academic approach to resolving issues in ethics. Often directives in simplest form are the most effective. So, when evaluating your plan of action, perhaps the best question to ask might simply be: ***“What would my mother say?”***

* This model was adapted from the Markkula Center for Applied Ethics at Santa Clara University's "A Framework for Thinking Ethically," Manuel Velasques et al. Web. Jan. 2, 2013: <http://tinyurl.com/ygosvqgb>.

Closing Reminders

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

If you have any additional questions, contact one of the organizations listed on pages 6–7.

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.



Why Take an Ethics Class?

- Accountants behaving badly
- Ignorance of the law does not excuse
- Practice makes perfect
- Protect the value of the CPA profession



Why Take an Ethics Class?

The Public Perception

- In November 2011 Gallup poll, 43 percent viewed accountants' ethical standards as "very high" or "high"
- Up from 32 percent in 2002

3



Ethics Warm-Up

- Ticket Dilemma
- Buyer Beware
- Parental Problems
- Family Favoritism

4

Top 10 Issues for 2013



Top 10 Issues for 2013



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1. Ownership of Information

- **Client-provided records** should be returned to client upon request
- **Practitioner-prepared records** should be provided to client upon request unless there are fees due for that work product
- **Practitioner's work products** should be provided to client, with some exceptions

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2. VBOA Licensure Requirements

- An **individual** must hold a Virginia CPA license if providing services to the public using the CPA title and principal base of business is in Virginia
- A **firm** must hold a firm license in Virginia if it provides attest or compilation services to persons or entities located in Virginia (with some exceptions)

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3. CPE Reporting Requirements

- CPAs must accrue 120 hours of CPE during three-calendar-year period ending with current calendar year
- Minimum of 20 hours each year
 - 2 hours of Virginia-specific ethics required annually

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4. Behavioral Ethics

- What does the word “ethics” mean to you?
- What are the distinctions between ethics and business ethics?



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4. Behavioral Ethics

The Fraud Triangle

- Three elements need to coalesce for fraud to occur:
 - Pressure
 - Opportunity
 - Rationalization

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4. Behavioral Ethics

VIDEO

12



4. Behavioral Ethics

VIDEO

13



4. Behavioral Ethics

Kohlberg's Theory of Moral Development

- Three “levels” of morality:
 - Preconventional morality
 - Conventional morality
 - Postconventional (or principled) morality
- Stages emerge not from maturation or teaching, but from our own reflection on moral dilemmas

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5. Enforcement FAQ

- Clarity on rules governing the use of the CPA title
- Answers on logistics of VBOA investigations
- Details available on VBOA website

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6. VBOA Social Media

You can get the latest VBOA news and updates from several online sources:



• Twitter: @VBOANews



• Facebook



• LinkedIn



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7. VBOA Policies

Board Policies

- [Board Policy #1, Trust Account](#)
- [Board Policy #2, Sponsors Providing Continuing Professional Education \(CPE\)](#)
- [Board Policy #3, Substantially Equivalent Jurisdictions](#)
- [Board Policy #4, Continuing Professional Education \(CPE\) Guidelines](#)
- [Board Policy #5, Publication of Board Disciplinary Action](#)
- [Board Policy #6, CPA and International Qualification Examination](#)
- [Board Policy #7, Peer Review Oversight Committee](#)



7. New VBOA Policies

Heads up! Fines emphasized

- VBOA is cracking down on CPE deficiencies with higher fines, with license suspension possible in case of prior deficiencies
- Lesser penalties for self-reported deficiencies than for those found as part of CPE audit
- CPE deficiencies made up 52 percent of VBOA enforcement cases in 2011



7. New VBOA Policies

You could end up in here!

Suspensions & Revocations, continued

Tax-Related Issues, Due Professional Care and Discreditable Acts

Name	License #	City, State	Violation	Date	Statutes/Regulations
██████████	██████	██████████	Due Professional Care; CPE Deficiency	11/2/2011	§ 54.1-4413.3 and 18VAC5-21-170 (A,D)
Consent Order					
██████████ agreed to the Board's suspension of ██████████ Virginia CPA License until he proves compliance with all the requirements of the Consent Order. In addition, ██████████ agreed to: 1) Complete 120 hours of CPE for 2008, 2009 and 2010, including two hours of Virginia-specific ethics (two hours may not be considered part of the annual CPE ethics requirements for 2011); 2) Submit to the Board a written summary of the Virginia Statutes and Regulations encompassing the requirements and responsibilities of being licensed as a CPA in Virginia; and 3) Reimburse the VBOA \$500 for investigative costs.					

Source: VBOA e-Newsletter

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8. International Ethics Convergence

- AICPA, IESBA ethics codes are very similar
- IESBA Code is principles-based, AICPA Code is rules-based
- AICPA currently restructuring ethics literature and incorporating a conceptual framework

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9. Fiduciary Responsibilities

What is a fiduciary?

- Essentially, an individual legally obligated to act solely for the benefit of another in matters within the scope of their relationship
- Any time a CPA agrees to take on a traditionally fiduciary role, he or she is acting as a fiduciary

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9. Fiduciary Responsibilities

3 Elements in a Fiduciary Relationship

- Accountant represents himself or herself as an expert with respect to some facet of business
- Client places high level of trust in accountant
- Client is relying on accountant's counsel

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9. Fiduciary Responsibilities

Four Fundamental Fiduciary Obligations

- Duty of management
- Duty of loyalty or preference
- Duty to account
- Duty to disclose

In event of a complaint, the burden of proof is on the fiduciary to prove proper fulfillment of duties. There is no “It’s not my fault alone” defense!

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10. Method of Accounting

AICPA vs. Private Company Council

- AICPA developed OCBOA framework (principles-based, nonauthoritative)
- AICPA task force is focused on framework for users not required to use U.S. GAAP
- PCC focused on modifications to U.S. GAAP for private companies

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VBOA Fee Changes



VBOA Fee Changes

- Fees increased for the first time since 1991
- In addition to some new fees, there are now differences in fees for issuance of an initial license and license renewal
- New fees effective Jan. 1, 2013

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License Renewal

How can I find my renewal due date?

- VBOA sends annual reminders via email
- Check your expiration date using Licensee Search on VBOA website

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Proposed Revisions to Nonattest Services Standards

EXPOSURE DRAFT

**PROPOSED STATEMENTS ON STANDARDS
FOR ACCOUNTING AND REVIEW
SERVICES**

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Proposed Revisions to Nonattest Services Standards

AICPA PEEC exposure draft

- Amends Interpretation No. 101-3, “Nonattest Services”
- Clarifies that financial statement prep services are nonattest

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Proposed Revisions to Nonattest Services Standards

Why are these revisions necessary?

- Confusion under current standards has created practice inconsistencies
- Attest engagements require independence, while nonattest engagements do not
- Correctly identifying a service as attest or nonattest is very important

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Documentation Requirements



Documentation: Audit

AU-C Section 230, *Audit Documentation*

- Audit documentation must provide adequate record of the basis for the auditor's report **and**
- Evidence that the audit was planned and performed in accordance with GAAS (and any other applicable requirements)

Documentation: Peer Review

PRP Sections 4300 & 4400

- Questionnaires that provide documentation of firm's policies and procedures regarding system of quality control
- Should be provided to peer reviewer prior to start of review

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Documentation: Compilation

SSARS No. 19

- Framework for performance and reporting on compilation and review engagements
- Defines “compilation” and “review” and provides documentation requirements for each
- A written engagement letter is now required to perform **any compilation or review services**

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Documentation: Attestation

SSAE No. 11

- Practitioner should maintain documentation that best meets the circumstances for the engagement
- Documentation is property of practitioner
- Practitioner is ethically bound to maintain confidentiality of client information

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Documentation: Tax

IRS Circular 230

- Circular 230 requires clear communication between practitioner and client regarding term of engagement
- Written engagement letter minimizes practitioner exposure
- Any practitioner with principal responsibility for overseeing firm's preparation of tax returns must ensure Circular 230 compliance

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Documentation: Audit

Auditing Standard No. 3

- Auditor must document procedures performed, evidence obtained and conclusions reached
- Auditor must retain significant findings and audit documentation for seven years from release date of report

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Enforcement Cases



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Acts Discreditable

What is an Act Discreditable?

- Previously, Virginia strictly construed the term to include only those activities occurring in the “performance of services.”
- That regulation was repealed, leaving the VBOA with discretion in interpreting ET Section 501.

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Acts Discreditable

In 2010, Stuart Goldberg, 57, pleaded guilty to child endangerment for inappropriately kissing a 12-year-old girl at his Irvington, N.Y., toy store.

- Two years later, the New York Board of Regents indefinitely suspended his public accounting license and fined him \$2,500 — a heftier fine than he received in his criminal case.
- “The crime described is unworthy of a licensed professional in this state,” the report says.

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Enforcement Case No. 1

- CPA falsely obtained \$500,000 in life insurance proceeds from deceased wife's trust
- Penalty: Revocation of license, \$100,000 fine, \$500 VBOA reimbursement

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Enforcement Case No. 2

- CPA provided attest and compilation services without valid firm license, failed to enroll in peer review program
- Penalty: Revocation of license, \$10,000 fine, \$500 VBOA reimbursement

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Enforcement Case No. 3

- CPA pleaded guilty to numerous counts of check forgery, grand larceny due to forging of payroll checks from client
- Penalty: Revocation of license, \$50,000 fine, \$500 VBOA reimbursement

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Enforcement Case No. 4

- CPA failed to prepare client tax returns in a timely manner, along with several other related violations
- Penalty: Suspension of license, \$2,750 fine, \$500 reimbursement

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Enforcement Case No. 5

- CPA committed violations that resulted in a company filing materially false and misleading financial statements
- Client had entered into Offer of Settlement with U.S. Securities and Exchange Commission (SEC)
- Penalty: Reprimand, \$1,000 VBOA reimbursement

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Enforcement Case No. 6

- CPA used CPA designation without license
- Penalty: \$2,000 fine, \$500 VBOA reimbursement

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Enforcement Cases

- Is there a common thread among any of these cases?
- Based on the information provided, do you think that the VBOA's actions were appropriate?

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Making Ethical Choices

One Possible Decision Model

- Get the facts
- Apply a system of values to the facts
- Think carefully about the impact of the actions you might take

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Making Ethical Choices

To put it in simpler terms...

**“What would
my parents say?”**



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Closing Reminders

Ensure your license is up to date:
www.boa.virginia.gov

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

Complete the evaluation that will be emailed
to you shortly. Your feedback helps us make this a
better course!

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Membership on the Go



The VSCPA is going mobile!

New mobile website

VSCPA.com is getting a fresh new look for mobile users! The site's new streamlined layout is ideal for navigating on smartphones and other mobile devices.

E-newsletter redesign

The VSCPA's two e-newsletters, *eDisclosures* and *Footnote*, and its CPE e-newsletters are getting mobile tweaks as well, with new looks designed to look great on mobile devices.

Connect app

Connect, the VSCPA's interactive member directory, has its own app for Apple and Android devices. Download it and start connecting today!

And there's more...

We're also making changes to the way our electronic communications interact with you. Whether you're browsing VSCPA.com or reading an e-newsletter, you'll be seeing content tailored to your specific areas of interest. It's all part of our effort to make the VSCPA experience more meaningful for our members!



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