NASBA

National Association of State Boards of Accountancy

Changes in Ethics

2013 Regional Meetings

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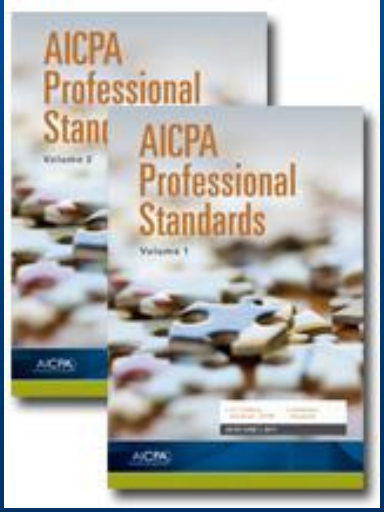
Recent Changes in Ethics

- AICPA Ethics Codification Project
- Revision of ET 101-3, Non-attest Services
- “Holding Out” as a CPA
- Requests for Client Records
- Subordination of Judgment
- Partner Equivalents
- Client Affiliates

Changes in Ethics

AICPA Ethics Codification Project



Your State's Code of Professional Conduct?

- Does it stand by itself?
- How does it mirror the AICPA Code of Professional Conduct?
- How much does it refer to the AICPA Code of Professional Conduct?
- Does it refer to the AICPA Code of Professional Conduct as of a given date?

Project Objective

- Create user friendly, intuitively arranged Code
- Physically different – Separate parts
  - Part 1: Members in public practice
  - Part 2: Members in business
  - Part 3: All Other Members
- Revise without making significant changes to existing requirements and restrictions
  - Clarity through better drafting conventions
  - Substantive changes will follow due process

Project Objective

- Incorporate conceptual framework approach
  - Incorporate threats and safeguards
  - Conceptual framework only applies when no guidance in Code exists
  - Cannot be used to override existing requirements
- Incorporate references to division's nonauthoritative guidance
- On-line Codification with enhanced functionality

www.aicpa.org/InterestAreas/ProfessionalEthics/Community/Pages/aicpa-ethics-codification-project.aspx

State Board Awareness

- State Board Advisory Group
  - Daniel Sweetwood (Exec Director, NE)
  - Edith Steele (Former Exec Director, OK)
  - Kent Bailey (Former Member, OR Board)
  - Mark Crocker (Executive Director, TN Board)
  - Rona Shor Cherno (Member, NY Board)
  - Susan Harris (Exec Director, MS)

State Board Awareness

- The Codification Project provides an excellent opportunity for State Boards to review their regulations relative to the Code
  - Does your Board make reference to the Code in its regulations?
  - Some State Board's regulations may be out of date compared to the Code

Project Timing

- Currently in “Phase Three” which consists of:
  - Exposed For Comment (April 15, 2013)
  - Approval (First Q 2014)
  - Release (TBD)

AICPA Ethics Codification Project

Substantive Changes

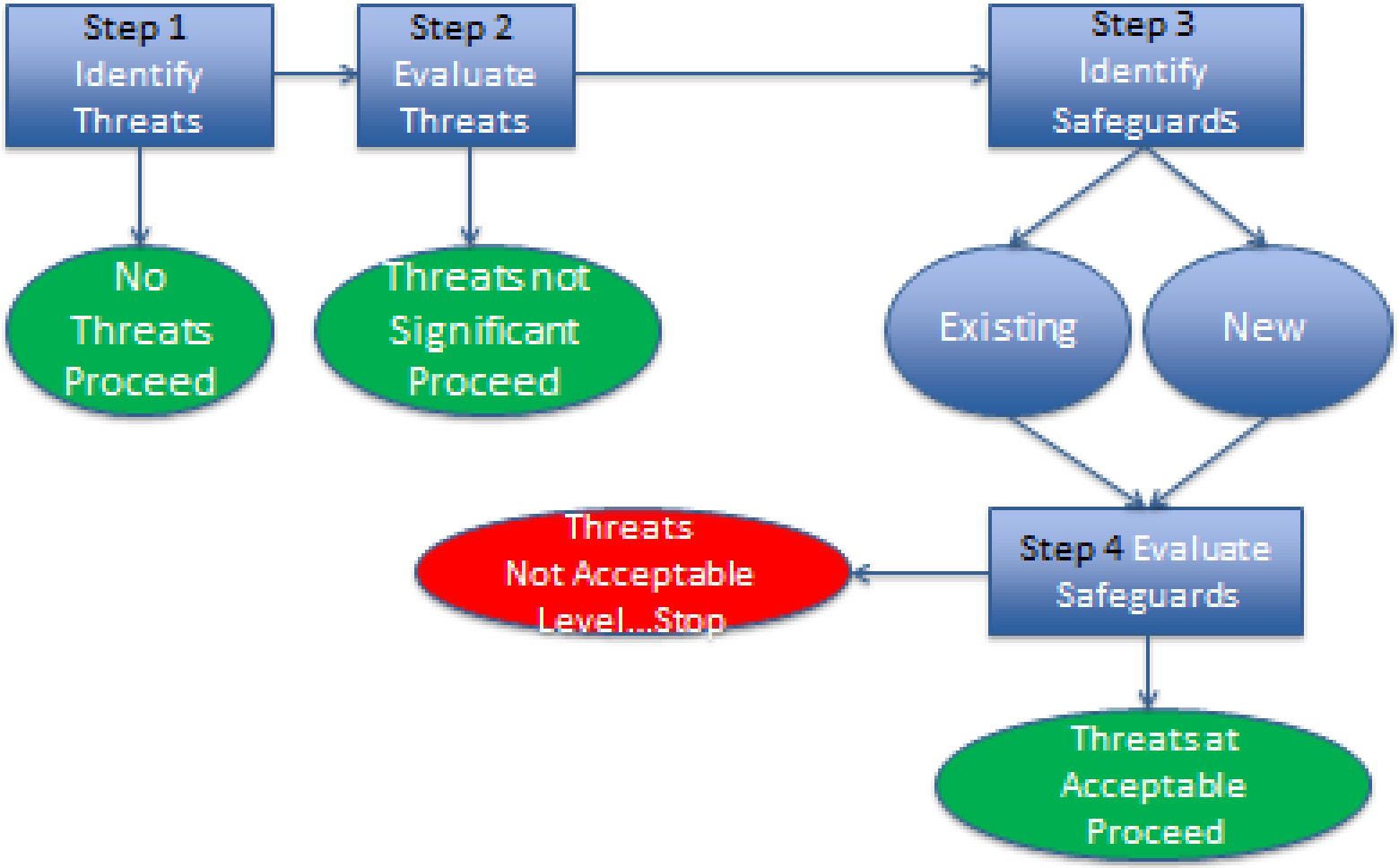
Incorporate Conceptual Frameworks

- Two New Frameworks
  - Conceptual Framework for Members in Public Practice
  - Conceptual Framework for Members in Business
- Applied when no guidance on a particular relationship or circumstance
- It is considered a violation of applicable rule if the member cannot demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level

What is a Conceptual Framework?

- When there is nothing on point in the Code
  - Old Thinking
    - Relationship or circumstance must be permitted
  - Revised Thinking
    - Apply the conceptual framework
- Requires professional judgment (risk based)
  - Reasonable Third Party
    - For example, if the situation involves a staff person often an effective safeguard is:
      - The staff's removal from the engagement
      - Additional review of the staff’s work

Steps of the Conceptual Framework



Substantive Changes Report

- AICPA has released a report entitled

<u>Proposed Substantive Changes</u>

<u>AICPA Codification Project</u>

- A copy is included in your materials

Mapping Document…excerpt

AICPA Ethics Codification Mapping As of January 15, 2013				
#	Existing Citation	Title In Code	New Citation	Title In Code
162	ET Section 191.186-.187	Service on Board of Directors of Federated Fund-Raising Organization	1.110.010.01 j	Conflicts of Interest
166	ET Section 191.198-.199	Member Providing Services for Company Executives	1.110.010.01 k	Conflicts of Interest
170	ET Section 191.220-.221	Member is Connected With an Entity That has a Loan to or From a Client	1.110.010.01 l	Conflicts of Interest
159	ET Section 191.170-.171	Bank Director	1.110.020	Director Positions
174	ET Section 191.226-.227	Acceptance or Offering of Gifts or Entertainment	1.120.010	Offering or Accepting Gifts or Entertainment
132	ET Section 102.02	Knowing misrepresentations in the preparation of financial statements or records	1.130.010	Knowing Misrepresentations in the Preparation of Financial Statements or Records

Changes in Ethics

Non-attest Services

Revisions to Nonattest Services Interpretation

- Period of Impairment
  - Independence not impaired if member performed prohibited nonattest services during the period covered by the F/S if performed before entity became an attest client and certain other criteria are met
- Activities Related to Attest Services
  - Clarified certain communications during an attest engagement are not nonattest services
- Management Responsibilities
  - Replaced the term "management functions"
  - "General Activities" section →"Management Responsibilities"
  - Incorporates guidance from IFAC IESBA Code
- Effective August 31, 2012

Revisions to Nonattest Services Interpretation

- Outside Scope of Attest Service: Financial Statement Preparation and Cash to accrual conversions
  - Considered a nonattest service (i.e., outside scope of attest service)
  - Must apply the general requirements
  - Consistent with GAO Independence Standards
  - Revisions to SSARS pending exposure
  - Effective for engagements covering periods beginning on or after December 15, 2014

Revisions to Nonattest Services Interpretation

- Internal Audit Services
  - Clarifies the impact performing ongoing and separate evaluations have on independence.
    - Ongoing evaluations would impair independence
  - Direct user to the COSO Internal Control – Integrated Framework
  - Effective for engagements covering periods beginning on or after December 15, 2013

Changes in Ethics

"Holding Out" as a CPA

Deletion of "Holding Out" Requirement

- Task force chaired by NASBA Chairman Gaylen Hansen, former PEEC member
- Delete "holding out" as CPA requirement from definitions of "practice of public accounting" and "professional services"
  - Members should be held to the Code regardless if holding out as CPAs
- Definition of professional services broadened to provide examples of additional services

Deletion of “Holding Out” Requirement

- Practice of public accounting → public practice
- Definition of public practice = professional services provided to client
- Effective May 30, 2013

Changes in Ethics

Requests for Client Records

Response to Requests by Clients for Records

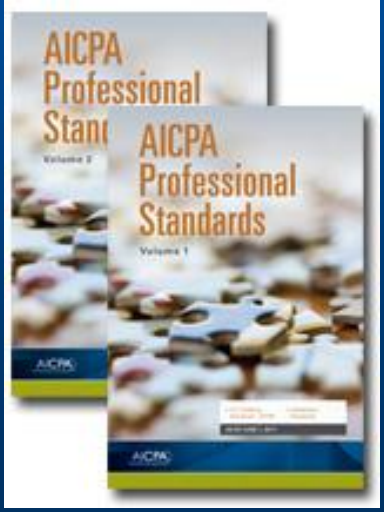
- Highlights State Boards may be more restrictive
  - Unpaid fees from client
- Client provided records
  - Must always return
- Member prepared records
  - Must return if relate to completed/issued work product unless unpaid fees

Response to Requests by Clients for Records

- Member's Work Product
  - Should provide unless unpaid fees or work product incomplete
- Member's Working Papers
  - Property of member

Changes in Ethics

Subordination of Judgment



Subordination of Judgment

- Provides guidance when member and supervisor have difference of opinion relating to application of professional standards, or applicable laws/regulations
- If member concludes supervisor's position results in material misrepresentation of fact or violation of laws, should discuss concerns with supervisor
  - If difference of opinion not resolved, should discuss concerns with appropriate higher level(s) of management
  - Consider documenting facts & discussions held
  - Consider seeking legal guidance
  - Consider continuing relationship with entity if no action taken

Subordination of Judgment

- Approved by PEEC at its May 2014 meeting
- Effective the last day of the month published in the Journal of Accountancy

Changes in Ethics

Partner Equivalents

Partner Equivalents

- Capture members who act in a partner capacity with respect to attest engagements but are not partners
  - Authority to bind firm with respect to attest engagement without partner approval
  - Ultimate responsibility for attest engagement
    - Authority to issue or authorize others to issue an attest report without partner approval
    - Authority to sign or affix the firm's name to an attest report
  - Only applies for purposes of Independence rule
    - Not to be used for ownership purposes

Partner Equivalents

- Subject to same independence rules as partners
- Effective for engagements covering periods beginning on or after December 15, 2014

Changes in Ethics

Client Affiliates

Client Affiliates

- Provides guidance on which entities are affiliates of a client and subject to independence rules
- Certain exceptions apply
- Affiliates of a financial statement attest client include a:
  - Entity that client can control
  - Entity in which client has material direct financial interest and significant influence over entity
  - Entity that controls client when client is material
  - Entity with material direct financial interest in client and significant influence over client

Client Affiliates

- Affiliates of a financial statement attest client include a (cont'd):
  - Sister entity if client and sister entity material to parent
  - Trustee of trust client
  - Sponsor of benefit plan client
  - Benefit plan sponsored by client
- Effective January 1, 2014

Why do changes in the AICPA Code of Professional Conduct Matter to State Boards of Accountancy?

Any Questions?