

# VIRGINIA CPA ETHICS

## YOUR KEY TO PROFESSIONAL RESPONSIBILITY

2017  
REQUIRED  
COURSE



Virginia Society of  
Certified Public  
Accountants





**Virginia Society of  
Certified Public  
Accountants**

# Virginia CPA Ethics: 2017 Required Course

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This training has been created to help you meet the Virginia Board of Accountancy's (VBOA) annual 2-hour (100-minute) CPE requirement for 2017. In 2003, the Virginia General Assembly passed a law requiring all CPAs subject to Virginia CPE requirements to take an annual Ethics CPE course. Each year, the VBOA provides an outline of topics to be included, which can be found at [tinyurl.com/2017VBOAEthicsOutline](http://tinyurl.com/2017VBOAEthicsOutline) (DOCX). Developed using that outline as the course framework, attendees will be able to accomplish the following fundamental objectives:

- Identify the core ethical responsibilities a CPA has to the public and to his or her clients/employer
- Differentiate between acceptable and non-acceptable behavior for Virginia CPAs as outlined in the American Institute of CPAs (AICPA) Code of Conduct, Virginia statutes and regulations and other resources
- Recall Virginia CPE rules and consequences
- Recognize the impact of unlicensed activity to individuals and firms

The VBOA has confirmed that this class qualifies for 2 hours (100 minutes) of Ethics CPE in Virginia as well as 2 hours of Ethics CPE for CPAs licensed in these other states:

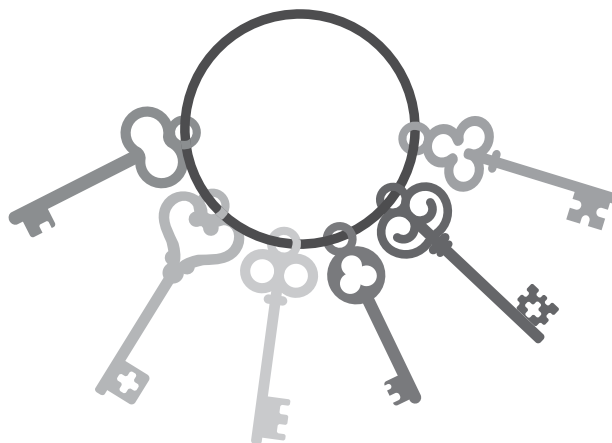
- Maryland: Satisfies 2 hours
- North Carolina: Group study and self-study versions satisfy 2 hours for CPAs licensed in Virginia and North Carolina for CPAs who primarily work in Virginia
- Washington, D.C.: Satisfies 2 hours
- West Virginia: Satisfies 2 hours

This course may also qualify for similar continuing education credit in other jurisdictions and fulfill Ethics requirements for particular specialized certifications. Attendees are encouraged to consult applicable regulations or regulatory bodies for additional information.

Please note: This class is not intended to be an all-encompassing update or to present all significant events occurring during the prior year. The information provided and scenarios presented do not represent official positions of the VBOA, the AICPA, the U.S. Internal Revenue Service (IRS), the International Ethics Standards Board for Accountants (IESBA) or any other standard-setting or regulatory body discussed herein, nor do they represent the views of any individual course instructor unless specifically noted. For specific advice or clarification, please research the applicable standards or seek advice from the appropriate governing/regulating organization.

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# Virginia-Specific Ethics Course 2017 Outline

## A. Introductory Video

## B. Ethics — Code of Conduct

This section is to cover the “core” responsibilities the CPA has to their clients/employer, emphasizing how this applies to both CPAs in public accounting and non-public (industry, government & academia). This section should be a high level summary of these core items, with more detail provided on the topics of independence & non-attest services, and data security. Recent changes to the code of conduct should also be highlighted. Course should also mention the CPAs ethical responsibility when certifying their annual renewal (i.e., CPE compliant). All discussion topics throughout the course will include resources for obtaining additional information.

- Integrity & objectivity (independence)
- Conflicts of interest
- Negligence (how it relates to industry)
- Gifts and the use of third-party service providers
- Confidentiality (data security)
- Client records (public)

## C. Overview of Board’s Enforcement Cases

- Table of categories/percentages
- Include the range of penalties imposed

### 1. CPE

- Going to/from “Active-CPE Exempt” Status and “Active” Status
- CPE deficiencies (enforcement case examples provided)
- What qualifies as CPE (including new standard changes, i.e., Nano learning)
- Use of the CPE Tracking System

### 2. Unlicensed Activity (enforcement case examples provided)

Note: Emphasize the potential impact/relationship to individuals and firms.

- Use of the CPA Title
- Providing services limited to CPAs
- Volunteer work (Note: no enforcement case examples; however, course should provide an overview of what is/ is not acceptable to avoid unlicensed activity, to include a link to the VBOA’s Volunteer Services guidebook).

### 3. Other Enforcement Case Examples

- Tax related
- Audit related

## For Virginia-Specific Ethics Course Providers/Instructors

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

**Important:** Virginia-Specific Ethics Course providers/instructors should encourage participants to monitor the VBOA website for updates and information regarding the VBOA. Providers/instructors should also recommend that licensees register with the Virginia Town Hall to receive automated VBOA regulatory updates ([townhall.virginia.gov](http://townhall.virginia.gov)).

# Knowledge Check

1. List the core ethical responsibilities a CPA has to the public and to his or her clients/employer:

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2. According to the AICPA Code of Professional Conduct, what is considered acceptable versus non-acceptable behavior? According to the Virginia statutes? Virginia regulations?

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3. List the VBOA's CPE rules and consequences:

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4. Describe the impact of unlicensed activity:

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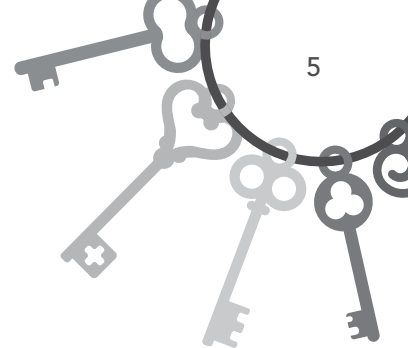
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# Chapter I: Professional Conduct



**INSTRUCTOR NOTE:** Be mindful of timing as you go through the course and skim or skip some slides to help with time. Create your own timing benchmarks in presenting the course — the Train the Trainer video can help with this. Be aware of the makeup of your class (public vs. business/industry) and be cognizant of the terminology of you use.

The CPA credential implies objectivity, integrity and sound professional judgment. The public has the expectation that this is what they will be getting when working with CPAs. Along with that expectation come laws, codes, rules, regulations, and policies enacted to motivate proper behavior and punish improper behavior on the part of CPAs.

One of the hallmarks of any “profession” is that members of the profession are required to conform to a standard of conduct. The CPA profession has documented standards of conduct at both the state and national level. At our foundation, we are a profession guided by these standards and compliance with them is our minimum bar for ethical behavior.

**INSTRUCTOR NOTE:** You can use the first video as the opening video shortly after your introduction, before you get into Professional Conduct.

## The Code of Virginia

The Code of Virginia § 54.1-4413.3 titled “Standards of conduct and practice” reads as follows:

**INSTRUCTOR NOTE:** This is an engagement opportunity. Ask your class if anyone has read the Code of Virginia and go through the items listed below. This directly answers Knowledge Check question 1. Stress that this is the Code of Virginia and call particular attention to item 4.

Persons using the CPA title in Virginia and firms providing attest services, compilation services, or financial statement preparation services to persons or entities located in Virginia shall conform to the following standards of conduct and practice.

1. Exercise sensitive professional and moral judgment in all activities.
2. Act in a way that serves the public interest, honors the public trust, and demonstrates commitment to professionalism.
3. Perform all professional responsibilities with the highest sense of integrity, maintain objectivity and freedom from conflicts of interest in discharging professional responsibilities, and avoid knowingly misrepresenting facts or inappropriately subordinating judgment to others.

4. Follow the Code of Professional Conduct, and the related interpretive guidance, issued by the American Institute of Certified Public Accountants, or any successor standard-setting authorities.

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.

7. Do not engage in any activity that is false, misleading, or deceptive.

Links to the Code of Virginia and Board Regulations are available on the Virginia Board of Accountancy website at [boa.virginia.gov/Resources/StatutesRegulations.shtml](http://boa.virginia.gov/Resources/StatutesRegulations.shtml).

# Chapter I: Professional Conduct

## The AICPA Code of Professional Conduct

**INSTRUCTOR NOTE:** This is where the “AICPA Code of Professional Conduct” video should be played. Stress that this applies to all CPAs.

As you can see in item No. 4 on the previous page, the Code of Virginia has incorporated by reference the entire AICPA Code of Professional Conduct.

The Code of Professional Conduct consists of principles and rules, as well as interpretations and other guidance. The principles provide the framework for the rules that govern the performance of professional responsibilities.

The Code is intended to provide guidance and rules to all CPAs, whether they are providing services in public practice, industry, government, or education, and outlines what we could call “core responsibilities” that the CPA has to their clients and to their employer. The following Code sections highlight some of these core responsibilities.

**INSTRUCTOR NOTE:** The above is an important point to clarify and emphasize. Some Virginia CPAs believe that the AICPA Code of Professional Conduct only applies to AICPA members. However, because Virginia has incorporated it into the state Code, it, in fact, applies to all CPAs using the title in Virginia.

## Conflicts of Interest

Rule 1.110.010 of the AICPA Code of Professional Conduct addresses the issue of conflicts of interest for CPAs in public practice. The emphasis in the quoted section is ours, not the AICPA’s.

**INSTRUCTOR NOTE:** Be sure to read the bolded section to your class. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

### 1.110.010.01

**A member or his or her firm may be faced with a conflict of interest when performing a professional service. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.**

.02 A conflict of interest creates adverse interest and self-interest threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001]. For example, threats may be created when:

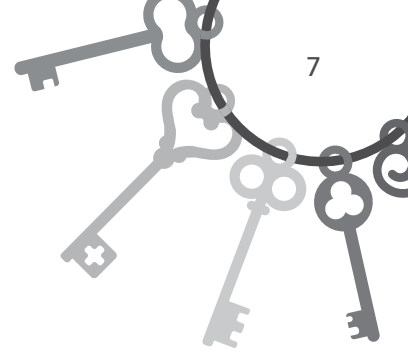
- a. the member or the member’s firm provides a professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict, or
- b. the interests of the member or the member’s firm with respect to a particular matter and the interests of the client for whom the member or the member’s firm provides a professional service related to that matter are in conflict.

.03 Certain professional engagements, such as audits, reviews and other attest services require independence. Independence impairments under the “Independence Rule” [1.200.001], its interpretations, and rulings cannot be eliminated by the safeguards provided in this interpretation or by disclosure and consent.

.04 The following are examples of situations in which conflicts of interest may arise:

- a. Providing corporate finance services to a client seeking to acquire an audit client of the firm, when the firm has obtained confidential information during the course of the audit that may be relevant to the transaction
- b. Advising two clients at the same time who are competing to acquire the same company when the advice might be relevant to the parties’ competitive positions
- c. Providing services to both a vendor and a purchaser who are clients of the firm in relation to the same transaction
- d. Preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
- e. Representing two clients at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
- f. Providing a report for a licensor on royalties due under a license agreement while at the same time





advising the licensee of the correctness of the amounts payable under the same license agreement

- g. Advising a client to invest in a business in which, for example, the immediate family member of the member has a financial interest in the business
- h. Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a competitor of the client
- i. Advising a client on the acquisition of a business which the firm is also interested in acquiring
- j. Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
- k. Providing forensic investigation services to a client for the purpose of evaluating or supporting contemplated litigation against another client of the firm
- l. Providing tax or personal financial planning services for several members of a family whom the member knows to have opposing interests
- m. Referring a personal financial planning or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement
- n. A client asks the member to provide tax or personal financial planning services to its executives, and the services could result in the member recommending to the executives actions that may be adverse to the company. [Prior reference: paragraphs .198–.199 of ET section 191]
- o. A member serves as a director or an officer of a local United Way or similar organization that operates as a federated fund-raising organization from which local charities receive funds. Some of those charities are clients of the member's firm. [Prior reference: paragraphs .186–.187 of ET section 191]
- p. A member who is an officer, a director, or a shareholder of an entity has significant influence over the entity, and that entity has a loan to or from a client of the firm. [Prior reference: paragraphs .220—.221 of ET section 191]

**INSTRUCTOR NOTE:** Great engagement opportunity. Read Section .05, including a and b, and discuss.

## Identification of a Conflict of Interest

**.05 Before accepting a new client relationship, engagement, or business relationship, a member should take reasonable steps to identify circumstances that might create a conflict of interest including identification of:**

- a. **the nature of the relevant interests and relationships between the parties involved and**
- b. **the nature of the service and its implication for relevant parties.**

**.06** The nature of the relevant interests and relationships and the services may change during the course of the engagement. This is particularly true when a member is asked to conduct an engagement for a client in a situation that may become adversarial with respect to another client or the member or member's firm, even though the parties who engage the member may not initially be involved in a dispute. A member should remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

**.07** For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a member in identifying actual or potential conflicts of interest that may create significant threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of a member being able to apply safeguards to eliminate or reduce significant threats to an acceptable level. The process to identify actual or potential conflicts of interest will depend on such factors as:

- a. the nature of the professional services provided,
- b. the size of the firm,
- c. the size and nature of the client base, and
- d. the structure of the firm, for example the number and geographic location of offices.

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.08 If the firm is a member of a network, the member is not required to take specific steps to identify conflicts of interest of other network firms; however, if the member knows or has reason to believe that such conflicts of interest may exist or might arise due to interests and relationships of a network firm, the member should evaluate the significance of the threat created by such conflicts of interest as described below.

## Evaluation of a Conflict of Interest

**INSTRUCTOR NOTE:** Great engagement opportunity. Read and discuss the bolded portion of Section .09 if time permits and the matter is applicable to your audience.

**.09 When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level.** Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. In evaluating the significance of an identified threat, members should consider both of the following:

- The significance of relevant interests or relationships.
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

**INSTRUCTOR NOTE:** Read and discuss Section .10 if time permits and the matter is applicable to your audience. Stress this item and discuss safeguard options. Ask for examples from the class. You can reference the framework discussed in last year's class.

**.10 If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level.**

Examples of safeguards include the following:

- Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:
  - using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality;

- creating separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm;
  - establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and the physical and electronic separation of confidential information.
- Regularly reviewing the application of safeguards by a senior individual not involved with the client engagement or engagements.
  - Having a member of the firm who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
  - Consulting with third parties, such as a professional body, legal counsel, or another professional accountant.

**.11 In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.**

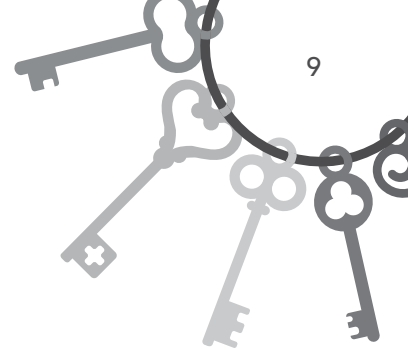
## Disclosure of a Conflict of Interest and Consent

**INSTRUCTOR NOTE:** Read and discuss Section .12 if time permits and the matter is applicable to your audience. This is a good opportunity to remind class that code sections prefaced by 1 apply to public accounting and code sections prefaced by 2 apply to business and industry.

**.12 When a conflict of interest exists, the member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.**

.13 Disclosure and consent may take different forms. The following are examples:

- General disclosure to clients of circumstances in which the member, in keeping with common commercial practice,



does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might be made in a member's standard terms and conditions for the engagement.

- b. Specific disclosure to affected clients of the circumstances of the particular conflict including an explanation of the situation and any planned safeguards, sufficient to enable the client to make an informed decision with respect to the matter and to provide specific consent.

- .14 The member should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general disclosure and general consent. For this purpose, the member should exercise professional judgment in evaluating the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.
- .15 When a member has requested specific consent from a client and that consent has been refused by the client, the member should (a) decline to perform or discontinue professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards, if necessary.
- .16 The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.
- .17 When addressing conflicts of interest, including making disclosures and seeking guidance of third parties, a member should remain alert to the requirements of the "Confidential Client Information Rule" [1.700.001] and the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation [1.400.070] of the "Acts Discreditable Rule" [1.400.001]. In addition, federal, state,

or local statutes, or regulations concerning confidentiality of client information may be more restrictive than the requirements contained in the Code of Professional Conduct.

- .18 When practicing before the IRS or other taxing authorities, members should ensure compliance with any requirements that are more restrictive. For example, Treasury Department Circular No. 230, Regulations Governing Practice before the Internal Revenue Service, provides more restrictive requirements concerning written consent by the client when a conflict of interest exists.

Rule 2.110.010 of the AICPA Code of Professional Conduct addresses the issue of conflicts of interest for CPAs in business:

#### **2.110.010.01**

**A member may be faced with a conflict of interest when undertaking a professional service. In determining whether a professional service, relationship, or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.**

- .02 A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001]. For example, threats may be created when:
  - a. a member undertakes a professional service related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict, or
  - b. the interests of a member with respect to a particular matter and the interests of a party for whom the member undertakes a professional service related to that matter are in conflict.
- .03 A party may include an employing organization, a vendor, a customer, a lender, a shareholder, or other party.
- .04 The following are examples of situations in which conflicts of interest may arise:
  - a. Serving in a management or governance position for two employing organizations and acquiring confidential

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information from one employing organization that could be used by the member to the advantage or disadvantage of the other employing organization

- b. Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving their partnership
- c. Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out
- d. Being responsible for selecting a vendor for the member's employing organization when the member or his or her immediate family member could benefit financially from the transaction
- e. Serving in a governance capacity or influencing an employing organization that is approving certain investments for the company in which one of those specific investments will increase the value of the personal investment portfolio of the member or his or her immediate family member

## Identification of a Conflict of Interest

**.05 In identifying whether a conflict of interest exists or may be created, a member should take reasonable steps to determine:**

- a. **the nature of the relevant interests and relationships between the parties involved and**
- b. **the nature of the services and its implication for relevant parties.**

**.06** The nature of the relevant interests and relationships and the services may change over time. The member should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

## Evaluation of a Conflict of Interest

**.07** When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an

**acceptable level.** Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.

**.08** In evaluating the significance of an identified threat, members should consider the following:

- a. The significance of relevant interests or relationships.
- b. The significance of the threats created by undertaking the professional service or services. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

**.09 If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level.** Examples of safeguards include the following:

- a. Restructuring or segregating certain responsibilities and duties
- b. Obtaining appropriate oversight
- c. Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
- d. Consulting with third parties, such as a professional body, legal counsel, or another professional accountant

**.10** In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.

## Disclosure of a Conflict of Interest and Consent

- .11 When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.
- .12 The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.
- .13 When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel, or another professional accountant. When making disclosures and seeking guidance of third parties, the member should remain alert to the requirements of the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070] of the “Acts Discreditable Rule” [2.400.001]. In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.
- .14 A member may encounter other threats to compliance with the “Integrity and Objectivity Rule” [2.100.001]. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close relatives or immediate family members of the member have with the employing organization. Guidance on managing such threats is covered by the “Knowing Misrepresentations in the Preparation of Financial Statements or Records” interpretation [2.130.010] and the “Subordination of Judgment” interpretation [2.130.020] under the “Integrity and Objectivity Rule.”

**INSTRUCTOR NOTE:** Read and discuss Section .01, including a, b and c, if time permits and the matter is applicable to your audience. If you cannot answer from the Code, refer to the conceptual framework.

## Negligence

Rules 1.400.040 and 2.400.040 of the AICPA Code of Professional Conduct address the issue of negligence for CPAs in public practice and CPAs in business:

- .01 A member shall be considered in violation of the “Acts Discreditable Rule” if the member, by virtue of his or her negligence, does any of the following:**
    - a. **Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity.**
    - b. **Fails to correct an entity’s financial statements that are materially false and misleading when the member has the authority to record an entry.**
    - c. **Signs, or permits or directs another to sign, a document containing materially false and misleading information.**
- [Prior reference: paragraph .05 of ET section 501]

## Gifts and Entertainment

Rule 1.120.010 of the AICPA Code of Professional Conduct addresses the issue of gifts or entertainment for CPAs in public practice:

### 1.120.010.01

For purposes of this interpretation, a client includes the client, an individual in a key position with the client, or an individual owning 10 percent or more of the client’s outstanding equity securities or other ownership interests.

**INSTRUCTOR NOTE:** Read and discuss Section .02 if time permits and the matter is applicable to your audience.

- .02 When a member offers to a client or accepts gifts or entertainment from a client, self-interest, familiarity, or undue influence threats to the member’s compliance with the “Integrity and Objectivity Rule” [1.100.001] may exist.**
- .03 Threats to compliance with the “Integrity and Objectivity Rule” [1.100.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and the member would be presumed to lack integrity in violation of the “Integrity and Objectivity Rule” in the following circumstances:



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- a. The member offers to a client or accepts gifts or entertainment from a client that violate the member's or client's policies or applicable laws, rules, and regulations; and
- b. The member knows of the violation or demonstrates recklessness in not knowing.

**.04 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances.** The following are examples of relevant facts and circumstances:

**INSTRUCTOR NOTE:** Read and discuss items a–g under Section .04 if time permits and the matter is applicable to your audience.

- a. The nature of the gift or entertainment
  - b. The occasion giving rise to the gift or entertainment
  - c. The cost or value of the gift or entertainment
  - d. The nature, frequency, and value of other gifts and entertainment offered or accepted
  - e. Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
  - f. Whether other clients also participated in the entertainment
  - g. The individuals from the client and member's firm who participated in the entertainment
- .05 Threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member offers to a client or accepts gifts or entertainment from a client that is not reasonable in the circumstances. The member would be presumed to lack objectivity in violation of the "Integrity and Objectivity Rule" under these circumstances.**

It's important to note that when it comes to attest services, if a member on the attest engagement team or in a position to influence the attest engagement accepts a gift from an attest client that is other than **clearly insignificant**, the risk exists for the client to exercise undue influence over the member (i.e., the "undue influence threat" as defined in the AICPA Conceptual Framework for Independence Standards), possibly resulting in the member being beholden to the client and thereby, compromising the member's objectivity and professional skepticism in the performance of the attest engagement. Therefore, there would be no safeguards that could be applied to reduce the threat to an acceptable level.

Rule 2.120.010 of the AICPA Code of Professional Conduct addresses the issue of gifts or entertainment for CPAs in business:

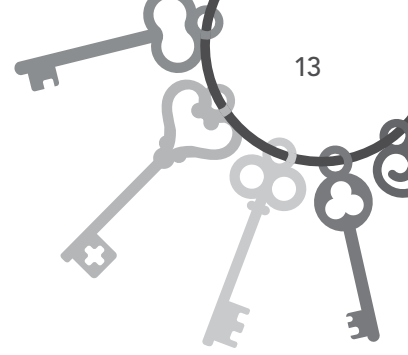
## 2.120.010

**.01** For purposes of this interpretation, a customer or vendor of the member's employer includes a representative of the customer or vendor.

**.02 When a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer, self-interest, familiarity, or undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] may exist.**

**.03** Threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards, and the member would be presumed to lack integrity in violation of the "Integrity and Objectivity Rule" in the following circumstances:

- a. The member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer that violate applicable laws, rules, or regulations or the policies of the member's employer or the customer or vendor.
- b. The member knows of the violation or demonstrates recklessness in not knowing.



- .04 A member should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances.** The following are examples of relevant facts and circumstances:
- The nature of the gift or entertainment
  - The occasion giving rise to the gift or entertainment
  - The cost or value of the gift or entertainment
  - The nature, frequency, and value of other gifts and entertainment offered or accepted
  - Whether the entertainment was associated with the active conduct of business directly before, during, or after the entertainment
  - Whether other customers or vendors also participated in the entertainment
  - The individuals from the customer or vendor and a member's employer who participated in the entertainment
- .05 Threats to compliance with the "Integrity and Objectivity Rule" [2.100.001] would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards if a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer that is not reasonable in the circumstances. The member would be considered to lack objectivity in violation of the "Integrity and Objectivity Rule," under these circumstances. [Prior reference: paragraphs .226—.227 of ET section 191]**

## Use of a Third-Party Service Provider

**INSTRUCTOR NOTE:** Read and discuss. You can read directly from slide 17.

Rules 1.150.040 and 1.300.040 of the AICPA Code of Professional Conduct address the issue of use of a third-party service provider for CPAs in public practice:

### 1.150.040

- .01** When a member uses a third-party service provider to assist the member in providing professional services, threats to compliance with the "Integrity and Objectivity Rule" [1.100.001] may exist.

**INSTRUCTOR NOTE:** Read and discuss all of Sections .02 and .03 if time permits and the matter is applicable to your audience.

- .02** Clients might not have an expectation that a member would use a third-party service provider to assist the member in providing the professional services. Therefore, before disclosing confidential client information to a third-party service provider, the member should inform the client, preferably in writing, that the member may use a third-party service provider. If the client objects to the member's use of a third-party service provider, the member either should not use the third-party service provider to perform the professional services or should decline to perform the engagement.

- .03** A member is not required to inform the client when he or she uses a third-party service provider to provide administrative support services to the member (for example, record storage, software application hosting, or authorized e-file tax transmittal services).

- .04** Refer to the "Use of a Third-Party Service Provider" interpretation [1.300.040] of the "General Standards Rule" [1.300.001] and the "Disclosing Information to a Third-Party Service Provider" interpretation [1.700.040] of the "Confidential Client Information Rule" [1.700.001] for additional guidance. [Prior reference: paragraphs .224—.225 of ET section 191]

### 1.300.040

- .01** A member who uses a third-party service provider to assist the member in providing professional services such as bookkeeping, tax preparation, or consulting or

# Chapter I: Professional Conduct

attest services, including related clerical or data entry functions, is required to comply with the “General Standards Rule” [1.300.001] and the “Compliance With Standards Rule” [1.310.001]. To accomplish this,

**INSTRUCTOR NOTE:** Read and discuss Section a if time permits and the matter is applicable to your audience. Ask questions about what “informed” means. You could go into examples of due diligence and privacy.

- a. **before using a third-party service provider, the member should ensure that the third-party service provider has the required professional qualifications, technical skills, and other resources. Factors that can be helpful in evaluating a prospective third-party service provider include business, financial, and personal references from banks, other CPAs, and other customers of the third-party service provider; the third-party service provider’s professional reputation and recognition in the community; published materials (articles and books that he or she has authored); and the member’s personal evaluation of the third-party service provider.**
  - b. **the member must adequately plan and supervise the third-party service provider’s professional services so that the member ensures that the services are performed with competence and due professional care. The member must also obtain sufficient relevant data to support the work product and comply with all technical standards applicable to the professional services.**
- .02 The member’s responsibility for planning and supervising the third-party service provider’s work does not extend beyond the requirements of applicable professional standards, which may vary depending upon the nature of the member’s engagement.
- .03 Refer to the “Use of a Third-Party Service Provider” interpretation [1.150.040] of the “Integrity and Objectivity Rule” [1.100.001] and the “Disclosing Information to a Third-Party Service Provider” interpretation [1.700.040] of the “Confidential Client Information Rule” [1.700.001] for additional guidance. [Prior references: paragraphs .015—.016 and .023—.024 of ET section 291]

## Confidentiality and Data Security

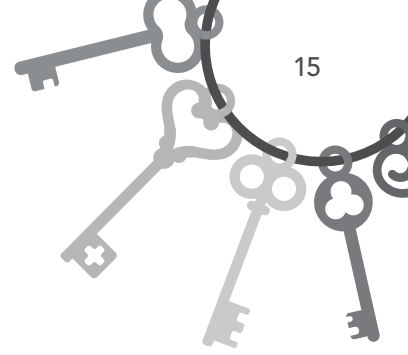
Rule 1.700.001 of the AICPA Code of Professional Conduct addresses the issue of confidential client information for CPAs in public practice:

**INSTRUCTOR NOTE:** Read and discuss Section .01 if time permits and the matter is applicable to your audience.

### 1.700.001

- .01 A member in public practice shall not disclose any confidential client information without the specific consent of the client.**
- .02 This rule shall not be construed (1) to relieve a member of his or her professional obligations of the “Compliance With Standards Rule” [1.310.001] or the “Accounting Principles Rule” [1.320.001], (2) to affect in any way the member’s obligation to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member’s compliance with applicable laws and government regulations, (3) to prohibit review of a member’s professional practice under AICPA or state CPA society or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the professional ethics division or trial board of the Institute or a duly constituted investigative or disciplinary body of a state CPA society or Board of Accountancy. Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member’s confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members’ exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above. [Prior reference: paragraph .01 of ET section 301]





Rules 1.400.070 and 2.400.070 of the AICPA Code of Professional Conduct address the issue of confidential information obtained from employment or volunteer activities for CPAs in public practice and CPAs in business:

#### **1.400.070**

**.01 A member should maintain the confidentiality of his or her employer's or firm's (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).**

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

.04 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

.05 A member would be considered in violation of the "Acts Discreditable Rule" [1.400.001] if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

.06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
  - i. comply with a validly issued and enforceable subpoena or summons or
  - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
  - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
  - ii. protect the member's professional interests in legal proceedings;
  - iii. comply with professional standards and other ethics requirements; or
  - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.
- d. Disclosure is permitted on behalf of the employer to
  - i. obtain financing with lenders;

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- ii. communicate with vendors, clients, and customers; or
- iii. communicate with the employer's external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

.09 Refer to the "Subordination of Judgment" interpretation [1.130.020] of the "Integrity and Objectivity Rule" [1.100.001] and the "Confidential Information" topic [1.700] for additional guidance. [Prior reference: paragraph .10 of ET section 501]

## 2.400.070

**.01 A member should maintain the confidentiality of his or her employer's confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity).**

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A member should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or close

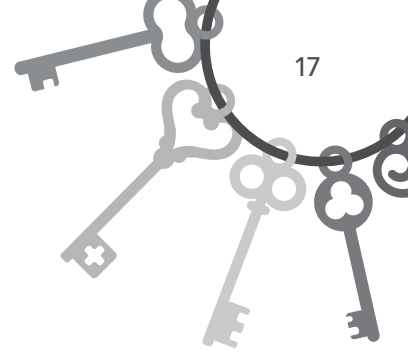
relative or immediate family member. The member should also take reasonable steps to ensure that staff under his or her control or others within the employing organization and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

.04 When a member changes employment, a member should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a member and the employer. However, the member is entitled to use experience and expertise gained through prior employment relationships.

.05 A member would be considered in violation of the "Acts Discreditable Rule" [2.400.001] if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

.06 The following are examples of situations in which members are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
  - i. comply with a validly issued and enforceable subpoena or summons or
  - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
  - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial



board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;

- ii. protect the member's professional interests in legal proceedings;
  - iii. comply with professional standards and other ethics requirements; or
  - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or those charged with governance.
- d. Disclosure is permitted on behalf of the employer to
- i. obtain financing with lenders;
  - ii. communicate with vendors, clients, and customers; or
  - iii. communicate with the employer's external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the member should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A member may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

.09 Refer to the "Subordination of Judgment" interpretation [2.130.020] of the "Integrity and Objectivity Rule" [2.100.001] for additional guidance. [Prior reference: paragraph .10 of ET section 501]

## Client Records

Rule 1.400.200 of the AICPA Code of Professional Conduct addresses the issue of records requests for CPAs in public practice:

### 1.400.200

.01 The following terms are defined here solely for use with this interpretation:

- a. A client includes current and former clients.
- b. A member means the member or the member's firm.
- c. Client-provided records are accounting or other records, including hardcopy and electronic reproductions of such records, belonging to the client that were provided to the member by, or on behalf of, the client.
- d. Member-prepared records are accounting or other records that the member was not specifically engaged to prepare and that are not in the client's books and records or are otherwise not available to the client, thus rendering the client's financial information incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that the member proposed or prepared as part of an engagement (for example, an audit).
- e. Member's work products are deliverables set forth in the terms of the engagement, such as tax returns.
- f. Working papers are all other items prepared solely for purposes of the engagement and include items prepared by the
  - i. member, such as audit programs, analytical review schedules, and statistical sampling results and analyses.
  - ii. client at the request of the member and reflecting testing or other work done by the member.

### Interpretation

**.02 Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services**

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for a client and is subject to the rules and regulations of such regulatory body. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records, even though fees are due to the member for the work performed. Failure to comply with the more restrictive provisions of the applicable regulatory body's rules and regulations concerning the return of certain records would constitute a violation of this interpretation.

**.03 The member should return client-provided records in the member's custody or control to the client at the client's request.**

**INSTRUCTOR NOTE:** Read and discuss Section .04.

**.04 Unless a member and the client have agreed to the contrary, when a client makes a request for member-prepared records or a member's work products that are in the member's custody or control and that have not previously been provided to the client, the member should respond to the client's request as follows:**

- a. The member should provide member-prepared records relating to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product.
- b. Member's work products should be provided to the client, except that such work products may be withheld
  - i. if fees are due to the member for the specific work product;
  - ii. if the work product is incomplete;
  - iii. if for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or
  - iv. if threatened or outstanding litigation exists concerning the engagement or member's work.

**.05 Once a member has complied with these requirements, he or she is under no ethical obligation to**

- a. comply with any subsequent requests to again provide records or copies of records described in paragraphs .03—.04. However, if subsequent to complying with a

request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

- b. retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed. [Prior reference: paragraph .02 of ET section 501]

**.06 A member who has provided records to an individual designated or held out as the client's representative, such as the general partner, majority shareholder, or spouse, is not obligated to provide such records to other individuals associated with the client. [Prior reference: paragraphs .377—.378 of ET section 591]**

**.07 Working papers are the member's property, and the member is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.**

**.08 In fulfilling a request for client-provided records, member-prepared records, or a member's work products, the member may:**

- a. charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client.
- b. provide the requested records in any format usable by the client. However, the member is not required to convert records that are not in electronic format to electronic format. 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. In addition, the member is not required to provide the client with 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.
- c. make and retain copies of any records that the member returned or provided to the client.

- .09 A member who is required to return or provide records to the client should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.
- .10 The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation. [Prior reference: paragraph .02 of ET section 501]
- .11 A member would be considered in violation of the "Acts Discreditable Rule" [1.400.001] if the member does not comply with the requirements of this interpretation.

## New and Revised Interpretations and Other Guidance

Rules 0.600.010 and 0.600.020 of the AICPA Code of Professional Conduct address the issue of new and revised and pending interpretations and other guidance.

### 0.600.010

#### .01 Periodically, new or revised authoritative ethics

***interpretations and other guidance are issued. Publication of the text of a new or revised pronouncement or a notice with a link to the text of a new or revised authoritative interpretation and other guidance in the Journal of Accountancy constitutes notice to members.*** Hence, the effective date of the interpretation and other guidance is the last day of the month in which the pronouncement or notice is published in the Journal of Accountancy, unless otherwise noted. The Professional Ethics Division takes into consideration the time that would have been reasonable for the member to comply with the pronouncement. This section lists the citation and title of any new or revised interpretation or other guidance for a period of 12 months after its effective date. When an interpretation or other guidance is not yet effective, it will appear as a pending interpretation or other guidance (see "Pending Interpretations and Other Guidance" [0.600.020]).

- "Disclosing Client Information in Connection With a Review or Acquisition of the Member's Practice" [1.700.050]. (Revised August, 2016. Effective October 31, 2016)
- "Unsolicited Financial Interest" interpretation [1.240.020]. (Revised June 2016. Effective upon revision.)
- "Firm Mergers and Acquisitions" interpretation [1.220.040]. (Added October 2015. Effective for mergers or acquisitions with a closing date on or after January 31, 2016. Early implementation is allowed.)
- "Application of AICPA Code" [0.200.020]. (Revised January 2015. Effective March 31, 2016, early implementation allowed.)
- "Breach of an Independence Interpretation" [1.298]. (Added January 2015. Effective March 31, 2016, early implementation allowed.)



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- “Breach of an Independence Interpretation” [1.298.010]. (Added January 2015. Effective March 31, 2016, early implementation allowed.)

## 0.600.020 Pending Interpretations and Other Guidance

- .01 Periodically, new or revised authoritative ethics interpretations and other guidance are issued. This section lists the titles and citations of any pending new or revised *interpretations* or other guidance until they are effective and notes whether early application is permitted or encouraged.** Once the *interpretation* or other guidance becomes effective, it will appear under the “New and Revised Interpretation and Other Guidance” section of the preface [0.600.010].
- “Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice” [1.400.205]. (Added August 2016. Effective June 30, 2017. Early implementation is allowed)
  - “Disclosure of Commissions and Referral Fees” [1.520.080]. (Added August 2016. Effective for commission or a referral fee arrangements entered into on or after January 31, 2017.)

The text of the new Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice interpretation 1.400.205 states:

### Sale or Transfer of Member’s Practice

- .01 A member or member’s firm (member) that sells or transfers all or part of the member’s practice to another person, firm, or entity (successor firm) and will no longer retain any ownership in the practice should do all of the following:**
- Submit a written request to each client subject to the sale or transfer, requesting the client’s consent to transfer its files to the successor firm and, notify the client that its consent may be presumed if it does not respond to the member’s request within a period of not less than 90 days, unless prohibited by law, including but not limited to the rules and regulations of the applicable state boards of accountancy. The member should not transfer any client files to the successor firm until either the client’s consent is obtained or the**

**90 days has lapsed, whichever is shorter. The member is encouraged to retain evidence of consent, whether obtained from the client or presumed after 90 days.**

- With respect to files not subject to the sale or transfer, make arrangements to return any client records that the member is required to provide to the client as set forth in the “Records Request” interpretation [1.400.200] unless the member and client agree to some other arrangement.**

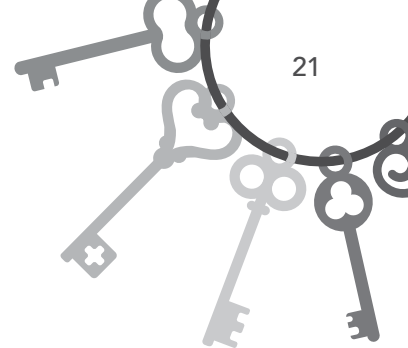
**.02 In cases in which the member is unable to contact the client, client files and records not transferred should be retained in a confidential manner and in accordance with the firm’s record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.**

### Discontinuance of Member’s Practice

**.03 A member who discontinues his or her practice but does not sell or transfer the practice to a successor firm, should do all of the following:**

- Notify each client in writing of the discontinuation of the practice. The member is encouraged to retain evidence of notification made to clients. The member is not required to provide notification to former clients of the firm.**
- Make arrangements to return any client records that the member is required to provide to the client as set forth in the “Records Request” interpretation [1.400.200] unless the member and client agree to some other arrangement.**

**.04 In cases in which the member is unable to contact the client, client files should be retained in a confidential manner and in accordance with the firm’s record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.**



### **Acquisition of Practice by a Member**

**.05** A member who acquires all or part of a practice from another person, firm, or entity (predecessor firm) should be satisfied that all clients of the predecessor firm subject to the acquisition have, as required in paragraph .01, consented to the member's continuation of professional services and retention of any client files or records the successor firm retains

**.06** A member will be considered in violation of the "Acts Discreditable Rule" [1.400.001] if the member does not comply with any of the requirements of this interpretation.

**The text of the new Disclosure of Commissions and Referral Fees interpretation 1.520.080.01 states:**

**The member should make the disclosures required by paragraphs .03 and .04 of the "Commissions and Referral Fees Rule" [1.520.001] in writing.**

For reference, the Commissions and Referral Fees Rule 1.520.001 states:

- .01** Prohibited commissions. A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or member's firm also performs for that client
- a. an audit or review of a financial statement; or
  - b. a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or
  - c. an examination of prospective financial information.
- .02** This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.
- .03** Disclosure of permitted commissions. A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or

expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

**.04** Referral fees. Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client. [Prior reference: paragraph .01 of ET section 503]

The Code of Professional Conduct is available online through the AICPA's website and is free to access. For a deeper dive into these core responsibilities, or any of the other core responsibilities outlined in the Code of Professional Conduct, please visit [pub.aicpa.org/codeofconduct](http://pub.aicpa.org/codeofconduct).

The AICPA's Professional Ethics Division has as its mission the education and promotion of a proper understanding of ethical standards contained in the Code of Professional Conduct. Their staff is available to respond to inquiries relating to the application of the Code in specific circumstances. These services can be utilized via email at [ethics@aicpa.org](mailto:ethics@aicpa.org) or via telephone at (888) 777-7077.

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## Cybercrime

The U.S. Department of Justice (DOJ) calls cybercrime “one of the greatest threats facing our country, and has enormous implications for our national security, economic prosperity, and public safety. The range of threats and the challenges they present for law enforcement expand just as rapidly as technology evolves.”

### What are the Top Cybercrimes Affecting CPAs?

As CPAs, we are often the repository of a wealth of information on our clients, including sensitive financial data. As a result, CPAs may be prime targets for cybercrime.

**INSTRUCTOR NOTE:** Read and discuss the top five cybercrimes and their implications from tax and/or attest perspective. Remind class that the most common way of gaining access to a system is through email.

In October 2013, the AICPA identified the top five cybercrimes encountered by CPA firms:

- Tax refund fraud
- Corporate account takeover
- Identity theft
- Theft of sensitive data
- Theft of intellectual property

It is important to note that most cybercrime is perpetrated by international hackers. In the past, most cybercrime was targeted at large companies and institutions, but thieves have found that it is easier to go after the many soft targets available such as smaller businesses. This is because the amount of money spent on technology defenses is far less than that spent by larger firms.

### We Have Met the Enemy and They Are Us

Email is a primary target for cybercriminals. Email was never designed to be secure, yet many use it to send very private information without taking any security measures such as encryption. It is not uncommon for individuals to send tax returns via email without encryption methods. The following is an example of how this occurs and, while this occurred at the IRS, this could easily be true at many companies across America.

**INSTRUCTOR NOTE:** This is a great example of how a breach can easily occur and how the IRS itself has not adequately protected client confidential data. If the IRS is having issues with confidential information, just imaging how much this may be an issue at many companies and firms around the country. This is another reminder of the importance of maintaining client confidentiality and security and having good policies and procedures in place.

### **TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION Office of Audit**

### **Employees Sometimes Did Not Adhere to Email Policies, Which Increased the Risk of Improper Disclosure of Taxpayer Information**

**Final Report Issued on October 14, 2016**

#### **Highlights**

Highlights of Reference Number: 2017-30-010 to the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement.

#### **Impact on Taxpayers**

Personally Identifiable Information (PII) is a specific type of sensitive information which may include tax return and return information. Laws require that the IRS protect PII and tax return and return information (taxpayer PII/tax return information) for different reasons, including the protection of privacy and because the loss, theft, or unauthorized disclosure places individuals at serious risk for identity theft. Additionally, the proper protection of taxpayer PII and tax return information helps maintain taxpayer confidence and the IRS's reputation for privacy protection, which are critical for the IRS to perform its mission.

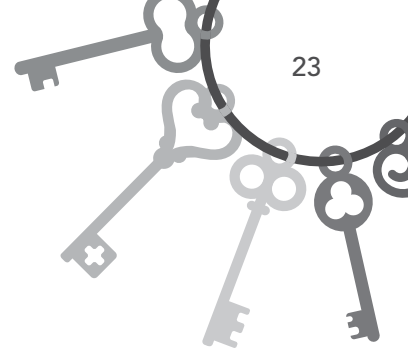
#### **Why TIGTA Did the Audit**

This audit was initiated because electronic mail (e-mail) is a prevalent form of communication in the IRS. Employees who have frequent contact with taxpayers, i.e., revenue officers and revenue agents, need to ensure that appropriate steps to safeguard e-mails are being taken. The overall objective was to determine whether Small Business/Self-Employed (SB/SE) Division employees are following e-mail policies and properly safeguarding taxpayer PII/tax return information contained in e-mail correspondence.

#### **What TIGTA Found**

TIGTA reviewed a random sample of 80 SB/SE Division employees' emails sent during four weeks in May and June 2015, and determined that 39 (49 percent) employees sent a





total of 326 unencrypted emails containing 8,031 different taxpayers' PII/tax return information internally to other IRS employees or externally to non-IRS e-mail accounts. TIGTA identified 275 unencrypted emails that contained taxpayer PII/tax return information that were sent internally to other IRS employees. These e-mails were sent inside the IRS internal information system firewall, and therefore pose less risk of improper disclosure or improper access. TIGTA also identified 51 unencrypted e-mails that contained taxpayer PII/tax return information that were sent externally to non-IRS e-mail accounts. These employees failed to follow Internal Revenue Manual (IRM) requirements and risked exposing the information to unauthorized persons.

Additionally, 20 e-mails sent by six employees to personal e-mail accounts involved official IRS business. SB/SE Division employees may not be aware of the restriction on using personal e-mail because the Standards for Using Email IRM does not include this restriction.

The IRS Enterprise e-Fax (EEFax) capability was implemented in early 2013 without encryption capability. TIGTA identified 193 unencrypted emails that contained taxpayer PII/tax return information that were routed to the EEFax servers via the e-mail system. Because the EEFax does not use encryption, its use could result in the interception and disclosure of taxpayer PII/tax return information.

### What TIGTA Recommended

TIGTA recommended that the IRS consider the feasibility of a systemic solution to ensure that PII/tax return information is encrypted, and until such time consider requiring the default Outlook setting for certain employees to encrypt sent e-mail messages; ensure that managers are aware of e-mail violations and take appropriate disciplinary action; update the IRM to include that no IRS employee may use a personal e-mail account to conduct official business of the Government; and request an information technology update to allow encrypted messages to be sent to the EEFax server.

In response to the report, IRS officials agreed with the recommendations and plan to take corrective actions.

Note: The difference between the date TIGTA issues an audit report to the Internal Revenue Service and the date TIGTA publicly releases the report is due to TIGTA's internal review process to ensure that public release is in compliance with Federal confidentiality laws.

## Cyber Incident Preparedness Checklist

**INSTRUCTOR NOTE:** Read and discuss each bullet point under "Before a Cyber Attack or Intrusion."

### Before a Cyber Attack or Intrusion

- Identify mission critical data and assets (i.e., your "Crown Jewels") and institute tiered security measures to appropriately protect those assets.
- Review and adopt risk management practices found in guidance such as the National Institute of Standards and Technology Cybersecurity Framework.
- Create an actionable incident response plan.
  - Test plan with exercises
  - Keep plan up-to-date to reflect changes in personnel and structure
- Have the technology in place (or ensure that it is easily obtainable) that will be used to address an incident.
- Have procedures in place that will permit lawful network monitoring.
- Have legal counsel that is familiar with legal issues associated with cyber incidents
- Align other policies (e.g., human resources and personnel policies) with your incident response plan.
- Develop proactive relationships with relevant law enforcement agencies, outside counsel, public relations firms, and investigative and cybersecurity firms that you may require in the event of an incident.

### Upon Discovery of a Cyber Attack or Intrusion

- Make an initial assessment of the scope and nature of the incident, particularly whether it is a malicious act or a technological glitch.
- Minimize continuing damage consistent with your cyber incident response plan.
- Collect and preserve data related to the incident.
  - "Image" the network
  - Keep all logs, notes and other records
  - Keep records of ongoing attacks

# Chapter I: Professional Conduct

- Consistent with your incident response plan, notify:
  - Appropriate management and personnel within the victim organization
  - Law enforcement
  - Other possible victims
  - Department of Homeland Security
- Do not:
  - Use compromised systems to communicate
  - “Hack back” or intrude upon another network

## After Recovering from a Cyber Attack or Intrusion

- Continue monitoring the network for any anomalous activity to make sure the intruder has been expelled and you have regained control of your network
- Conduct a post-incident review to identify deficiencies in planning and execution of your incident response plan

**INSTRUCTOR NOTE:** A quick and reasonable response is critical and having a good Incident Preparedness List is part of minimizing the resulting harm and enabling recovery. The best time to plan such a response is now, before any incident. Fortunately, you can remind the class that there are many resources to help companies prepare and respond to such incidents.

## Who Must Comply?

The definition of “financial institution” includes many businesses that may not normally describe themselves that way. In fact, the Rule applies to all businesses, regardless of size, that are “significantly engaged” in providing financial products or services. This includes, for example, check-cashing businesses, payday lenders, mortgage brokers, nonbank lenders, personal property or real estate appraisers, professional tax preparers and courier services. The Safeguards Rule also applies to companies like credit reporting agencies and ATM operators that receive information about the customers of other financial institutions. In addition to developing their own safeguards, companies covered by the Rule are responsible for taking steps to ensure that their affiliates and service providers safeguard customer information in their care.

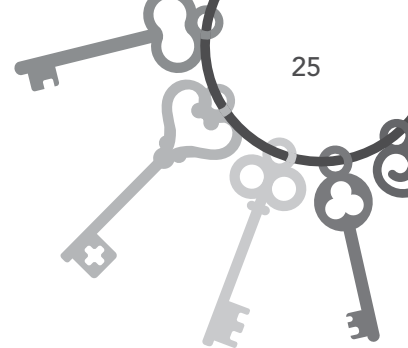
## Electronic Code of Federal Regulations (e-CFR)

### §314.1 Purpose and scope.

- (a) *Purpose.* This part, which implements sections 501 and 505(b)(2) of the Gramm-Leach-Bliley Act, sets forth standards for developing, implementing, and maintaining reasonable administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information.
- (b) *Scope.* This part applies to the handling of customer information by all financial institutions over which the Federal Trade Commission (“FTC” or “Commission”) has jurisdiction. This part refers to such entities as “you.” This part applies to all customer information in your possession, regardless of whether such information pertains to individuals with whom you have a customer relationship, or pertains to the customers of other financial institutions that have provided such information to you.

### §314.2 Definitions.

- (a) *In general.* Except as modified by this part or unless the context otherwise requires, the terms used in this part have the same meaning as set forth in the Commission's rule governing the Privacy of Consumer Financial Information, 16 CFR part 313.
- (b) *Customer information* means any record containing nonpublic personal information as defined in 16 CFR 313.3(n), about a customer of a financial institution, whether in paper, electronic, or other form, that is handled or maintained by or on behalf of you or your affiliates.
- (c) *Information security program* means the administrative, technical, or physical safeguards you use to access, collect, distribute, process, protect, store, use, transmit, dispose of, or otherwise handle customer information.
- (d) *Service provider* means any person or entity that receives, maintains, processes, or otherwise is permitted access to customer information through its provision of services directly to a financial institution that is subject to this part.



### §314.3 Standards for safeguarding customer information.

- (a) *Information security program.* You shall develop, implement, and maintain a comprehensive information security program that is written in one or more readily accessible parts and contains administrative, technical, and physical safeguards that are appropriate to your size and complexity, the nature and scope of your activities, and the sensitivity of any customer information at issue. Such safeguards shall include the elements set forth in §314.4 and shall be reasonably designed to achieve the objectives of this part, as set forth in paragraph (b) of this section.
- (b) *Objectives.* The objectives of section 501(b) of the Act, and of this part, are to:
  - (1) Insure the security and confidentiality of customer information;
  - (2) Protect against any anticipated threats or hazards to the security or integrity of such information; and
  - (3) Protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

### §314.4 Elements.

#### **In order to develop, implement, and maintain your information security program, you shall:**

- (a) Designate an employee or employees to coordinate your information security program.
- (b) Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of customer information that could result in the unauthorized disclosure, misuse, alteration, destruction or other compromise of such information, and assess the sufficiency of any safeguards in place to control these risks. At a minimum, such a risk assessment should include consideration of risks in each relevant area of your operations, including:
  - (1) Employee training and management;
  - (2) Information systems, including network and

software design, as well as information processing, storage, transmission and disposal; and

- (3) Detecting, preventing and responding to attacks, intrusions, or other systems failures.
- (c) Design and implement information safeguards to control the risks you identify through risk assessment, and regularly test or otherwise monitor the effectiveness of the safeguards' key controls, systems, and procedures.
- (d) Oversee service providers, by:
  - (1) Taking reasonable steps to select and retain service providers that are capable of maintaining appropriate safeguards for the customer information at issue; and
  - (2) Requiring your service providers by contract to implement and maintain such safeguards.
- (e) Evaluate and adjust your information security program in light of the results of the testing and monitoring required by paragraph (c) of this section; any material changes to your operations or business arrangements; or any other circumstances that you know or have reason to know may have a material impact on your information security program.

### §314.5 Effective date.

- (a) Each financial institution subject to the Commission's jurisdiction must implement an information security program pursuant to this part no later than May 23, 2003.
- (b) Two-year grandfathering of service contracts. Until May 24, 2004, a contract you have entered into with a nonaffiliated third party to perform services for you or functions on your behalf satisfies the provisions of §314.4(d), even if the contract does not include a requirement that the service provider maintain appropriate safeguards, as long as you entered into the contract not later than June 24, 2002.

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## Protecting Clients' Personal Information

**INSTRUCTOR NOTE:** This is a critical area to remind CPAs about the duty we have to uphold clients' and employers' confidential information. As cybercriminals are having greater difficulty attacking large firms, they have shifted their focus to going after smaller firms. A loss of data is a big risk for firms to consider, and much of the risk can be avoided if companies take the risk seriously. However, many firms are not familiar with the day-to-day risks associated with data theft, identity theft and computer viruses. Also, many do not have adequate insurance to cover cyber liability as well as having a disaster plan to deal with an intrusion. It is important to point out that the Gramm-Leach-Bliley Act mandates protection of personal information for clients.

The Gramm-Leach-Bliley Act (GLB) is the main standard that the financial world must follow regarding the protection and privacy of personal information for clients. The GLB Act directed the U.S. Federal Trade Commission (FTC) to establish the Financial Privacy Rule and Safeguards Rule. The FTC Standards for Safeguarding Customer Information Rule (16 CFR Part 314) is the Safeguards Rule that requires financial institutions (that includes CPAs) to ensure the security and confidentiality of customer records and information. The Sarbanes-Oxley Act of 2002 (17 CFR Parts 232 and 249) — Section 404 requirements apply to all U.S. Securities and Exchange Commission (SEC)-reporting companies with a market capitalization in excess of \$75 million. It requires financial institutions to develop, implement and maintain an information security program.

One area of increasing concern is the ever-increasing impact of cybersecurity breaches, which affect not only CPAs but businesses and consumers worldwide. The impact to our profession is great. As data breaches continue to occur, it is very important to be aware of steps CPAs can take to combat this threat.

## Informing CPAs about Privacy and Personal Information

The adherence to high standards, integrity and confidentiality are marks that define the professionalism of CPAs. One of the hallmarks of our profession is to always maintain client confidentiality and privacy.

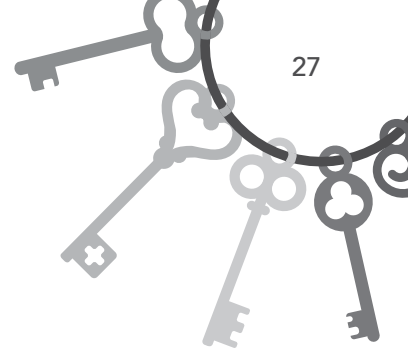
A key standard for CPAs to remember is that we must always obtain consent from a client in order to disclose confidential client information. Therefore, it is important to understand what, exactly, constitutes confidential information.

In the preface section of the AICPA Code of Professional Conduct, paragraph .09 defines confidential client information as follows:

**Confidential client information.** Any information obtained from the client that is not available to the public. Information that is available to the public includes, but is not limited to, information:

- a. in a book, periodical, newspaper or similar publication;
- b. in a client document that has been released by the client to the public or that has otherwise become a matter of public knowledge;
- c. on publicly accessible websites, databases, online discussion forums or other electronic media by which members of the public can access the information;
- d. released or disclosed by the client or other third parties in media interviews, speeches, testimony in a public forum, presentations made at seminars or trade association meetings, panel discussions, earnings press release calls, investor calls, analyst sessions, investor conference presentations or a similar public forum;
- e. maintained by or filed with, regulatory or governmental bodies that is available to the public; or
- f. obtained from other public sources.

Unless the particular client information is available to the public, such information should be considered confidential client information. Members are advised that federal, state or local statutes, rules or regulations concerning confidentiality of client information may be more restrictive than the requirements in the Code.



**INSTRUCTOR NOTE:** Any tax information, including the name of a tax client, cannot be revealed to third parties unless you have a signed 7216 form on file authorizing that disclosure. Asking the class how many people are aware of the 7216 requirements, drives home the point that this may be a requirement that this requirement may be falling through the cracks. Also, even if tax is not the practice area of your class, it is important to remind all CPAs that there may be other disclosure authorizations required that are mandated by their company.

## Client Privacy Disclosure Under IRC Section 7216

In 2009, new regulations under Section 7216 went into effect that affect how CPAs may divulge confidential tax information to third parties for clients. Specifically, this updated U.S. Internal Revenue Code (IRC) section details that a signed consent must be obtained from clients in order to release tax return information to third parties. Even after six years of enhancing this regulation, it is still not uncommon to see practitioners that are not aware of this requirement or of the civil penalties that can be imposed for noncompliance.

In order to provide a framework for complying with Section 7216, visit [tinyurl.com/IRCSec7216](http://tinyurl.com/IRCSec7216) to view several versions of the AICPA's 7216 Disclosure, which you may use to adhere to this code section for tax disclosure.

Some practitioners are under the assumption that having a signed 7216 form will also meet the confidential disclosure requirements for attest or other consulting work. However, a separate disclosure is required to adhere to the AICPA Confidential Client Information Rule for matters beyond tax preparation. Additional consent is required for the release of any confidential information on behalf of a client beyond an IRC Section 7216 disclosure for non-tax information.

**Instructors:** Please emphasize the following if you have business and industry attendees in your class.

It is also important to note that for members in business, the Code states that a member should maintain confidentiality of his or her employer's confidential information and not use or disclose any confidential employer information obtained as a result of an employment relationship.

## Integrity and Independence

**INSTRUCTOR NOTE:** It is important to point out that while this is the hallmark of the individuals that make up our profession, there are also legal standards that we must all adhere to whether we are involved in an attest engagement or non-attest engagement. This section is a review of those requirements.

The quality and integrity of a CPA is manifest in the work we do each and every day. It is therefore incumbent in our professional engagements that we always strive to adhere to a high level of integrity, objectivity and professional care. It is because of our efforts and the work that we do that we have become an integral part of the quality of the business environment that serves to enhance the world in which we live.

As CPAs, we have a duty to be independent in attest engagements but we should also understand what our professional requirements are in business and industry as well as what our obligations are whenever we perform non-attest engagements. This section will review our requirement to be independent for attest engagements as well as the requirement that we work with objectivity, integrity and due professional care in all engagements.

### What Is Independence?

Independence is defined as follows:

**INSTRUCTOR NOTE:** Read and discuss Sections a and b.

- a. Independence of mind is the state of mind that permits a member to perform an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.
- b. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party, who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or member of the attest engagement team is compromised.

This definition should not be interpreted as an absolute. For example, the phrase "without being affected by influences that compromise professional judgment" is not intended to convey that the member must be free of all influences that might compromise objective judgment. Instead, the member should determine whether such influences, if present, create



# Chapter I: Professional Conduct

a threat that is not at an acceptable level that a member would not act with integrity and exercise objectivity and professional skepticism in the conduct of a particular engagement or would be perceived as not being able to do so by a reasonable and informed third party with knowledge of all relevant information.

This definition reflects the long-standing professional requirement that members who provide services to entities for which independence is required be independent both in fact (that is, of mind) and in appearance.

## What Should I Do if No Specific Guidance Exists on My Particular Independence Issue?

**INSTRUCTOR NOTE:** Discuss this section and refer back to the conceptual framework.

According to the “Application of the Conceptual Framework for Independence and Ethical Conflicts” interpretation (AICPA, Professional Standards, ET sec. 1.200.005) of the “Independence Rule” (AICPA, Professional Standards, ET sec. 1.200.001), in the absence of an interpretation of the “Independence Rule” that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Independence” interpretation (AICPA, Professional Standards, ET sec. 1.210.010).

The “Conceptual Framework for Independence” interpretation recognizes that it is impossible for the Code to identify all circumstances in which the appearance of independence might be questioned.

When threats to independence are not at an acceptable level, the member must apply safeguards to eliminate the threats or reduce them to an acceptable level. If threats to independence are not at an acceptable level and require the application of safeguards, the member must document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level. Failure to prepare the required documentation would be considered a violation of the “Compliance With Standards Rule” (AICPA, Professional Standards, ET sec. 1.310.001) rather than the “Independence Rule” if the member can demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level.

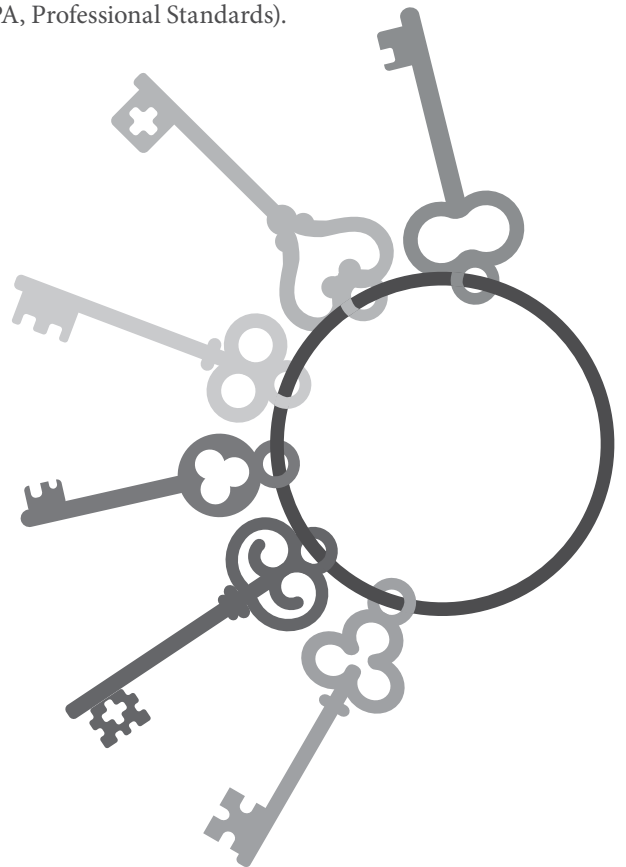
The “Conceptual Framework for Independence” interpretation provides a valuable tool to help you

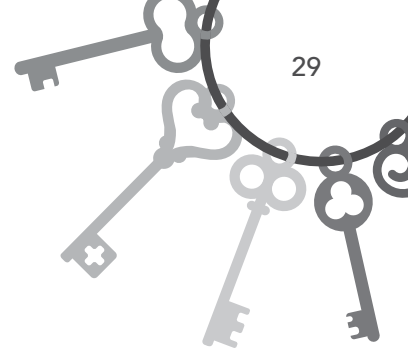
comply with the “Independence Rule” when a specific circumstance or relationship is not addressed in the code. To assist with implementing the interpretation, the Professional Ethics Division developed a toolkit.

## When Is Independence Required, and Who Sets the Rules?

AICPA professional standards require your firm, including the firm’s partners and professional employees, to be independent in accordance with the “Independence Rule” whenever your firm performs an attest engagement for an attest client.

A compilation is an attest engagement. Although performing a compilation of an attest client’s financial statements does not require independence, if a non-independent firm issues a compilation report, the accountant is required to indicate the accountant’s lack of independence in a final paragraph of the accountant’s compilation report, pursuant to paragraph .22 of AR-C section 80, Compilation Engagements (AICPA, Professional Standards).





**INSTRUCTOR NOTE:** This is where the SEC Independence Issues video should be played. These are a couple of cases that point out that while the rules of a firm may not always cover every possible independence issue, these incidents resulted in SEC investigations. Sometimes a company's rules may not cover all the possible acts that could impair independence, and as a result, there should always be consideration given to those events that could be perceived as impairing independence whether covered by a specific rule or not.

## Case Study — SEC Independence Issues

Over the years there have been many accounting scandals, but one famous accounting scandal (Enron) became the precipitating event that caused this Ethics course to be a requirement for our profession. The following are two recent cases from a U.S. Securities and Exchange Commission (SEC) Press release (2016-187) that deal with independence issues for CPAs performing attest engagements.

On Sept. 19, 2016, the SEC announced that a firm agreed to pay \$9.3 million to settle charges that two of the firm's audit partners got too close to their clients on a personal level and violated rules that ensure firms maintain their objectivity and impartiality during audits. View the SEC's press release here: <https://www.sec.gov/news/pressrelease/2016-187.html>

According to the SEC press release, "These are the first SEC enforcement actions for auditor independence failures due to close personal relationships between auditors and client personnel." One of the main issues in the case was that the firm's independence policy required disclosure of familial employment of financial relationships with audit clients that could raise independence concerns but these procedures did not specifically inquire about non-familial relationships.

This case resulted from a CPA that caused auditor independence rule violations from January 2012 through March 2015. The CPA was specifically tasked by his firm to improve its relationship with the audit client because it was a "troubled account." The CPA and the audit company's CFO stayed overnight at each other's homes on multiple occasions and traveled together with family members on overnight trips with no valid business purpose, and they exchanged hundreds of personal text messages, emails, and voicemails during the auditing periods. The CPA also became friends with the CFO's son and often treated them to sporting events and other gifts. The CPA firm's partners became aware of his excessive entertainment spending but took no action to confirm that he was complying with his independence obligations. Ultimately, the CPA and firm consented to the SEC's order without admitting or denying the findings.

In the second case under the same press release from the SEC, a CPA caused auditor independence rule violations at a firm from March 2012 to June 2014, when she maintained a romantic relationship with a financial executive while serving on an engagement team auditing his company. Another firm partner, who supervised on the audit, became aware of the facts suggesting the improper relationship yet failed to perform a reasonable inquiry or raise concerns internally to the firm's independence group. This case also was settled without admitting or denying the findings.

### Step 1: Identify the Threat

In both cases, the firm's policy did not require disclosure of the close personal relationships. According to the SEC Press release, the firm "required audit engagement teams to follow certain procedures to assess their independence, and employees were asked whether they had familial employment, or financial relationships with audit clients that could raise independence concerns. But these procedures did not specifically inquire about non-familial close personal relationships that could impair firm's independence."

### Step 2: Evaluate the Threat

While the firm's policy did not require disclosure "on the face of it," both relationships impaired firm independence. Also, while the rules may not have forced a disclosure of the relationship as they were non-familial, the substance of the relationships should have been a factor in determining independence. It therefore appears that there was a threat that rose to a level of firm consideration of independence.

### Step 3: Identify Safeguards

CPAs need to evaluate what safeguards could be applied to avoid a violation of independence. When there are potential independence issues on an audit, a reasonable control could have been to have an independence committee that could evaluate the risk to determine compliance issues with independence.

### Step 4: Evaluate Safeguards

With an audit committee reviewing independence issues not associated with the particular audit, this was determined to be a reasonable safeguard. In all future audits an independent committee will be involved in ethics questions related to audits that can determine if a CPA would be independent or not. ➡

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## Non-Attest Engagements and Independence

Non-attest services are services provided to a client that are not specifically related to the performance of an attest engagement. For example, non-attest services include activities such as financial statement preparation, cash to accrual conversions, reconciliations, and tax return preparation. If you perform non-attest services for an attest client, the independence rule and related interpretations (rules) impose limits on the nature and scope of the services you may provide. In other words, the extent to which you perform certain activities may be limited by the rules or you may be required to apply safeguards in order to not impair your independence when providing certain non-attest services.

### Conceptual Framework for Independence

If the non-attest service is not specifically addressed in the AICPA Code of Professional Conduct (code), you should first evaluate the service using the “Conceptual Framework for Independence” (ET sec. 1.210.010) (framework) to determine whether the service would impair independence even if the general requirements (which are discussed next) can be applied. The framework cannot be used to overcome a prohibition or other requirement of the code. The framework incorporates a “threats and safeguards” approach, which is designed to assist members in analyzing relationships and circumstances that the code does not specifically address and in determining whether such relationships or circumstances may result in the violation of the rules.

### General Requirements

“General Requirements for Performing Non-Attest Services” interpretation (ET sec. 1.295.040) explains the required safeguards to be applied whenever members provide non-attest services to their attest clients.

The general requirements are broken down into three main components. One component outlines the responsibilities that the attest client has related to the non-attest services and another explains what your responsibilities are. The third component is a requirement that you may not assume management responsibilities or even appear to assume

management responsibilities on behalf of your attest client. The general requirements also stipulate that before performing a non-attest service, members are required to establish and document in writing their understanding with the attest client.

**INSTRUCTOR NOTE:** Good discussion item.

- The following needs to be documented:
- The objectives of the engagement
- The services to be performed
- The attest client’s acceptance of its responsibilities
- The CPA’s responsibilities
- Any limitation of the engagement

### Management Responsibilities

Members are prohibited from assuming management responsibilities in all circumstances. Management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical and intangible resources.

**INSTRUCTOR NOTE:** While non-attest services do not require independence, it is important that the instructor point out that the qualities that make all CPAs and our profession so revered is the professional way in which we undertake our engagements. As a result, remaining objective and providing advice in a way that we always are acting in our clients best interest (integrity) will enable a level of professionalism that defines our engagements.

### Non-Attest Services That Impair Independence

The interpretations under the “Non-Attest Services” subtopic include examples of non-attest services that impair independence even if the general requirements are met. For example, independence would be impaired if you were to perform an appraisal, a valuation, or an actuarial service for an attest client when (a) the services involve a significant degree of subjectivity and (b) the results of the service, individually or when combined with other valuation, appraisal or actuarial services, are material to the attest client’s financial statements (ET sec. 1.295.110) or if you were to provide expert witness services (ET sec. 1.295.140). As such, it is important to consult the “Non-attest Services” subtopic to ensure you are fully informed of all the various non-attest services that if performed would impair your independence.



INSTRUCTOR NOTE: Another good case study to review if you have time. Point out the items that made this a case.

The resolution of this case was:

- CPA could not provide any attest, compilation or financial statement preparation services to persons or entities located in Virginia until licensed as a CPA firm.
- Monetary penalty of \$1,000 for providing compilation services without a firm license, for not enrolling in a peer review monitoring program and for not following SSARS standards in connection with the compilation services rendered.
- Monetary penalty of \$250 for failure to obtain 8 hours of A&A CPE in 2012 and 2013.
- Provide proof of CPE compliance in subsequent three years by Dec. 31 of each year.
- Reimburse VBOA \$500 for investigation.

### Cumulative Effect

At times, the general requirements may not by themselves reduce threats to an acceptable level. One such circumstance is when the attest client asks you to perform multiple non-attest services. Although the non-attest services may not impair independence individually, you should evaluate the threats in the aggregate to ensure that the safeguards provided for in the “General Requirements for Performing Non-Attest Services” interpretation continue to adequately reduce threats to an acceptable level. If the general requirements safeguards do not reduce threats to an acceptable level, you should determine whether additional safeguards can be applied to reduce threats to an acceptable level or whether threats are so significant that you should not perform the additional non-attest service.

### Changes to Engagement

Another issue that you may need to address is a change to your engagement that could require you to re-evaluate your independence. Changes in scope (scope creep), changes in client personnel, or changes to threats to independence are just some examples of events that could cause you to consider re-evaluating your independence. You should be alert to changes and re-evaluate your independence when appropriate throughout the period of the professional engagement.

### Case Study

A non-Virginia Firm licensed CPA issued, at the CEO of the company’s request, what she thought was an informal non-attest letter to managing members and that letter contained no financial statements. The intent of the letter was to assuage negative statements made against the management of the company by an outside partner of the company.

A complaint was subsequently filed with the VBOA that alleged the letter was a violation of the standards of conduct and practice of the Code of Virginia. It alleged that the CPA was not independent and that the letter expressed an opinion on the financial statements of the company.

The CPA responded to the complaint that no financial statements were distributed to non-managing members and the intent of the letter was only to inform management that she was a CPA and that she took her role seriously. She did not intend for the letter to be an opinion other than personally, especially since she does not issue financial statements other than for internal use.

#### Step 2: Evaluate the Threat

The threat was that the letter potentially could be an assertion and therefore fall under the attest standards. If so that would require a firm license, 8 hours of continuing education each year in the attest area, independence statements and peer review application.

#### Step 3: Identify Safeguards

Anytime a CPA is performing an engagement, they should be aware or seek to understand when they may cross a line into an attest engagement. Also, if a supervisor asks a CPA to issue a letter to management commenting on the financial statements of the company, they should consider seeking guidance from an outside source to determine if it could constitute an attest function.

#### Step 4: Evaluate Safeguards

There are many resources that enable CPAs to seek guidance on ethical issues including the AICPA, VSCPA and VBOA. A call to seek guidance from outside sources may have avoided this ever becoming an issue, as it would have raised concerns that the letter was an assertion. 🔑

# Chapter I: Professional Conduct

## CPAs in Business

What should you do if you are asked to do something that you may not be comfortable with as a CPA in business?

One hallmark of the CPA profession is our commitment to the AICPA Code of Professional Conduct. The Code details our responsibilities, and our CPA certificate demands compliance with it. Ethical conduct is never out of vogue in the CPA profession, and this professional code is what sets us apart from our non-certified colleagues. There is no compromise.

The Code applies to all AICPA members whether employed in business, public practice, government or academia. When faced with a work-related ethical issue, we have been taught to challenge the situation and if it is not resolved to our satisfaction, we should take the necessary steps to eliminate exposure to subordination of judgment — which can also lead to resignation. In establishing the Code, the implications of resignation for a member in business is not taken lightly. The fact that an employer is the member's only source of income and possibly the only source of health insurance for themselves and their family is recognized. However, in situations where all efforts at resolution have been explored yet the situation is still not adequately resolved, then resignation is the only alternative. This is what we must do to comply with the high ethical standards of the CPA profession.

If you are challenged with an ethics issue at some point in your professional career, chances are you don't know where to turn, whom to talk to or what to do next. The AICPA, in consultation with its Business & Industry Executive Committee (BIEC), created the following decision tree to help walk you through a process of resolving an ethics issue that you might encounter. BIEC members, who are CPAs in companies of all sizes, contributed their experience in finalizing this decision tree. From their perspective, we offer the following points for you to think about:

**Do your best to resolve the issue within your own organization.** This applies whether “your own organization” refers to your department in a larger organization or the company as a whole. Most issues are easily resolved.

**Be cognizant of your obligations to your employer's external accountant.** You must be candid and must not knowingly misrepresent facts or fail to disclose material information to him or her. [Obligation of a Member to His or Her Employer's External Accountant interpretation (AICPA, Professional Standards, ET sec. 2.130.030)]. The full text of the interpretation is provided on the fifth page of this document for your convenience.

**CPAs in business may encounter situations where they may need to consult with the Subordination of Judgment interpretation (AICPA, Professional Standards, ET sec. 2.130.020).** This interpretation may be especially relevant if the CPA has a disagreement or dispute with their manager on the preparation of financial statements or the recording of transactions. The full text of the interpretation is also provided herein for your convenience.

**Don't overlook an ethics policy or statement in place at your company.** In a smaller company, you might need to rely on outside resources as ethics policies might not be fully developed or documented.

**Maintain professional skepticism.** If you obtain an explanation for the situation, think about whether it makes sense. Continue to observe over time to see if the situation plays out as expected.

**Maintain documentation of the issue.** This includes your thoughts and decisions all along the way, and the parties with whom you discussed these issues. It may be necessary to review them later.

Even if you are successful in a particular situation, you might find that there are other implications that make it impossible to continue working at a company. In this situation, you should seek employment elsewhere.

Depending on the severity of the issue, you may want to consult with people that you respect from outside the company. Also, consider whether you need to consult with an attorney. Before consulting with third parties, make sure you remain alert to the requirements of the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [2.400.070] of the “Acts Discreditable Rule” [2.400.001]. In addition, federal,

state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.

## Non-Attest Services Not Involving Independence

You and your firm are not required to be independent to perform services that are not attest services (for example, financial statement preparation, tax preparation or advice or consulting services, such as personal financial planning) if they are the only services your firm provides to a client.

AICPA members are bound by the AICPA Code of Professional Conduct. Rule 201 requires that members provide professional services with competency.

### Article I — Responsibilities Rule 0.0300.20

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

### Article II — The Public Interest Rule 0.300.030

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust and demonstrate commitment to professionalism.

### Article III — Integrity Rule 0.300.0400

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

### Article IV — Objectivity and Independence Rule 0.300.050

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

### Article V — Due Care Rule 0.300.060

A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

**INSTRUCTOR NOTE:** Another good case study to review. Be sure to point out Code Sections 0.600.010 and .010. Make sure the class knows the latest information on these two sections as it relates to the case study.

The resolution of this case was:

- CPA could not provide any attest, compilation or financial statement preparation services to persons or entities located in Virginia until licensed as a CPA firm.
- Monetary penalty of \$1,000 for providing compilation services without a firm license, for not enrolling in a peer review monitoring program and for not following SSARS standards in connection with the compilation services rendered.
- Monetary penalty of \$250 for failure to obtain 8 hours of A&A CPE in 2012 and 2013.
- Provide proof of CPE compliance in subsequent three years by Dec. 31 of each year.
- Reimburse VBOA \$500 for investigation.


## Case Study

A complaint was filed against a CPA for failing to communicate with a client about the client's federal tax returns, failing to timely file an extension and subsequently communicating with the IRS on client's behalf without client's permission or having a valid Power of Attorney Form 2848. In addition, the respondent to the complaint was non-responsive to the majority of Board of Accountancy's communication and failed to appear at the Informal Fact Finding conference after causing that conference to be rescheduled.

What specific issues in this case may have led to a complaint being filed?

What steps in this example made a bad situation worse?

How could this situation have been handled differently?

What firm or individual practices could be put in place to ameliorate problem situations when they occur? 

# Chapter I: Professional Conduct

## Financial Statement Preparation Services — The Fourth Service

**INSTRUCTOR NOTE:** Review this section if time permits.

Statement on Standards for Accounting and Review Services (SSARS) 21, Sec. 70, applies when an accountant in public practice is engaged to prepare financial statements. It does not apply, for example, when an accountant is engaged as a consultant to assist in preparing financial statements or to prepare financial statements solely for submission to taxing authorities. Another example of where it does not apply is if an accountant is engaged for financial planning only. However, if the accountant provides a personal financial statement to go along with a financial plan, he or she would fall under SSARS 21, Sec. 70.

A significant change in the CPA profession came about with the AICPA's issuance of a revised SSARS No. 21. This statement revises the standards for reviews, compilations and engagements to prepare financial statements. Included among the changes, CPAs are allowed to prepare financial statements without actually presenting a compilation report. Under SSARS, the preparation of the financial statements is in effect segregated as an activity separate from a compilation engagement.

In order to ensure that the statutes governing CPAs in Virginia were consistent with AICPA standards, SB 1125 amended the accountancy statutes to clearly include the preparation of financial statements effective July 1, 2015. The change makes it clear to both Virginia CPAs and the public that financial statement preparation services are covered in the same manner as audit, review and compilation services.

Under the amended statutes, a firm license is required for CPAs to undertake financial statement preparation services, whether or not the CPAs are providing attest and compilation services. Virginia's accounting statutes state that only a firm can perform a SSARS 21 Section 70 Engagement to Prepare Financial Statements. Firms otherwise subject to peer review that also perform the preparation of financial statements under SSARS 21 Section 70 will have such engagements included within the scope of their peer reviews.

It is important to note that the amended language does not restrict a non-licensee from performing this service.

## Notes

**U.S. Department of Justice (DOJ) Cybersecurity Unit Best Practices for Victim Response and Reporting of Cyber Incidents:**

[https://www.justice.gov/sites/default/files/opa/speeches/attachments/2015/04/29/criminal\\_division\\_guidance\\_on\\_best\\_practices\\_for\\_victim\\_response\\_and\\_reporting\\_cyber\\_incidents.pdf](https://www.justice.gov/sites/default/files/opa/speeches/attachments/2015/04/29/criminal_division_guidance_on_best_practices_for_victim_response_and_reporting_cyber_incidents.pdf)

**U.S. Federal Trade Commission (FTC) Standards for Safeguarding Consumer Information:**

<https://www.ftc.gov/tips-advice/business-center/guidance/financial-institutions-customer-information-complying#who>

**U.S. Treasury Inspector General for Tax Administration (TIGTA) Report:**

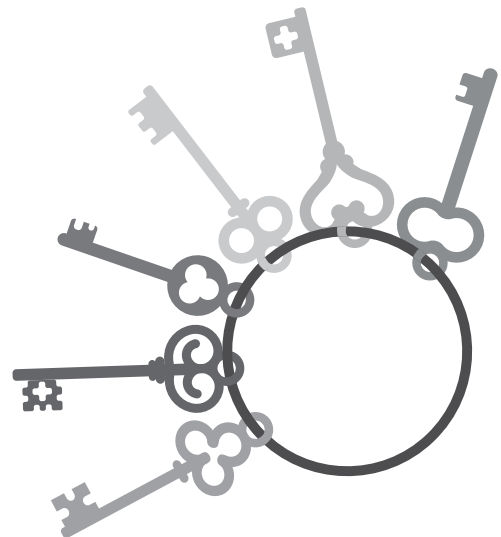
*"The Office of Chief Counsel Accurately Administered User Fees But Could Improve its User Fee Refund Process":*

<https://www.treasury.gov/tigta/auditreports/2017reports/201710012fr.pdf>

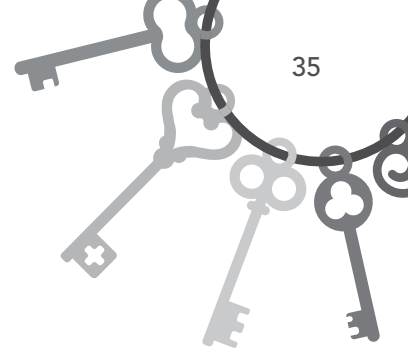
**Press Release 2016-187**

Washington D.C., Sept. 19, 2016:

<https://www.sec.gov/news/pressrelease/2016-187.html>



# Chapter II: VBOA Enforcement



## License Renewal

**INSTRUCTOR NOTE:** This section is to cover the core responsibilities the CPA has to their clients/employer, emphasizing how this applies to both CPAs in public accounting and non-public (industry, government and academia). You should also discuss the CPA's ethical responsibility when certifying their annual renewal, placing particular emphasis on CPE compliance.

Each year, when you renew your CPA license, you are required to check boxes stating you have completed a list of items in order to pay the fee and continue practicing in Virginia. When you click “renew license,” you are affirming that you have read and understand the statements and have done all that you agreed to.

It is each individual's ethical responsibility to fully understand what is being asked and that the information you are reporting is accurate.

From the VBOA's renewal system, here is the language that governs CPA license renewal and the statements you must affirm to renew yours:

Welcome to the Virginia Board of Accountancy's Online License Renewal page for your CPA Individual license. The annual Virginia CPA License renewal fee is \$60. Your online renewal payment will be processed within 24 to 48 hours.

If the annual renewal fee is not received by the board by the last day of the calendar month in which the renewal is due, the Virginia CPA is required to pay the \$60 renewal fee as well as a \$100 late renewal fee. All fees are nonrefundable and the date of receipt by the board is the date that will be used to determine whether it is on time.

Each Renewal Checklist item on the left must be completed in order to pay your renewal fee and renew your license. By clicking the “Renew License” button at the bottom of the page you are affirming you have read and understand all information below.

### § 54.1-4413.2, Code of Virginia

- a. A Virginia license shall provide its holder with a 12-month privilege to use the CPA title in Virginia or provide attest services and compilation services to persons and entities located in Virginia.
- b. The person or firm holding the license shall have an additional 12-month period after the expiration of a license to renew the license.
  - i. The VBOA may prescribe renewal fees and requirements that increase based on the

amount of time the person or firm allows to elapse before applying for renewal.

- ii. During the additional 12-month period, the person or firm shall be considered to hold a Virginia license.
- c. If the license is not renewed by the end of the additional 12-month period, it shall be considered to have expired and the person or firm shall be considered to no longer hold a Virginia license.

**INSTRUCTOR NOTE:** Discuss this section. For engagement, ask if anyone has applied for this status. 1,400 Virginia CPAs currently hold the status. Ask if anyone reads the VBOA annual report.

## Annual Certification for Active — CPE Exempt CPAs

This individual is currently and actively licensed as a CPA and may use the CPA title. However, the individual is not currently providing services to the public (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) or to an employer (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) and therefore is not required to meet the VBOA's CPE requirements.

- ☐ I confirm that my job description/current employer has not changed and if there are changes I will notify the VBOA immediately to determine if I still qualify for the Active — CPE Exempt Status

## Annual Certification for Active CPAs

- ☐ I comply with the licensing requirements for individuals prescribed in § 54.1-4409.2, Code of Virginia.
- ☐ I comply with the requirements for license renewal prescribed by § 54.1-4413.2, Code of Virginia.
- ☐ I have met the continuing professional education (CPE) requirements prescribed by Board Regulation 18VAC5-22-90, including an annual 2-hour Virginia-specific ethics course, during the previous 3 calendar-year period.
- ☐ I understand that beginning in 2011 if I release or authorize the release of reports on attest or compilation services for persons or entities located in Virginia then I must obtain on an annual basis 8 hours of CPE related to attest or



# Chapter II: VBOA Enforcement

compilation services, in compliance with Board Regulation 18VAC5-22-140.

- ☐ I have not withheld information that might affect the decision by the VBOA to renew my license.

## Felony/Misdemeanor Conviction

If you have **ever** been convicted in any jurisdiction of a **felony or misdemeanor** or **have been charged with a crime, or have any charges pending against you at this time**, and have not previously communicated this to the Board, you **must** disclose this information to the Board immediately. **Any guilty plea or nolo contendere must** also be disclosed to the Board immediately. (Do **not** disclose violations that were adjudicated in the juvenile court system while you were a minor.)

## Violation of Standards

If any other jurisdiction has found you in violation of its standards of conduct or practice, and you have not previously communicated this to the Board, you **must** disclose this information to the Board immediately.

## Disciplinary Action

If you have ever been subject to any disciplinary action imposed by any local, state or national regulatory body, and have not previously communicated this to the Board, you **must** disclose this information to the Board immediately.

Please contact the Board immediately by email at [boa@boa.virginia.gov](mailto:boa@boa.virginia.gov) or by phone at (804) 367-8505, if you need to disclose any information regarding a felony or misdemeanor conviction, a violation of standards, or disciplinary action.

## CPE

INSTRUCTOR NOTE: This topic was discussed in last year's Ethics course.

## Transitioning To Active — CPE Exempt Status

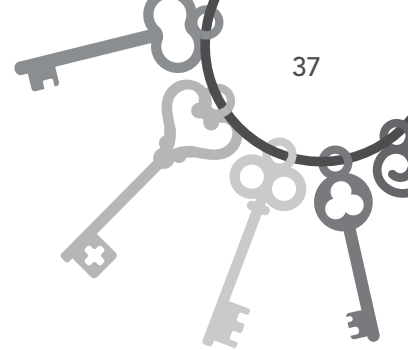
In 2014, the VBOA created the “Active — CPE Exempt” status. This status, which must be applied for in writing, affects CPAs who wish to maintain their license but who are not providing services to an employer or to the public and further do not expect to provide such services for a period of time. Licensees who qualify for this status still renew their licenses annually and pay the renewal fee, but are not obligated to fulfill any CPE requirements. It is important to note that the VBOA does not recognize a “retired” status or an “inactive” status.

The CPE exemption itself is not new, just the requirement to apply for the Active — CPE Exempt status in order to take advantage of this CPE exemption. VBOA regulations have specifically allowed for a CPE exemption for certain licensees since at least 2001. A licensee must submit a formal application to the VBOA to request the status. The application can be found at [tinyurl.com/CPEExemptApplication](http://tinyurl.com/CPEExemptApplication).

This status is now mandatory for CPAs to be exempt from obtaining continuing professional education hours. Previously, a “grandfathered” or “grace” period was allowed, but since 2016, all Virginia CPAs must first obtain approval from the VBOA through a formal application process, including submission of employment information, a job description and, if currently employed, information about the employer.

Retirees cannot simply cease obtaining CPE without incurring the risk of fines and penalties. Any retiring or retired Virginia CPA who is not providing services to the public or to an employer must also apply and be approved for the Active — CPE Exempt status before he or she discontinues taking CPE.

A CPA who obtains this status may continue to freely use the CPA title and will be allowed to renew his or her license annually by simply paying the renewal fee without having to obtain any CPE. There is no waiting period prior to applying. A licensee can apply for the Active — CPE Exempt status immediately upon a change in working status that could qualify for this status.



Since the status was established in 2014, there has been some confusion regarding the use of the CPA title by licensees. A Virginia CPA, whether or not she or he publicizes their license or CPA designation, is, “using the title.” Board Regulation 18VAC5-22-40 states: “...holding a Virginia license constitutes using the CPA title.” Conversely, not disclosing, publicizing, etc. the CPA title does not automatically exempt a licensee from CPE requirements.

A Virginia CPA can only be considered for the Active — CPE Exempt status if he or she is not currently providing services to the public or to an employer (i.e. 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). Most importantly, the status must be formally requested and approved by the VBOA. Until such time as the Board has formally approved the Active-CPE Exempt status, the CPA is required to fulfill all CPE requirements.

In determining whether a CPA is providing services to an employer in a position that requires the “substantial” use of accounting, financial, tax or other skills, the Board has established a working definition of the term “substantial.” If a CPA is required to use these skills one or more workdays per month (i.e., approximately 5 percent of the time on the job), then the “substantial” test is met and the CPA will not be eligible for the Active — CPE Exempt status, meaning the CPA must continue to fulfill all CPE requirements.

As of the writing of this course, the VBOA had processed several thousand applications for the Active — CPE Exempt status.

The examples below, while intended to be instructive, should not be considered as any sort of precedent. Each situation must be judged entirely on its own merits, but the best advice is that any CPA considering this status must contact the VBOA directly for information related to his or her specific situation.

#### **POSSIBLY may obtain CPE Exempt Status:**

- a. Professional dancer
- b. Medical doctor
- c. Teacher (non accounting or financial)
- d. Retired CPA
- e. Stay-at-home parent
- f. CEO of a large company in a non-financial field

#### **UNLIKELY to obtain CPE Exempt Status:**

- a. Accountant
- b. Chief Financial Officer
- c. Budget analyst
- d. Controller
- e. Tax attorney
- f. Accounting professor

The Active — CPE Exempt status can only be obtained by formally requesting the status from the VBOA. When in doubt, consult the VBOA.

## **Changing From Active — CPE Exempt to Active Status**

**INSTRUCTOR NOTE:** Emphasize that the CPA is required to contact the VBOA as soon as a change in status is anticipated. For instance, if Jane Doe CPA, who has Active — CPE Exempt Status, is offered a new job as a controller or a manager in a CPA firm, etc. If she decides to accept such an offer, she must immediately notify the VBOA.

If a CPA obtains the Active — CPE Exempt status, but later begins providing services to an employer or to the public, the CPA is required to immediately notify the VBOA of a change in status. It is very important to note that **prior to** initiating services to an employer or to the public, the CPA must become CPE compliant for the current reporting cycle (i.e., three calendar years). The CPE must include the most recent version of the Virginia-specific Ethics course.

To apply for the Active status, a CPA must first complete the Change of License Status Request Form: Active — CPE Exempt to Active and email, fax or mail the form to the VBOA office and submit the required continuing professional education (CPE) verification through the VBOA’s CPE tracking system. The form can be found at [tinyurl.com/ActiveStatusApplication](http://tinyurl.com/ActiveStatusApplication).

## **CPE Deficiencies**

**INSTRUCTOR NOTE:** Read and discuss. The VBOA anticipates the number of CPE verification audits will increase in the near future. CPAs should therefore be diligent in their CPE compliance, because many CPAs found to be not in compliance will pay monetary fines.

The mission of the VBOA is “to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of CPAs and CPA firms.” In order to fulfill

# Chapter II: VBOA Enforcement

this mission, the VBOA regulates certified public accountants in Virginia through a program of examination, licensure of individuals and CPA firms, consumer protection through enforcement of VBOA statutes and regulations, continuing professional education and peer review oversight.

According to the VBOA's Biennial Report, as of 2016, there were 27,322 licensed CPAs and 1,157 licensed CPA firms in the Commonwealth. Because the public has a reasonable expectation that CPA services should be provided in a competent manner by properly educated and trained professionals, continuing professional education (CPE) is therefore an absolute necessity for licensed CPAs. One of the most important tools utilized by the VBOA to preserve the public's confidence in the profession is the CPE verification audit. In fiscal year 2016, the VBOA conducted 1,578 such audits. Of these, 1,282, or 81 percent, were "in compliance."

Sections 54.1-4409.2 and 54.1-4413.2 of the Code of Virginia authorize the VBOA to establish CPE requirements.

The CPE requirements themselves are outlined in Board Regulation 18VAC5-22-90. The additional requirements for CPAs who release or authorize the release of reports related to attest or compilation services are found in Board Regulation 18VAC5-22-140. The deadline for obtaining any CPE applicable to the previous year is Jan. 31.

Every holder of a current Virginia CPA license must, as part of her/his license annual renewal, affirm to the VBOA that he or she is in compliance with applicable continuing education requirements.

For 2017, there have been no changes in basic CPE requirements. A Virginia license holder must comply unless he or she has received notification from the VBOA that he or she has been granted Active — CPE Exempt status.

## Basic CPE Requirements

- In general, 120 CPE credits are required each reporting cycle (three rolling calendar years).
- A minimum of 20 credit hours must be taken each calendar year, including the Virginia-specific Ethics course (2 CPE credits).

The only other specific requirement is for any person who releases or who is authorized to release an attest or compilation report. These CPAs must receive 8 CPE credits annually in courses related to attest or compilation.

The VBOA monitors compliance with CPE requirements on an ongoing basis. Monthly, a random sample of CPA license numbers are generated and a CPE verification audit occurs. In 2015, of all closed investigations for matters coming before VBOA, 18 percent of the total represented CPE deficiency cases.

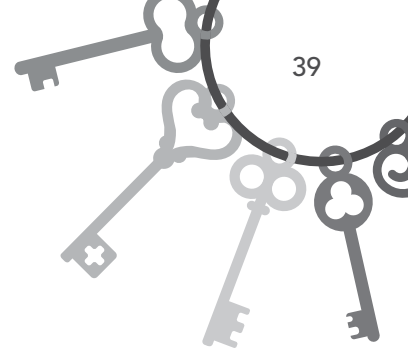
**INSTRUCTOR NOTE:** Ask the class if the fine of \$1,000 was appropriate. Use this to generate discussion. Remind class that names have been changed. Note that the biggest issue in this case study is in the communication.

## CPE Enforcement Case — Johnny Walker Fails CPE Audit

This case was finalized in June 2016. The detailed findings indicated that the CPA renewed his license 2013, 2014 and 2015, certifying he was CPE compliant. In December 2015, as part of the monthly statistical sample for CPE audits, Mr. Walker (not his real name) repeatedly failed to respond to numerous efforts of communication from the VBOA. The Final Order included:

- A \$1,000 fine within 60 days for the CPE deficiency related to 2012, 2013 and 2014.
- A fine of \$100 for failing to respond to the VBOA's First, Second and Final Notices.
- The VBOA suspended his CPA license for one year.
- In order to seek reinstatement, Walker would have to appear before the VBOA in person with CPE verification prior to reinstatement.
- Walker must provide annual reporting of CPE verification for three years.
- Walker must report the Order as an adverse administrative action to any regulatory authority before which he practices.
- Failure of any terms will result in automatic license suspension until the conditions have been met. ➡





## CPE Enforcement Case — Maria Cordova Loses License for CPE

**INSTRUCTOR NOTE:** If time permits, ask the class if the decision by this CPA to certify that she was CPE compliant despite having only 2 hours of the 120-hour requirement was ethical. Ask if any of the attendees has ever checked a box on a website acknowledging that they have read information when, in fact, they had not.

In May 2016, Maria Cordova (not her real name) was randomly selected for a CPE verification audit by the VBOA. Cordova responded in a timely manner and on June 3, 2016, submitted CPE certificates to the VBOA. The documentation indicated that the CPA fell short by 118 CPE credits for the three-year cycle. Cordova signed a Consent Order on July 14, 2016 as follows:

- A fine of \$1,000
- Submission of verification of 120 CPE credits for current reporting cycle prior to reinstatement
- License suspended for one year
- Cordova must provide annual reporting of CPE verification for three years.
- Cordova must remove any indications or designations in advertisements, business cards, social media, stationery, email address and signatures, etc. of a CPA designation.
- Cordova may not provide services to the public as that term is outlined in the Code of Virginia
- Failure of any terms will result in automatic license suspension until the conditions have been met. ☞

## CPE Enforcement Case — Adam Christian Pays for Missing CPE

The CPA, Adam Christian (not his real name) renewed his license online in 2013, 2014 and 2015, certifying he was CPE compliant. In April 2016, Christian was randomly selected for a CPE verification audit. In June 2016, Christian submitted CPE certificates, but the total of CPE taken and verified was found to be short by 55 CPE credits for the three-year cycle (2013, 2014 and 2015). Christian agreed to and signed a Consent Order, which included:

- A fine of \$750
- Submission of verification of 55 CPE credits within 60 days
- Submission of CPE for 2016, 2017 and 2018 by Dec. 31 of each year.
- Failure of any terms will result in automatic license suspension until the conditions have been met. ☞

## CPE Enforcement Case — Tom Williams Needs Multiple Lessons

**INSTRUCTOR NOTE:** Review and discuss if you have time. Great engagement opportunity.

Tom Williams (not his real name) had a long-running series of enforcement issues. Williams received his initial Virginia CPA license on Oct. 1, 2008. He renewed it for several years — notably through 2013, when the First Consent Order was issued on June 13, 2013, based upon a CPE deficiency. Williams was employed at that time a Federal employee. The First Consent Order resulted in a fine of \$750. He did not pay the fine on time and requested a payment plan of six (6) monthly payments of \$125. Williams was furloughed from his job; he made one payment of \$125 to the VBOA, but requested numerous extensions over the next few months. In April 2014, Williams appeared before the VBOA at an Informal Fact Finding (IFF) Conference, apologized and promised to pay the outstanding \$625. He failed to pay by June 30, 2014, and the VBOA suspended his license until the terms of the Second Consent Order were met.

On March 2, 2016, Williams submitted his application for reinstatement and included a check for the outstanding balance of \$625 from the original 2013 fine (he was newly employed). The VBOA then scheduled an IFF Conference for March 24, 2016. Shortly thereafter, the VBOA discovered that Williams had published his resume on an online website indicating that he was a CPA in both Virginia and Florida. Two days before the IFF Conference, Williams advised the VBOA that he had missed the 2014 Ethics course “by mistake.” The Third Consent Order, resulting from the IFF Conference on March 24, 2016 included the following:

- Williams must submit CPE verification for 2016, 2017 and 2018 by Dec. 31 of each year.
- Williams to submit verification of the 2016 Ethics course within 60 days of the Order
- Williams must submit a 1,500-word essay on the topics of “communication with a regulator while holding a professional license, the ethics of the CPA profession and honoring one’s commitment as it pertains to the VBOA.”
- If the 2016 Ethics course is fulfilled and the essay is completed within 60 days, the license will be reinstated
- Williams must report the Order as an adverse administrative action to any regulatory authority before which he practices.
- Failure of any terms will result in automatic license suspension until the conditions have been met. ☞

# Chapter II: VBOA Enforcement

## Qualifying CPE

**INSTRUCTOR NOTE:** Review the bullet points under this section.

The VBOA's guidance for Virginia license holders can be found in their Policy No. 4, entitled *Continuing Professional Education (CPE) Guidelines for CPAs*.

The VBOA accepts CPE obtained through a variety of forums, providing that the licensee is able to demonstrate that learning objectives were met. The VBOA does not currently require licensees to obtain CPE from specific or approved sponsors (except for the Virginia-Specific Ethics Course). However, all licensees (excluding those approved for the Active — CPE Exempt status) are required to obtain on an annual basis two 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 eight hours of CPE related to attest or compilation services. 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 course through nano-learning or incremental CPE**  
Nano-learning is known as learning and absorbing information in smaller increments of time. The VBOA accepts nano-learning CPE.
- **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.

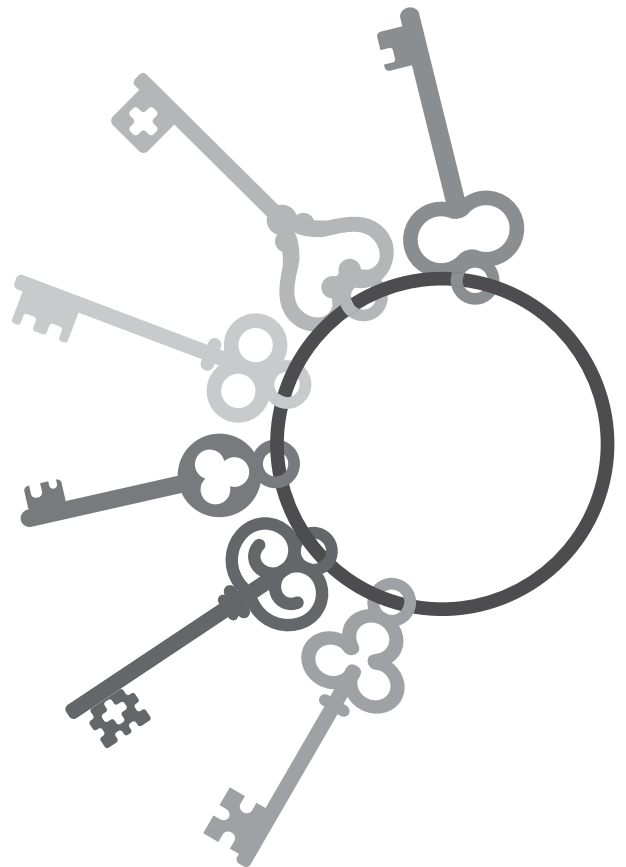
- **Producing written materials.**

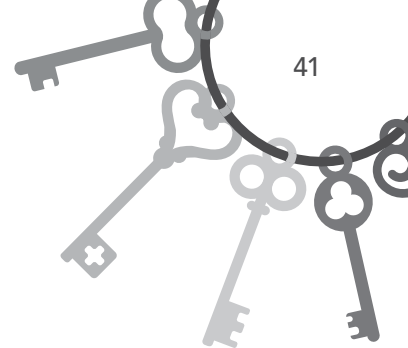
The topic must be relevant. The material is formally reviewed by an independent party and must be published in a book, magazine or similar publication.

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 three-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.





## NASBA Standards for CPE

**INSTRUCTOR NOTE:** Briefly review that some minor changes occurred.

Effective Sept. 1, 2016, NASBA issued a new set of standards that guide CPE delivered by providers across the country. While the VBOA accepts these standards, providers are not required to meet NASBA standards.

NASBA has now approved nano-delivery and blended delivery modes, which the VBOA has always accepted.

Additionally, NASBA refreshed its list of fields of study (FOS) and added a technical and non-technical component to this list. To see the entire standards guide and familiarize yourself with all NASBA requirements, visit [tinyurl.com/hus5l2g](http://tinyurl.com/hus5l2g).

Field of Study	Classification
Accounting	Technical
Accounting (Governmental)	Technical
Auditing	Technical
Auditing (Governmental)	Technical
Behavioral Ethics	Non-Technical
Business Law	Technical
Business Management & Organization	Non-Technical
Communications & Marketing	Non-Technical
Computer Science & Applications	Non-Technical
Economics	Technical
Finance	Technical
Information Technology	Technical
Management Services	Technical
Personal Development	Non-Technical
Personnel/Human Resources	Non-Technical
Production	Non-Technical
Regulatory Ethics	Technical
Specialized Knowledge	Technical
Statistics	Technical
Taxes	Technical

## CPE Tracking System

In cooperation with NASBA, the VBOA is now offering a CPE tracking system for all active Virginia CPAs. This system is available for use at no charge and allows licensees to keep track of CPE credits and store CPE records in one location. In order to respond to a VBOA CPE verification audit, the CPA must submit all CPE verification through the CPE Tracker database.

A CPA who is subject to a CPE audit will be required to use this system to submit CPE records and documentation to the VBOA. Licensees may also use this system for convenience in tracking CPE records. Use of this tracking system does not reflect a final determination of CPE compliance.

While CPE records and documentation (i.e., CPE verification or attendance certificates) can be entered and stored within the system, attaching the documentation (Certificates of Completion, etc.) at the same time you enter your CPE credits is not a requirement. Therefore, you may save your CPE information and upload your documentation at a later time. However, due to the time-consuming nature of uploading all the materials for a three-year cycle at once, it is recommended that each CPA regularly upload CPE supporting materials.

A user account has already been created for every Virginia licensee. The CPA will need their Virginia CPA license number and CPE tracking system password to log into the account. The initial password was sent to each CPA either through email or a letter and must be changed upon initial use of the system.

Contact VBOA CPE Coordinator Christine Rappe at (804) 367-1568 or [christine.rappe@boa.virginia.gov](mailto:christine.rappe@boa.virginia.gov) with any questions regarding the use of the system.

# Chapter II: VBOA Enforcement

## For VSCPA Members

**INSTRUCTOR NOTE:** Ask for a show of hands of attendees who have their CPE records up to date on the CPE Tracking System. Inquire further of those who raise their hands if they found it to be an easy process. Remind the class that the Tracking System must be used to reply to the VBOA for any CPE verification audit, so utilizing the system ultimately will save them time.

The VSCPA has uploaded all of the credits taken from them to the CPE tracking system, beginning with courses taken in 2009 and later (unless you opted out of this benefit). If you have questions regarding your VSCPA attendance, please contact the VSCPA at (800) 341-8189 or at [vscpa@vscpa.com](mailto:vscpa@vscpa.com).

The CPE tracking system has a straightforward design. Once logged in:

1. Verify that the information on the “Profile” tab is accurate
2. Go to the tab marked “CPE Credits Reported”
3. Select either “Check CPE Status” or “Add New Credit”
4. To use “Add New Credit” complete the following:
  - a. Select the Credit Type (self study, AICPA, VSCPA, etc.)
  - b. Complete Credit Information (title, date, provider, etc)
  - c. Complete Subject Areas (subject category and CPE hours)
  - d. Upload PDF of CPE verification form from CPE sponsor
  - e. To ensure that your Ethics credits record properly, answer “Yes” to the question indicating that the course is VBOA-approved. This will display your Ethics credit correctly on the CPE summary.
  - f. Review the Credit Summary and Approve or Edit

Remember, if CPE is claimed for the production of written materials, the topic must be relevant to providing services to the public or an employer using the CPA title. The material must also be 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. A one-page form entitled “Request for CPE Credit for Published Article/Book” must be completed in advance and can be found on the VBOA website at [tinyurl.com/CPECreditForArticle](http://tinyurl.com/CPECreditForArticle). Learn more about the CPE Tracking System at <http://tinyurl.com/VBOACPETracking>.

## Use of the CPA Title

One of the primary ways that the VBOA protects the public and the profession is to ensure that only actively licensed CPAs perform those services restricted by law to licensed CPAs. Further, any person holding out to be a CPA who is employed in Virginia (for business, industry, nonprofit entities, government agencies, etc.) is subject to the jurisdiction of the VBOA. According to its most recent Biennial Report, 27 percent of closed (i.e., completed) investigations were related to some form of unlicensed activity.

Penalties for unlicensed activity can include reprimands, monetary fines, additional required CPE and other actions. The monetary fines can be up to \$100,000 per single infraction.

Investigations can result from many sources. In the most recent reporting period, 54 percent of all investigations completed by the VBOA arose from CPE verification audits that are performed on a random basis. In that same period, 26 percent of the cases stemmed from a complaint registered by the public, either named or anonymous. The final 20 percent resulted from information shared from other agencies, such as federal, state, local or international, agency/jurisdiction, non-governmental or a professional organization.

Unlicensed activity can fall in several categories. First, if a person does not have a CPA license at all, or if they previously had a license which is suspended, or has expired, the following applies:

- Such persons cannot in any way hold themselves out to be CPAs, such as in advertisements, signage, display of a wall certificate, on a resume, on a website or in any Internet location, in emails, on stationery, etc.
- Such persons cannot provide any of the following services:
  - Attest
  - Compilation
  - Preparation of financial statement services for the public (exception is provided in the case of performing this service for an employer)

Pursuant to § 54.1-4412.1, B, Code of Virginia, any firm performing attest services, compilation services or financial statement preparation services to persons or entities located in Virginia must hold a Virginia firm CPA license if Virginia is the principal place of business.

It is important to understand that an individual license holder cannot perform any of the services which require the holding of a firm license. These restricted services are:

- Audit, review and other attest services
- Compilation
- Preparation of financial statement services for the public (exception is provided in the case of performing this service for an employer)

This does not prevent an individual not licensed as a CPA from practicing accounting or bookkeeping skills, or rendering tax services. A non-licensee may prepare financial statements as long as no claims of audit, review, or assurance is made on those financial statements, in accordance with § 54.1-4401, Code of Virginia. Additionally, work cannot be purported to have been performed in accordance with AICPA standards.

There are two types of licenses in Virginia — an individual license and a firm license. A sole proprietor who wishes to perform these restricted services must obtain both an individual and a firm license.

## Other Enforcement Cases

**INSTRUCTOR NOTE:** Review and discuss.

### Unlicensed Activity Enforcement Case — Jill Drub’s “Out of Sight, Out of Mind”

In May 2015, Jill Drub filed for reinstatement of her CPA license, which expired in 1993, having been originally issued in 1983. Drub indicated she had continued to provide services, primarily tax and consulting, during the period and indicated that apparently the VBOA had lost her address after she had changed both residential and business locations in the mid-1990s. She regarded the failure to renew her licenses for 22 years as “an administrative oversight” and lamented that her relationship with the VBOA was obviously “out of sight out of mind.” Drub continued to maintain her CPE throughout the unlicensed period. The expired license was brought to Drub’s attention by an unnamed third party.

During the investigation, the VBOA was advised by the Department of Labor (DOL) that Drub performed an ERISA audit for the calendar year 2014.

After investigation, Drub signed a Consent Order on January 8, 2016, including the following:

**INSTRUCTOR NOTE:** Read this section to the class

- Fine of \$2,500 for providing services without a firm license
- Fine of an additional \$2,500 for use of the CPA designation without a valid license
- Until license is reinstated, cannot hold out as a CPA or provide services restricted to a CPA
- Reimburse the VBOA \$500 for the costs of investigation

Note: as of the writing of this 2017 course, the VBOA website indicated the person’s license was Active and had been reinstated in May 2016. 🔑



# Chapter II: VBOA Enforcement

## Unlicensed Activity Enforcement Case — Ruby Rolly Sells CPE to CPAs

**INSTRUCTOR NOTE:** Ask the class if the VBOA's actions in this case are related to the public's perception or expectation of a CPA and see if they (the class) concur.

In March 2016, the VBOA received anonymous complaint that Rolly, an Executive VP of sales for a company, was holding out as a CPA on various websites, in communication with customers and in professional settings. Her employer sold audit and tax training programs to CPA firms. Rolly had originally been issued a Virginia CPA license in 1995, and it expired in 1996. At a conference, Rolly's supervisor, the CEO — who was a CPA — spoke on her behalf, stating that her misuse of the CPA title did not cause him concern about her quality, credibility or ability to do her job and that he did not believe that she had benefitted financially from the misuse of the title. The CEO did acknowledge that his company probably benefitted from Rolly's use of the title "from a credibility viewpoint."

In July 2016, Rolly signed a Consent Order which included:

- A fine of \$2,100 for holding out as a CPA when she did not possess a valid license
- Remove all signage and indications of a CPA title and not use the title
- Rolly must report the Order as an adverse administrative action to any regulatory authority before which she practices.
- Comply with all terms of the Order prior to attempting to reinstate her license
- Pay \$500 to reimburse VBOA for the investigation

Note: as of the writing of this 2017 course, the VBOA website indicated the person's license was still expired. ➡🔗

## Volunteer Services

**INSTRUCTOR NOTE:** Watch the Volunteer Services video before moving into discussion of this topic. Prior to the video, ask the class for a show of hands of who has been asked to serve as a volunteer once people learned they were a CPA. Follow that by asking if anyone has declined such service due to fears of license issues.

The knowledge, skills and abilities of Virginia's CPAs can be a valuable resource for nonprofit organizations in need of financial and accounting services. Often, these organizations cannot afford to properly staff the administrative aspects of the entity and instead rely on volunteers for critical assistance.

CPAs are often called upon in these instances. The VBOA receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a not-for-profit entity. Consistent with the VBOA's mission of protecting the public, the Board feels that CPAs can bring valuable knowledge, experience and insights as volunteers to these types of organizations and supports such involvement. The VBOA's website contains information intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide services which may fall under the Virginia accountancy statutes and regulations. The guideline can be found at [tinyurl.com/CPAVolunteer](http://tinyurl.com/CPAVolunteer).

If a person holding solely a Virginia individual license is asked to provide volunteer services to a nonprofit organization, the CPA must ask two very important questions:

1. What service is to be provided?
2. In what capacity will the CPA be providing the service?

Considering the answer to both these questions, the following situations may be instructive:

- a. If a CPA is engaged as a volunteer to perform an audit, review or agreed-upon attestation service, the CPA would have to be independent (that is, not a member of the governing board or an officer of the entity) and would have to comply with technical standards. This service would require that the CPA have a firm license.
- b. For a compilation, independence is not required (in other words, the CPA could be an officer or a member of the governing board), but proper disclosure of the lack of independence would be required and a firm license would be required.



- c. For financial statement preparation services, independence is not required (the CPA could be an officer or a member of the governing board), but proper disclosure of the lack of assurance would be required. If the CPA is a member of the governing board of the entity or is an officer of the entity, a firm license would not be required, because the circumstances meet the exception provided in the Code of Virginia. If the CPA is a volunteer and is not an officer or on the board, then a firm license is required.
- d. If the CPA is asked to serve as a member of an audit committee to participate in what the not-for-profit entity sees as an “audit process,” then the individual CPA is not actually “engaged” to perform an audit. In fact, the group was appointed to perform what might normally be “attest procedures.” The individual CPA can, along with other members of the Audit Committee, sign a statement related to the Committee’s activities, but should exercise care to avoid using the CPA designation in such a statement. In this situation, the CPA would not need a firm license.
- e. A licensee who is a member of a social club may be asked to audit the club’s statement of cash receipts and disbursements. That would require the person to also have a firm license, and the audit would be subject to peer review. Two of the auditing procedures the licensee would likely perform are to inspect and test the club’s reconciliation of cash balances with the deposit balances reported by financial institutions. However, those procedures are auditing procedures only if they are performed as part of an audit. The performance of just those procedures would not imply that the licensee performed an audit and would not be subject to peer review, nor would it require a firm license.
- f. Performing accounting services does not constitute submission of financial statements, is not a compilation service, is not subject to peer review and does not require a firm license. Examples of accounting services are payroll, bank reconciliation, and other bookkeeping services; preparing a working trial balance; proposing adjusting journal entries; and consulting on accounting matters.

# Chapter II: VBOA Enforcement

## Conclusion

**INSTRUCTOR NOTE:** Refer to this chart when talking about VBOA enforcement on slides 35–45.

The VBOA reviewed 154 allegations in 2014–2015, broken down in the chart below. Examples of allegations include lack of due professional care, tax-related matters, refusing to return client-provided records and other discreditable acts.

	Unlicensed activity	Discreditable act	CPE deficiency	Eligibility	Peer Review	Other	Totals
2014	15 cases	30 cases	7 cases	14 cases	14 cases	n/a	80 cases
2015	20 cases	19 cases	13 cases	9 cases	11 cases	2 cases	74 cases

Many board orders and consent orders contain multiple penalties. In cases with more than one penalty, the resolution is classified by the most severe penalty. Penalties listed below range from most severe to least severe.

“Other” penalties in cases closed by board order or consent order include additional CPE, written/oral essay, appearance before the Board, reinstatements and licensing agreements. In cases closed by other means, they include voluntary surrender of a license, CPA Exam eligibility approved by the Enforcement Committee and cases judged outside the VBOA’s jurisdiction.

Closed by Board Order or Consent Order						Closed by other means			
	Revocation	Suspension	Monetary penalty	Reprimand	Other	No violation found	Withdrawal of complaint	Other	Totals
2014	2 cases	4 cases	16 cases	2 cases	9 cases	16 cases	3 cases	28 cases	80 cases
2015	2 cases	3 cases	7 cases	2 cases	7 cases	23 cases	3 cases	27 cases	74 cases

## Sources

Virginia Board of Accountancy. *Biennial Report 2015–2016*.

National Association of State Boards of Accountancy. “CPE Standards Revisions Approved” August, 2016. [nasba.org/blog/2016/08/31/cpe-standards-revisions-approved/](http://nasba.org/blog/2016/08/31/cpe-standards-revisions-approved/)

Virginia Board of Accountancy. [boa.virginia.gov](http://boa.virginia.gov)

American Institute of Certified Public Accountants. “NASBA and AICPA Announce Revisions to CPE Provider Standards, Effective September 1, 2016” [aicpa.org/press/pressreleases/2016/pages/nasba-aicpa-announce-revisions-cpe-provider-standards.aspx](http://aicpa.org/press/pressreleases/2016/pages/nasba-aicpa-announce-revisions-cpe-provider-standards.aspx)

## Notes

### Continuing Professional Education (CPE) Guidelines for CPAs:

<http://www.boa.virginia.gov/Docs/Policies/04CPEGuidelines.pdf>

### Requirements for Enrolling in Peer Review

<http://www.boa.virginia.gov/Firms/PeerReview.shtml>

# Conclusion

As always, individual CPAs and CPA firms are charged with upholding the information detailed in this course. Where regulations don't dictate the proper course of action, the AICPA's conceptual frameworks offer guidelines for applying the ideals of the profession in the most ethical manner. Staying current on ethical standards and best practices remains the best way to ensure ethical behavior.

Here are a few steps you can take to apply the concepts from this course to your professional world:

- Review the Knowledge Check in Appendix I.
- Complete the class evaluations that will be sent to you via email and at [tinyurl.com/2017EthicsEval](https://tinyurl.com/2017EthicsEval). We appreciate all feedback you provide, as it helps us make improvements to this course.
- Check the status of your CPA license (and firm license, if applicable) on the VBOA website.
- Make a note of the AICPA's Ethics hotline, (888) 777-7077, option 6, followed by option 1, in case you have any pressing ethical questions.
- Make sure your CPE information is up to date in the VBOA's CPE tracker.
- Familiarize yourself with the standards contained in the AICPA's Code of Professional Conduct ([tinyurl.com/AICPACode](https://tinyurl.com/AICPACode)).
- Review the topics discussed in this course and obtain further education on the ones relevant to your practice.

Visit [vscpa.com/EthicsResources](https://vscpa.com/EthicsResources) for the most up-to-date information on topics discussed in this course, as well as other resources to help you in your day-to-day decision making.

As the leading professional resource for Virginia CPAs, the VSCPA is proud to provide the highest-quality Ethics course in the Commonwealth. Thanks for learning with us!

# Appendix I:

## Resources, Glossary and Acronyms

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

### Code of Virginia:

Title 54.1 Professions and Occupations; Chapter 44 —

Public Accountants: [tinyurl.com/6f9ucox](http://tinyurl.com/6f9ucox)

### AICPA Code of Professional Conduct:

In standard form: [tinyurl.com/nh6bqkv](http://tinyurl.com/nh6bqkv)

In topical (indexed) form: [tinyurl.com/pjck8g2](http://tinyurl.com/pjck8g2)

### Virginia Board of Accountancy (VBOA)

[boa.virginia.gov](http://boa.virginia.gov)

Email: [boa@boa.virginia.gov](mailto:boa@boa.virginia.gov)

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

CPA Examination Services: (804) 367-1111

### VBOA Regulations

[tinyurl.com/kvrlcqd](http://tinyurl.com/kvrlcqd)

### Virginia Society of CPAs

[vscpa.com](http://vscpa.com)

(804) 270-5344

### VSCPA Ethics Resource Center

[vscpa.com/EthicsResources](http://vscpa.com/EthicsResources)

No matter when you choose to fulfill your Ethics requirement, you can always get the most up-to-date information about issues presented in the course at the VSCPA's Ethics Resource Center. While the information contained in this manual — including URLs, email addresses and phone numbers — is accurate as of the time the manual was printed, the VSCPA will be updating this page throughout the year.

### American Institute of CPAs (AICPA)

[aicpa.org](http://aicpa.org)

AICPA hotline: (888) 777-7077

The AICPA Ethics Hotline provides non-authoritative guidance to members on questions related to ethics, including independence. The Ethics Hotline is open from 9 a.m. – 5 p.m. EST on weekdays. A staff member can be reached via email at [ethics@aicpa.org](mailto:ethics@aicpa.org) or via phone at (888) 777-7077, option 6, followed by option 1.

### AICPA Technical Hotline

[tinyurl.com/3drwcr5](http://tinyurl.com/3drwcr5)

(877) 242-7212

### NASBA Statement on Standards for CPE Programs

[tinyurl.com/hus5l2g](http://tinyurl.com/hus5l2g)

### U.S. Comptroller General:

[gao.gov/cghome/index.html](http://gao.gov/cghome/index.html)

### Financial Accounting Foundation (FAF)

[accountingfoundation.org](http://accountingfoundation.org)

### Federal Accounting Standards Advisory Board (FASAB)

[fasab.gov](http://fasab.gov)

(202) 512-7350

### Financial Accounting Standards Board (FASB)

[fasb.org](http://fasb.org)

(203) 847-0700

Codification: [asc.fasb.org/](http://asc.fasb.org/)

### U.S. Government Accountability Office (GAO)

[gao.gov](http://gao.gov)

(202) 512-3000

### Government Accounting Standards Board (GASB)

[gasb.org](http://gasb.org)

(203) 847-0700

### U.S. Internal Revenue Service (IRS)

[irs.gov](http://irs.gov)

(866) 255-0654

### International Accounting Standards Board (IASB)

[ifrs.org](http://ifrs.org)

+44 (0)20 7246 6410

### Public Company Accounting Oversight Board (PCAOB)

[pcaobus.org](http://pcaobus.org)

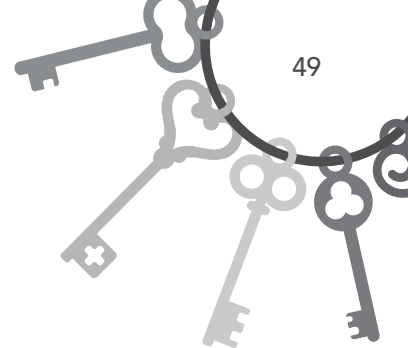
(202) 207-9100

Independence and Ethics Rules and Standards (including AICPA Code of Professional Conduct references): [tinyurl.com/cxwr4l7](http://tinyurl.com/cxwr4l7)

### U.S. Securities and Exchange Commission (SEC)

[sec.gov](http://sec.gov)

(888) 732-6585



## 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.

**Financial Reporting Framework for Small-and-Medium-sized Entities** (FRF-SME) is a principles-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 non-authoritative.

**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. Source: [www.cpamobility.org](http://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. Source: 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.

# Appendix I:

## Resources, Glossary and Acronyms

### **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.

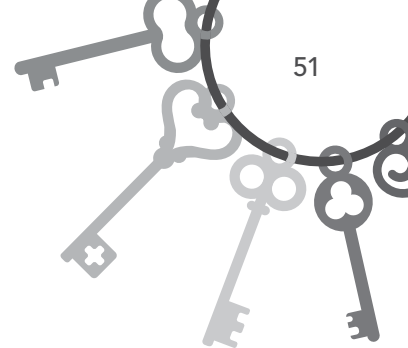
**Small- and medium-sized entities** (SME). There is no standard definition in the United States or under the AICPA. Source: AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ

**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 Dec. 15, 2012. Source: 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. Holding a Virginia license or the license of another state constitutes using the CPA title.





## Common Acronyms and Abbreviations

- **AICPA** — American Institute of CPAs
- **ASU** — Accounting Standards Update
- **CAQ** — Center for Audit Quality
- **CPA** — Certified Public Accountant
- **CPE** — Continuing Professional Education
- **DOJ** — U.S. Department of Justice
- **EBPAQC** — AICPA Employee Benefit Plan Audit Quality Center
- **ET** — Ethics (topical index of the AICPA Professional Code of Conduct)
- **FAF** — Financial Accounting Foundation
- **FASB** — Financial Accounting Standards Board
- **FRF** — Financial reporting framework
- **FTC** — U.S. Federal Trade Commission
- **GAO** — U.S. Government Accountability Office
- **IESBA** — International Ethics Standards Board for Accountants
- **IFAC** — International Federation of Accountants
- **IQAB** — International Qualification Appraisal Board
- **IQEX** — International Qualification Examination
- **IRC** — U.S. Internal Revenue Code
- **IRS** — U.S. Internal Revenue Service
- **GAAP** — Generally Accepted Accounting Principles
- **GAAS** — Generally Accepted Auditing Standards
- **GAGAS** — Generally Accepted Government Auditing Standards
- **GAPP** — Generally Accepted Privacy Principles
- **NASBA** — National Association of State Boards of Accountancy
- **PCAOB** — Public Company Accounting Oversight Board
- **PCC** — Private Company Council
- **PEEC** — AICPA Professional Ethics Executive Committee
- **PIOB** — Public Interest Oversight Board
- **PTIN** — Preparer Tax Identification Number
- **SHRM** — Society for Human Resource Management
- **SME** — Small- and medium-sized entities
- **SPF** — Special purpose framework (previously Other Comprehensive Basis of Accounting)
- **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
- **VAC** — Virginia Administrative Code (“Regulations”)
- **VBOA** — Virginia Board of Accountancy (“the Board”)
- **VSCPA** — Virginia Society of CPAs

# Appendix II:

## Video Scripts

### Welcome Video

Welcome to the Virginia Board of Accountancy's 2017 Virginia-Specific Ethics Course! I am Wade Jewell, Executive Director of the VBOA. The mission of the VBOA is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of CPAs and CPA firms. Such a program requires the VBOA to ensure our licensees understand and are up-to-date on changes to our statutes, regulations and Board policies and procedures.

The VBOA believes that this required course is important for Virginia CPAs for several reasons: First - This is the one opportunity each year for the VBOA to have the undivided attention of our CPAs to communicate what we believe to be important information on relevant topics. Second – To ensure CPAs have the most current information in order to promote compliance with Virginia statutes and regulations. Third – To provide information relative to the AICPA Code of Professional Conduct and other specific areas of interest on the topic of professional ethics.

The outline of our course is quite intentional, and is not intended to be a general Ethics course. The VBOA believes that “ethics” is inherent to our statutes and regulations, as well as the AICPA's Code of Professional Conduct. While we recognize the opportunity for CPAs to take general Ethics type courses as needed or desired, we have chosen to take a Virginia-Specific approach for this course.

Our annual course outlines are developed by a committee made up of non-Board members who are CPAs representing government, public, private and academic interests. Robust discussions on various topics of interest take place each year which ultimately lead to our final course outline.

We appreciate the feedback from each year's course and we have taken a “new” approach this year as a result. We have brought back enforcement case studies, and incorporated several specific statutory and regulatory requirements of CPAs, to include topics such as CPE compliance, peer review, use of the CPA title, providing services limited to CPAs, and volunteer work. Additional enforcement cases involve tax and audit topics.

Additionally, this year's course includes updates and discussions relative to specific topics in the AICPA Professional Code of Conduct. We believe our approach to the course benefits CPAs in all walks of life, including public practice, industry, government and academia.

Our vision for this year's course is for Virginia CPAs to both understand their responsibilities as they relate to the Board's rules and regulations and to the AICPA Code of Professional Conduct and to be able to apply them to situations they encounter in their professional activities.

We want CPAs to understand how ethics is inherent in day-to-day decision making and conduct.

Ultimately, it is the public's expectation that the VBOA and CPAs must respond to and protect the public's interests as they relate to financial and other activities performed by CPAs. We trust that each CPA strives to be the best CPA you can be, and are a trusted and valued member of your community!

Enjoy the course, and let us know what you think! ➡🔗

# Appendix II:

## Video Scripts

### Code of Professional Conduct Video

The Code of Professional Conduct consists of principles and rules as well as interpretations and other guidance. The principles provide the framework for the rules that govern the performance of professional responsibilities.

The Code is intended to provide guidance and rules to all CPAs, whether they are providing services in public practice, industry, government or education and outlines what we could call “core responsibilities” that the CPA has to their clients and to their employer.

The Code sections illustrate these core responsibilities, starting with integrity and objectivity and detailing independence, general standards, acts discreditable, fees and remuneration, advertising and solicitation, confidential information and the proper organization and naming of a practice.

The Code of Professional Conduct is available online through the AICPA’s website and is free to access. 🔑

### SEC Video

On September 19th, 2016, the Securities and Exchange Commission (SEC) announced that a firm agreed to pay \$9.3 million to settle charges related to rules that ensure firms maintain their objectivity and impartiality during audits.

In the first case, the CPA was specifically tasked by his firm to improve its relationship with the audit client because it was a “troubled account.”

The CPA and the audit company’s CFO stayed overnight at each other’s homes on multiple occasions and traveled together with family members on overnight trips with no valid business purpose. They also exchanged hundreds of personal text messages, emails, and voicemails during the auditing periods.

The CPA firm’s partners became aware of excessive entertainment spending but took no action to confirm that he was complying with his independence obligations. The CPA and firm consented to the SEC’s order without admitting or denying the findings.

In the second case, a CPA caused auditor independence rule violations at a firm which involved a romantic relationship with a financial executive while serving on an engagement team auditing his company.

Another firm partner, who supervised on the audit, became aware of the facts suggesting the improper relationship, yet failed to perform a reasonable inquiry or raise concerns internally to the firm’s independence group.

This case also was settled without admitting or denying the findings.

According to the SEC press release, “These are the first SEC enforcement actions for auditor independence failures due to close personal relationships between auditors and client personnel.”

According to the SEC’s order, the CPA firm required audit engagement teams to follow certain procedures to assess their independence, and employees were asked whether they had familial, employment, or financial relationships with audit clients that could raise independence concerns.

But these procedures did not specifically inquire about non-familial close personal relationships that could impair the firm’s independence. 🔑

# Appendix II:

## Video Scripts

### Volunteer Services Video

The knowledge, skills and abilities of Virginia's CPAs can be a valuable resource for nonprofit organizations in need of financial and accounting services. Often, these organizations cannot afford to properly staff the administrative aspects of the entity and instead rely on volunteers for critical assistance.

CPAs are often called upon in these instances. The VBOA receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a nonprofit organization. Consistent with the VBOA's mission of protecting the public, the Board feels that CPAs bring valuable knowledge, experience and insights as volunteers to these types of organizations and supports such involvement. The VBOA website contains information intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide services which may fall under the Virginia accountancy statutes and regulations.

If a person holding solely a Virginia individual license is asked to provide volunteer services to a nonprofit organization, the CPA must ask two very important questions:

1. What service is to be provided?
2. In what capacity will the CPA be providing the service?

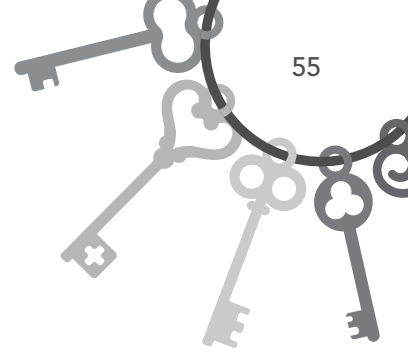
Considering the answer to both these questions, the following situations may be instructive:

- a. If a CPA is engaged as a volunteer to perform an audit, review or agreed-upon attestation services, the CPA would have to be independent (that is, not a member of the governing board or an officer of the entity) and would have to comply with technical standards. This service would require that the CPA have a firm license.
- b. For a compilation, independence is not required (in other words, the CPA could be an officer or a member of the governing board), but proper disclosure of the lack of independence would be required and a firm license would be required.
- c. For financial statement preparation services, independence is not required (the CPA could be an

officer or a member of the governing board), but proper disclosure of the lack of assurance would be required. If the CPA is a member of the governing board of the entity or is an officer of the entity, a firm license would not be required. If the CPA is a volunteer and is not an officer or on the board, a firm license is required.

- d. If the CPA is asked to serve as a member of an audit committee to participate in what the nonprofit entity sees as an "audit process," then the individual CPA is not actually "engaged" to perform an audit. In fact, the group was appointed to perform what might normally be "attest procedures." The individual CPA can, along with other members of the Audit Committee, sign a statement related to the Committee's activities, but should exercise care to avoid using the CPA designation in such a statement. In this situation, the CPA would not need a firm license.
- e. A licensee who is a member of a social club may be asked to audit the club's statement of cash receipts and disbursements. That would require the person to also have a firm license, and the audit would be subject to peer review. Two of the auditing procedures the licensee would likely perform are to inspect and test the club's reconciliation of cash balances with the deposit balances reported by financial institutions. However, those procedures are auditing procedures only if they are performed as part of an audit. The performance of just those procedures would not imply that the licensee performed an audit and would not be subject to peer review, nor would it require a firm license.
- f. Performing accounting services does not constitute submission of financial statements, is not a compilation service, is not subject to peer review and does not require a firm license. Examples of accounting services are payroll, bank reconciliation, and other bookkeeping services, preparing a working trial balance, proposing adjusting journal entries and consulting on accounting matters. ➡

# Appendix III: Presentation





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## VIRGINIA CPA ETHICS

YOUR KEY TO **PROFESSIONAL RESPONSIBILITY**

2017  
REQUIRED  
COURSE




 Virginia Society of  
Certified Public  
Accountants

## Public Expectation

- The CPA credential implies objectivity, integrity and sound professional judgement
- Laws, codes, rules, regulations and policies motivate proper behavior and punish improper behavior
- The CPA profession has documented standards of conduct at both the state and national level

2

 Virginia Society of  
Certified Public  
Accountants

# Appendix III: Presentation





## State-Level Standards

- Code of Virginia § 54.1-4413.3 “Standards of conduct and practice”
- The Code of Virginia has incorporated by reference the entire AICPA Code of Professional Conduct
- Code of Virginia and Board Regulations are available on the VBOA website

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## Video Intro Slide

# CODE OF PROFESSIONAL CONDUCT



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1:42

# Appendix III: Presentation

## Professional Code of Conduct Video

### **CODE OF PROFESSIONAL CONDUCT**



## National-Level Standards

- AICPA Code of Professional Conduct consists of principles, rules, interpretations and other guidance
- Applies to all CPAs, whether in public practice, industry, government or education
- Outlines “core responsibilities” the CPA has to clients and/or employer

## Conflicts of Interest

In determining whether a professional service, relationship or matter would result in a conflict of interest, a CPA should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

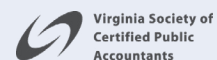
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## Conflicts of Interest

When a conflict of interest exists, a CPA should disclose the nature of the conflict of interest to parties affected by the conflict and obtain their consent to perform the professional services. The CPA should disclose the conflict of interest and obtain consent even if he or she concludes that threats are at an acceptable level.

10



# Appendix III: Presentation

## What Do You Think?

Can you share a conflict of interest that you have seen in the news or observed that is out of the ordinary?

11



## Negligence

A CPA shall be considered in violation of the “[Acts Discreditable Rule](#)” if he or she, by virtue of his or her negligence, makes, allows, fails to correct or signs off on materially false and misleading information.

12



## What Do You Think?

**What would you do if your supervisor asked you to make what you believe to be a materially false and misleading entry?**

13



## Gifts or Entertainment

**A CPA should evaluate the significance of any threats to determine if they are at an acceptable level. Threats are at an acceptable level when gifts or entertainment are reasonable in the circumstances. The CPA should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances.**

14



# Appendix III: Presentation

## What Do You Think?

**What would you do if you accepted a gift BEFORE you were in the engagement/relationship?**

15



## Use of a Third-Party Service Provider

**Before disclosing confidential client information to a third-party service provider, a CPA should inform the client, preferably in writing, that he or she may use a third-party service provider. If the client objects to the CPA's use of a third-party service provider, he or she either should not use the third-party service provider to perform the professional services or should decline to perform the engagement.**

16





## Use of a Third-Party Service Provider

Before using a third-party service provider, a CPA should ensure that the third-party service provider has the required professional qualifications, technical skills, and other resources. The CPA must plan and supervise the service provider's services to ensure they are performed with competence and due care.

17



## What Do You Think?

What can you do to ensure that the client is informed or that you are informed?

18



# Appendix III:

## Presentation

### Confidentiality

**A CPA shall not disclose any confidential client or employer information without the specific consent of the client/employer.**

**A CPA should maintain the confidentiality of his or her employer's or firm's (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship.**

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### Record Requests

**A CPA's work products should be provided to the client, except that such work products may be withheld if fees are due for that specific work product, if the work product is incomplete, for purposes of compliance with standards or if litigation exists concerning the engagement.**

**Working papers are the CPA's property, and the CPA is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the CPA.**

20



## Record Requests

In fulfilling a request, the CPA may

- charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records.
- provide the requested records in any format usable by the client. However, the CPA is not required to convert records that are not in electronic format to electronic format.
- make and retain copies of any records that the CPA returned or provided to the client.

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## What Do You Think?

Are there times when you would release a work product even if the client had not paid?

22



# Appendix III: Presentation

## New and Revised Interpretations and Other Guidance

Periodically, new or revised authoritative ethics interpretations and other guidance are issued. Publication in the Journal of Accountancy constitutes notice to members.

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## AICPA Code of Professional Conduct Resources

- The Code of Professional Conduct is available online through the AICPA's website and is free to access. Please visit [pub.aicpa.org/codeofconduct](http://pub.aicpa.org/codeofconduct).
- AICPA staff is available to respond to inquiries relating to the application of the Code in specific circumstances.
  - Via email at [ethics@aicpa.org](mailto:ethics@aicpa.org) or telephone at (888) 777-7077.

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## Data Security

- How big is cybercrime?
- In October 2013, the AICPA identified the top five cybercrimes encountered by CPA firms:
  - Tax refund fraud
  - Corporate account takeover
  - Identity theft
  - Theft of sensitive data
  - Theft of intellectual property

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## Independence

**Integrity and objectivity means:**

- Independence of mind
- Independence in appearance
- The definition of independence should not be interpreted as an absolute

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# Appendix III: Presentation

## Independence

- What if no guidance exists for independence?
- In the absence of an interpretation of the Independence Rule in AICPA Code of Conduct, use the Conceptual Framework for Independence

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## Video Intro Slide

The SEC and  
Auditor Independence

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## SEC Independence Video

# The SEC and Auditor Independence

## Non-Attest Engagements for Attest Clients

- General requirement for performing non-attest services explains the necessary safeguards
- The following needs to be documented:
  - The objectives of the engagement
  - The services to be performed
  - The client's acceptance of its responsibilities
  - The member's responsibilities
  - Any limitation of the engagement

# Appendix III: Presentation

## General Concerns for Performing Non-Attest Services for Attest Clients

- Management responsibilities are prohibited
- Certain non-attest services impair independence
- Be concerned with the cumulative effect changes

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## What do you think?

- What is the role of an audit committee?
- What types of independence disclosures should be required?
- How could all relevant relationships be disclosed?

32



## CPAs in Business & Public Practice

- Do your best to resolve any issues
- Be cognizant of your obligations
- Consult with Subordination of Judgment Interpretation
- Review company ethics policy
- Maintain professional skepticism
- Maintain documentation

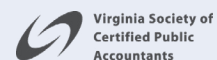
33



## SSARS 21, Sec. 70

- Seek guidance to learn whether an engagement falls under SSARS 21 or not
- Sec. 70 applies when an accountant in public practice is engaged to prepare financial statements

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# Appendix III: Presentation

## Active — CPE Exempt Status

- Requires formal application to the VBOA, including:
  - Employment status
  - Job description
  - Information about employer
- Attainment of status means NO CPE required, but must be CPE compliant before offering services if your circumstances change

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## Changing from Active — CPE Exempt to Active Status

- For any change in employment situation, notify VBOA immediately
- Prior to providing services to public or to employer, must be current in CPE cycle
- CPA must first complete the Change of License Status Request Form: Active — CPE Exempt to Active
- For hardship cases, contact the VBOA

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## CPE Deficiencies

- CPE verification audits are a VBOA enforcement tool
- FY 2016 — conducted 1,578 from among 27,322 CPAs, a rate of 5.8 percent
- 81 percent of audits were “in compliance”
- Enforcement cases can be instructive on how to avoid trouble or what the results could be

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## Johnny Walker Fails CPE Audit

- Case finalized June 2016
- CPA renewed his license 2013, 2014 and 2015, certifying he was CPE compliant
- December 2015 — part of statistical sample for CPE audit
- CPA failed to respond to numerous efforts of communication from VBOA
- Fined \$1,100, license suspended one year, required to come before VBOA in person with CPE verification prior to reinstatement

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# Appendix III:

## Presentation

### Tom Williams Needs Multiple Lessons

- June 2013 — VBOA Consent Order and \$750 fine for CPE deficiency
- May 2014 — Second VBOA Consent Order and suspended license — agreed to pay \$625 outstanding from the \$750 fine
- March 2016 — CPA paid remaining fine, requested license reinstatement, published resume online with “CPA” indicated
- May 2016 — Third VBOA Consent Order — if within 60 days, verifies Ethics course CPE and a 1,500-word essay, license reinstated, but CPE monitored for three years

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### Qualifying CPE

A variety of CPE is acceptable, including:

- Attending a seminar or educational conference
- Earning course credit at an accredited college or university
- Completing a course through nano-learning or incremental CPE
- Completing an online course
- Making a presentation
- Producing written materials

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## Change in CPE Standards

- NASBA/AICPA changed standards effective Sept. 1, 2016
- The VBOA accepts courses that meet NASBA standards, but does not require courses to meet those standards

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## CPE Tracking System

- Required to respond via system if selected for CPE audit
- Online database available at the VBOA website [boa.virginia.gov/CPALicense/CPETracking.shtml](http://boa.virginia.gov/CPALicense/CPETracking.shtml)
- Log in with CPA license number; if password is lost, you can obtain a new one online
- Enter CPE credit, upload PDF of verification certificate

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# Appendix III:

## Presentation

### Unlicensed Activity

- If you do not have an active CPA license or yours is suspended, you:
  - Cannot hold out to be CPA (signs, ads, stationery, etc.)
  - Cannot provide services to the public (audit, review, compilation or preparation of financial statements)
- Individual license holders cannot provide attest, compilation or preparation of financial statement services

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### Jill Drub's "Out of Sight, Out of Mind"

- May 2015 — Drub files for reinstatement of her CPA license, which expired in 1993, indicating she had continued to provide services, primarily tax and consulting; cited "administrative oversight"
- Drub had maintained her CPE
- VBOA learns from DOL that Drub performed an ERISA audit
- After investigation, result was fine of \$5,500, remove all signage, come before VBOA prior to reinstatement

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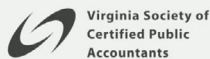
## Ruby Rolly Sells CPE to CPAs

- In March 2016, VBOA received anonymous complaint that Rolly, an Executive VP of a company, was holding out as a CPA on various Internet sites, in communication with customers and in professional settings. Rolly's supervisor, the CEO, was a CPA. The employer sold audit and tax training programs to CPA firms
- Rolly's license, issued in 1995, expired in 1996
- Penalty was \$2,600, remove all signage, cease and desist until license is obtained

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## Video Intro Slide

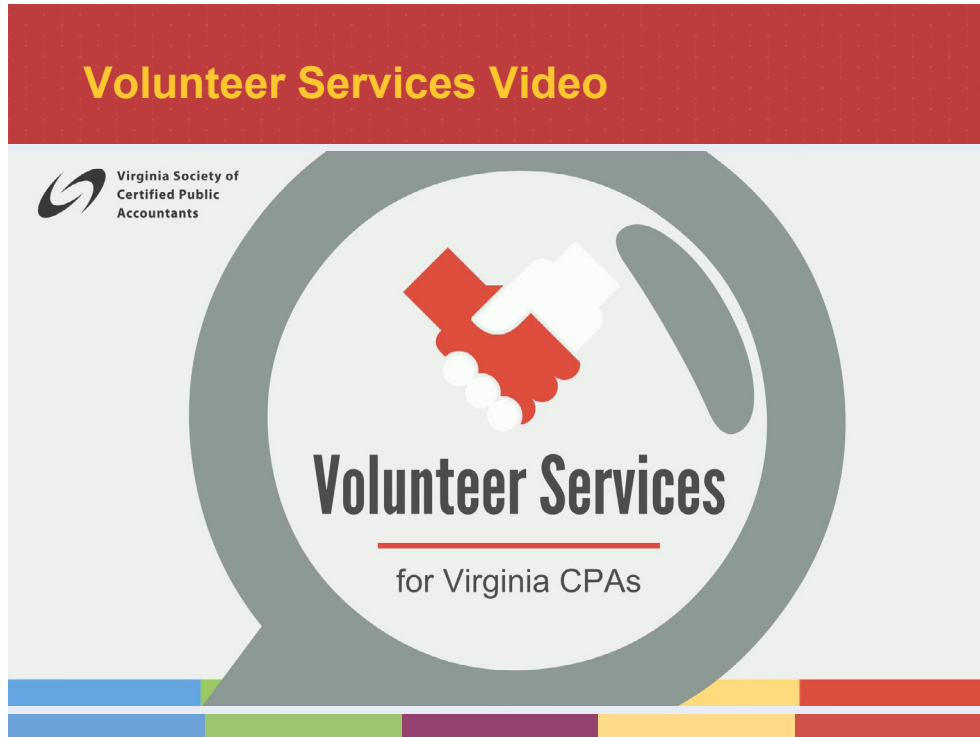


**Volunteer Services**  
for Virginia CPAs

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# Appendix III: Presentation




## Conclusion

Next steps:

- Complete evaluation at [surveymonkey.com/r/2017EthicsEval](https://surveymonkey.com/r/2017EthicsEval) (which will also be emailed to you)
- Check the status of your CPA license (and firm license, if applicable)
- Check your CPE information in the VBOA's tracker
- Familiarize yourself with the AICPA Code of Professional Conduct
- Visit [vscpa.com/EthicsResources](https://vscpa.com/EthicsResources) for updates

48

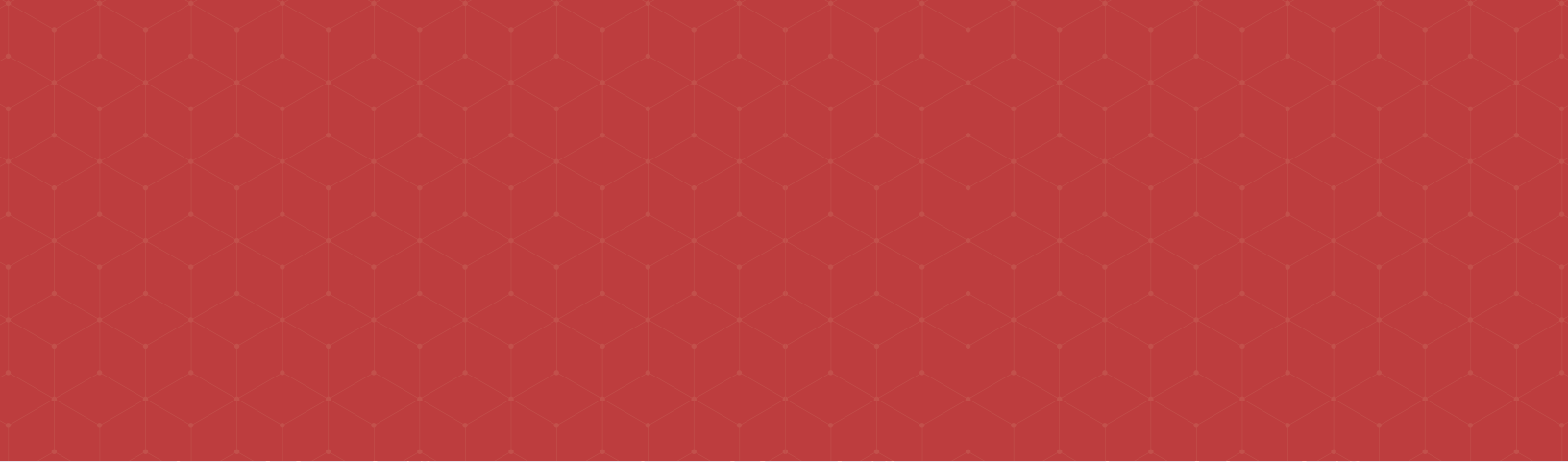


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