This is the first ethical dilemma you will be faced with, so let's discuss it.

- Short term benefit to you
- Long term impact to the engagement
- Impairs business decisions
- Is dishonest

AICPA Professional Ethics

CODE OF PROFESSIONAL CONDUCT - PRINCIPLES

Membership in the AICPA is voluntary, however once a member, or when performing a service in accordance with its guidance, must comply with code of professional conduct.

I. Responsibilities: exercise sensitive and professional judgments
II. Act in a way which will serve the public interest, honor public trust, professionalism
III. Maintain and broaden public confidence by performance with highest of integrity.
IV. Maintain Objectivity and Independence
V. Exercise Due Care in discharge of responsibilities
VI. Observe these Principles in determining the scope and nature of services to be provided.
The Rules of the AICPA Code of Professional Conduct

<table>
<thead>
<tr>
<th>Rule</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>101</td>
<td>Independence</td>
</tr>
<tr>
<td>102</td>
<td>Integrity and Objectivity</td>
</tr>
<tr>
<td>201</td>
<td>General Standards</td>
</tr>
<tr>
<td>202</td>
<td>Compliance with Standards</td>
</tr>
<tr>
<td>203</td>
<td>Accounting Principles</td>
</tr>
<tr>
<td>301</td>
<td>Confidential Client Inform</td>
</tr>
<tr>
<td>302</td>
<td>Contingent Fees</td>
</tr>
<tr>
<td>501</td>
<td>Acts Discreditable</td>
</tr>
<tr>
<td>502</td>
<td>Advertising and Other Forms of Solicitation</td>
</tr>
<tr>
<td>503</td>
<td>Commissions and Referral Fees</td>
</tr>
<tr>
<td>504</td>
<td>Deleted</td>
</tr>
<tr>
<td>505</td>
<td>Form of Organization and Name</td>
</tr>
</tbody>
</table>

Independence

- Appearance
- Fact

Rules have to be based on appearance because fact or objectivity is difficult to enforce. What a CPA may consider to not impair her independence may be viewed otherwise by a person relying upon their report. Therefore “Appearance” is an important factor.

Covered Members

“COVERED” MEMBERS ARE SUBJECT TO THE MOST STRINGENT INDEPENDENCE REQUIREMENTS

- Staff working on the attest engagement
- An individual who may influence the attest engagement
- A partner equivalent in the office in which the partner in charge of the attest engagement primarily practices
- Partners or managers that provide a specified amount of non-attest services to client
- The public accounting firm and its employee benefit plan
- Any entity controlled by one or more of the above

Independence Rule—Interpretation

101-1

Section

A. Has direct or material indirect financial interest, loan, or joint business investment, trustee or administrator of estate or trust that has such interest

Applies to: Covered Members

B. Owns 5% or more of client’s outstanding equity or other ownership interest

Applies to: All Partners and Professional Staff

C. Simultaneously associated with client as director, officer, employee, etc.

Applies to: All Partners and Professional Staff

ONE YEAR COOLING OFF PERIOD UNDER SOX

Also, if not under SOX still need to meet various requirements, like no material financial ties to CPA firm and Audit team must consider “risk” of this party being at client.
### Financial Interests

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example</td>
<td>Investment in client, such as owning capital stock or providing a loan</td>
</tr>
<tr>
<td>Investment in a mutual fund, which in turns owns capital stock of a client</td>
<td></td>
</tr>
<tr>
<td>Type allowed for Individual CPA to retain independence</td>
<td>None</td>
</tr>
</tbody>
</table>

### Classes of Relatives

- Immediate family (spouse/ equivalent, dependants) of covered member—generally rules are same as for member with a couple of exceptions
- Close relatives (parents, siblings, non-dep. Children) of attest engagement team members, individuals in a position to influence the attest engagement, and partners in the engagement office—no close relatives in key positions or having material financial interests
- Other relatives and friends—generally do not present a problem

### Consulting Services Prohibited by the Sarbanes-Oxley Act

- Bookkeeping
- Financial systems design and implementation
- Appraisal or valuation services
- Actuarial services
- Internal audit outsourcing
- Management functions or human resource services
- Investment services
- Legal services
- Confidential transactions and aggressive tax position services

TAX SERVICES ARE ALLOWED IF SPECIFICALLY APPROVED BY THE BOARD OF DIRECTORS

### MORE PCAOB SPECIFICS:

- Audit committee approves the auditors/ fees
- Auditors report to audit committee
- Audit partner MUST rotate off engagement every 5 years
- One year cooling off period before client can hire auditor as CEO, CFO, Controller or Chief Accounting Officer or equivalent positions.
- Maintain audit workpapers 7 years (5 under SAS's)
CONSULTING SERVICES

If the Firm serves an attestation function at the client, then that firm may not perform consulting services which make them a “decision maker, including:

- Authorization and execution of transactions;
- Preparing source documents;
- Custody of client assets
- Supervising client employees in their normal recurring duties (okay to supervise for a specific new project)
- Determining which recommendations should be implemented (okay to make a recommendation, but management must decide)
- Reporting to BOD on behalf of management
- Serving as the client stock transfer or escrow agent, registrar or their legal counsel.

CONSULTING SERVICES CONT’D

Firm performing consulting services should seek to ensure the following to prevent those consulting services from impairing independence:

1. Designate a management member as responsible for overseeing the engagement
2. Management to be responsible for evaluation of the CPA’s findings
3. Management responsible for making decisions relating to the services
4. Management maintains responsibility for establishing and maintaining internal controls.

Rule 202 Standards

Technical Body
- Auditing Standards Board (ASB)
- Management Consulting Services Executive Committee (MCSEC)
- Accounting and Review Services Committee (ARSC)
- ASB, MCSEC, and ARSC
- FASB, GASB and FASAC

Standards
- Statements on Auditing Standards
- Statements on Standards for Consulting Services
- Statements on Standards for Accounting and Review Services
- Statements on Standards for Attestation Engagements
- FASB, GASB and FASAC Statements and related Interpretations

RULE 301 CONFIDENTIALITY

CPA to treat all client information with confidentiality:
- Even within the company (i.e. payroll, pending mergers etc. represent sensitive information which should be guarded even from employees.
- CPA information is NOT privileged and consequently subject to Subpoena
- Workpapers are the property of the auditor and can not be DEMANDED by the client.
Allowable Contingent Fees and Commissions Rule 302 & 503

- Allowable for clients for which the CPA provides none of the following services:
  - An audit or review of financial statements
  - A compilation of financial statements expected to be used by a third party and does not disclose a lack of independence
  - An examination of prospective financial information
- Contingent fees are not allowed to prepare an original or amended tax return or claim for tax refund
- Allowable commissions received must be disclosed to the client

Rule 501- Acts discreditable

A CPA shall not commit a discreditable act which is enforceable by the AICPA including revocation of license.

Jerry Jones and Michael Ross were charged with violating the Technical Standards Rules of the Code of Professional Conduct of the Texas Society of CPAs and the AICPA in connection with a client’s financial statements. Messrs. Jones and Ross were found guilty as charged and the panel decided that they are to be expelled from membership in the Texas Society of CPAs and the AICPA on December 31, 20xx, unless a peer review of their practice, satisfactory to the panel, has been completed prior to that date.

At a meeting of a hearing panel of Regional Trial Board IV in St. Louis, Missouri, on July 14, 20xx, Kelly Smith and Larry Boggs were found guilty of violating Rule 501 of the Institute’s Code of Professional Conduct. The violation involved unlawful use of insider information by the respondents in connection with their purchase of stock of a company. Following its guilty finding, the panel voted that Messrs. Smith and Boggs be suspended from membership in the AICPA for six months.

The membership of Richard Clark was terminated on November 9, 20xx, following receipt by the secretary of the institute of final judgment of conviction in the U.S. District Court, Maryland, of failure to file tax returns.

Names are fictitious.

Rule 502- Advertising

Used to be more stringent and basically was not advertising. BUT that has changed because such restriction was deemed illegal!

CURRENT RULE: Can advertise, but not falsely or with indication of a favorable outcome.

IIA Code of Ethics--Principles

Internal auditors are expected to apply and uphold the following principles:

- **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.
- **Objectivity.** Internal auditors exhibit the highest level of professional objectivity by gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency.** Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.
IIA Code of Ethics—Rules of Conduct

1. Integrity; Internal auditors:
   - Shall perform their work with honesty, diligence, and responsibility.
   - Shall observe the law and make disclosures expected by the law and the profession.
   - Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
   - Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity; Internal Auditors:
   - Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
   - Shall not accept anything that may impair or be presumed to impair their professional judgment.
   - Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

3. Confidentiality; Internal auditors:
   - Shall be prudent in the use and protection of information acquired in the course of their duties.
   - Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

4. Competency; Internal auditors
   - Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
   - Shall perform internal auditing services in accordance with the Standards for the Professional Practice of Internal Auditing.
   - Shall continually improve their proficiency and the effectiveness and quality of their services.