

ETHICS IN BUSINESS

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AGENDA

- ✿ Introduction
- ✿ Business Ethics
- ✿ The Origin in Religion Philosophy
- ✿ Ethic & Professional Responsibilities
- ✿ Case Studies

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Why are We Here?

As a condition of license renewal for the 2020-2021 license period, a licensee must have completed a minimum of 4 hours of professional ethics as part of the overall 80-hour biennial CPE requirement during the 2018-2019 period.”

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NEW CPE REQUIREMENTS

- CPE Requirements After January 1, 2018
- Compliance Rule
- **At least 20 Technical/Non-Technical Credits for Annual Period**
- **At least 80 Technical/Non-Technical Credits for Multi- Year Period**
- **At least 4 Ethics/Rules Credits for Multi-Year Period**
- **At least 24 Accounting and Attest Credits if participating in attest activity; otherwise no minimum**
- **No minimum for Advisory Services**
- **No minimum for Management**
- **No minimum for Professional Skills Development**
- **No minimum for Specialized Knowledge and Applications**
- **No minimum for Taxation**

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ETHICS

–noun

- the body of moral principles or values governing or distinctive of a particular culture or group.
- A theory or a system of moral values.

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12 Ethical Principles for Business Executives

- **1. HONESTY.** Ethical executives are honest and truthful in all their dealings and they do not deliberately mislead or deceive others by misrepresentations, overstatements, partial truths, selective omissions, or any other means.
- **2. INTEGRITY.** Ethical executives demonstrate personal integrity and the courage of their convictions by doing what they think is right even when there is great pressure to do otherwise; they are principled, honorable and upright; they will fight for their beliefs. They will not sacrifice principle for expediency, be hypocritical, or unscrupulous.

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12 Ethical Principles for Business Executives

- **3. PROMISE-KEEPING & TRUSTWORTHINESS.** Ethical executives are worthy of trust. They are candid and forthcoming in supplying relevant information and correcting misapprehensions of fact, and they make every reasonable effort to fulfill the letter and spirit of their promises and commitments. They do not interpret agreements in an unreasonably technical or legalistic manner in order to rationalize non-compliance or create justifications for escaping their commitments.
- **4. LOYALTY.** Ethical executives are worthy of trust, demonstrate fidelity and loyalty to persons and institutions by friendship in adversity, support and devotion to duty; they do not use or disclose information learned in confidence for personal advantage. They safeguard the ability to make independent professional judgments by scrupulously avoiding undue influences and conflicts of interest. They are loyal to their companies and colleagues and if they decide to accept other employment, they provide reasonable notice, respect the proprietary information of their former employer, and refuse to engage in any activities that take undue advantage of their previous positions.

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12 Ethical Principles for Business Executives

- **5. FAIRNESS.** Ethical executives are fair and just in all dealings; they do not exercise power arbitrarily, and do not use overreaching nor indecent means to gain or maintain any advantage nor take undue advantage of another's mistakes or difficulties. Fair persons manifest a commitment to justice, the equal treatment of individuals, tolerance for and acceptance of diversity, they are open-minded; they are willing to admit they are wrong and, where appropriate, change their positions and beliefs.
- **6. CONCERN FOR OTHERS.** Ethical executives are caring, compassionate, benevolent and kind; they like the Golden Rule, help those in need, and seek to accomplish their business objectives in a manner that causes the least harm and the greatest positive good.

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12 Ethical Principles for Business Executives

- **7. RESPECT FOR OTHERS.** Ethical executives demonstrate respect for the human dignity, autonomy, privacy, rights, and interests of all those who have a stake in their decisions; they are courteous and treat all people with equal respect and dignity regardless of sex, race or national origin.
- **8. LAW ABIDING.** Ethical executives abide by laws, rules and regulations relating to their business activities.
- **9. COMMITMENT TO EXCELLENCE.** Ethical executives pursue excellence in performing their duties, are well informed and prepared, and constantly endeavor to increase their proficiency in all areas of responsibility.

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12 Ethical Principles for Business Executives

- **10. LEADERSHIP.** Ethical executives are conscious of the responsibilities and opportunities of their position of leadership and seek to be positive ethical role models by their own conduct and by helping to create an environment in which principled reasoning and ethical decision making are highly prized.
- **11. REPUTATION AND MORALE.** Ethical executives seek to protect and build the company's good reputation and the morale of its employees by engaging in no conduct that might undermine respect and by taking whatever actions are necessary to correct or prevent inappropriate conduct of others.

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12 Ethical Principles for Business Executives

- **12. ACCOUNTABILITY.** Ethical executives acknowledge and accept personal accountability for the ethical quality of their decisions and omissions to themselves, their colleagues, their companies, and their communities.



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KPMG in Cheating Scandal

- **Unethical Conduct**
 - **Advance Knowledge of PCAOB Selection for 2016 Compliance Reviews**
 - **Extensive Cheating on Internal Continuing Education Exams Meant to Test Understanding of Accounting Principles**
- **Individuals Involved**
 - **National Managing Partner for Audit Quality**
 - **PCAOB Employee**
 - **Two other KPMG Engagement Partners**
 - **Two KPMG Executives**

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KPMG in Cheating Scandal

- **Cheating Scandal**
 - **Exchanging of Exam Answers**
 - **Hacked Computer Allowing a 25% Score to be Considered Passing**
 - **Cheating Extensive Including Engagement Partners**
- **Settlement for KPMG**
 - **\$50 Million Penalty**
 - **Agreed to Continue Investigation as to How Many of Its Employees Cheated on Internal CPE**
 - **Hire External Consultant to Review Cheating Findings**
 - **Have Internal Ethics Policies Reviewed**

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KPMG Insider Trading

- **KPMG Senior Audit Partner (“London”)**
Incharge of the Los Angeles Audit Practice
- **He Tipped a Jeweler & Golfing Partner (“Shaw”)** About 14 Acquisitions & Earnings Announcements
- **Shaw made \$1 ¼ Million Trading on Insider Information Between 2010 & 2012**
- **London Received \$60,000 in Cash, a Rolex & Bruce Springsteen Tickets**
- **London Pleaded Guilty Receiving a 14 Month Sentence, a \$100,000 Fine & 3 Years Probation**

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KPMG Insider Trading

- **Previous slide (provided by US Attorneys Office) – Former KPMG Partner London, left, is shown allegedly accepting a \$5,000 cash bribe from Encino Jeweler Shaw in 2013**
- **Shaw Received a 4 Month Sentence, \$2 Million Disgorgement & \$100 Fine**
- **London Fired From KPMG in 2012**
- **London's CPA License Revoked**

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ETHICS IN RELIGION



Matthew 7:12

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ETHICS IN RELIGION

- **Judeo-Christian – The Bible**
- **Hindu – Concept called Dharma**
- **Qur'an – 007.172**
- **Buddhist – Pancasila**
- **Confucian – Confucius stressed honesty above all else.**

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The Ten Commandments

1. **Thou shall have no other gods before me**
2. **Thou shall not make any graven image of any thing.**
3. **Thou shall not take the name of the LORD thy God in vain.**
4. **Remember the Sabbath & keep it holy.**
5. **Honor thy father and thy mother**

Exodus 20

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The Ten Commandments

6. Thou shall not kill.
7. Thou shall not commit adultery.
8. Thou shall not steal.
9. Thou shall not bear false witness against thy neighbor
10. Thou shall not covet thy neighbor' s house, wife, man/maid-servant, ox, ass or anything this thy neighbor' s

Exodus 20

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DHARMA

- **Virtue, right conduct, ethics and morality are part of the complex concept Hindus call Dharma. Everything that is essential for people, the world and nature to exist and prosper together, in harmony.**
- **Ethics are explained in Hindu philosophy as something that cannot be imposed, but something that is realized and voluntarily lived up to by each individual**

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QUR'AN

- **Ultimately everything points to the reality of God.**
- **Therefore, regardless of their environment, humans are believed to have moral responsibility to submit to God's will and to follow Islam**

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BUDDHIST

- **Ethics are traditionally based on the enlightened perspective of the Buddha and other enlightened beings who followed him..**
- **The Pancasila requires no killing, stealing, lying, sexual misconduct or intoxicants. The Buddhist lay person is encouraged to vow to abstain from these negative actions.**

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CONFUCIAN

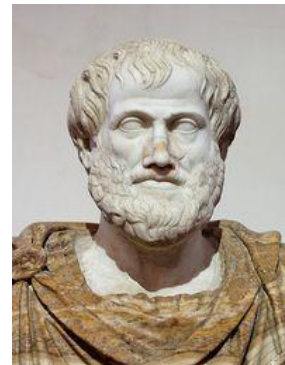
- Emphasizes the maintenance and propriety of relationships as the most important consideration in ethics.
- To be ethical is to do what one's relationships require. Notably, though, what you owe to another person is inversely proportional to their distance from you. In other words, you owe your parents everything, but you are not in any way obligated towards strangers. This can be seen as a recognition of the fact that it is impossible to love the entire world equally and simultaneously. This is called relational ethics, or situational ethics.

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Quotes

“Educating the mind without educating the heart is no education at all”

Aristotle



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Quotes

“Conscience is the inner voice that warns us somebody may be looking.”

H.L. Mencken

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Professional Guidance

The Code of Professional Conduct of the
American Institute of Certified Public
Accountants

The Code of Professional Conduct of the
Pennsylvania Institute of Certified
Public Accountants

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Professional Guidance

The AICPA Code of Professional Conduct was codified on December 15, 2014. Contains 189 pages!

Three sections:

- Member in Public Practice
- Members in Business
- Other Members (Retired or Unemployed)

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Introduction

- The AICPA Code of Professional Conduct addresses the question of what is “right” and “just”. The Code is applicable to all members of the AICPA, not just those in public practice.
- A professional code of conduct is a distinguishing mark of a profession that accepts a high degree of responsibility toward the public. It is a voluntary acceptance for the purpose of benefiting society.

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Code of Professional Conduct

- Any service that a member of the AICPA performs is governed by the AICPA's Code of Professional Conduct
- These services include audits, special reports, compilations, reviews, services performed on financials forecasts and projections as well as attestation engagements. Additionally, all tax related services, consulting services and any other service that a CPA performs as a CPA.

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Introduction

- The AICPA Code is divided into two major sections:
 - Principles
 - Rules

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Principles

- 0.300.020 - Responsibilities
“in carrying out their responsibility as professionals, members should exercise sensitive professional and moral judgments in all of their activities”

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Principles

- 0-300-030- Public Interest
“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.”

This relates to the profession’s acceptance of responsibility to the public

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Principles

- 0-300-040 - Integrity
“To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.”

Integrity addresses the question of what is right and just.

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Principles

- Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

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Principles

- Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality.

Service and the public trust should not be subordinated to personal gain and advantage.

Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle.

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Principles

Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: "Am I doing what a person of integrity would do? Have I retained my integrity?" Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

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Principles

- 0-300-050 - Objectivity and Independence
“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.”

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Principles

- 0-300-060 - Due Care
“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.”

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Principles

- 0-300-070 - Scope and Nature of Service

“A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.”

This requires members to:

- Have adequate internal quality control measures to ensure quality work

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Principles

- 0-300-070 - Scope and Nature of Service
- Determine if conflicts of interest arise due to the scope and nature of other services.
- Assess whether the firm’s activities are consistent with professionalism.

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Case Study

#1 - You are leaving a grocery store and you see someone drop a \$20 bill.

Question - What do you do?

Question - Why do you do it?

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Quotes

“In matters of conscience, the law of the majority has no place.”

Mahatma Gandhi

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Conceptual Framework

- **Identify Threats to Compliance with Rules**
- **Evaluate the Significance of Threat**
- **Identify and Apply Safeguards**

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THREATS

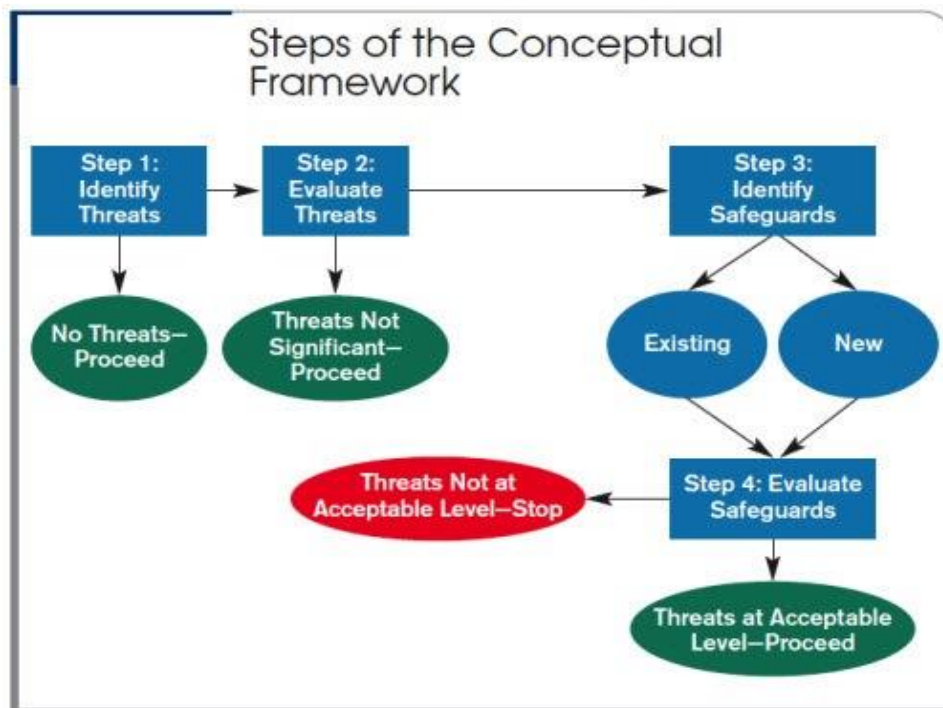
- **Self Interest Threat – CPA’s Interests Opposed to Client’s Interests**
- **Advocacy Threat – CPA Promotes Client’s Interests to Point Where Objectivity or Independence is Compromised**
- **Familiarity Threat – Due to Long & Close Relationship with Client CPA Too Sympathetic**
- **Management Participation Threat – CPA Takes Role in Client’s Management**

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THREATS

- **Adverse Interest Threat – CPA’s Could Benefit Financially or Otherwise from Client Relationship**
- **Self-Review Threat - CPA Not Appropriately Evaluate Results of Previous Judgments**
- **Undue Influence Threat - CPA Will Subordinate Judgment to Individual at Client Due to Their Reputation, Expertise or Aggressive or Dominant Personality (e.g. Bernie Madoff)**

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SAFEGUARDS

- **Created by Profession, Legislation or Regulation (e.g. Education & Training Requirements)**
- **Implemented by Client (e.g. Audit Committee)**
- **Implemented by Firm (e.g. Internal Policies to Monitor Compliance with Firm Policies)**

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SAFEGUARDS

- **Created by Profession, Legislation or Regulation (e.g. Education & Training Requirements)**
 - **CPE Training**
 - **Professional Standards**
 - **PCAOB Review of Auditors**
 - **Legislation**
 - **SEC Rules**
 - **Expansive Requirements for Licensure**
 - **Professional Consultation**

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SAFEGUARDS

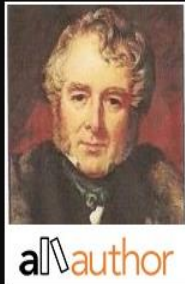
- **Implemented by Client (e.g. Audit Committee)**
 - **Tone at the Top**
 - **Policies and Procedures**
 - **Governance Structure**
 - **Audit Committee**
 - **Internal Audit**
 - **Client Personnel Skilled, Trained & Professional**
 - **Hiring Policies vis-a-vis Auditing Firm**
 - **Code of Ethical Conduct**
 - **Whistleblower Mechanisms**

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SAFEGUARDS

- **Implemented by Firm (e.g. Internal Policies to Monitor Compliance with Firm Policies)**
 - **Tone at the Top**
 - **Documented Policies**
 - **Compliance Monitoring**
 - **Training**
 - **Clear Independence Rules**
 - **Partner Rotation**
 - **Internal & External Consultation**
 - **Clear Management Structure**
 - **Quality Control Structure**
 - **Client Acceptance & Continuance**
 - **Clear Demarcation Between Auditor & Client Roles**
 - **Defined Interactions with Audit Committees**

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Power corrupts, and absolute power
corrupts absolutely.

-Lord Acton

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- Huey Long (August 30, 1893 – September 10, 1935)
- Governor of Louisiana (1928 – 1932)
- US Senator (1932 – 1935 (Assassination))
- Nickname – The Kingfish
- Populist (“Every Man a King”)

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RULES

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1.000.020: Ethical Conflicts

- CPA Encounters One or Both of the Following:
 - Obstacles to Following Appropriate Course of Action Due to Internal or External Pressures
 - **Conflicts in Applying Professional or Legal Standards**

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1.100: Integrity & Objectivity

- In the performance of any *professional service*, a *member* shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.
- A *member* would be considered in violation of the “Integrity and Objectivity Rule” if the *member* cannot demonstrate that *safeguards* were applied that eliminated or reduced significant *threats* to an *acceptable level*.

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Case Study

#2 - You are at a restaurant and you overhear other diners discussing a proposal they are submitting. Your friend will be submitting a competing bid.

Question - Do you pass the information on to your friend?

Question - Why do you do / not do it?

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1.100: Integrity & Objectivity

- **1.110 Conflicts of Interest**
 - **1.110.010 Conflicts of Interest for Members in Public Practice**
 - **1.110.020 Director Positions**
- **1.120 Gifts and Entertainment**
 - **1.120.010 Offering or Accepting Gifts or Entertainment**

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1.100: Integrity & Objectivity

- **1.130 Preparing and Reporting Information**
 - **1.130.010 Knowing Misrepresentations in the Preparation of Financial Statements or Records**
 - **1.130.020 Subordination of Judgment**
- **1.140 Client Advocacy**
- **1.150 Use of a Third-Party Service Provider**

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- **1.200 Independence**
- A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by AICPA Council.
- Independence is not required for nonattestation services (e.g. tax & consulting services or compilations)

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1.200 Independence (cont.)

- Independence must be maintained by “covered members”. All partners in office connected with the attest engagement, partners or managers who provide nonattest services to the attest client, all members of the attest engagement team, the firm itself and any parties who can influence the attest engagement.

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1.200 Independence (cont.)

- The covered member's spouse and dependents are also generally subject to this Rule.
- A member must have independence of mind and in appearance
- A risk-based approach is used to evaluate potential threats to independence

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⚙️ Independence impaired by Financial Interest

- Independence will be impaired if a covered member has a direct financial interest (regardless of materiality) or a material indirect financial interest in a attestation client.

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Independence Impaired by Financial Interest

- ✿ Direct financial interests are ownership interests held directly in a client. Examples include:
 - Stock ownership, even if owned in a blind trust
 - Financial interest in a client through a partnership & the member is a general partner
 - Financial interest in a trust when the member is the trustee.

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Independence Impaired by Financial Interest

- ✿ An indirect financial interest involves a removed relationship. Examples would include:
 - Member owns shares in a mutual fund that invest in the attestation client
 - Member owns a direct financial interest in Company A & Company A has a direct financial interest in the attestation client

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Independence Impaired by Financial Interest

- ⊗ Example - I am the partner with Ernst & Young & on the Apple audit.
- ⊗ I have a \$10,000 investment in the Fidelity Contrafund
- ⊗ The Contrafund has 5% of its \$30 Billion in assets invested in Apple
- ⊗ Is my Independence Impaired?

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Independence Impaired by Financial Interest

- ⊗ NO, my Independence is NOT Impaired

WHY?

I have no control over the activities or the Contrafund and on a prorata basis I would indirectly own \$500 of Apple stock via my \$10,000 investment in the Contrafund

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Independence Impaired by Financial Interest

- ⚙️ Example - I am the partner with Ernst & Young & on the Apple audit.
- ⚙️ I have a \$1,000,000 investment in the Fidelity Contrafund
- ⚙️ The Contrafund has 50% of it \$30 Billion in assets invested in Apple
- ⚙️ Is my Independence Impaired?

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Independence Impaired by Financial Interest

- ⚙️ POSSIBLY, my Independence is Impaired

WHY?

I have no control over the activities or the Contrafund but on a prorata basis I would indirectly own \$500,000 of Apple stock via my \$1,000,000 investment in the Contrafund. That is a significant number that could lead to the perception that I may be biased and \$500,000 could be a material investment relative to my net worth.

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Independence Impaired by Financial Interest

- ✿ Independence will be impaired if a covered member or immediate family (spouse or dependents) has a loan to or from a client.
- ✿ Independence is impaired by acceptance of more than a token gift.

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Independence Impaired by Financial Interest

- ✿ What is a token gift?
 - Attendance at their Christmas party
 - Receiving the employee discount in the cafeteria
 - Accepting a pen & pencil set given to customers

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Case Study

#3 - You have been asked to to prepare a proposal for a potential new client.

Question - A friend of yours who is on the Board tells you what some of the other firms have bid in their proposal.

Question - What do you do? Why did you consider in making your decision?

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Independence Impaired by Financial Interest

- ✿ Independence is not impaired in a financial institution client by:
 - Fully collateralized car loans with a financial institution client
 - Cash advance or credit card balances not exceeding \$10,000
 - A passbook loan

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Independence Impaired by Business Relationships

- ✿ Independence is impaired if a member is an employee of or makes management decisions for an attest client. Independence may also be impaired if a member was previously employed by an attest client or if a member leaves the audit firm for a position with the client.

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Independence Impaired by Business Relationships

- ✿ Examples of business relationships with an attestation client that impair independence would include:
 - Director, officer, employee or a position where the member acts in a management capacity
 - Promoter, underwriter or voting trust
 - Stock transfer or escrow agent

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Independence Impaired by Business Relationships

- General counsel
- Trustee for a client's pension or profit-sharing trust
- Independence is not impaired by an immediate family member's employment with a client provided that they are not in a key position (e.g. CEO, CFO, internal audit, Board of Directors)

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Independence Impaired by Business Relationships

- A firm may perform nonattest services for clients & still be independent as long as the firm does not serve or appear to serve as a member of a client's management (e.g. the firm may not make operational or financial decisions for clients, perform management functions or report to the Board on behalf of management).

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Independence Impaired by Business Relationships

- Examples of activities with an attestation client that impair independence would include:
 - Authorizing, executing or consummating a transaction on behalf of a client
 - Preparing source documents or originating data (e.g. purchase orders).
 - Having custody of client's assets
 - Supervising client employees in the performance of normal recurring activities.

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Independence Impaired by Business Relationships

- Independence is impaired if a member manages the internal audit activities of a client
- Independence is impaired if valuation & appraisal services are performed, the results are material to the financial statements & appraisal or valuation is subject to a significant degree of subjectivity

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Independence Impaired by Business Relationships

- Independence is not impaired by being a member of or an honorary trustee for a nonprofit charitable, civic or religious group if the position is purely honorary & member does not participate in any management functions.
- Membership in the same trade association as a client does not impair independence unless member serve in a management capacity.

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Independence Impaired by Business Relationships

- **A member's independence is impaired with respect to a client who is more than 1 year overdue in the payment of professional fees. Usually, fees from 1 year must be paid before the issuance of a report on the following year's work.**
- **Actual or threatened litigation may impair independence, regardless of who is the plaintiff & who is the defendant.**

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Independence Impaired by Business Relationships

- **For example, independence is impaired if an auditor sues management for fraud or if the client sues the auditor for audit deficiencies. Even the threat of a suit for audit deficiencies would impair independence if it is likely the suit will be brought.**
- **Independence is not impaired by a suit for an immaterial dollar amount for work unrelated to an attestation service.**

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Independence Impaired by Business Relationships

- **The General Accounting Office (“GAO”) sets independence rules for companies audited under government auditing standards.**
- **The PCAOB & SEC also set rules for independence for firms auditing public companies. In many cases these rules are more stringent than AICPA or PICPA rules.**

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Independence

Possibly Incompatible Services:

- 1) Payroll & other disbursements
- 2) Benefit plan administration
- 3) Investment advisory management
- 4) Corporate finance-consulting or advisory
- 5) Executive or employee search
- 6) Business risk consulting
- 7) IT system-design, installation or integration
- 8) Bookkeeping services

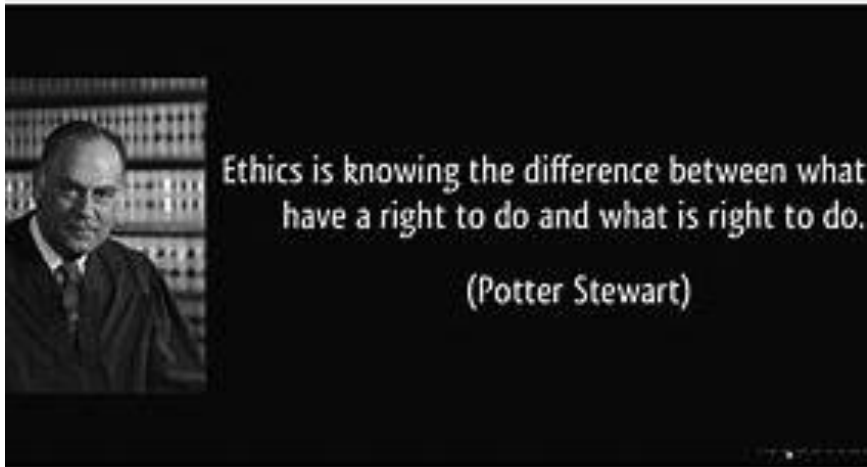
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Independence

Post Enron, the large public accounting firms were required to divest themselves of their consulting & related practices!

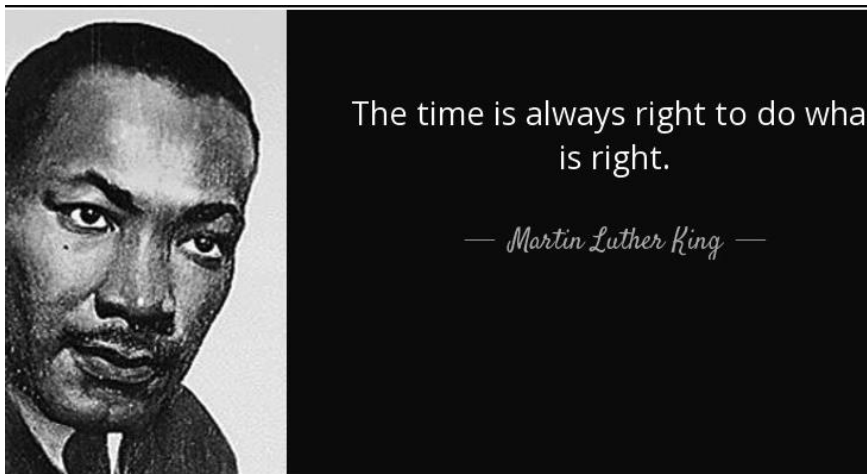
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Quotes



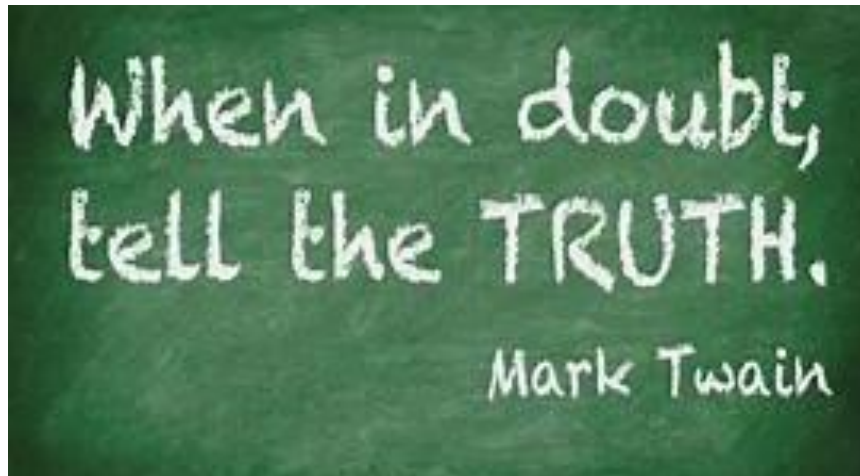
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Quotes



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Quotes



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1.300: General Standards

A member must comply with the following standards in all engagements:

- **Professional Competence**

Undertakes only those professional services that the member or the member's firm can reasonably be expected to complete with professional competence.

(Professional competence includes the technical qualifications of CPA, the ability to supervise & evaluate work & knowledge of technical subject matter or ability to obtain that knowledge by research or by consulting with others.)

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1.300: General Standards

- **Due Professional Care**
Exercise due professional care in the performance of professional services.
 - The member must possess the same degree of skill commonly possessed by others in the field.
 - The member must act as a reasonably prudent accountant would.

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1.300 : General Standards

- **The member must critically review work done by those assisting in the engagement at every level of supervision.**
- **Planning & Supervision**
 - **Adequately plan & supervise the performance of professional services**
- **Sufficient Relevant Data**
 - **Obtain sufficient (not all) relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed**

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1.310: Compliance with Standards

A member who performs auditing, review, compilation, management consulting, tax or other professional services must comply with standards promulgated by bodies designated by AICPA Council.

- **Auditing Standards Board & PCAOB (issue statements of auditing standards)**
- **Management Consulting Services Executive Committee (issue statements on standards for management consulting services)**

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1.310: Compliance with Standards

- **Accounting & Review Services Committee (issues statements on standards for accounting & review services)**
- **Government Accounting Standards Board (issues statements of governmental accounting standards)**
- **Tax Executive Committee (issues standards on tax services)**

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Case Study

#4 - You are performing an audit and are working late in a client's office

Question - Do you go exploring in the client's offices & files?

Question - Why do you do / not do it?

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Case Study

Ethics is not about what your answer is but rather your thought process in arriving at your answer!

Some participants arrived at their answer to avoid be "caught in the act" while others arrived at their answer due to their ethical code & some for other reasons or a combination of the above.

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Quotes

“Associate with men of good quality, if you esteem your own reputation; for it is better to be alone than to be in bad company.”

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1.320: Accounting Principles

- **Members shall not express an opinion or state affirmatively or negatively that financial statements are presented in conformity with GAAP, if there is any departure from an accounting principle that has a material effect on the financial statements.**
- **Unusual circumstances may justify a departure from GAAP, if compliance would cause the financial statements to be misleading.**

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1.320: Accounting Principles

- **Interpretations of the Code specifically recognize new legislation and new forms of business transactions as occasions that might justify a departure from GAAP**
- **An usual degree of materiality or the existence of conflicting industry practices would not justify departure from GAAP**
- **The departure when justified, must be described & explained in the footnotes.**

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1.400: Discreditable Acts

- **A member shall not commit an act discreditable to the profession**
- **The following act are discreditable to the profession:**
 - **Failure to return records to a client after the client makes demand.**
 - **Determination by a court or administrative agency of discrimination or harassment in public practice.**
 - **Failing to follow applicable standards or procedures in governmental audits unless the member discloses that the standards were not followed & the reasons for noncompliance**

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1.400: Discreditable Acts

- **Negligence in preparing financial statements or records**
- **Solicitation or disclosure of CPA Examination questions & answers**
- **Failure to timely file personal or firm tax returns or to timely remit payroll or other taxes collected on behalf of others**
- **Failure to follow regulatory requirements (where applicable) prohibiting the use of certain types of indemnification & limitation of liability provisions.**

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1.500 Fees and Other Types of Remuneration

- **A contingent fee is a fee established for performing services where:**
 - **No fee is charged unless a specific finding or result is obtained or**
 - **The fee amount is dependent upon the finding or result obtained**
- **Contingent fees are specifically prohibited for audits & review of financial statements or examinations of prospective financial information.**

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1.500 Fees and Other Types of Remuneration

- **Contingent fees are permitted in the following cases:**
 - **Fees are not regarded as being contingent when they are fixed by courts or other public authorities or in tax matters, if they are based on the results of court proceedings or the findings of governmental agencies (e.g. a contingent fee is permitted when representing a client in an examination of a tax return by an IRS agent)**
 - **Contingent fees are permitted for compilations of financial statements to be used by third-parties only if the member includes a statement that the member is not independent**

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1-520: Commissions & Referral Fees

- **A member in public practice shall not for a commission recommend or refer to a client any product or service when the member or the member's firm also performs for that client:**
 - **An audit or review of financial statements**
 - **A compilation of financial statements expected to be used by third parties, when the member does not disclose a lack of independence**
 - **An examination of prospective financial information**
- **A member performing other services not prohibited above may receive a commission but the commission must be disclosed to the client**
- **A member who receives a referral fee for recommending another CPA or pays a referral fee to obtain a client must disclose this to the client.**

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1.600 Advertising & Other Forms of Solicitation

Advertising or other forms of solicitation that are false, misleading, or deceptive are not in the public interest and are prohibited. Such activities include those that:

- 1) Create false or unjustified expectations of favorable results.
- 2) Imply the ability to influence any court, tribunal, regulatory agency, or similar body or official.
- 3) Contain a representation that specific professional services in current or future periods will be performed for a stated fee, estimated fee or fee range when it was likely at the time of the representation that such fees would be substantially increased and the prospective client was not advised of that likelihood.
- 4) Contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived.

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Case Study

5 - You are in a very competitive selling situation and you become aware (in an ethical manner) that your main competitor is bribing the purchasing manager.

Question - Do you contact the customer?

Question - Do you contact law enforcement?

Question - Do you contact the person making or taking the bribe?

Question - Why do you make the choice you did?

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1.700: Confidential Client Information

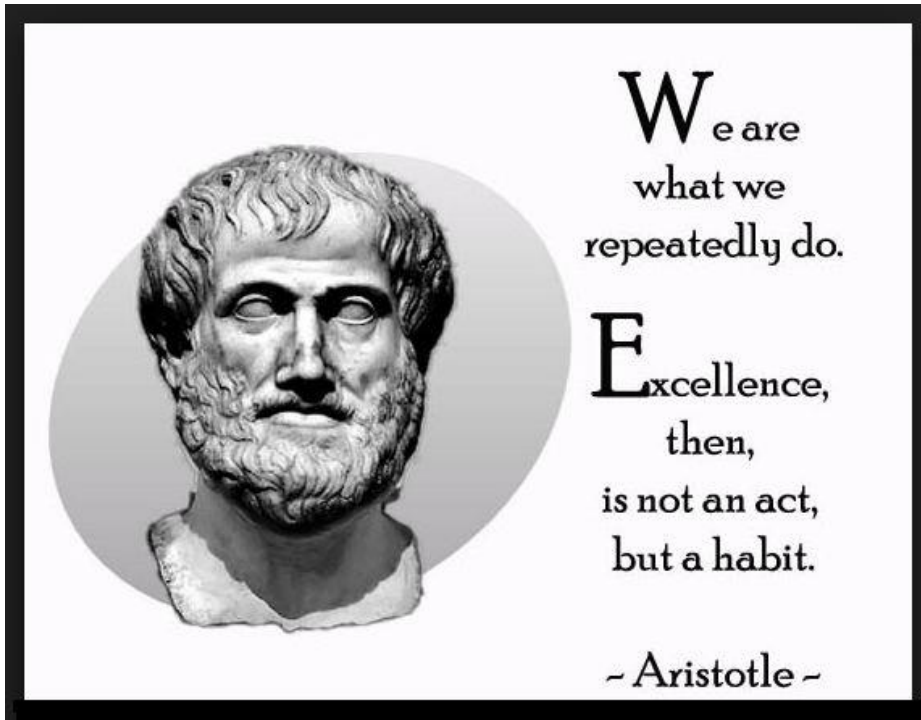
- **A member in a public practice shall not disclose any confidential client information without the specific consent of the client**
- **Exceptions: A member is obligated to disclose confidential information even without the consent of the client in the following circumstances:**
 - **A member must disclose confidential client information if necessary to comply with a validly issued subpoena or summons.**

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1.700: Confidential Client Information

- **A member must disclose confidential information as part of a quality review of the member's professional practices authorized by the AICPA (I.e. a request for confidential information by a state CPA society voluntary quality control review panel).**
- **A member must disclose confidential client information in response to any inquiry either made by the ethics division or the trial board of the Institute or by a duly constituted investigative or disciplinary body or a state CPA society or under authority of state statutes.**

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1.800 Form of Organization & Name

The Use of Misleading Firm Names is Not Allowed

- A firm may not designate itself as "Members of the AICPA" unless all of the CPA owners are members of the Institute.
- A firm may not designate itself as "CPA's" unless all of its owners are members of the AICPA
- The ideal designation following the firm name would be "CPA's Members AICPA" if all partners or shareholders were both CPA's & members of the AICPA
- A firm may continue to use the names of one or more past owners

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1.800 Form of Organization & Name

•If all partners except one have died or left the firm, the remaining partner may continue to practice under the partnership name for up to 2 years after becoming a sole practitioner.

Ownership of CPA Firms

- CPA Ownership
 - A majority of the ownership, both in financial interest & voting rights, must belong to CPAs. Any non-CPA owner must be actively engaged as a firm member in providing services to the firm's clients
 - A CPA must have ultimate responsibility for all services provided by the firm & by each business unit providing attest & compilation services & other services governed by SAS or SSARS

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1.800 Form of Organization & Name

Non-CPA Owners

- CPA Ownership
 - Non-CPA owners can use the title "principal", "owner", "officer", "member", or "shareholder" or any other title permitted by state law, but not hold themselves out to be CPAs
 - Owners shall own their equity in their own right & be the beneficial owners of the equity capital ascribed to them.

Use of CPA Title in Private Industry

- A CPA employee in private industry may use the designation CPA in signing a report only if the use of that designation does not imply to readers of the report that the CPA is independent.
- It is advisable to indicate one's own employment title within the private firm.

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Members in Business

- **2.100 Integrity and Objectivity**
- **2.300 General Standards**
- **2.400 Acts Discreditable**
- **ALL OTHER RULES ONLY APPLICABLE TO MEMBERS IN PUBLIC PRACTICE**

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Suspension of CPA Licenses

- **ERISA audit failures are the largest reason for censure of CPA's**
- **White Collar Crime (failure to file, fraud & other business crimes) is the second largest reason for the censure of CPA's**
- **Yellow Book (Governmental audit) failures are also a significant reason for censure of CPA's**
- **CPE violations result in suspensions until resolved**

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Suspension of CPA Licenses

- **We are licensed by the Bureau of Professional & Occupational Affairs of the Department of State of the Commonwealth of Pennsylvania.**
- **This is entity that regulates our profession in PA along with about 50 other professions. Barbers, pharmacists, Engineers, etc.**
- **AICPA & PICPA can discipline but only the Bureau can suspend or revoke our license to practice**

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Suspension of CPA Licenses

- **May '19 in Lehigh County after he pled to Federal felony which included dishonesty or fraud**
- **Jan '19 in Beaver County firm required to pay civil penalty of \$3,000 as it represented itself as CPA firm after License had lapsed**
- **March '18 in Montgomery County License revoked & issued \$40,000 civil penalty after felony conviction**

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Management Consulting Services

- **Introduction**

Consulting services that CPAs provide to their clients have evolved from advise on accounting related matters to a wide range of services involving diverse technical disciplines, industry knowledge & consulting skills. Most practitioners (including those who provide audit & tax services) also provide business & management consulting services to their clients. Consulting services differ fundamentally from the CPA's function of attesting to the assertions of other parties.

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Consulting Services for Attest Clients

- **The performance of consulting services for an attest client does not, in and of itself, impair independence.**
- **However, members & their firms performing attest services for a client should comply with applicable independence standards, rules & regulations**

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Case Study

6 – In performing your services for a client you become aware that senior client personnel are committing financial felonies.

Question - Do you discuss situation with the individual(s) you believe are committing the crimes?

Question - Do you contact the Board of Directors?

Question - Do you contact law enforcement?

Question - Why did you make the choice you did?

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Quotes

"To sin by silence when they should protest makes cowards of men."

Abraham Lincoln

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Summary

- ✿ The answers are not always clear.
- ✿ For some people the response is based upon the situation (Situational Ethics)
- ✿ For others the answer is always clear cut (Universally Applied Ethics)
- ✿ Where do you stand?

7/16/2019

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QUESTIONS

✿ THANK YOU FOR COMING!

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