

The A.B.C.'s in Ethics



INSTRUCTOR
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SPONSOR – ID#
009827

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COURSE OBJECTIVES

- **Introduction to Ethics**
 - Explain why study ethics and define ethics
 - Compare Legal and Ethical Reasoning
 - Note Influences on Ethics
- **Provisions and Principles of Professional Conduct**
 - List General Provisions
 - Note Principles of Professional Conduct

COURSE OBJECTIVES

- Highlights of the Code of Conduct
 - Independence, Integrity, and Objectivity
 - Public versus Non-Public CPAs
 - Consider Recent Developments
- Case Study
- Questions / Answers



- Explain Why Study Ethics and Define Ethics
- Compare Legal and Ethical Reasoning
- Note Influences on Ethics
- Studies / Examples

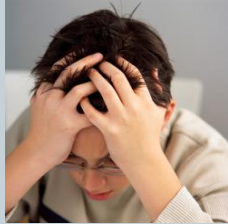
Why study ethics?

- Choices
- Behaving Ethically is
 - a Trait
 - a Characteristic
- Historical examples



Why study ethics?

- Specialized Knowledge
- Identify Legal Compliance, Moral Beliefs & Attitudes, and Best Practices
- Maintain Credibility



Definitions

- What are morals?
- What are values?
- What is ethics?



Conflicts of Ethical Behavior

- Just do the right thing
- Filter System
- Man vs. Man, Man vs. Nature, or Man vs. Himself
- Living a Double Life



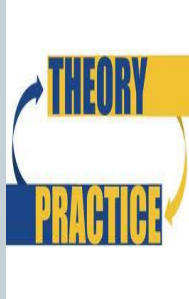
Legal vs. Ethical

- Actions fall within two categories: legalistic and/or ethical
- Illegal acts may be ethical
- Legal acts may be unethical



Influences on Ethical Behavior

- Theories
- Professional Skepticism
- Other Influences



Summary

- Identify if a dilemma exists, gather facts and legal aspects, and put in safeguards
- An individual's solid foundation of knowing what is right or wrong combined with the values of particular groups with whom we associate with produces ethical behavior.
- There are only two choices.

B

- List the General Obligations of Public Accountants
- Note the General Provisions and Standards
- Review the Responsibilities of Public Accountants
- Review Case Studies / Examples

Accounting History



General Obligations

Individuals with professional designations have certain obligations to their clients and to the public in general.

These obligations include

- Independence in fact and in appearance
- Continuously improving professional skills,
- Observing GAAP & GAAS



General Obligations

- Promoting sound and informative financial reporting,
- Holding the affairs of clients in confidence,
- Upholding the standards of the public accountancy profession, **and**
- Maintaining high standards of personal and professional conduct in all matters.



try some delicious and healthy snacks
at our concession stand

Intermission



GENERAL PROVISIONS

What kinds of professional services are performed in the practice of public accountancy?

- (1) accounting, auditing, and other assurance services,
- (2) taxation, bookkeeping, consulting,
- (3) financial advisory services,
- (4) litigation support,
- (5) corporate governance (internal audit),
- (6) business valuation,
- (7) forensic accounting, and
- (8) educational



CODE FORMAT

- TSBPA
 - General Provisions
 - Professional Standards
 - Responsibilities to Client, Profession, and Board
- AICPA
 - Public Practice
 - Industry
 - All others (e.g. retired)

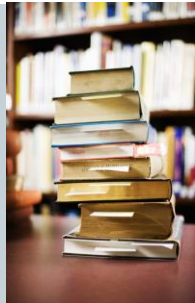
GENERAL PROVISIONS

- Responsibilities
- Public Interest
- Duty of TSBPA and All CPAs



PROFESSIONAL STANDARDS

- Observe GAAP and GAAS
- Other regulatory standards
- Transmittal to third parties



RESPONSIBILITIES TO CLIENTS

- Objectivity and Independence
- Commissions
- Contingent Fees
- Integrity
- Due Care/Competency



RESPONSIBILITIES TO CLIENTS

- Client Confidentiality
- Records/Work papers
- Acting through others
- Withdrawal / Resignation



RESPONSIBILITY TO PUBLIC

- Practice of Public Accountancy
- Firm License, Name, and Form
- Advertising
- Complaints



RESPONSIBILITIES TO PROFESSION

- Frivolous Complaints
- Board Responses
- Mandatory CPE



RESPONSIBILITIES TO PROFESSION

Both the TSBPA and AICPA recognize the duty of certified public accountants to refrain from committing acts discreditable to the profession.

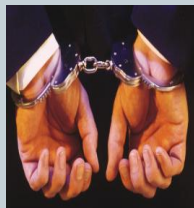
Discreditable acts include what?

What acts are reportable?



Discreditable Acts

- Failure to comply with client's request for records
- Discrimination and harassment in employment
- Failure to follow standards
- Negligence in preparing Financial Statements
- Soliciting and disclosing CPA exam questions and answers



Discreditable Acts

- Failure to file and pay tax liabilities (Fiscal Responsibility)
- Actual or Threat of physical harm to another
- Fraud, Deceit, Dishonesty, Lying Under Oath
- Knowingly participate in preparing misleading F/S



Discreditable Acts

Reportable Events:

- Conviction of any Crime (e.g. Felony, DUI/DWI, or involving Alcohol and/or Drug Abuse)
- Loss/Suspension of license or adverse finding by Court of Law in any State, and
- Crimes of Moral Turpitude



Common Discreditable Violations

- Discrimination
- Failing Tax Responsibilities
- Misrepresenting Qualifications
- Improper Disclosure
- False Financial Reporting
- Failure to Return Client Records

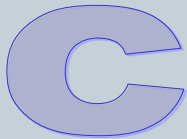
Sarbanes Oxley Act Provisions

While engaged to perform an Attestation CANNOT

- Design and implement a Financial System
- Perform appraisals or valuations
- Provide Actuarial Services
- Management Functions or HR
- Broker, Dealer, Investment Services
- Legal or expert services unrelated to audits
- Or other specifically impermissible services

CLIENT OBLIGATIONS

- **Client Responsibilities**
 - Management decisions
 - Supervise engagement
 - Evaluate results
 - Accept responsibility for results
- **Written Understanding**
 - Objective
 - Services
 - Responsibilities
 - Limitations



- Review Independence and Relationships Affecting Independence
- Note Aspect of Integrity and Objectivity
- Consider Recent Developments
- Review Case Studies / Examples

Independence

- **Independence of mind**
- **Independence in appearance**



Independence

- Applies to the performance of professional accounting services or professional accounting work
- Conform to standards established by the AICPA and the Board, and,
- The U.S. SEC, the GAO, the PCAOB and other national or international regulatory or professional standard setting bodies



Relationships Affecting Independence

- Engagement Team Members, Partners, Firm Employees, Individuals of Influence, etc
- Former Employee of Client or Board of Directors
- Employment with Client
- Family Members



Relationships Affecting Independence

- Close Relatives
- Financial Interests
- Business Relationships, **and**
- Other Services



Independence Rule

Under the four basic principles, an auditor cannot

- (1) function in the role of management,
- (2) audit his or her own work,
- (3) serve in an advocacy role for the client, or
- (4) have a mutual or conflicting role with the client



Integrity and Objectivity

- The professional work shall be done with integrity and objectivity,
- Shall be free of conflicts of interest, and
- Shall not knowingly misrepresent facts nor subordinate his or her judgment to others



Integrity and Objectivity

An ethical conflict arises when one or both of the following occur:

- Obstacles to following an appropriate course of action due to internal or external pressures
- Conflicts in applying relevant professional standards or legal standards



Integrity and Objectivity

- Continuously assess relationships and responsibilities
- Strive for excellence
- Be competent in performance of duties
- Handle difference of opinions



Subordination of others

Examples of Misrepresenting Facts

- Make, permit, or directs another to make, materially false and misleading entries in an entity's financial statements or records; or
- Fail to correct an entity's financial statements or records that are materially false and misleading when he or she has the authority to record an entry; or
- Sign, or permits or directs another to sign, a document containing materially false and misleading information.

THREATS TO COMPLIANCE

Threats are identified and assessed by:

- Self-review
- Advocacy of a client
- Adverse interest
- Familiarity
- Undue influence
- Financial self-interest, and
- Management participation



Three Broad Categories of Safeguards

Safeguards created by the profession

- CPE classes
- Disciplinary processes
- Peer Review
- Legislative Regulations



Three Broad Categories of Safeguards

Safeguards implemented by the client

- Corporate policy / procedures (governance)
- Internal Controls
- Top down approach
- Personnel with correct skills



Three Broad Categories of Safeguards

Safeguards implemented by the firm

- Leadership
- Quality Control & Training
- Periodic Rotations
- System to disclose concerns or wrongdoings



Integrity and Objectivity Public vs Non-Public

- Avoid Conflicts of Interest
- Refrain from discreditable activity
- Refuse gifts, favors, hospitality that could influence
- Don't active or passively undermine policies
- Communicate limitations, favorable and unfavorable
- Disclose all relevant information



SUMMARY

- Observe the Code of Conduct at all times
- Provide services consistent with Code & profession
- Know your limitations
- Meet the SPIRIT of the Code not just the form



RECENT DEVELOPMENTS

September 2015

- AICPA proposing tougher CPA Exam in 2017 by lengthening the exam by two hours.
- Four Sections – Four Hours
- Add more problems involving analytical thinking and professional skepticism
- Cognitive Skills

RECENT DEVELOPMENTS

July 2015

- PCAOB release concept of Audit Quality Indicators (AQI)
- Covers audit professionals, audit process, and audit results
- Not a scorecard; encourages auditors to do their best
- Focus is on quality of work not fees
- Foster competition

RECENT DEVELOPMENTS

TSBPA Peer Review Transparency -

- Regulators and users demanded access and involvement in peer review process
- Result is voluntary disclosure of peer review results to state boards of accountancy (BOAs).

RECENT DEVELOPMENTS



TSBPA Constructive Enforcement

- “accountant” “accounting services” or “auditing services”, the person believed to be a licensed CPA.
- The Constructive Enforcement Committee is an active committee that is working with volunteer advisory members to identify persons in the Unlicensed Practice of Public Accountancy (UPPA) in order to obtain compliance with the Public Accountancy Act.

RESOURCES



TSBPA

www.tsbpa.state.tx.us

512-305-7800 – Main Number

AICPA

www.aicpa.org

1-888-777-7077 (press 5) – Ethics
Hotline
