ETHICS: PROTECTING THE INTEGRITY OF FLORIDA CPAs

BY: CEcil PATTERSON, JR., CPA
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ETHICS: PROTECTING THE INTEGRITY OF FLORIDA CPAs

Developed for the FICPA by:

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CHAPTER 1

Objectives, Background, and Overview

Learning Objectives

The purpose of Chapter 1 is to provide an overview of the course, the environmental background of ethics in general, and to review some of the ethical implications impacting our profession. The learning objectives for this chapter include:

1. Explain Florida’s ethics requirement for CPE.
2. Define the term “ethics”.
3. Distinguish whether or not ethical principles were applied to given business situations.
4. Explain how the AICPA’s Code of Professional Conduct applies to CPAs licensed in Florida.
5. Apply the AICPA’s Ethics Decision Trees to workplace situations.

Statutory References and Information

Why are we here?

473.312 Continuing Education

(1)(c) Not less than 5 percent of the total hours required by the board shall be in ethics applicable to the practice of public accounting. This requirement shall be administered by providers approved by the board and shall include a review of the provisions of chapter 455 and this chapter and the related administrative rules.

Why are we here? That’s an obvious question for participants in this course. Your presence indicates you are at least familiar with the basic requirement.

All Florida licensees are required by state law to take four hours of ethics CPE each reestablishment period. The requirement applies to those practicing in the public or private sector.

The CPE credit-hour requirements for active Florida licensed CPAs are 80 hours over a two-year reporting period that includes:

- At least 20 hours in Accounting & Auditing;
- A maximum 20 hours in Behavioral;
• Four hours of Ethics; and,
• No limitation or requirement for Technical Business.

The “Ethics” category of CPE is a unique category. It is obviously not “A & A,” “behavioral” or “technical business.” To fulfill the ethics requirement, a CPA may take one of the following options:
• a four-hour group study course,
• two two-hour group study courses using the same provider, or
• a four-hour self-study course.

Regardless of which option a licensee chooses the ethics instruction must be received from a provider that has been pre-approved by the Florida Board of Accountancy. The Florida Institute of Certified Public Accountants (FICPA) is an approved provider.

Removal of Laws and Rule Exam

Legislation was passed during the 2009 Florida Session and signed into law providing for the removal of the Laws & Rules Exam. Florida CPAs are no longer required to take the exam as Florida laws and rules are covered in the ethics course.

Major Course Topics

This course presents the CPA profession in Florida with an opportunity to review the basis and background of ethical considerations, to reinforce that not only are CPAs expected to do what is ethically correct, but they also should avoid even the appearance of impropriety. Reviewing pertinent laws and rules and discussing standards serves to only ensure that as professionals, we understand and comply with the same requirements and rules.

Ultimately, the goal of Florida’s ethics requirement for CPAs is to provide for public protection by having licensed individuals periodically demonstrate an understanding of Florida laws and rules governing their behavior and understand the widely recognized components of an effective ethics program.

To that end, the major topics of this course (with corresponding manual chapter) are:

• Relationship of Florida laws and rules to national standards (Chapter 1)
• Ethical applications in business today (Chapter 2)
• Florida Statutes, Chapter 455, 473, and FAC 61H1 and how they relate to integrity and objectivity, commissions, contingencies, and communications (Chapters 3-5)
• Issues of competency in public accounting (Chapter 6)
• Tax ethics and the implications of tax ethical behavior (Chapter 7)
• The relationships of ethics and independence rules and implications to public accounting (Chapter 8).

• Ethical responsibilities to clients other practical considerations (Chapter 9).

• Future implications for CPAs and ethics (Chapter 10).

What are Ethics?

As defined:

**ethic**

Pronunciation: *e-thik*

Function: *noun*

Etymology: Middle English *ethik*, from Middle French *ethique*, from Latin *ethice*, from Greek *EthikE*, from *Ethikos*

*1 plural but singular or plural in construction*: the discipline dealing with what is good and bad and with moral duty and obligation

*2 a*: a set of moral principles or values *b*: a theory or system of moral values

*<the present-day materialistic ethic>*

*2 c plural but singular or plural in construction*: the principles of conduct governing an individual or a group

*2 d*: a guiding philosophy

**situation ethics**

Function: *noun*

*: a system of ethics by which acts are judged within their contexts instead of by categorical principles

Ethical Behavior Defined

The Malcolm Baldrige Award - Educational Criteria for Performance Excellence – defines the term “ethical behavior” to aid organizations in completing their submission.

“The term “ethical behavior” refers to how an organization ensures that all its decisions, actions, and stakeholder interactions conform to the organization’s moral and professional principles. These principles should support all applicable laws and regulations and are the foundation for the organization’s culture and values. They define “right” and “wrong” behavior.

“Senior leaders should act as role models for these principles of behavior. These principles apply to all individuals involved in the organization, and need to be communicated and reinforced on a regular basis. Although there is no universal model for ethical behavior, senior leaders should ensure that the organization’s mission and vision are aligned with its ethical principles. Ethical behavior should be practiced with all stakeholders, staff, partners, suppliers, and the organization’s local community.
“While some organizations may view their ethical principles as boundary conditions restricting behavior, well-designed and clearly articulated ethical principles should empower people to make effective decisions with great confidence.”

**Ethics as a System**

Ethics is often called a set or system of moral values, principles, or duties.

Key expressions for ethics are:
- What ought a person to do?
- What ought a person to not do?
- What attitudes are viewed as good?
- What behaviors are viewed as good?
- Why are they viewed as good?

**Ethics and Philosophy**

Ethics has traditionally been considered a part of philosophy.

Philosophy is a study of the principles of any activity. It is an examination of the basic concepts of a branch of knowledge or academic study devoted to the systematic examination of basic concepts such as:
- truth
- existence
- reality
- causality
- freedom

It is also a school of thought or a particular system of thought or doctrine.

It is important to understand how ethics relate to other disciplines such as:
- psychology
- sociology
- political
- science
- religion

**Ethics and Psychology**

When new ethical problems arise in society, people often try to consult with a psychologist or an expert in psychology. Technically, this is in error.
Psychology can only tell us what the average person does and what may result if averages hold.

Psychology lacks any authority to speak of what human behavior ought to be. Psychology helps people understand why they do what they do and how they may change.

Psychology, sociology, and cultural anthropology are considered behavioral sciences. As such they all fall roughly into the same category as psychology. They should be left to descriptive sciences such as how society functions, what behavior results in what and other issues. However, they often become prescriptive.

**Ethics and Religion**

Religion most often has a concern with moral conduct and with setting normal behavior. Religions often have different sets of ethical values depending on the definition of the religion. However, most people think of their religion as being concerned with what a person ought to be and do. Ethics is often a common ground for different religions.

There is no argument that ethics comes from a background of deep moral thought and discussions from centuries ago. There is also no argument that ethics comes from religious thought and discussions from centuries past. However, the ethics in this class are for “ethics applicable to the practice of public accounting” as specified in FS 473.312(1)(c).

**Teaching of Ethics**

It is often asked,

“*Can you teach someone to be ethical?”*
   No, either it is in one’s self or it is not.

“*Can you teach someone what is ethical behavior?”*
   Yes, it is a system of values or principles for actions.

**CPAs in Crisis**

The written Chinese language is expressed in pictographs. In Chinese, the symbol for “crisis” is actually two Chinese pictographs. The first pictograph represents the symbol for “danger”. The second is the symbol for “opportunity.” The Chinese have known for centuries that a crisis can be both a time of danger and also a time for new opportunities.
This course is designed to explore how the CPA profession navigates the current professional challenges “in the danger zone” while reinforcing and protecting the reputation that has made CPAs preeminent business leaders in communities. **In other words, what are some of our profession’s crisis situations, and what are the opportunities.**

**Past Studies**

In a 2005 study commissioned by the AICPA, the CPA profession continues to receive high marks from business decision makers (97%), executives (95%), and investors (89%). In fact, CPAs were ranked higher than physicians and other financial services-related professions such as insurance agents, bankers, chief management consultants, and stock research analysts.

These ratings have risen from the previous research. Survey respondents believe that CPAs and the accounting profession have taken steps to fix the problems that led to past accounting scandals and view CPAs as part of the solution to fighting or preventing fraud.

The bedrock values of the CPA profession are:

- Commitment to the rules of the accounting profession
- Reliability
- Consistently demonstrated integrity
- Consistently demonstrated ethics

This is encouraging news for the profession. M. Weatherwax, former chair of the National Association of State Boards of Accountancy (NASBA), felt that sometime in the 1980s professionals in general began to “lose their way”. He suggests these changes coincided with how the general public began to examine philosophies of life such as taking responsibility for one’s personal actions, doing the right thing, and valuing honesty and integrity above personal gain.

**Ethics and the CPA Profession**

**The ethics of our profession begins with the individual.** Our organizational ethics are guided by our individual ethics. The public’s perception of our organization’s ethics is largely based on CPA’s collective adherence to professional standards of individual ethical practice.

**Therefore, your behavior, your response, and your actions are a reflection on you and your profession.**

For more than 100 years, the outstanding reputation of the accounting profession has been based on such core values as:
• Honesty
• Integrity
• Trustworthiness

Generally speaking, the profession’s core values are based on doing what is right. Now, more than ever the profession must reflect those values and responsibilities to ensure that we maintain our excellent reputation for years to come.

Responding to a Crisis

Some say the ultimate reason the Florida legislature established this ethics requirement is in response to a crisis. Corporate and individual failures, frauds and scandals during the past few years have placed the accounting profession in a less than favorable light in the United States and some would say globally. Such events have had a devastating effect on the lives of those involved or affected by the financial shortcomings and misdeeds. There have been responses to this confidence crisis at many levels ranging from regulatory to professional to educational to personal.

These situations include:
• Some mutual fund companies and fund managers engaging in illegal trading practices
• Prominent pharmaceutical companies engaging in ethical violations and cover-ups
• Professional and Olympic athletes using steroids
• Politicians and government officials in blatant ethical violations and illegal conduct
• Newspaper and news broadcast companies in fabrication, plagiarism, and falsification
• Sexual misconduct of religious leaders
• Internet spammers, virus creators, and hackers on the internet
• Moral indecency on the internet
• Illegal downloading of music and files
• Shoplifting in the form of copyright infringement
• Accounting wrongdoing (accountants have feet of clay also)

Changes Have Created a Crossroads for the Profession

Beyond the increased emphasis on ethics at both the state and national levels, monumental changes in the CPA profession have amplified the need for ethics education.

These changes in the CPA profession include:
• Increased emphasis on ethics at state and national levels
• Changes in ownership requirements for a CPA firm
Changes in solicitations made by CPAs
Changes in commissions and contingencies for CPAs
Changes in the sale of financial products by CPAs and CPA firms
Competitive bidding by CPAs and CPA firms

**Ethics Regulation**

There are many professional and regulatory organizations playing an ongoing role in the ethics of the CPA profession:

1. Securities and Exchange Commission (SEC)
2. Public Company Accounting Oversight Board (PCAOB)
3. American Institute of Certified Public Accountants (AICPA)
4. Florida Board of Accountancy (BOA)
5. Florida Institute of Certified Public Accountants (FICPA)
6. Internal Revenue Service (IRS)
7. State regulatory bodies
8. Others

There is a fundamental expectation by all such organizations that CPAs will conduct themselves in an ethical manner adhering to high professional standards.

The AICPA’s *Code of Professional Conduct* mirrors professional codes of other disciplines. The preamble to the AICPA’s Code reads:

.01 By accepting membership in the American Institute of Certified Public Accountants, a certified public accountant assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.

.02 The Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession’s recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

**General Questions and Answers**

Below are selected general questions and answers regarding the AICPA’s *Code of Professional Conduct*. For more information, visit the AICPA Web site at www.aicpa.org.

1. Whom does the Code of Professional Conduct govern?
The Code applies to all individuals that are members of the American Institute of Certified Public Accountants. In addition, certain state CPA societies and state boards of accountancy have incorporated all, or parts of the Code into their own rules of conduct.

Parts of the Code were revised November 2011.
http://www.aicpa.org/Research/Standards/CodeOfConduct/Pages/default.aspx

2. Can the AICPA revoke my license due to a disciplinary matter?

No. The AICPA cannot revoke a member’s license, only the applicable state licensing board can. The AICPA can terminate or suspend an individual’s membership in the AICPA.

http://www.aicpa.org/About/Governance/Bylaws/Pages/sec200.aspx
http://www.aicpa.org/About/Governance/Bylaws/Pages/sec700.aspx

3. Does the AICPA contact other state CPA societies and regulatory agencies having disciplinary responsibilities?

The AICPA and 49 state CPA societies joined together to create the Joint Ethics Enforcement Program (JEEP) in order to permit joint enforcement of their respective codes of professional conduct with respect to a member by means of a single investigation. Accordingly, investigative information is shared between the AICPA and the state CPA societies. In certain cases, the AICPA will report its findings to the federal and/or state regulatory agencies, including state boards that have jurisdiction over the matter. [Note: As of September 2011, the following states and territories are not/ no longer members of JEEP – Arizona, California, Florida, Iowa, Utah and Puerto Rico.]

http://www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/EthicsEnforcement/Pages/default.aspx

4. Do other state CPA societies and federal and/or state regulatory agencies refer matters to the AICPA?

The bylaws of most state societies include similar powers by incorporating the Joint Ethics Enforcement Programs (JEEP) agreements. In addition, the AICPA Professional Ethics Division receives referrals from the various state licensing boards as well as federal agencies such as the Securities and Exchange Commission and various Inspectors General.

5. Am I subject to the same rules of the Code if I practice public accounting or work in business and industry?
All members of the AICPA are subject to the same rules of the Code of Professional Conduct. Due to the manner in which a member in business and industry, academe, and government practice, many rules contained in the Code of Professional Conduct may not be applicable. An example of such rules applies to independence, attest engagements, commissions and contingent fees, and client record retention, to name a few. For a complete listing of the additional applicable rules please refer to the entire Code of Professional Conduct.

6. What provides the AICPA the power to enforce the Code of Professional Conduct?

Enforceability of the Code is contained in the AICPA Bylaws.

http://www.aicpa.org/About/Governance/Bylaws/Pages/sec300.aspx
http://www.aicpa.org/About/Governance/Bylaws/Pages/sec700.aspx

7. How could I have a conflict of interest when I am no longer working in public accounting?

While the question of independence is assumed to automatically impair by virtue of an employment arrangement, the concept of objectivity becomes even more important. If a member, while holding out to be a CPA, has a relationship with another person, entity, product, or service that could, in the member's professional judgment, be viewed by an employer as impairing objectivity, the member must disclose such a relationship to the employer.

8. What are the ramifications if I am found in violation of the Code?

If found in violation of the Code, the member may be expelled from the AICPA, be required to attend continuing professional education, and/or have their name published in "The CPA Letter" for disciplinary matters.

Background of Florida’s Ethics Requirement

As a result of the financial scandals in recent years, efforts to address corporate accountability and fraud culminated with the passage of the Sarbanes-Oxley Act (SOX) in 2002. States responded, too with an increased emphasis on ethics and, in 2004, Florida became the 37th state to establish an ethics requirement for CPA licensure renewal. Today, all 50 states have this requirement in place.

Florida’s statutory ethics-course requirement is outlined in Administrative Rules written by the Florida Board of Accountancy. A brief summary of the related rules is as follows:
• **61H1-33.003(3)(c)** – Outlines the course content for ethics – Chapters 455 and 473, F.S., the related administrative rules, and other appropriate topics.

• **61H1-33.0031** – States the statutory requirement for four hours of ethics CPE, and that if taken in two-hour modules; both modules must be from the same provider.

• **61H1-33.0032** – Outlines eligibility requirements and the application process to become an ethics course provider. No CPA who has been disciplined by the Florida BOA can teach the course.

• **61H1-33.0033** – Explains an ethics course instructor must be a CPA “who has practiced in a public accounting firm for five of the last 10 years, whose background, training, education or experience makes it appropriate for the person to teach the course.” Lists requirements for certificate of attendance, promotional materials, CPE credit, 80% passing rate on exams for ethics self study, and NASBA Quality Assurance Service.

• **61H1-33.0034** – Provides the Board of Accountancy the right to evaluate an ethics course through observation or review of materials.

• **61H1-33.00341** – States that CPE providers are approved only for the biennium that their application was received and approved. They need to reapply 60 days before their expiration.

• **61H1-33.00342** – Describes the instructional standards set by the Florida Board of Accountancy for ethics programs.

To view the full text on these or any other statute or rule, go to:
http://www.myfloridalicense.com/dbpr/cpa/statutes.html

The FICPA’s support of the legislation establishing the ethics requirement is in line with national support of mandatory ethics CPE courses. The National Association of State Boards of Accountancy (NASBA) drafted a whitepaper, “Answering the SOX Challenge,” that supported the concept of pre-licensure and post-licensure ethics courses. For years, the Uniform Accountancy Act rules drafted by the AICPA and NASBA have supported mandatory ethics CPE courses.
Ethical Decision Making Trees

On the following pages are several flowcharts developed by the AICPA on ethical decision-making. The corresponding notes below are referenced in the flowcharts.

Corresponding Notes

1. When speaking with your manager or a more senior executive, carefully gauge your satisfaction with the response. Bear in mind that your manager or other executive might be a party to the situation that you have observed, so approach the response with the necessary degree of professional skepticism.

2. It appears you have successfully managed your way through this challenge. It is recommended that you maintain and secure all documentation related to this matter as described in your records retention policy or as recommended by your legal counsel in case the issue resurfaces. Has the organization’s processes, internal control system, and culture changed in response to this matter? Are these changes sufficient to minimize the recurrence of a challenge like this one? Evaluate your answers and consider consulting with management, an outside mentor, or other neutral party whom you respect.

3. Consider whether it is appropriate for you to continue your employment at this company. Consider the severity and implications of the issue you have identified and whether it should be reported to the outside accountants, outside auditors, regulatory agency, legislators, council members, audit committee, bank or other lending institution, owner or investor committee, Board of Directors, or another party appropriate to your area of practice.

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Figure 1.1 Ethics Decision Tree for CPAs in Business and Industry  
Source: American Institutes of CPAs

Identify Issue
NOTE: If the issue related to a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the CPA should refer to AICPA Ethics Ruling 102, specifically Interpretation 102-4 on “Subordination of Judgment” for guidance.

- Does the organization have an Ethics policy and process in place to give you guidance?  
  - Yes
    - Give strong consideration to following the organization’s guidance. If you choose to deviate, be prepared to justify why you deviated, and document it.
  - No
    - Consider following this decision tree

Talk to your manager. Was the result satisfactory? (note 1)

Talk to another senior executive that you trust. Was the result satisfactory? (note 1)

Talk to the company’s Ethics Committee if one exists. Was the result satisfactory?

Talk to the Audit Committee of the Board if one exists. If not, talk to the Board of Directors. Was the result satisfactory?

Do you need to take additional steps? 

Take action. Is the issue resolved?

Review the decision tree and take your discussion to the next higher level in the organization. Repeat as appropriate. Was the result satisfactory?

Do you need to take additional steps?
Figure 1.2 Ethics Decision Tree for CPAs in Government
Source: American Institutes of CPAs

**Identify Issue**
NOTE: If the issue related to a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the CPA should refer to AICPA Ethics Ruling 102, specifically Interpretation 102-4 on “Subordination of Judgment” for guidance.

- Does the organization have an Ethics policy and process in place to give you guidance? 
  - Yes: Give strong consideration to following the organization's guidance. If you choose to deviate, be prepared to justify why you deviated, and document it.
  - No: Consider following this decision tree.

- Talk to your manager. Was the result satisfactory? (note 1)
  - Yes: Do you need to take additional steps?
    - Yes: Take action. Is the issue resolved?
      - Yes: Review the decision tree and take your discussion to the next higher level in the organization. Repeat as appropriate. Was the result satisfactory?
        - Yes: Do you need to take additional steps?
          - Yes: (note 2)
          - No: (note 2)
        - No: (note 3)
      - No: (note 3)
    - No: (note 2)

- Talk to another senior executive that you trust. Was the result satisfactory? (note 1)
  - Yes: (note 3)
  - No: Talk to the organization's Ethics Resource or in-house legal counsel if they exist. Was the result satisfactory?
    - Yes: Talk to the organization's oversight body. Was the result satisfactory?
      - Yes: (note 3)
      - No: (note 3)
    - No: (note 3)
Chapter Review Questions

1.1 Which of the following is NOT used to define the term “ethics”?
   a. A moral system of conduct
   b. Duties performed by a professional association
   c. Specific standards created by a governing body
   d. The values of an individual

1.2 Which of the following business situations reflect ethical decision-making?
   a. Prescription drugs taken to enhance performance
   b. Separation between personal and business expenses
   c. Special off-shore accounts created to transfer funds
   d. Sub-standard parts used to reduce the costs of products

1.3 The AICPA may contact other state societies and regulatory agencies regarding the discipline of an individual. Which of the following statements is true?
   a. Disciplinary enforcement is done by each of the entities involved.
   b. Disciplinary enforcement is limited to professional societies at the state and national level.
   c. Each entity is expected to conduct some level of investigation of the member.
   d. The individual must be an AICPA member.

1.4 Which of the following allocation of credit hours would meet the requirements for CPE during a biennial period?
   a. 3 Ethics, 22 Accounting & Auditing, 35 Technical Business, and 20 Behavioral
   b. 4 Ethics, 25 Accounting & Auditing, 28 Technical Business, and 23 Behavioral
   c. 4 Ethics, 18 Accounting & Auditing, 50 Technical Business, and 8 Behavioral
   d. 6 Ethics, 24 Accounting & Auditing, 34 Technical Business, and 16 Behavioral
Answers to Review Questions

1.1 Which of the following is NOT used to define the term “ethics”?

a. Incorrect. Individual behavior is guided by a set of moral principles.
b. Correct. Duties performed by a professional association do not refer to specific behavior that can be evaluated as good or bad.
c. Incorrect. Governing bodies typically have specific standards dealing with the conduct of their members or those they govern.
d. Incorrect. Individuals create a system of values that is used to provide the person with a sense of right or wrong thought or action.

1.2 Which of the following business situations reflect ethical decision-making?

a. Incorrect. Prescription drugs may boost the performance but are viewed as illegal by most sporting associations.
b. Correct. The practice of separating personal and business expenses is recognized as ethical practice by the IRS.
c. Incorrect. Special off-shore accounts exist but were not created for purposes of tax avoidance.
d. Incorrect. Lowering inventory costs does save money as long as quality is not violated.

1.3 The AICPA may contact other state societies and regulatory agencies regarding the discipline of an individual. Which of the following statements is true?

a. Incorrect. Disciplinary enforcement is done only by one entity per arrangements through the Joint Ethics Enforcement Program.
b. Incorrect. Disciplinary enforcement can be done by state and national professional associations as well as federal agencies.
c. Incorrect. Each entity is not expected to conduct some level of investigation of the member. The Joint Ethics Enforcement Program makes it possible for one entity involved to handle the investigation.
d. Correct. The individual must be an AICPA member. The Code of Professional Conduct was written for AICPA members even though it reflects Florida’s professional code.

1.4 Which of the following allocation of credit hours would meet the requirements for CPE during a biennial period?

a. Incorrect. 3 Ethics, 22 Accounting & Auditing, 35 Technical Business, and 20 Behavioral. This example has a total of 80 hours. However, the 4 hour minimum of Ethics is not met.
b. Incorrect. 4 Ethics, 25 Accounting & Auditing, 28 Technical Business, and 23 Behavioral. This example has a total of 80 hours. However, the 20 hours limit of Behavioral is exceeded.

c. Incorrect. 4 Ethics, 18 Accounting & Auditing, 50 Technical Business, and 8 Behavioral. This example has a total of 80 hours. However, the minimum of 20 hours of AA is not met.

d. Correct. 6 Ethics, 24 Accounting & Auditing, 34 Technical Business, and 16 Behavioral. This example has a total of 80 hours. One can take more than 4 hours of Ethics, the minimum of 20 hours of AA is exceeded, and there are less than 20 hours of Behavioral.

For More Information

Please see Appendix B for a complete list of additional resources for this chapter.
Learning Objective

The purpose of Chapter 2 is to present an overview of the ethical environment, beliefs, and behavior in US businesses. The learning objectives for this chapter are:

2. Describe the main points and recommended action steps from the Ethics Resource Center Fellows Program, Accepting Responsibility Responsibly: Corporate Response in Times of Crisis.

Statutory References and Information

The Ethics Resource Center (ERC) conducted a significant survey in 2011 to identify the beliefs and behaviors of workplace ethics in businesses today.

The ERC was founded in 1922 and is America’s oldest non profit organization devoted to the advancement of high ethical standards and practices in public and private institutions. ERC has been a resource for public and private institutions committed to a strong ethical culture for more than 90 years. The expertise of ERC also confirms and informs the public dialogue on ethics and ethical behavior. The researchers at ERC analyze current issues, emerging issues, and produce new ideas and benchmarks for the public trust.

National Business Ethics Survey

The 2011 National Business Ethics Survey (NBES) and ERC Report is part of a larger workplace survey that polled 4,800 employees in the business, government and non profit sectors. Their responses in the business sector are presented below. Similar reports cover the government and non profit sectors.

Since 1994, the Ethics Resource Center has fielded the NBES, a nationally representative survey of employees at all levels, to understand how they view ethics and compliance at work. This 2011 report is the seventh in the series.

NBES is the most exacting longitudinal research effort examining trends in business ethics from the employee perspective. The long-term nature of the study is important...
because it provides context for national trends. NBES is the only longitudinal study that tracks the views of employees at all levels within companies to reveal real-life views of what is happening within businesses and the ethics risks they face.

Survey Methodology

Survey participants were 18 years of age or older; employed at least 20 hours per week for their primary employer; and working for an organization that employs at least two people. They were randomly selected to attain a representative national distribution.

One-third of all participants were interviewed by telephone and two-thirds participated through an online survey (using online panels and communities). All participants were assured that confidentiality of their individual responses. The survey was conducted September 2011.

Survey questions and sampling methodology were established by ERC; data collection was managed by Survey Sampling International (SSI). Analysis by ERC was based upon a framework provided by the Federal Sentencing Guidelines for Organizations; the Sarbanes-Oxley Act of 2002; and professional experience in defining elements of formal programs, ethical culture, risk, and outcomes.

The sampling error of the findings presented in this report is +/- 1.4 percent at the 95 percent confidence level. (For a detailed explanation of methodology and the methodological limitations of this report and for demographic information on survey participants, visit www.ethics.org.)

Survey Results

Two years after ERC showed a rebound in ethical workplace behavior, the 2011 NBES shows a bifurcated picture and a pattern unlike any other year. On the positive side, the data reveal historically low levels of current misconduct in the American workplace and record high levels of employee reporting.

- The percentage of employees who witnessed misconduct at work fell to a new low of 45 percent. That compares to 49 percent in 2009 and is well down from the record high of 55 percent in 2007.
- Those who reported the bad behavior they saw reached a record high of 65 percent, up from 63 percent two years earlier and 12 percentage points higher than the record low of 53 percent in 2005.

But clouding this good news are ominous warning signs of a potentially significant ethics decline ahead, and, the negative indicators predominate:

- Retaliation against employee whistleblowers rose sharply. More than one in five employees (22 percent) who reported misconduct say they
experienced some form of retaliation in return. That compares to 12 percent who experienced retaliation in 2007 and 15 percent in 2009.

- The percentage of employees who perceived pressure to compromise standards in order to do their jobs climbed five points to 13 percent, just shy of the all-time high of 14 percent in 2000.
- The share of companies with weak ethics cultures also climbed to near record levels at 42 percent, up from 35 percent two years ago.

The co-existence of widespread retaliation and pressure with historically low misconduct and high reporting is unlike any previous pattern. Two influences stood out in the unusual shift in trends:

1. **The economy**
2. **The unique experiences of those actively using social networking at work**

**Effects from the Recession**

For many Americans, the economy seems only slightly better than during the recession. Growth is sluggish, the unemployment rate remains stubbornly high, and fear of a second recession fosters continued anxiety. NBES continues to show that companies behave differently during economic difficulties. The decisions and behaviors of their leaders are perceived by employees as a heightened commitment to ethics. As a result, employees adopt a higher standard of conduct for themselves.

- 34 percent of employees say management now watches them more closely.
- 42 percent say their company has increased efforts to raise awareness about ethics.
- 30 percent of employees agree that bad actors in their company are laying low because of fears about the recession.

Post-recession conduct among employees is remarkably similar to their behavior during the recession. This phenomenon is a significant factor in the historically low rates of misconduct and high rates of reporting. That matches historical data, which show that ethical conduct improves when the economy cools.

As the economy gets better – and companies and employees become more optimistic about their financial futures – it seems likely that misconduct will rise and reporting will drop, mirroring the growth in pressure and retaliation that have already taken place and conforming to historic patterns.

The other key element driving the 2011 NBES results is the rise in influence of active social networkers. A surprising and worrisome divide exists within the workplace between employees who spend substantial time on social networks and those who do not. Active social networkers report far more negative experiences in their workplaces. As a group, they are much more likely to experience pressure to compromise ethics.
standards and to experience retaliation for reporting misconduct than co-workers who are less involved with social networking.

- 32 percent of active social networkers are much more likely to feel pressure than less active networkers and non-networkers.
- Most of the active networkers who reported misconduct say they experienced retaliation as a result: 56 percent compared to just 18 percent of less active social networkers and non-networkers.

Active social networkers show a higher tolerance for certain activities that could be considered questionable. For example, among active social networkers, half feel it is acceptable to keep copies of confidential work documents in case they need them in their next job, compared to only 15 percent of their colleagues.

**2011 Was Unique Year for Ethics**

Certainly 2011 was a unique year. The NBES findings, which are unlike any the ERC has seen in its prior surveys, indicate something is driving a shift in the American workplace. American employees are doing the right thing more than ever before, but in other ways employees’ experiences are worse than in the past.

In ERC’s expanded review of the NBES findings that follows, readers could take one of two views. They might conclude this year’s survey results mark the beginning of a change in the way the American office conducts itself.

Alternatively, they may regard the results as a snapshot of a workforce knocked off its historic trend lines for a period, and now in the process of returning to the patterns seen in past studies. The ERC believes it is more likely the latter – a snapshot that captures a downturn on the horizon in ethical behavior.

Historically, when the economy is good, workplace ethics tend to suffer: profit takes precedence over proper behavior. While the economy has improved since the 2009 NBES, the recovery has been uneven. Many Americans have seen encouraging signs of recovery at their workplaces, but they have not necessarily felt that improvement personally. That uneven quality is reflected in the 2011 NBES results.

Of ERC’s four key ethics outcomes (which historically either improve or decline in concert), the two that tend to be leading indicators – pressure and retaliation – have spiked since the 2009 survey and have increased at an alarming rate. (The other two ethics key indicators are observed misconduct and reporting of observed misconduct. These trends heighten business risk by increasing ethical misconduct and discouraging reporting, thereby depriving organizations of the chance to identify and fix potential problems before they become significant.
Increased Retaliation against Whistleblowers

Among employees who reported workplace misconduct, more than one in five (22 percent) say they experienced some form of retaliation in return. That compares to 12 percent who reported retaliation in 2007 and 15 percent who said retaliation was a problem in 2009. When all employees were asked whether they could question management without fear of retaliation, 19 percent said it was not safe to do so.

Heading the list of retaliatory actions are: exclusion from decision-making or other workplace activities, a cold shoulder from co-workers, and verbal abuse from a supervisor or other manager.

Figure 2.2: Retaliation more Widespread in 2011

<table>
<thead>
<tr>
<th>Type of Retaliation</th>
<th>2009</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excluded from decisions and work activity by supervisor or management</td>
<td>62%</td>
<td>64%</td>
</tr>
<tr>
<td>Given a cold shoulder by other employees</td>
<td>60%</td>
<td>62%</td>
</tr>
<tr>
<td>Verbal abuse by supervisor or someone else in management</td>
<td>55%</td>
<td>62%</td>
</tr>
<tr>
<td>Almost lost job</td>
<td>48%</td>
<td>56%</td>
</tr>
<tr>
<td>Not given promotions or raises</td>
<td>43%</td>
<td>55%</td>
</tr>
</tbody>
</table>
Verbal abuse by other employees  
42%  51%

Hours or pay were cut  
***  46%

Relocated or reassigned  
27%  44%

Demoted  
18%  32%

Experienced online harassment  
***  31%

Experienced physical harm to your person or property  
4%  31%

Harassed at home  
***  29%

Accepting Responsibility Responsibly: Corporate Response in Times of Crisis

This study was developed by the ERC Fellows Program - a forum for chief ethics officers, senior ethics professionals, and scholars dedicated to improving ethics in the workplace. With representation from corporate, government, non-profit, and educational leaders, the Fellows design collaborative research to advance understanding of organizational ethics and to assist organizations in the development and implementation of internal ethics programs.

To learn more about the ERC Fellows Program, visit www.ethics.org/fellows.

What is Crisis and Its Stages?

One type of crisis is a sudden, abrupt event or events that create headlines. These could include things like:

2. Shooting rampage.
3. Illness or death from product tampering.

Overnight an organization goes from calm to chaos. Most of these type of events are not predictable.

However, there is often a second type of crisis. An accumulation of ongoing neglect, carelessness, or procrastination is often the root of the crisis. These might include:

1. Product recall not identified or dealt with before crisis stage.
2. Failing loan portfolio because underwriting standards slipped.
3. Human rights challenge when operations were not properly monitored.

Whatever the root, there seems to be several stages to the crisis.

1. Detection of Crisis
2. Preparation
3. Containment/Damage Control
4. Learning/Understanding
5. Recovery of Business

Where does Ethics Fit in?

As the Chinese indicate (remember the pictograph for crisis introduced in Chapter 1?), there is a danger and an opportunity. Veterans of crises state that “crisis management is fundamentally about ethics. In other words, do the company’s responses indicate that it is guided by the right set of values?

Karen Doyne, Managing Director for Crisis Communications at Burson-Marsteller states, “Crisis is a test of character. People will want to know if you lived up to your values.”

At a very basic level, ethics can be defined as choosing between right and wrong. Most companies in crisis begin by pledging to “do the right thing.” However, when specific decision points are reached, identifying the “right thing” is often a complex challenge. It will probably involve sorting out conflicting responsibilities to a wide range of stakeholders.

How should an effective leader be equipped for a crisis?

- To honestly evaluate the facts of the situation
- Recognize the core values of the organization as they relate to decisions being made by the team
- Remain independent from the crisis (if possible)
- Manage emotions
- Make high-level decisions
- Provide leadership for the group

Six Critical Questions

Below are six questions to help boards and senior executives prepare for crisis in advance.

1. The Crisis Team: Is There Somebody in the Room Who Will Uphold Company Values?

Presumably, the company has a crisis plan and has generally identified the core team that will take day-to-day responsibility for managing a crisis. Companies are generally successful in identifying competent professionals from core functions such as communications, legal and human resources when assembling the team. But crisis situations add a level of stress and public pressure that is often unmatched by other challenges. Team members also must be prepared to apply the company’s core value and act as ethicists in a pressure cooker environment. Ethics and values may fall to the
wayside unless members of the crisis team have the mindset, personal character and training to bring ethics into the discussion.

To avoid problems, boards and senior executives should encourage the establishment of a crisis team that can focus to the big picture and draw individual team members out of functional silos, so that the impact of decisions can be considered in a larger context.

The board and senior executives should want to know:

A. How confident are we that the people identified as our crisis team are well-versed in our ethics standards, and adequately trained to resist the pressures to compromise our values?

B. Can one or more members of the team assess changing conditions on an objective basis and apply our values in responding?

C. Do we have sufficient resources available if our crisis team needs an independent perspective about a decision involving our core values?

2. Do We Have the Right Values to Guide Us in Crisis?

The values that a company takes into crisis are critical because they help leadership and the crisis team sort out priorities. Those values must be up to date to fit a business that has likely evolved over the years, and they also must be sustainable during crisis. The values provide the guidance that will ultimately shape the character of the corporate response.

Boards and senior executives should review the company’s internal and external value statements on a regular basis. They must make sure the values fit the organizational culture and that the company and its employees are doing a good job of living up to them. If values and corporate culture are misaligned, the company won’t have a reliable touchstone in crisis.

When responding to a crisis, companies will face many difficult decision points. Guided by an honest set of values that are consistent with an organization’s culture, leaders will be better able to respond with the decisiveness and speed that crisis requires.

The Ethics of Crisis

Confronted with a product defect, for example, a company might consider a recall order – but first it must answer a range of ethics-related questions:

- How significant is the defect and with what frequency does it occur?
- Is it a safety threat or just an annoyance?
• Could a premature recall cause needless anxiety for customers, especially when medications or other health products are involved?
• Might a recall lead to layoffs or affect workers’ pay?
• Will a recall damage suppliers or distributors who have done nothing wrong?
• Will it expose the company to liability claims or jeopardize long-term business prospects in a way that could hurt employees, business partners, or shareholders?

When’s the right time, if a recall is necessary?

Values come to the forefront in crisis when they can guide responses and help define priorities.

For example, what’s most important -- shareholder expectations or service to customers? In a crisis, will the company emphasize problem solving or limiting legal liability? If a crisis reduces profitability will the company care more about maintaining jobs or cutting costs? How will we choose when stakeholders have clashing interests?

The board and senior executives should want to know:

A. Will we be proud of our core values if we have to publicly defend them during a crisis? Will any of our values cast us in a poor light if something goes wrong?

B. How would we want our crisis team to prioritize our values when faced with a difficult decision?

C. To what extent does our current code of conduct provide enough guidance to answer questions that will emerge throughout a crisis?

3. What Values Will Our Stakeholders Expect Us to Honor in a Crisis?

Many voices emerge – some loudly – when a crisis unfolds. It is essential for a crisis team to know which stakeholder groups are most important, so that they can weigh carefully the impact of their decisions on each group. When trouble surfaces, many interest groups will have a stake:

• Shareholders/investors
• Customers
• Employees
• Vendors/suppliers
• Government officials
• Media
- NGOs and special interest groups
- Members of the public-at-large

A company in crisis will want to live up to its stakeholders’ expectations and honor their interests. These groups have tied their own future to the company; they have a “stake” and the way the crisis plays out has implications for them. Many also have their own views about the standards that should be central to a company’s response.

Recognizing that stakeholders may have competing interests and conflicting views about the values that should guide company decisions, boards and senior executives can set the stage for crisis management by considering stakeholder expectations.

Ignoring values in a crisis can result in:
- **Denial** - Downplaying the situation or refuting involvement
- **Internal Chaos** - No internal coordination
- **Transference** - “It’s someone else’s problem”
- **Deception** - Cover up the wrongdoing
- **Boxes** - Organizational parts develop hardened opinions of right and wrong
- **Fishing** - Calling in anyone and everyone from outside
- **Silos** - Sectors operating in isolation. Self-preservation behavior can occur
- **Paralysis** - Inability or refusal to act

Answering these broad questions can guide response to the stakeholder views that will come up during a crisis.

- A. Who are the stakeholders who will be important to us, if crisis should occur?
- B. What values do our stakeholders expect us to employ in a crisis situation? To what extent are those values in line with our priorities?
- C. Are there any stakeholder groups that should receive a copy of our values statement now, so that in a time of crisis we have earned credibility as having a set of standards to guide our decisions?

### 4. How Will Our People and Culture React to Crisis?

In a crisis, confident employees can be a company’s best advocates; dissatisfied or distrustful employees, however, can be the worst enemy. The growing power of social media, which provides a platform for employees to share their perspective with a wide audience, greatly amplifies employees’ impact, and creates both opportunity and risk.

In preparing for crisis, therefore, boards and senior executives should ask how the company’s people will respond. One important aspect of that discussion is the company
culture. In companies with strong ethical cultures, employees are more likely to rally behind their leaders because of their confidence that the organization aims to do things the right way – following the right values and working hard to serve customers and other stakeholders.

In its 2010 report “Ethics and Employee Engagement,” the ERC found that employees who believe their employer is ethical are “willing to go the extra mile for their organization.”

Figure 2.3: Ethics and Employee Engagement

The board and senior executives will want to consider:

A. To what extent do our employees have confidence in leadership and believe that our company will live up to its stated values in a time of crisis?

B. How do we want our culture to react to a crisis?

C. Based on what we know of our culture now, how will it actually react?

5. How Will We Know When We’ve Recovered From Crisis?

Recovering from crisis is a lengthy process, and there is a good chance that the bottom line will be strong before a company’s reputation returns to full health. Determining when reputational recovery is complete is as much an art as science, but there are some important signs. From an ethics perspective, these can include:

Employee trust in leadership

Strong ethical culture

Supplier & vendor confidence in the company’s integrity

Consumer trust in company brand

Respect from industry peers for the crisis response
Before a crisis, boards and senior executives should consider the indicators of company health under normal circumstances, and the most important metrics that should be monitored during and after a crisis occurs.

Like it or not, companies in crisis also may have to consider how their decisions affect the rest of their industries because crises can lead to new laws, tighter regulations, and greater public scrutiny for all. Yet these situations can also be an opportunity to position a company as a leader of learning; helping to educate industry peers, legislators, policymakers and the future leaders of the company.

Among the most telling indications of recovery is employee attitude. Eric Pillmore, who was hired by Tyco International as Senior VP for Corporate Governance to help rebuild that company after governance scandals were revealed in 2002, says employees’ willingness to wear Tyco-monogram clothing they had abandoned at the scandal’s height was a tip off of recovery. -Ethix, “Eric M. Pillmore: Tyco: Charting the Return to Trust,” October 2001, http://ethix.org/2003/10/01/tyco-charting-the-return-to-trust

The board and senior executives will want to consider:

A. What metrics do we currently use to gauge the well-being of our company and its reputation?

B. What additional metrics will we need to give us an indication of company recovery if crisis ensues?

C. After a crisis is over, how can we improve our organization’s crisis response?

D. How can our organization help ensure that this problem doesn’t happen again, to us or to anyone else?

6. Have We Established Trust With External Audiences?

The odds of successful management of a crisis increase when an organization has built a foundation of trust among external groups who will, at the least, listen with an open mind when problems arise. Participation in community events, supporting local organizations, and establishing working relationships with civic leaders as a normal part of doing business can open doors during a crisis. Boards and senior executives should insist that such activities take place. Companies should also develop trusting relationships with business partners, vendors, suppliers, and customers among others.

While a company cannot expect third parties to act as apologists, building a reputation for ethical performance may earn an organization the benefit of the doubt. An organization with a reservoir of good will is likely to be accorded a bit more time to correct the problem in a crisis. When a company lacks that foundation, key audiences
are more likely to view it with skepticism and even assume it has acted improperly. While the ultimate outcome will depend on the way a company responds to the crisis itself, the board and senior executives can pre-position it by building a firewall of credibility.

**Quotes from “Been there”**

Jeff Eller, vice chairman of Public Strategies Inc., who advised Bridgestone-Firestone during its massive tire recall in 2000, said the company took several years to rehabilitate itself, but ultimately emerged with a stronger culture that empowered workers at all levels to focus on safety and quality.

“We wouldn’t have survived [our crisis] if we didn’t have that love and loyalty [of our employees and customers]. And it stems in some measure from our heritage as a good corporate citizen. So for us…our past behavior was like money in the bank. It gave us a reservoir of goodwill that we could draw upon in our hour of need.” — Ann Mulcahy, former Chairman and CEO of Xerox

The board and senior executives should consider:

A. To what extent have we publicly established a reputation of having a set of core values that guide our business decisions?

B. What are we doing now to demonstrate our commitment to integrity among public officials, regulators and enforcement agencies in regions where we conduct our business?

C. What efforts are underway to establish credibility among our other external audiences?
   - Communities where we operate
   - NGOs and interest groups
   - Customers
   - Shareholders
   - Industry peers
   - Members of the press

**Recommended Action Steps**

A crisis will necessarily require real-time analysis that accounts for specific circumstances. But taking the time to establish priorities beforehand provides the basis for smart thinking later.

The ERC Fellows suggest that the following be undertaken as soon as possible, before a crisis:
1. **Review corporate values.** Be sure that the values you expect to govern daily corporate conduct will also guide your crisis team during a difficult time. Test understanding of the values to be sure that they will shed a positive light on the company when they are held up as a yardstick to measure your company response to crisis.

2. **Conduct periodic ethics training for employees identified to serve on a crisis team.** Members of the crisis team should receive specialized training on the ethics questions that come up during crisis (in addition to regular training provided by the company to all employees). This special training should address ways to make ethical decisions while under extreme pressure, and it should highlight the resources available to the crisis team if they are in need of an independent perspective. This training should be conducted periodically so that team members are very familiar with the core values of the corporation and how they apply to crisis management.

3. **Conduct a comprehensive stakeholder review.** Most efforts to assess perspectives of corporate ethics and compliance focus on boards, senior managers and employees. Customers, shareholders, vendors and suppliers also have strong perceptions of a company’s ethics, and these views should be ascertained now while the company is not in crisis. Additionally, gather information about the values that stakeholders expect will guide the corporate response to crisis.

4. **Review crisis communications plans and outline ethics-related messages.** When stakeholders and employees understand how the values of an organization factor into business decisions, they are more likely to accept the outcome of difficult decisions and trust the decision-maker. Crisis communications are opportune times for spokespeople to highlight the ways that the core values of the organization are important to decision-making, but most spokespeople are not immediately prepared to articulate values in this context. Crisis communications plans should outline key messages that incorporate organizational values, so that spokespeople have a ready reference to utilize.

5. **Conduct a culture assessment.** The best way to understand how employees will react to a crisis is to understand your company’s culture during normal circumstances, and the extent to which they feel valued and supported by the organization. To what extent do employees perceive leaders as models of integrity? How comfortable are employees in raising bad news? To what extent do the values of the organization really matter in daily business? Surveys of employee attitudes and focus groups also can be valuable in identifying how employees expect their peers will react to sudden change, and the best mechanisms for showing support to employees during difficult circumstances.
6. **Make systematic “deposits in the credibility bank.”** Build relationships with key external audiences, including elected officials, civic groups, community leaders, and the media, as well as direct stakeholders. By living out core values through good corporate citizenship and helping enhance the communities where you operate, you demonstrate that you live your values, not just talk about that. These deposits in the credibility bank can pay important dividends in a crisis or other disruptive event in the form of goodwill. When a company has good standing in a community, external groups will be more likely to wish it well and support it during a crisis. Even gaining the neutrality of a group that might otherwise be a critic can be invaluable.

7. **Plan to be a thought leader if crisis occurs.** ERC recommends establishing a process for a thoughtful post-mortem – not to assign blame, but to learn from the past and move forward effectively. Looking back on crisis, determining what caused it, how the company managed the crisis, how to avoid a repeat, and sharing the lessons with others can enable a company to benefit from the turmoil. In our view, recovery cannot be truly complete until a post-mortem that helps the company learn. Companies should plan external activity from launching a new marketing campaign to sharing lessons learned from the crises with industry peers.

8. **Have additional resources “on the ready.”** Identify the resources that should be prepared to assist the crisis team. Ensure that crisis team is aware of these resources and their capabilities. Some additional resources that should be considered include the ethics/compliance office, communications department, outside counsel, and/or a public relations expert.

**Last Words**

Crises and crisis management have many dimensions, and when problems arise, survival demands strong performance in many areas. Crisis experts counsel corporations to “communicate, communicate, communicate.”

**Jeff Eller of Public Strategies advised the Fellows “to follow ‘the Three As’ – Acknowledge, Apologize, Act.”** Above all, companies are advised to take ownership of problems and “fix them because something went wrong.”

The consistent lodestone throughout a crisis is ethical behavior – openness to the truth, acceptance of responsibility, and a commitment to setting things right. Both experience and empirical data support this advice. Companies with ethical cultures, beginning with strong tone at the top, fare better in day to day operations and during crisis. Their employees are more loyal, and more willing to go the extra mile to get their job done. Potential problems are identified sooner and reported up the line, which helps avert crisis in the first place and helps resolve them more efficiently when they do arise.
These realities clarify board and senior executives’ responsibilities. Some would say the number one priority is for boards and senior executives to insist on ethical cultures. Ask the key questions outlined above, find vulnerabilities, and make sure they get fixed. If the board and senior executives can do that, the company will be prepared should crisis strike.

Figure 2-4: Crisis Readiness – a continuous process

For More Information

Please see Appendix B for a list of additional resources for this chapter.
CHAPTER 3
Public Accountancy in Florida
Chapter 455

Learning Objectives

The purpose of Chapter 3 is to present an overview of public accounting in Florida as cited in §455 F.S. The learning objectives for this chapter include:

1. Describe the role of the Florida Board of Accountancy per Chapter 455, Florida Statutes.
2. Describe the complaint process used by the Florida Board of Accountancy.
3. List reasons that would cause the Florida Board of Accountancy to impose disciplinary actions on a CPA per Chapter 455.227, Florida Statutes.

Statutory References and Information - Florida Board of Accountancy

455.01 Definitions

"Board" means any board or commission, or other statutorily created entity to the extent such entity is authorized to exercise regulatory or rulemaking functions, within the department, including the Florida Real Estate Commission; except that, for ss. 455.201-455.245, "board" means only a board, or other statutorily created entity to the extent such entity is authorized to exercise regulatory or rulemaking functions, within the Division of Certified Public Accounting, the Division of Professions, or the Division of Real Estate.

The Florida Statutes, Chapter 455.01 has the authority to establish a Board. This Board for Accountancy in Florida is generally called the Florida Board of Accountancy. Among its powers and duties is the authority to issue citations, and conduct disciplinary proceedings as set forth below.

The Division of Certified Public Accounting

The Division of Certified Public Accounting is a division within Florida’s Department of Business and Professional Regulation (DBPR). The division is responsible for the licensing and regulation of nearly 30,500 Certified Public Accountants (CPAs) and over 5,263 CPA firms. Of these, there are 28,285 active and 2,163 inactive licensees. (DBPR Div. of CPA, Nov. 2011). The Division processes applications for examination and licensure to become a CPA. It also processes applications for reactivation of a CPA license, temporary permit applications, and continuing education reporting forms.
Headquartered in Gainesville, the mission of the division is to ensure that licensees meet the statutory requirements for licensure and practice of certified public accounting as well as to protect the public from unscrupulous and unlicensed practitioners.

The division provides administrative support to the Florida Board of Accountancy which consists of nine members: seven CPAs and two consumers. The Board meets approximately ten times a year at various locations throughout the state. (See the DBPR web site at www.myflorida.com/dbpr/cpa for meeting dates and locations, agendas, and minutes). Meetings are open to the public.

Figure 3.1: Complaints Received for Accountancy

<table>
<thead>
<tr>
<th>Issue</th>
<th>10-11</th>
<th>09-10</th>
<th>08-09</th>
<th>07-08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complaints received</td>
<td>328</td>
<td>301</td>
<td>304</td>
<td>334</td>
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<tr>
<td>Complaints legally sufficient</td>
<td>161</td>
<td>235</td>
<td>350</td>
<td>34</td>
</tr>
<tr>
<td>Probable cause found</td>
<td>183</td>
<td>55</td>
<td>69</td>
<td>10</td>
</tr>
<tr>
<td>No probable cause</td>
<td>150</td>
<td>172</td>
<td>206</td>
<td>111</td>
</tr>
<tr>
<td>Administrative complaints</td>
<td>22</td>
<td>24</td>
<td>36</td>
<td>10</td>
</tr>
<tr>
<td>Disciplinary action</td>
<td>27</td>
<td>48</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: DBPR Annual Reports

Complaint Process

Once a complaint is received by the Department of Business and Professional Regulation, it is transferred to the Board of Accountancy in Gainesville for review and further administration. Figure 3.2 outlines this process.

1. The Department shall investigate any complaint that is in writing, signed by the complainant, and is legally sufficient.
2. The Department may investigate any anonymous complaint or a complaint made by a confidential informant if:
   - the complaint is in writing and legally sufficient;
   - the alleged violation of law or rule is substantial; and,
   - the department has reason to believe that the allegations are true.
3. The Department may initiate an investigation if it has reasonable cause to believe that a licensee has violated a Florida Statute or Rule.
4. A complaint is legally sufficient if it contains ultimate facts that show that a violation of Chapter 455, F.S., Chapter 473, F.S. or Chapter 61H1, FAC. In order to determine legal sufficiency, the department may need to gather further information to make that determination.
5. When a complaint is legally sufficient, the Department shall promptly furnish a copy of the complaint to the subject.
6. Subject may submit a written response to the information contained in the complaint within 20 days after service.

7. Investigative Report is prepared and the complete file is forwarded to the Department’s Office of the General Counsel in order to present the case to the Probable Cause Panel.

8. The Probable Cause Panel is composed of at least three members of the BOA. The Probable Cause Panel conducts a preliminary review of all cases to determine if there is No Probable Cause or more information is required.
   - No Probable Cause - Case Dismissed
   - If there is Sufficient Evidence to support the filing of charges against a licensee
   - Request that the complaint be assigned to a CPA Investigator. Once the investigation is complete, the case will come back to the Probable Cause Panel

   - Subject may appear or submit written statements
   - Hearing closed to public
   - Probable Cause Panel is responsible for determining Probable Cause or no Probable Cause
   - If no probable cause - case is closed and sealed
   - All investigations and complaint information is confidential until 10 days after probable cause is found

10. If members of the Probable Cause Panel determine that there is *Sufficient Evidence* to support the filing of charges against a licensee, the case is then presented to the full Board for final action.

**Points to Ponder**

3.1 May DBPR recover the cost of investigating a violation as part of the penalty levied?

*Note: See Appendix A for the answers to the Points to Ponder and case study exercises presented throughout the course manual.*
Figure 3.2: Complaint Process Flowchart
Department of Business and Professional Regulation
Division of Certified Public Accounting

Complaint or allegation received

Legal sufficiency determination?

No

Desk investigation conducted and Investigative Report prepared

Department Office of General Counsel-legal review

Probable Cause (PC) first time cursory reviews

Case Closed if no PC

Schedule for Hearing

Or

Assign to a CPA Investigator and then Hearing

Probable Cause Hearing

Case Closed if no PC

Board adjudicates complaint if PC found
455.225 Disciplinary Proceedings for Each Board Shall Be Within the Jurisdiction of the Department

(1) (a) The department, for the boards under its jurisdiction, shall cause to be investigated any complaint that is filed before it if the complaint is in writing, signed by the complainant, and legally sufficient. A complaint is legally sufficient if it contains ultimate facts that show that a violation of this chapter, of any of the practice acts relating to the professions regulated by the department, or of any rule adopted by the department or a regulatory board in the department has occurred. In order to determine legal sufficiency, the department may require supporting information or documentation. The department may investigate, and the department or the appropriate board may take appropriate final action on, a complaint even though the original complainant withdraws it or otherwise indicates a desire not to cause the complaint to be investigated or prosecuted to completion. The department may investigate an anonymous complaint if the complaint is in writing and is legally sufficient, if the alleged violation of law or rules is substantial, and if the department has reason to believe, after preliminary inquiry, that the violations alleged in the complaint are true. The department may investigate a complaint made by a confidential informant if the complaint is legally sufficient, if the alleged violation of law or rule is substantial, and if the department has reason to believe, after preliminary inquiry, that the allegations of the complainant are true. The department may initiate an investigation if it has reasonable cause to believe that a licensee or a group of licensees has violated a Florida statute, a rule of the department, or a rule of a board.

(b) When an investigation of any subject is undertaken, the department shall promptly furnish to the subject or the subject’s attorney a copy of the complaint or document that resulted in the initiation of the investigation. The subject may submit a written response to the information contained in such complaint or document within 20 days after service to the subject of the complaint or document. The subject’s written response shall be considered by the probable cause panel. The right to respond does not prohibit the issuance of a summary emergency order if necessary to protect the public. However, if the secretary, or the secretary's designee, and the chair of the respective board or the chair of its probable cause panel agree in writing that such notification would be detrimental to the investigation, the department may withhold notification. The department may conduct an investigation without notification to any subject if the act under investigation is a criminal offense.

(2) The department shall allocate sufficient and adequately trained staff to expeditiously and thoroughly determine legal sufficiency and investigate all legally sufficient complaints. When its investigation is complete and legally sufficient, the department shall prepare and submit to the probable cause panel of the appropriate regulatory board the investigative report of the department. The report shall contain the investigative findings and the recommendations of the department concerning the existence of
probable cause. At any time after legal sufficiency is found, the department may dismiss any case, or any part thereof, if the department determines that there is insufficient evidence to support the prosecution of allegations contained therein. The department shall provide a detailed report to the appropriate probable cause panel prior to dismissal of any case or part thereof, and to the subject of the complaint after dismissal of any case or part thereof, under this section. For cases dismissed prior to a finding of probable cause, such report is confidential and exempt from s. 119.07(1). The probable cause panel shall have access, upon request, to the investigative files pertaining to a case prior to dismissal of such case. If the department dismisses a case, the probable cause panel may retain independent legal counsel, employ investigators, and continue the investigation and prosecution of the case as it deems necessary.

(3) (a) As an alternative to the provisions of subsections (1) and (2), when a complaint is received, the department may provide a licensee with a notice of noncompliance for an initial offense of a minor violation. A violation is a minor violation if it does not demonstrate a serious inability to practice the profession, result in economic or physical harm to a person, or adversely affect the public health, safety, or welfare or create a significant threat of such harm. Each board, or the department if there is no board, shall establish by rule those violations which are minor violations under this provision. Failure of a licensee to take action in correcting the violation within 15 days after notice may result in the institution of regular disciplinary proceedings.

(b) The department may issue a notice of noncompliance for an initial offense of a minor violation, notwithstanding a board's failure to designate a particular minor violation by rule as provided in paragraph (a).

(4) The determination as to whether probable cause exists shall be made by majority vote of a probable cause panel of the board, or by the department, as appropriate. Each regulatory board shall provide by rule that the determination of probable cause shall be made by a panel of its members or by the department. Each board may provide by rule for multiple probable cause panels composed of at least two members. Each board may provide by rule that one or more members of the panel or panels may be a former board member. The length of term or repetition of service of any such former board member on a probable cause panel may vary according to the direction of the board when authorized by board rule. Any probable cause panel must include one of the board's former or present consumer members, if one is available, willing to serve, and is authorized to do so by the board chair. Any probable cause panel must include a present board member. Any probable cause panel must include a former or present professional board member. However, any former professional board member serving on the probable cause panel must hold an active valid license for that profession. All proceedings of the panel are exempt from s. 286.011 until 10 days after probable cause has been found to exist by the panel or until the subject of the investigation waives his or her privilege of confidentiality. The probable cause panel may make a reasonable request, and upon such request the department shall provide such
additional investigative information as is necessary to the determination of probable cause. A request for additional investigative information shall be made within 15 days from the date of receipt by the probable cause panel of the investigative report of the department. The probable cause panel or the department, as may be appropriate, shall make its determination of probable cause within 30 days after receipt by it of the final investigative report of the department. The secretary may grant extensions of the 15-day and the 30-day time limits. In lieu of a finding of probable cause, the probable cause panel, or the department when there is no board, may issue a letter of guidance to the subject. If, within the 30-day time limit, as may be extended, the probable cause panel does not make a determination regarding the existence of probable cause or does not issue a letter of guidance in lieu of a finding of probable cause, the department, for disciplinary cases under its jurisdiction, must establish a uniform reporting system to quarterly refer to each board the status of any investigation or disciplinary proceeding that is not before the Division of Administrative Hearings or otherwise completed by the department within 1 year after the filing of the complaint. A probable cause panel or a board may retain independent legal counsel, employ investigators, and continue the investigation as it deems necessary; all costs thereof shall be paid from the Professional Regulation Trust Fund. All proceedings of the probable cause panel are exempt from s. 120.525.

(5) A formal hearing before an administrative law judge from the Division of Administrative Hearings shall be held pursuant to chapter 120 if there are any disputed issues of material fact. The administrative law judge shall issue a recommended order pursuant to chapter 120. If any party raises an issue of disputed fact during an informal hearing, the hearing shall be terminated and a formal hearing pursuant to chapter 120 shall be held.

(6) The appropriate board, with those members of the panel, if any, who reviewed the investigation pursuant to subsection (4) being excused, or the department when there is no board, shall determine and issue the final order in each disciplinary case. Such order shall constitute final agency action. Any consent order or agreed settlement shall
be subject to the approval of the department.

(7) The department shall have standing to seek judicial review of any final order of the board, pursuant to s. 120.68.

(8) Any proceeding for the purpose of summary suspension of a license, or for the restriction of the license, of a licensee pursuant to s. 120.60(6) shall be conducted by the Secretary of Business and Professional Regulation or his or her designee, who shall issue the final summary order.

(9) The department shall periodically notify the person who filed the complaint of the status of the investigation, whether probable cause has been found, and the status of any civil action or administrative proceeding or appeal.

(10) The complaint and all information obtained pursuant to the investigation by the department are confidential and exempt from s. 119.07(1) until 10 days after probable cause has been found to exist by the probable cause panel or by the department, or until the regulated professional or subject of the investigation waives his or her privilege of confidentiality, whichever occurs first. However, this exemption does not apply to actions against unlicensed persons pursuant to s. 455.228 or the applicable practice act. Upon completion of the investigation and pursuant to a written request by the subject, the department shall provide the subject an opportunity to inspect the investigative file or, at the subject’s expense, forward to the subject a copy of the investigative file. The subject may file a written response to the information contained in the investigative file. Such response must be filed within 20 days, unless an extension of time has been granted by the department. This subsection does not prohibit the department from providing such information to any law enforcement agency or to any other regulatory agency.

(11) A privilege against civil liability is hereby granted to any complainant or any witness with regard to information furnished with respect to any investigation or proceeding pursuant to this section, unless the complainant or witness acted in bad faith or with malice in providing such information.

History.--s. 1, ch. 74-57; s. 5, ch. 79-36; s. 289, ch 81-259; s. 33, ch. 81-302; s. 12, ch. 83-329; s. 8, ch. 84-203; s. 3, ch. 85-311; s. 5, ch. 86-90; s. 8, ch. 88-1; s. 5 ch. 88-277; s. 1, ch. 88-279; s. 3, ch. 89-162; s. 1, ch. 90-44; s. 5, ch. 90-228; s. 7, ch. 91-137; s. 2, ch. 91-140; s. 54, ch. 92-33; s. 21, ch. 92-149; s. 132, ch. 92-279; s. 55, ch. 92-326; s. 23, ch. 93-129; s. 314, ch. 94-119; s. 79, ch. 94-218; s. 305, ch. 96-406; s. 211, ch. 96 410; s. 1082, ch. 97-103; s. 2, ch. 97-209; s. 3, ch. 97-228; s. 142, ch. 97-237; s. 21, ch. 97-261; s. 4, ch. 97-264; s. 18, ch. 97-273; s. 4, ch. 98-166; s. 31, ch. 2000-160. Note.--Former s. 455.013.

Points to Ponder

A small business owner was very upset by her CPA’s lack of knowledge and misinformation on a particular area of her business. She felt that because of bad advice, she lost at least $26,000 in sales revenue. She contacted DBPR and filed a formal complaint against her CPA. What actions happen next?
During process of divorce, a disgruntled spouse submits a fictitious and anonymous complaint to DBPR. What will happen to the CPA?

Disciplinary Actions by the Board

The departments and the boards also may cause disciplinary actions to be taken, penalties to be imposed, and to enforce their findings. Should the Board of Accountancy find any licensee guilty, it may enter an order imposing one or more of the following penalties:

- Denial of an application for licensure.
- Revocation or suspension of a license.
- Imposition of an administrative fine not to exceed $5,000 for each count or separate offense.
- Issuance of a reprimand.
- Placement of the licensee on probation for a period of time and subject to such conditions as the board may specify, including requiring the licensee to attend continuing education courses or to work under the supervision of another licensee.
- Restriction of the authorized scope of practice by the certified public accountant.

455.227 Grounds for Discipline, Penalties and Enforcement

(1) The following acts shall constitute grounds for which the disciplinary actions specified in subsection (2) may be taken:

(a) Making misleading, deceptive, or fraudulent representations in or related to the practice of the licensee’s profession.

(b) Intentionally violating any rule adopted by the board or the department, as appropriate.

(c) Being convicted or found guilty of, or entering a plea of guilty or nolo contendere to, regardless of adjudication, a crime in any jurisdiction which relates to the practice of, or the ability to practice, a licensee’s profession.

(d) (e) Removed laser and HIV sections; not applicable to ethics course.

(f) Having a license or the authority to practice the regulated profession revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of any jurisdiction, including its agencies or subdivisions, for a violation that would constitute a violation under Florida law. The licensing authority’s acceptance of a relinquishment of licensure, stipulation, consent order, or other settlement, offered in response to or in anticipation of the filing of charges against the license, shall be construed as action against the license.
(g) Having been found liable in a civil proceeding for knowingly filing a false report or complaint with the department against another licensee.

(h) Attempting to obtain, obtaining, or renewing a license to practice a profession by bribery, by fraudulent misrepresentation, or through an error of the department or the board.

(i) Failing to report to the department any person who the licensee knows is in violation of this chapter, the chapter regulating the alleged violator, or the rules of the department or the board.

(j) Aiding, assisting, procuring, employing, or advising any unlicensed person or entity to practice a profession contrary to this chapter, the chapter regulating the profession, or the rules of the department or the board.

(k) Failing to perform any statutory or legal obligation placed upon a licensee.

(l) Making or filing a report which the licensee knows to be false, intentionally or negligently failing to file a report or record required by state or federal law, or willfully impeding or obstructing another person to do so. Such reports or records shall include only those that are signed in the capacity of a licensee.

(m) Making deceptive, untrue, or fraudulent representations in or related to the practice of a profession or employing a trick or scheme in or related to the practice of a profession.

(n) Exercising influence on the patient or client for the purpose of financial gain of the licensee or a third party.

(o) Practicing or offering to practice beyond the scope permitted by law or accepting and performing professional responsibilities the licensee knows, or has reason to know, the licensee is not competent to perform.

(p) Delegating or contracting for the performance of professional responsibilities by a person when the licensee delegating or contracting for performance of such responsibilities knows, or has reason to know, such person is not qualified by training, experience, and authorization when required to perform them.

(q) Violating any provision of this chapter, the applicable professional practice act, a rule of the department or the board, or a lawful order of the department or the board, or failing to comply with a lawfully issued subpoena of the department.

(r) Improperly interfering with an investigation or inspection authorized by statute, or with any disciplinary proceeding.

(s) Failing to comply with the educational course requirements for domestic violence.

(t) Failing to report in writing to the board or, if there is no board, to the department within 30 days after the licensee is convicted or found guilty of, or entered a plea of nolo contendere or guilty to, regardless of adjudication, a crime in any jurisdiction. A licensee must report a conviction, finding of guilt, plea, or adjudication entered before the effective date of this paragraph within 30 days after the effective date of this paragraph.

(u) Termination from a treatment program for impaired practitioners as described in s. 456.076 for failure to comply, without good cause, with the terms of the monitoring or treatment contract entered into by the licensee or failing to successfully complete a drug or alcohol treatment program.
(2) When the board, or the department when there is no board, finds any person guilty of the grounds set forth in subsection (1) or of any grounds set forth in the applicable practice act, including conduct constituting a substantial violation of subsection (1) or a violation of the applicable practice act which occurred prior to obtaining a license, it may enter an order imposing one or more of the following penalties:
(a) Refusal to certify, or to certify with restrictions, an application for a license.
(b) Suspension or permanent revocation of a license.
(c) Restriction of practice.
(d) Imposition of an administrative fine not to exceed $5,000 for each count or separate offense.
(e) Issuance of a reprimand.
(f) Placement of the licensee on probation for a period of time and subject to such conditions as the board, or the department when there is no board, may specify. Those conditions may include, but are not limited to, requiring the licensee to undergo treatment, attend continuing education courses, submit to be reexamined, work under the supervision of another licensee, or satisfy any terms which are reasonably tailored to the violations found.
(g) Corrective action.

(3)(a) In addition to any other discipline imposed pursuant to this section or discipline imposed for a violation of any practice act, the board, or the department when there is no board, may assess costs related to the investigation and prosecution of the case excluding costs associated with an attorney’s time.
(b) In any case where the board or the department imposes a fine or assessment and the fine or assessment is not paid within a reasonable time, such reasonable time to be prescribed in the rules of the board, or the department when there is no board, or in the order assessing such fines or costs, the department or the Department of Legal Affairs may contract for the collection of, or bring a civil action to recover, the fine or assessment.

(c) The department shall not issue or renew a license to any person against whom or business against which the board has assessed a fine, interest, or costs associated with investigation and prosecution until the person or business has paid in full such fine, interest, or costs associated with investigation and prosecution or until the person or business complies with or satisfies all terms and conditions of the final order.

(4) In addition to, or in lieu of, any other remedy or criminal prosecution, the department may file a proceeding in the name of the state seeking issuance of an injunction or a writ of mandamus against any person who violates any of the provisions of this chapter, or any provision of law with respect to professions regulated by the department, or any board therein, or the rules adopted pursuant thereto.

(5) In the event the board, or the department when there is no board, determines that revocation of a license is the appropriate penalty, the revocation shall be permanent. However, the board may establish, by rule, requirements for reapplication by applicants whose licenses have been permanently revoked. Such requirements may include, but shall not be limited to, satisfying current requirements for an initial license.

History.--s. 5, ch. 79-36; s. 13, ch. 83-329; s. 5, ch. 88-380; s. 8, ch. 91-137; s. 55, ch. 92-33; s. 22, ch. 92-149; s. 23, ch. 93-129;
Grounds for Disciplinary Action

In summary are the general grounds for disciplinary action.

1. Violation of any provision of s. 455.227 (1) or any other provision of Chapter 473, Florida Statutes.

2. Attempting to procure a license to practice public accounting by bribery or fraudulent misrepresentations.

3. Having a license to practice public accounting revoked, suspended, or otherwise acted against, including the denial of licensure, by the licensing authority of another state, territory, or country.

4. Being convicted or found guilty of, or entering a plea of nolo contendere to, regardless of adjudication, a crime in any jurisdiction which directly relates to the practice of public accounting or the ability to practice public accounting.

5. Making or filing of a report or record that the licensee knows to be false, willfully failing to file a report or record required by state or federal law, willfully impeding or obstructing such filing, or inducing another person to impede or obstruct such filing. Such reports or records include only those that are signed in the capacity of a certified public accountant.

6. Advertising goods or services in a manner that is fraudulent, false, deceptive, or misleading in form or content.

7. Committing an act of fraud or deceit, or of negligence, incompetency, or misconduct, in the practice of public accounting.

8. Violation of any rule adopted pursuant to this Chapter or Chapter 455.

9. Practicing on a revoked, suspended, inactive or delinquent license.

10. Suspension or revocation of the right to practice before any state or federal agency.

11. Performance of any fraudulent act while holding a license to practice public accounting.

12. Failing to maintain a good moral character as provided in s. 473.306.
13. Failing to provide any written disclosure to a client or the public which is required by this chapter or rule of the Board.

Join FICPA and DBPR to Stop Unlicensed Activity

Each day, thousands of Florida-licensed CPAs work to serve their valued clients throughout the state. Having a license to practice is important – it means you’ve worked hard to demonstrate proficiency in your profession and you’ll abide by the standards outlined by Florida law.

The FICPA and the Florida Department of Business and Professional Regulation (DBPR) are working together to raise awareness of unlicensed public-accounting activity. You can help us educate the public about the importance of hiring only licensed professionals by downloading a web banner for your website. You also can join the FICPA and DBPR to get the word out through social-media tools such as Twitter and Facebook.

You can help us spread the word: Floridians can stand together to protect the safety of financial information and promote sound business practices by reporting suspected unlicensed activity to DBPR.

Please join us in our efforts to stop unlicensed activity and help us continue making Florida an incredible place to do business. To report unlicensed activity, call the DBPR unlicensed activity hotline at (866) 532-1440, or email cpa.complaints@dbpr.state.fl.us. You may also complete an online form.

(From the FICPA NewsFlash, February 9, 2012.)

Introduction to the Case Study

Note: Throughout this course, we will follow imaginary accountants, hypothetical CPA firms, and their consideration of ethics and standards as they apply to practice matters. The individuals and the firms are purely fictional and any resemblance to any individuals or firms is purely coincidental.

On graduation from a reputable state university, John Doe was recruited and employed by a local CPA firm that was recognized as one of the top CPA firms in the United States. Mr. Doe was hired as a Junior Accountant in the auditing department of the firm’s Houston office.

John Doe progressed nicely in the firm. He began studying for and took the CPA exam as soon as he could. After passing the exam on his second attempt and meeting the state requirements for becoming a CPA, John Doe was awarded the certificate and proceeded to become a Senior Accountant with the audit department of the firm.
About the time John Doe passed the CPA exam, his sister, Jane Doe, was graduating from a different reputable state university. Jane was recruited and hired by a different CPA firm and went to work in their Orlando office. She also started as a Junior Accountant in the firm’s auditing department.

Jane Doe also progressed nicely in the firm and began studying for the CPA exam. After qualifying to sit for the exam, Jane took and passed the exam. Having met the state requirements for becoming a CPA in Florida, she was awarded the certificate like her brother in Texas and proceeded to become a Senior Accountant in her firm’s auditing department as well.

The siblings saw each other regularly at family gatherings. After several years, John said to Jane, “We should seriously consider forming our own CPA firm and going into business together.” Jane agreed and the two siblings began to deliberate where the practice should be located – in Houston or in Orlando.

After much soul searching, they decided to locate the firm in Orlando. Now they needed to study the Florida requirements and other professional standards that would impact their new practice.

During their research of the Florida requirements, several key questions were raised by Doe & Doe.

**Case Study 3.1**

1. What are some of the regulatory considerations that Doe & Doe must address with regard to establishing a Florida CPA firm in Orlando?

2. When can the DBPR investigate a complaint filed against Doe & Doe?

3. Jane Doe, CPA, has become aware of another CPA who Jane feels has violated enough standards to warrant a complaint. Jane wants to file the complaint by a phone call to the Board. Will she be able to do so?

4. John Doe has a CPA friend that has asked for John’s understanding of the F.S. regarding citations from DBPR. The friend thinks that he has 45 days to dispute the citation from the date the citation was served and asks John if this is true.

5. Jane Doe asks, “When is a complaint legally sufficient?”
Chapter Review Questions

3.1 The Florida Board of Accountancy has the authority to do the following EXCEPT for:

a. Conducting continuing education for licensure renewal
b. Establishing rules and regulations for conduct of public accounting
c. Processing applications and renewal for licensure
d. Protecting the public from unlicensed activity

3.2 There are a number of reasons why the Florida BOA could impose disciplinary actions such as the grounds for:

a. Advertising services on a outside billboard
b. Filing of a false report by non-licensed staff
c. Failing to complete appropriate continuing professional education.
d. Violation of any rule in Chapter 473, Florida Statutes
Answers to Review Questions

3.1 The Florida Board of Accountancy has the authority to do the following EXCEPT for:

a. Correct. The Florida BOA does not have the authority to conduct continuing education for licensure renewal. The Board does have the authority to approve continuing education providers per Chapter 455, Florida Statutes.

b. Incorrect. The Florida BOA has the authority to establish rules and regulations for conduct of public accounting per Chapter 455, Florida Statutes.

c. Incorrect. The Florida BOA has the authority to process applications and renewal for licensure per Chapter 455, Florida Statutes.

d. Incorrect. The Florida BOA has the authority to protect the public from unlicensed activity per Chapter 455, Florida Statutes.

3.2 There are a number of reasons why the Florida BOA could impose disciplinary actions such as the grounds for:

a. Incorrect. Advertising services on an outside billboard is not addressed by Chapter 473.

b. Incorrect. Filing of a false report by non-licensed staff is unethical, but is not grounds for disciplinary action in Chapter 455.

c. Incorrect. Failing to complete appropriate continuing professional education may cause an individual to lose one’s license, it is not grounds for disciplinary action by the Board.

d. Correct. The Board can only impose disciplinary actions to a violation of the items cited in Chapter 455.227(1), Florida Statutes. Item (q) permits the Board to impose disciplinary action on the applicable professional practice act, which includes Chapter 473, Florida Statutes.

For More Information

Please see Appendix B for a complete list of additional resources for this chapter.
Learning Objectives

The purpose of Chapter 4 is to review F.S. Chapter 473 and its present requirements for the practice of public accounting in Florida. The learning objectives for this chapter include:

1. Define the key terms that characterize public accounting in Florida per Chapter 473.302, Florida Statutes.
2. Explain the basic powers and duties of the Florida Board of Accountancy.
3. Explain the requirements to become a CPA licensed in Florida per Chapter 473.308, Florida Statutes.
4. Explain the requirements for a practice to become licensed in Florida per Chapter 473.309, Florida Statutes.
5. Name changes to a licensed firm that must be reported to the Florida Board of Accountancy per 61H1-26.004.
6. List the CPE requirements necessary to maintain a CPA license in Florida per Chapter 473.312, Florida Statutes.

Statutory References and Information

The Florida Statutes, Chapter 473, Public Accountancy, gives the public the assurance that the Legislature “deems it necessary in the interest of public welfare to regulate the practice of public accountancy in this state.”

To this end, the Legislature has created the Board of Accountancy and the Division of Certified Public Accounting. In Chapter 473, various definitions focus on what this means to the profession in Florida.

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473.302 Practice of Public Accounting

473.302 Definitions –
As used in this chapter, the term: (1) "Board" means the Board of Accountancy.
(2) "Department" means the Department of Business and Professional Regulation.

(3) "Division" means the Division of Certified Public Accounting.

(4) "Certified public accountant" means an individual who holds a license to practice public accounting in this state or an individual who is practicing public accounting in this state pursuant to the practice privilege granted in s. 473.3141. The term "Florida certified public accountant" means an individual holding a license under the authority of this chapter.

(5) "Firm" means any legal entity that is engaged in the practice of public accounting.

(6) "Home office" means the principal headquarters of an entity. An entity may have only one principal headquarters.

(7) "Licensed audit firm" or "public accounting firm" means a firm licensed under s. 473.3101.

(8) "Practice of," "practicing public accountancy," or "public accounting" means:

(a) Offering to perform or performing for the public one or more types of services involving the expression of an opinion on financial statements, the attestation as an expert in accountancy to the reliability or fairness of presentation of financial information, the utilization of any form of opinion or financial statements that provide a level of assurance, the utilization of any form of disclaimer of opinion which conveys an assurance of reliability as to matters not specifically disclaimed, or the expression of an opinion on the reliability of an assertion by one party for the use by a third party;

(b) Offering to perform or performing for the public one or more types of services involving the use of accounting skills, or one or more types of tax, management advisory, or consulting services, by any person who is a certified public accountant who holds an active license, issued pursuant to this chapter, or who is authorized to practice public accounting pursuant to the practice privileges granted in s. 473.3141, including the performance of such services by a certified public accountant in the employ of a person or firm; or

(c) Offering to perform or performing for the public one or more types of service involving the preparation of financial statements not included within paragraph (a), by a certified public accountant who holds an active license, issued pursuant to this chapter, or who is authorized to practice public accounting pursuant to the practice privileges granted in s. 473.3141; by a firm of certified public accountants; or by a firm in which a certified public accountant has an ownership interest, including the performance of such services in the employ of another person. The board shall adopt rules establishing standards of practice for such reports and financial statements; provided, however, that nothing in this paragraph shall be construed to permit the board to adopt rules that have the result of prohibiting Florida certified public accountants employed by unlicensed firms from preparing financial statements as authorized by this paragraph.

(9) "Uniform Accountancy Act" means the Uniform Accountancy Act, Fourth Edition, dated December 2007 and published by the American Institute of Certified Public Accountants and the
National Association of State Boards of Accountancy.

However, these terms shall not include services provided by the American Institute of Certified Public Accountants or the Florida Institute of Certified Public Accountants, or any full service association of certified public accounting firms whose plans of administration have been approved by the board, to their members or services performed by these entities in reviewing the services provided to the public by members of these entities.

**History.**--ss. 2, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 10, 11, ch. 85-9; s. 1, ch. 89-87; s. 4, ch. 91-429; s. 3, ch. 92-292; s. 124, ch. 94-119; s. 155, ch. 94-218; s. 345, ch. 97-103; s. 1, ch. 98-340; s. 2, ch. 2000-154; s. 3, ch. 2009-54.

**New Definition, “Member in Business**

The new definition under AICPA ET section 92, *Definitions (AICPA, Professional Standards)* is intended to capture members who are not in the practice of public accounting.

**.22 Member in business.** A member employed or engaged on a contractual or volunteer basis in an executive, a staff, a governance, an advisory, or an administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, or regulatory or professional bodies. This does not include a member while engaged in the practice of public accounting. [Effective November 30, 2011]

**Points to Ponder**

**4.1**

Rosita has a Bachelor’s degree in accounting. She works part time for her uncle, a CPA, who is a sole proprietor. Her uncle is taking a month long vacation overseas to celebrate his 25th wedding anniversary. During his absence from the office, a client needs his monthly compilation report signed and delivered to his office. According to Florida rule, is Rosita allowed to do this?

**Points to Ponder**

**4.2**

Sue received her CPA certificate shortly after graduation from Iowa State. Two years later, she moved to Florida in search of a warmer climate. Is she considered a CPA?

**Powers and Duties of the Board**

In addition to establishing the Board of Accountancy and the Division of Certified Public Accounting, Chapter 473 also gives the Board certain powers and duties in the matters of:

- Fees
- Examinations
- Licensure
- Practice requirements
473.305 Fees

The board, by rule, may establish fees to be paid for applications, examination, reexamination, licensing and renewal, reinstatement, and recordmaking and recordkeeping. The fee for the examination shall be established at an amount that covers the costs for the procurement or development, administration, grading, and review of the examination. The fee for the examination is refundable if the applicant is found to be ineligible to sit for the examination. The fee for initial application is nonrefundable, and the combined fees for application and examination may not exceed $250 plus the actual per applicant cost to the department for purchase of the examination from the American Institute of Certified Public Accountants or a similar national organization. The biennial renewal fee may not exceed $250. The board may also establish, by rule, a reactivation fee, and a delinquency fee not to exceed $50 for continuing professional education reporting forms. The board shall establish fees which are adequate to ensure the continued operation of the board and to fund the proportionate expenses incurred by the department which are allocated to the regulation of public accountants. Fees shall be based on department estimates of the revenue required to implement this chapter and the provisions of law with respect to the regulation of certified public accountants. History.--ss. 4, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 2, 10, 11, ch. 85-9; s. 1, ch. 87-221; s. 22, ch. 88-205; s. 48, ch. 89-162; s. 20, ch. 89-374; s. 4, ch. 91-429; s. 6, ch. 2009-54; s. 2, ch. 2009-69; s. 13, ch. 2009-195.

473.306 Examinations

1) A person desiring to be licensed as a Florida certified public accountant shall apply to the department to take the licensure examination.

2) An applicant is entitled to take the licensure examination to practice in this state as a certified public accountant if the applicant has completed 120 semester hours or 160 quarter hours from an accredited college or university with a concentration in accounting and business courses as specified by the board by rule.

3) The board shall have the authority to establish the standards for determining and shall determine:

(a) What constitutes a passing grade for each subject or part of the licensure examination;

(b) Which educational institutions, in addition to the universities in the State University System of Florida, shall be deemed to be accredited colleges or universities;

(c) What courses and number of hours constitute a major in accounting; and

(d) What courses and number of hours constitute additional accounting courses acceptable under s. 473.308(3).

4) The board may adopt an alternative licensure examination for persons who
have been licensed to practice public accountancy or its equivalent in a foreign country so long as the International Qualifications Appraisal Board of the National Association of State Boards of Accountancy has ratified an agreement with that country for reciprocal licensure.

(5) For the purposes of maintaining the proper educational qualifications for licensure under this chapter, the board may appoint an Educational Advisory Committee, which shall be composed of one member of the board, two persons in public practice who are licensed under this chapter, and four academicians on faculties of universities in this state.

History.--ss. 5, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 3, 10, 11, ch. 85-9; s. 2, ch. 87-221; s. 4, ch. 91-429; s. 125, ch. 94-119; s. 3, ch. 98-340; s. 9, ch. 2000-332; s. 1, ch. 2008-81.

Points to Ponder
4.3

Shawna, your most recent hire, came to you to request assistance and support to take the CPA exam. She recently graduated with a bachelors’ degree in accounting and her career aspiration is to become a CPA. She would like financial assistance to purchase a review course and study time. You question whether or not to grant her request. Is she even eligible to sit for the exam at this time?

473.308 Licensure

(1) A person desiring to be licensed as a Florida certified public accountant in this state shall apply to the department for licensure, and the department shall license any applicant who the board certifies is qualified to practice public accounting.

(2) The board shall certify for licensure any applicant who successfully passes the licensure examination and satisfies the requirements of subsections (3), (4), and (5), and shall certify for licensure any firm that satisfies the requirements of ss. 473.309 and 473.3101. The board may refuse to certify any applicant or firm that has violated any of the provisions of s. 473.322.

(3) An applicant for licensure must have at least 150 semester hours of college education, including a baccalaureate or higher degree conferred by an accredited college or university, with a concentration in accounting and business in the total educational program to the extent specified by the board.

(4)(a) An applicant for licensure after December 31, 2008, must show that he or she has had 1 year of work experience. This experience shall include providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax, or consulting skills, all of which must be verified by a certified public accountant who is licensed by a state or territory of the United States. This experience is acceptable if it was gained through employment in government, industry, academia, or public practice; constituted a substantial part of the applicant’s duties; and was verified by a certified public accountant licensed by a state or territory of the United States. The board shall adopt rules specifying standards and providing for the review and approval of
the work experience required by this section.

(b) However, an applicant who completed the requirements of subsection (3) on or before December 31, 2008, and who passes the licensure examination on or before June 30, 2010, is exempt from the requirements of this subsection.

(5) An applicant for licensure shall show that the applicant has good moral character.

(6)(a) “Good moral character” means a personal history of honesty, fairness, and respect for the rights of others and for the laws of this state and nation.

(b) The board may refuse to certify an applicant for failure to satisfy this requirement if:

1. The board finds a reasonable relationship between the lack of good moral character of the applicant and the professional responsibilities of a certified public accountant; and

2. The finding by the board of lack of good moral character is supported by competent substantial evidence.

(c) When an applicant is found to be unqualified for a license because of a lack of good moral character, the board shall furnish to the applicant a statement containing the findings of the board, a complete record of the evidence upon which the determination was based, and a notice of the rights of the applicant to a rehearing and appeal.

(7) The board shall certify as qualified for a license by endorsement an applicant who:

(a)1. Is not licensed and has not been licensed in another state or territory and who has met the requirements of this section for education, work experience, and good moral character and has passed a national, regional, state, or territorial licensing examination that is substantially equivalent to the examination required by s. 473.306; and

2. Has completed such continuing education courses as the board deems appropriate, within the limits for each applicable 2-year period as set forth in s. 473.312, but at least such courses as are equivalent to the continuing education requirements for a Florida certified public accountant licensed in this state during the 2 years immediately preceding her or his application for licensure by endorsement; or

(b)1.a. Holds a valid license to practice public accounting issued by another state or territory of the United States, if the criteria for issuance of such license were substantially equivalent to the licensure criteria that existed in this state at the time the license was issued;

b. Holds a valid license to practice public accounting issued by another state or territory of the United States but the criteria for issuance of such license did not meet the requirements of sub-subparagraph a.; has met the requirements of this section for education, work experience, and good moral character; and has passed a national, regional, state, or territorial licensing examination that is substantially equivalent to the examination required by s. 473.306; or

2. c. Holds a valid license to practice public accounting issued by another state or territory of the United States for at least 10 years before the date of application; has passed a national, regional, state, or territorial licensing examination that is substantially equivalent to the examination required by
s. 473.306; and has met the requirements of this section for good moral character; and

2. Has completed continuing education courses that are equivalent to the continuing education requirements for a Florida certified public accountant licensed in this state during the 2 years immediately preceding her or his application for licensure by endorsement.

(8) If the applicant has at least 5 years of experience in the practice of public accountancy in the United States or in the practice of public accountancy or its equivalent in a foreign country that the International Qualifications Appraisal Board of the National Association of State Boards of Accountancy has determined has licensure standards that are substantially equivalent to those in the United States. The board shall have the authority to establish the standards for experience that meet this requirement.

(9) The board may refuse to certify for licensure any applicant who is under investigation in another state for any act that would constitute a violation of this act or chapter 455, until such time as the investigation is complete and disciplinary proceedings have been terminated.

History.--ss. 7, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 4, 10, 11, ch. 85-9; s. 1, ch. 86-102; s. 21, ch. 89-374; s. 4, ch. 91-429; ss. 126, 223, ch. 94-119; s. 3, ch. 94-151; s. 347, ch. 97-103; s. 115, ch. 98-166; s. 4, ch. 98-340; s. 1, ch. 2000-114; s. 176, ch. 2000-160; s. 10, ch. 2000-332; s. 1, ch. 2004-87; s. 1, ch. 2007-139; s. 2, ch. 2008-81; s. 7, ch. 2009-54, ch. 2012-176.

**Points to Ponder**

4.4 Your firm recently advertised for an auditor. Duke, a young CPA from another state applied for the position. Duke will need to obtain a Florida license but does not meet the 150-hour requirement for licensure in Florida. However, Duke worked for four years in the accounting department at the state finance office. Will he be able to waive the additional 30 hours (150-hour requirement) of education because of his work experience?

**473.309 Practice Requirements for Partnerships, Corporations, and Limited Liability Companies; Business Entities Practicing Public Accounting**

(1) A partnership may not engage in the practice of public accounting, as defined in s. 473.302(8)(a), unless:

(a) It is a form of partnership recognized by Florida law.
(b) Partners owning at least 51 percent of the financial interest and voting rights of the partnership are certified public accountants in some state. However, each partner who is a certified public accountant in another state and is domiciled in this state must be a certified public accountant of this state and hold an active license.

(c) At least one general partner is a certified public accountant of this state and holds an active license or, in the case of a firm that must have a license pursuant to s. 473.3101(1)(a)2., at least one general partner is a certified public accountant in some state and meets the requirements of s. 473.3141(1)(a) or (b).

(d) All partners who are not certified public accountants in any state are engaged in the business of the partnership as their principal occupation.

(e) It is in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance.

(f) It is currently licensed as required by s. 473.3101.

(2) A corporation may not engage in the practice of public accounting, as defined in s. 473.302(8)(a), unless:

(a) It is a corporation duly organized in this or some other state.

(b) Shareholders of the corporation owning at least 51 percent of the financial interest and voting rights of the corporation are certified public accountants in some state and are principally engaged in the business of the corporation. However, each shareholder who is a certified public accountant in another state and is domiciled in this state must be a certified public accountant of this state and hold an active license.

(c) The principal officer of the corporation is a certified public accountant in some state.

(d) At least one shareholder of the corporation is a certified public accountant and holds an active license in this state or, in the case of a firm that must have a license pursuant to s. 473.3101(1)(a)2., at least one shareholder is a certified public accountant in some state and meets the requirements of s. 473.3141(1)(a) or (b).

(e) All shareholders who are not certified public accountants in any state are engaged in the business of the corporation as their principal occupation.

(f) It is in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance.

(g) It is currently licensed as required by s. 473.3101.

(3) A limited liability company may not engage in the practice of public accounting, as defined in s. 473.302(8)(a), unless:

(a) It is a limited liability company duly organized in this or some other state.

(b) Members of the limited liability company owning at least 51 percent of the financial interest and voting rights of the company are certified public accountants in some state. However, each member who is a certified public accountant in some state and is domiciled in this state must be a certified public accountant of this state and hold an active license.

(c) At least one member of the limited liability company is a certified public accountant and holds an active license in this state or, in the case of a firm that
must have a license pursuant to s. 473.3101(1)(a)2., at least one member is a certified public accountant in some state and meets the requirements of s. 473.3141(1)(a) or (b).

(d) All members who are not certified public accountants in any state are engaged in the business of the company as their principal occupation.

(e) It is in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance.

(f) It is currently licensed as required by s. 473.3101.

What if a professional services corporation organized in Tennessee as a public accounting firm wants to get a firm license to practice in Florida. They meet the Florida minimum capitalization requirements, and all shareholders are principally engaged in the corporate business. What do they need to address?

Vickers CPAs wishes to become a limited liability company in Florida. All the members are North Carolina CPAs and one of them is domiciled in Florida. May the firm be recognized as a public practice firm in Florida?

473.3101 Licensure of Sole Proprietors, Partnerships, Corporations, Limited Liability Companies, and Other Legal Entities

(1) Each sole proprietor, partnership, corporation, limited liability company, or any other firm seeking to engage in the practice of public accounting, as defined in s. 473.302(8)(a), in this state must file an application for licensure with the department and supply the information the board requires. An application must be made upon the affidavit of a sole proprietor, general partner, shareholder, or member who is a certified public accountant.

(a) The following must hold a license issued under this section:

1. Any firm with an office in this state which uses the title "CPA," "CPA firm," or any other title, designation, words, letters, abbreviations, or device tending to indicate that the firm practices public accounting.

2. Any firm that does not have an office in this state but performs the services described in s. 473.3141(4) for a client having its home office in this state. The
board shall define by rule what constitutes an office.

(b) A firm that is not subject to the requirements of subparagraph (a)2. may perform other professional services while using the title "CPA," "CPA firm," or any other title, designation, words, letters, abbreviations, or device tending to indicate that the firm practices public accounting in this state without a license issued under this section only if:

1. It performs such services through an individual with practice privileges granted under s. 473.3141; and
2. It can lawfully do so in the state where the individual with practice privileges has his or her principal place of business.

(2) The board shall determine whether the sole proprietor, partnership, corporation, limited liability company, or any other firm meets the requirements for practice and, pending that determination, may certify to the department the partnership, corporation, or limited liability company for provisional licensure.

(3) Each license must be renewed every 2 years. Each sole proprietor, partnership, corporation, limited liability company, or any other firm licensed under this section must notify the department within 1 month after any change in the information contained in the application on which its license is based.

History.--ss. 9, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 10, 11, ch. 85-9; s. 4, ch. 91-429; s. 17, ch. 93-110; s. 2, ch. 93-284; s. 6, ch. 98-340; s. 9, ch. 2009-54.

**Points to Ponder**

4.7 **Must a firm be licensed if they only perform compilation engagements as their highest level of service for accounting and auditing work?**

4.8 **Sandra CPA is a new mother who wishes to become established as a sole proprietor and work from home. Along with her application to become a sole proprietor, she submits an affidavit from herself. Is this permissible?**

**473.311 Renewal of License**

(1) The department shall renew a license upon receipt of the renewal application and fee and upon certification by the board that the Florida certified public accountant has satisfactorily completed the continuing education requirements of s. 473.312.

(2) The department shall adopt rules establishing a procedure for the biennial renewal of licenses.

History.--ss. 11, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 5, 10, 11, ch. 85-9; s. 4, ch. 91-429; s. 220, ch. 94-119; s. 116, ch. 98-166; s. 177, ch. 2000-160; s. 2, ch. 2004-87; s. 10, ch. 2009-54; s. 3, ch. 2009-69; s. 14, ch. 2009-195.
61H1-33.0065. Exemption from Renewal Requirements for Spouses of Members of the Armed Forces of the United States – States that a Florida CPA who is the spouse of a member of the U.S. Armed Forces who is absent from the State of Florida because of the spouse’s duties with the armed forces is exempt from all licensure renewal provisions under these rules during the absence. They must show proof of the spouse’s deployment and military status.

Specific Authority Law Implemented 455.02(2) FS. History–New 7-13-04, Amended 10-26-09

Informing DBPR of Address Changes

CPAs must notify the Board in writing within thirty days of any address changes. Every year, approximately half of the CPAs in Florida are mailed a postcard reminding them of their upcoming renewal. Some are returned with “Sender address not known” or a mail forwarded notice. Unfortunately, these postcards were not forwarded by the U.S. postal service so these CPAs were in jeopardy of having their licenses expire.

61H1-26.005 Address of Record.

(1) All Florida certified public accountants are required to have their correct street address on file with the Board office as their address of record. A post office box may be used for a mailing address, but it must be in addition to the address of record.

(2) Any time a Florida certified public accountant changes his/her address of record or mailing address, he/she must notify the Board office in writing within thirty days.


Informing DBPR of Firm Personnel Changes

61H1-26.004 Changes by Firms.

(1) A firm licensed pursuant to Rule 61H1-26.003, F.A.C., shall file a written notification with the Department within thirty (30) days after the occurrence of any of the following events:

(a) The admission or addition of a non-CPA co-partner, shareholder or member in any Florida office, including whether any non-CPA co-partners, shareholders or members have convictions or findings of guilt, regardless of adjudication, of a crime in any jurisdiction; judgment or settlements of civil lawsuits (excluding domestic matters); having been acted against, including denial of licensure, by any regulatory agency or by a court; and any other matters which show a lack of good moral character as defined in Section 473.308(6)(a), F.S.;

(b) The admission or addition of a CPA co-partner, shareholder or member in any Florida office, including whether any CPA co-partners, shareholders or members have convictions or findings of guilt, regardless of adjudication, of a crime in any jurisdiction; judgment or settlements of civil lawsuits (excluding domestic matters); having the right to practice acted against, including denial of licensure, by the Securities Exchange Commission (SEC), Internal Revenue
Service (IRS), or any other regulatory agency or court; and any other matters which show a lack of good moral character as defined in Section 473.306(4)(a), F.S.;
(c) The retirement or death of a co-partner, shareholder or member in any Florida office;
(d) A change in the name of the partnership, corporation or limited liability company;
(e) The termination of the partnership, corporation or limited liability company;
(f) When the firm or any existing CPA or Non-CPA co-partner, shareholder or member has been the recipient of a conviction or finding of guilt, regardless of adjudication, of a crime in any jurisdiction; has been the subject of a judgment or settlements of a civil lawsuit (excluding domestic matters); has had the right to practice public accountancy acted against, including denial of licensure, by the Securities Exchange Commission (SEC), Internal Revenue Service (IRS), or any other regulatory agency or court; and any other matters which show a lack of good moral character as defined in Section 473.306(4)(a), F.S.

(2) In the event of the formation of a new partnership, corporation or limited liability company or a change in the name of a partnership, corporation or limited liability company, such partnership, corporation or limited liability company shall, within thirty (30) days of the event, become certified for licensure by the Board in accordance with Rule 61H1-26.003, F.A.C., and pay the license fee required by subsections 61H1-31.001(5) and (6), F.A.C.

History.--New 12-4-79, Amended 2-3-81, Formerly 21A-26.04, Amended 6-4-86, Formerly 21A-26.004, Amended 11-3-97, 7-16-98, 8-17-98, 1-31-05, 8-28-06, 1-26-10.

Figure 4.1 Communicating with DBPR

- Remember to provide the BOA with a change of address within 30 days. The BOA also requires a street address as the “address of record”.

- Check/ update your license periodically.
  - Go to: www.MyFloridaLicense.com
  - Choose Renew a License and follow the prompts. You will need to log onto the site. To login initially, use your license number and last four digits of your SSN.

- Contact the BOA with your questions.

Customer Contact Center
Phone: (850) 487-1395
Fax: (850) 921-6636
Hours: Monday – Friday, 8 am to 5 pm EST
E-mail: callcenter@dbpr.state.fl.us
Points to Ponder 4.9

To renew your license, you need to: submit a renewal application and complete the CPE requirements. Anything else?

Points to Ponder 4.10

Does a notification have to be made to the Department of Business and Professional Regulation when a non-CPA co-partner, shareholder, or member in any Florida office is admitted to the firm?

473.312 Continuing Education

(1)(a) As part of the license renewal procedure, the board shall by rule require Florida certified public accountant to submit proof satisfactory to the board that during the 2 years prior to application for renewal, they have successfully completed not less than 48 or more than 80 hours of continuing professional education programs in public accounting subjects approved by the board. The board may prescribe by rule additional continuing professional education hours, not to exceed 25 percent of the total hours required, for failure to complete the hours required for renewal by the end of the reestablishment period.

(b) Not less than 25 percent of the total hours required by the board shall be in accounting-related and auditing-related subjects, as distinguished from federal and local taxation matters and management services.

(c) Not less than 5 percent of the total hours required by the board shall be in ethics applicable to the practice of public accounting. This requirement shall be administered by providers approved by the board and shall include a review of the provisions of chapter 455 and this chapter and the related administrative rules.

(2) Programs of continuing professional education approved by the board shall be formal programs of learning which contribute directly to the professional competency of an individual following licensure to practice public accounting and may be any of the following:

(a) Professional development programs of the American Institute of Certified Public Accountants, state societies of certified public accountants, or other organizations.

(b) Technical sessions at meetings of the American Institute of Certified Public Accountants, state societies, chapters, or other organizations.

(c) University and college courses.

(d) Formal organized in-firm education programs.

(3) The board shall adopt rules establishing the continuing education requirements for Florida certified public
accountants who are engaged in the audit of a governmental entity. The board shall approve subjects directly related to the governmental environment and to governmental auditing for purposes of satisfying the requirement of this subsection.

(4) For the purposes of maintaining proper continuing education requirements for renewal of licensure under this chapter, the board may appoint a Continuing Professional Education Advisory Committee, which shall be composed of one member of the board, one academician on the faculty of a university in this state, and six certified public accountants.

History.--ss. 10, 25, ch. 79-202; s. 345, ch. 81-259; ss. 2, 3, ch. 81-318; ss. 6, 10, 11, ch. 85-9; s. 3, ch. 87-221; s. 2, ch. 89-87; s. 4, ch. 91-429; s. 7, ch. 98-340; s. 3, ch. 2004-87; s. 2, ch. 2007-139; s. 11, ch. 2009-54.

61H1-33.0035 Continuing Professional Education/Governmental Auditing

(1) Any certified public accountant who is involved in governmental audits shall be required to comply with the continuing professional education (CPE) requirements imposed by Government Auditing Standards 2007 commonly referred to as the “Yellow Book,” effective July 2007, which is hereby incorporated by reference, if during the engagement:

(a) The certified public accountant is the in charge person, or
(b) The certified public accountant reviews the working papers or report or both, or
(c) The certified public accountant supervises others, or
(d) The certified public accountant is the only certified public accountant performing the work.

(2) Certified public accountants conducting audits controlled by either paragraph (a) or (b) below, shall be required to take 24 hours of governmental CPE and shall be required to comply with the CPE requirements imposed by Government Auditing Standards.


(3) The required 24 hours of governmental CPE may be used to meet the courses required in paragraph 61H1-33.003(1)(a), F.A.C., provided they meet the requirements of subsection 61H1-33.003(2), F.A.C.

History--New 8-22-90, Amended 7-7-92, Formerly 21A-33.0035, Amended 5-26-96, 4-13-08, 12-10-09.


DBPR Implements Major CPE Reporting Changes

As of 2011, DBPR no longer requires CPAs to report their CPE to DBPR. Additionally, all licensees — regardless of whether you have an established account with DBPR’s Online Services — are required to register as a new user.

The Board of Accountancy has established an honor system for CPE reporting. Licensees affirm by way of the renewal notice that the necessary hours were completed and documentation is being retained for possible CPE audit.

The deadline is still June 30 of each renewal year. CPAs must still complete 80 hours of CPE, including 20 hours in accounting/auditing subjects and 4 in board-approved ethics. If you do not complete hours by June 30, the automatic extensions still apply.

61H1-33.003 Continuing Professional Education.

(b) Florida certified public accountants who do not meet the requirements by June 30th will be granted an automatic extension until September 15th provided the Florida certified public accountant completes submits an additional 8 hours in Accounting and Auditing subjects. An automatic extension will be granted until December 31st provided the Florida certified public accountant completes submits an additional 16 hours in Accounting and Auditing subjects. Florida certified public accountants utilizing the automatic extension must submit the required information postmarked or recorded on line by September 15th or December 31st.

No changes to section (1)(a) and the remainder of this rule.

Points to Ponder

4.11 Sharon is renewing her Florida CPA license in June 2009. She has taken: 59 hours of Accounting and Auditing; 16 hours of Behavioral; 4 hours Ethics; and 1 hour of Technical Business. Does she satisfy the educational requirements for renewal?

Points to Ponder

4.12 Pedro obtained all his CPE credit for his current reporting period from attending local chapter meetings of the FICPA and IMA. Does this satisfy the educational requirements for renewal?

473.313 Inactive Status

(1) A Florida certified public accountant may request that her or his license be placed in an inactive status by making application to the department. The board may prescribe by rule fees for placing a license on inactive status, renewal of inactive status, and reactivation of an inactive license.

(2) A license that has become inactive under subsection (1) or for failure to
complete the requirements in s. 473.312 may be reactivated under s. 473.311 upon application to the department. The board may prescribe by rule continuing education requirements as a condition of reactivating a license. The minimum continuing education requirements for reactivating a license shall be those prescribed by board rule and those of the most recent biennium plus one-half of the requirements in s. 473.312. Notwithstanding any other provision of this section, the continuing education requirements are 120 hours, including at least 30 hours in accounting-related and auditing-related subjects, not more than 30 hours in behavioral subjects, and a minimum of 8 hours in ethics subjects approved by the board, for the reactivation of a license that is inactive or delinquent on June 30, 2012, if the Florida certified public accountant notifies the Board of Accountancy by December 31, 2012, of an intention to reactivate such a license and completes such reactivation by June 30, 2014.

(3) A license that has become delinquent for failure to report completion of the requirements in s. 473.312 may be reactivated under s. 473.311 upon application to the department. Reactivation requires the payment of an application fee as determined by the board and certification by the Florida certified public accountant that the applicant satisfactorily completed the continuing education requirements set forth under s. 473.311. If the license is delinquent on December 31 because of failure to report completed continuing education requirements, the applicant must submit a complete application to the board by March 15 immediately after the delinquent period.

(4) Any Florida certified public accountant holding an inactive license may be permitted to reactivate such license in a conditional manner. The conditions of reactivation shall require the payment of fees and the completion of required continuing education.

(5) Notwithstanding the provisions of s. 455.271, the board may, at its discretion, reinstate the license of an individual whose license has become null and void if the individual has made a good faith effort to comply with this section but has failed to comply because of illness or unusual hardship. The individual shall apply to the board for reinstatement in a manner prescribed by rules of the board and shall pay an application fee in an amount determined by rule of the board. The board shall require that the individual meet all continuing education requirements as provided in subsection (2), pay appropriate licensing fees, and otherwise be eligible for renewal of licensure under this chapter.

History.--ss. 12, 25, ch. 79-202; s. 346, ch. 81-259; ss. 17, 18, ch. 81-302; ss. 2, 3, ch. 81-318; s. 3, ch. 83-265; s. 53, ch. 83-329; ss. 7, 10, 11, ch. 85-9; s. 4, ch. 91-429; s. 221, ch. 94-119; s. 348, ch. 97-103; s. 8, ch. 98-340; s. 5, ch. 2001-269; s. 12, ch. 2009-54; s. 4, ch. 2009-69; s. 15, ch. 2009-195; s. 2, ch. 2012-176.

61H1-33.006 – A Florida CPA who has requested inactive status or became delinquent who desires to become an active Florida certified public accountant can apply for reactivation by completing DBPR 0010-2 – Master Individual Application and DBPR CPA 5011-1 – Request for Change of Status. Each application should show the
completion of the required CPE hours – one reporting period (120 hours); two reporting periods (200 hours); three or more reporting periods (280 hours).

History—New 12-4-79, Amended 2-3-81, 11-6-83, 3-29-84, 8-20-85, Formerly 21A-33.06, Amended 4-8-86, 12-28-89, 10-16-90, Formerly 21A-33.006, Amended 12-14-93, 5-26-96, 7-23-06, 12-10-09, 7-7-10.

Points to Ponder

Joe is in process of renewing his inactive CPA license. However, he was involved in a serious automobile accident and will be hospitalized for at least a month. How might the Board decide regarding his renewal?

Mobility

A majority of states have adopted mobility legislation – which is a practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside his or her principal place of business without obtaining another license.

CPAMobility.org provides helpful information, updated regularly, on state practice privilege requirements for CPAs, commonly referred to as “mobility” laws, for all 50 states and five U.S jurisdictions. The useful tool for practitioners is a joint project between NASBA and the AICPA.

473.314 Temporary License

(1) The board shall adopt rules providing for the issuance of temporary licenses to certified public accountants or firms of other states who do not meet the requirements of s. 473.3141, for the purpose of enabling them or their employees to perform specific engagements involving the practice of public accountancy in this state. No temporary license shall be valid for more than 90 days after its issuance, and no license shall cover more than one engagement. After the expiration of 90 days, a new license shall be required.

(2) Each application for a temporary license shall state the names of all persons who are to enter this state and shall be accompanied by a fee in an amount established by the board not to exceed $400.

(3) A temporary license shall not be required of certified public accountants or firms entering this state solely for the purpose of preparing federal tax returns or advising as to federal tax matters if they do not use the title "CPA," "CPA firm," or any other title, designation, words, letters, abbreviations, or device tending to indicate that the certified public accountants or firms are authorized to practice public accounting. To use such terms in this state, certified public accountants or firms from other states must comply with the provisions of this section or s. 473.3141.

(4) Upon certification of the applicant by the board, the department shall issue a temporary license to the applicant.

(5) The application for a temporary license shall constitute the appointment
of the Department of State as an agent of the applicant for service of process in any action or proceeding against the applicant arising out of any transaction or operation connected with, or incidental to, the practice of public accounting for which the temporary license was issued.

History.--ss. 13, 25, ch. 79-202; s. 347, ch. 81-259; ss. 2, 3, ch. 81-318; ss. 10, 11, ch. 85-9; s. 24, ch. 91-137; s. 4, ch. 91-429; s. 13, ch. 2009-54.

473.3141 Certified Public Accountants Licensed in Other States

(1) Except as otherwise provided in this chapter, an individual who does not have an office in this state has the privileges of Florida certified public accountants and may provide public accounting services in this state without obtaining a license under this chapter or notifying or registering with the board or paying a fee if the individual:

(a) Holds a valid license as a certified public accountant from a state that the board or its designee has determined by rule to have adopted standards that are substantially equivalent to the certificate requirements in s. 5 of the Uniform Accountancy Act in the issuance of licenses; or

(b) Holds a valid license as a certified public accountant from a state that has not been approved by the board as having adopted standards in substantial equivalence with s. 5 of the Uniform Accountancy Act, but obtains verification from the board, or its designee, as determined by rule, that the individual’s certified public accountant qualifications are substantially equivalent to the certificate requirements in s. 5 of the Uniform Accountancy Act.

The board shall define by rule what constitutes an office.

(2) Except as otherwise provided in this chapter, an individual who qualifies to practice under this section may offer or provide services in this state in person, by mail, by telephone, or by electronic means, and a notice, fee, or other submission is not required.

(3) An individual certified public accountant from another state who practices pursuant to this section, and the firm that employs that individual, shall both consent, as a condition of the privilege of practicing in this state:

(a) To the personal and subject matter jurisdiction and disciplinary authority of the board;

(b) To comply with this chapter and the applicable board rules;

(c) That if the license as a certified public accountant from the state of the individual’s principal place of business is no longer valid, the individual will cease offering or rendering public accounting services in this state, individually and on behalf of a firm; and

(d) To the appointment of the state board that issued the individual’s license as the agent upon whom process may be served in any action or proceeding by the board or department against the individual or firm.

(4) An individual who qualifies to practice under this section may perform the services identified in s. 473.302(8)(a) only through a firm that has obtained a license issued under s. 473.3101 or is
authorized by s. 473.3101 to provide such services.

473.3101

1(5) Disciplinary action against an individual or firm that practices pursuant to this section is not valid unless, prior to the entry of a final order, the agency has served, by personal service pursuant to this chapter or chapter 48 or by certified mail, an administrative complaint that provides reasonable notice to the individual or firm of facts or conduct that warrants the intended action and unless the individual or firm has been given an adequate opportunity to request a proceeding pursuant to ss. 120.569 and 120.57

History.--s. 14, ch. 2009-54; s. 16, ch. 2012-212.

1Note.—Section 21, ch. 2012-212, provides that “[e]xcept as otherwise expressly provided in this act, this act shall take effect July 1, 2012, and shall apply to legal notices that must be published on or after that date.”

Points to Ponder

4.14

If a CPA firm from Pennsylvania has a client that has relocated to Florida, is the firm required to be licensed in Florida before entering this state to perform an audit of the client?

2012 Legislative Changes “Accountancy Bill”

(Update as of April 2012)

Of the 2,052 bills that were filed during the 2012 Legislative Session, only 292 passed both chambers (and even fewer were signed into law). On April 27, Gov. Rick Scott signed CS/CS/HB 769 into law. Senate Bill 1656 (SB 1656) was sponsored by Sen. Jack Latvala, R-St. Petersburg, and its House companion Bill 769 (HB 769) was sponsored by Rep. Clay Ford, R-Pensacola.

Together, the Legislation streamlines licensure and renewal requirements set forth in Chapter 473. One of several significant requirement changes relates to amnesty and license reactivation. The changes become effective July 1, 2012.

Here is a summary of five streamlining actions:

- Amends 473.308(4), F.S., to allow CPAs to obtain the one-year work experience licensure requirement through verification by another CPA, versus direct supervision of a CPA (current law).

- Streamlines the licensure-by-endorsement requirements, as set forth in 473.308(7), F.S., for CPAs who have held a license in another state for at least 10 years prior to application.

- Creates a one-time amnesty to reactivate a license by allowing CPAs to notify the Board of Accountancy (BOA) of their intention by Dec. 31, 2012, and
• Complete 120 hours of continuing professional education (CPE) by June 30, 2014.

• Amends 473.313(3), F.S., by creating a 75-day window to submit a renewal application, without having to apply for reactivation, for licensees who had completed the required CPE by Dec. 31, but failed to report.

• Provides for a Board of Accountancy (BOA) report to the Legislature on the potential cost savings of privatizing or outsourcing some Board functions.

The Board of Accountancy will need to promulgate rules for some of the provisions found in CS/CS/HB 769, and the FICPA will update our members on the specific statute and rule changes affecting the profession.

**Case Study 4.1**

Note: Please refer to Chapter 3 for an introduction to this continuing case study.

John and Jane decided to eventually leave their national firm positions and open their own CPA practice in Orlando. In order to make the best transition, they want to know their options. Through their initial research, they have several options to consider.

1. As individuals, what are the requirements to obtain their licenses to practice as certified public accountants in the state of Florida?

2. As members of the firm, what are their options?

3. What are their options regarding form of practice?

4. What are the fees to establish a firm?

How would you respond to the Doe’s questions? Support your responses based on the sections of F.S. 473 included in this chapter.
Chapter Review Questions

4.1 The biennial renewal fee must not exceed ________ as specified by rule.

a. $100  
b. $195  
c. $200  
d. $250

4.2 Candidates can sit for the CPA exam in Florida

a. As soon as they have 120 hours minimum and the required courses.  
b. As soon as they have 150 hours minimum and the required courses.  
c. At any point in their degree as long as they have the required courses.  
d. Once they have completed 120 hours of college coursework.

4.3 Which of the following situation does NOT meet the practice requirements for practicing public accounting?

a. A partnership of three CPAs in which all three partners are domiciled in another state hold a CPA license in some other state and only one partner holds a license in the state of Florida.

b. A corporation in which there are four owners of the firm – one CPA owner licensed in Alabama holds 35% of the voting stock; one CPA owner living in Alabama is also licensed in Florida and owns 16% of the voting stock; one non-CPA owner specializing in tax law with the firm and is a licensed attorney in the state of Florida and owns 29% of the voting stock; one non-CPA who is an actuary for the firm’s insurance area of practice that owns 20% of the voting stock.

c. An LLC in which all members of the LLC are licensed CPAs in another state.

d. A corporation in which 50% of the voting stock is owned by CPAs licensed in the state of Florida who are also domiciled in the state of Florida; the other 50% of the voting stock is owned by a license CPA in the state of New York, where this individual is domiciled.
Answers to Review Questions

4.1 The biennial renewal fee must not exceed _______ as specified by rule.

a. Incorrect. $100 is not cited by Chapter 473.305, FS.

b. Incorrect. $195 is not cited by Chapter 473.305, FS.

c. Incorrect. $200 is not cited by Chapter 473.305, FS.

d. Correct. $250 as cited by Chapter 473.305, FS.

4.2 Candidates can sit for the CPA exam in Florida

a. Correct. As soon as they have 120 hours minimum and the required courses.

b. Incorrect. Having 150 hours minimum and the required courses was the law before 2008.

c. Incorrect. They are not eligible to take the exam at any point. They must have at least 120 hours of coursework AND the required courses.

d. Incorrect. Candidates need a minimum of 120 hours of coursework AND the required courses.

4.3 Which of the following situation does NOT meet the practice requirements for practicing public accounting?

a. Incorrect. Partners domiciled in another state and licensed in another state meet the practice requirements as long as at least one general partner is a CPA of this state and holds an active license.

b. Incorrect. The corporation meets the practice requirements since there is one shareholder who holds an active license in the state of Florida; the corporation meets the 51% percent threshold of voting stock in the hands of licensed CPAs; and all shareholders who are not CPAs are engaged in the business of the corporation.

c. Correct. Although all members of the LLC are licensed CPAs at least one member of the LLC must hold an active license in this state.

d. Incorrect. 100% of the voting stock of the corporation are licensed CPAs. All CPAs domiciled in the state of Florida are licensed in this state.

For More Information
Please see Appendix B for a complete list of additional resources for this chapter.
Chapter 5

Ethics of Integrity, Objectivity, Commissions, Contingencies, and Communications

FAC 61H1

Learning Objectives

The purpose of Chapter 5 is to discuss the implications of the Florida Administrative Code, Section 61H1 as it pertains to public accounting in Florida to examine commissions, contingencies, and communications. The learning objectives for this chapter include:

1. Define the term “Objectivity” as it relates to the practice of public accounting.
2. Define the term “Integrity” as it relates to the practice of public accounting.
3. Describe the concept of “materiality” as defined by FASB No. 2, Qualitative Characteristics of Accounting Information.
4. Describe the situations when commissions or referral fees are allowed per Florida rule 61H1-21.003.
5. Explain Florida’s rule 61H1-21.006 for communicating with another client.

Statutory References and Information

Comparison of Florida Rule to National Standards

In F.A.C., Section 61H1-21.002 indicates that the ethical standards of integrity and objectivity shall be adhered to by Florida licensees by not doing the following:

1. Knowingly misrepresent facts
2. Subordinating their judgment to others including:
   a. Clients
   b. Employers
   c. Other third parties
3. Further, in tax practice a CPA may resolve doubt in favor of their client if there is reasonable support for their position.
61H1-21.002 Integrity and Objectivity

A certified public accountant shall not knowingly misrepresent facts, and, when engaged in the practice of public accounting, shall not subordinate his judgment to others including but not limited to clients, employers or other third parties. In tax practice, a certified public accountant may resolve doubt in favor of his client as long as there is reasonable support for his/her position.


Florida vs. National Ethics Standards

Most of the Florida Ethical Standards have their basis in the AICPA’s Ethical Standards. This is particularly true regarding Section 102, Integrity and Objectivity, of the AICPA’s Code of Professional Conduct.

Definitions of Integrity and Objectivity

While integrity and objectivity are hard to precisely define, there are several key words that describe integrity. These include:

- Being candid
- Being honest
- Doing the right thing
- Acting in good faith
- Placing service and public trust above personal advantage and personal gain
- Observing both form and spirit of professional standards

In the AICPA’s description of integrity, the following sentence stands out.

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

From the AICPA - Section 102, Integrity and Objectivity

The AICPA has ET §102.01 Rule 102, Integrity and 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.

If a member acts in the following way, they shall be considered to have knowingly misrepresented facts in direct violation of Rule 102:
• Makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records.

• Fails to correct materially false and misleading financial statements or records when they have the authority to do so.

• When a document containing materially false or misleading information is signed or permitted to sign or directs another to sign.

Conflicts of Interest

Under ET Section 102-2, the AICPA rule indicates that:

A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product, or service that could, in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity.

The AICPA also provides a series of examples of situations that may create a conflict of interest:

• A member has been asked to perform litigation services for the plaintiff in connection with a lawsuit filed against a client of the member’s firm.

• A member has provided tax or personal financial planning (PFP) services for a married couple who are undergoing a divorce, and the member has been asked to provide the services for both parties during the divorce proceedings.

• In connection with a PFP engagement, a member plans to suggest that the client invest in a business in which he or she has a financial interest.

• A member provides tax or PFP services for several members of a family who may have opposing interests.

• A member has a significant financial interest, is a member of management, or is in a position of influence in a company that is a major competitor of a client for which the member performs management consulting services.

• A member serves on a city’s board of tax appeals, which considers matters involving several of the member’s tax clients.

• A member has been approached to provide services in connection with the purchase of real estate from a client of the member’s firm.

• A member refers a PFP or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement to do so.

• A member recommends or refers a client to a service bureau in which the member or partner(s) in the member’s firm hold material financial interest
Obligations of a Member to His or Her Employer’s External Accountant

Rule 102-3 indicates that a member must:

“...maintain objectivity and integrity in the performance of a professional service. In dealing with his or her employer’s external accountant, a member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts. This would include, for example, responding to specific inquiries for which his or her employer’s external accountant requests written representation.”

Impairment of Objectivity or Integrity Involving Gifts or Entertainment

Rule 102, Ethics Ruling No. 113 -- Acceptance or Offering of Gifts or Entertainment

.226 Question — Would objectivity or integrity be considered to be impaired if a member offers or accepts gifts or entertainment to or from a client (or an individual in a key position with a client or an individual owning 10 percent or more of the client’s outstanding equity securities or other ownership interests), or a customer or vendor of the member’s employer (or a representative of the customer or vendor)?

.227 Answer — Objectivity would be considered to be impaired unless the gift or entertainment is reasonable in the circumstances. The member should exercise judgment in determining whether gifts or entertainment would be considered reasonable in the circumstances. Relevant facts and circumstances would include, but are not limited to:

- 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 either directly before, during, or after the entertainment
- Whether other clients, customers, or vendors also participated in the entertainment
- The individuals from the client, customer, or vendor and the member’s firm or employer who participated in the entertainment

In addition, a member would be presumed to lack integrity if he or she accepted or offered gifts or entertainment that he or she knew or was reckless in not knowing would violate the member, client, customer, or vendor’s policies or applicable laws and regulations.
Materiality – A Key Concept

What is it?

• May be either or both quantitative and qualitative.
• “Magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would change or be influenced”.
• Has been defined in FASB, AICPA, SEC, and PCAOB documents.

So if the definitions are everywhere, what is the problem?

• **There is no authoritative formulation of materiality in the law or accounting literature.**
• May be quite small numerically.
• Must be considered quantitatively and qualitatively.
• Most GAAP statements involve a consideration of materiality.
• Most auditing standards involve a consideration of materiality.

Commissions and Referral Fees

Section 61H1-21.003 is concerned with commissions or referral fees. Commissions or referral fees are prohibited with:

• Audit
• Review
• Compilation
• Prospective financial data
• Services resulting in an expression of opinion

In any engagement in which there is to be commission, the CPA must have an engagement letter signed by the client prior to beginning the engagement. The letter must indicate a complete disclosure for the compensation.

The CPA must have all required licenses. Further, independence must be disclosed in the engagement letter.
61H1-21.003 Commissions or Referral Fees

(1) A certified public accountant shall not pay or accept a commission or referral fee in connection with the sale of a product or referral of any services as defined in Section 473.302(7)(a), F.S., or prohibited to non-certified public accountants as listed in Section 473.322, F.S.

These services include:

(a) Audit, review, or compilation services.
(b) Services for any prospective financial data including forecasts or projections.
(c) Any special procedures engagement resulting in an expression of an opinion when the services fall within the definitions as set forth in Section 473.302(7)(a) and Section 473.322, F.S.

(2) The certified public accountant must have an engagement letter signed by the client prior to beginning any engagement for which the certified public accountant will receive a commission. The letter must include complete details of the financial arrangements involving compensation for the services rendered.

(3) The certified public accountant must hold appropriate licenses as required.

(4) If the certified public accountant is not independent as described in Rule 61H1-21.001, F.A.C., it must be disclosed in the engagement letter. However, if the only reason for not being independent is the fact that the certified public accountant is being compensated by a commission or contingent fee then the lack of independence does not have to be disclosed.


Points to Ponder

5.1 When a CPA is eligible to receive a commission or referral fee, must the CPA disclose complete details of the financial arrangements regarding compensation of the services rendered?

5.2 Elaine, CPA, manages a 40-person accounting department for a national company. Elaine’s sister, Judy, sells products from a party plan company. Judy has agreed to pay Elaine a 10% commission for any products sold to her staff. Is this permissible?

Contingent Fees

Contingent fees may be accepted only for those fees for which contingent fees are allowed. When a tax related filing with the federal, state, or local government occurs, a contingent fee will only be allowed on findings of the government and not the licensee.
There are some exceptions in the F.A.C. regarding contingent fees such as when the taxing authority has begun an audit. Fees fixed by courts or public authorities will not be regarded as contingent when they are of an indeterminate amount.

**61H1-21.005 Contingent Fees**

(1) No certified public accountant or firm shall accept a fee contingent upon the findings or results of such services if the service is of the type for which a commission or referral fee could not be accepted (See Rule 61H1-21.003, F.A.C.).

(2) No certified public accountant or firm shall accept a contingent fee for tax filings with the federal, state, or local government unless the findings are those of the tax authorities and not those of the licensee. Unless the certified public accountant or firm has specific reason to know that the filing will be reviewed in detail by the taxing authorities, the findings will be presumed to be those of the certified public accountant or firm and a contingent fee is not permissible. An original or amended federal tax return or a claim for refund cannot be prepared for a contingent fee since the findings are not considered to be those of the taxing authority. If the taxing authority has begun an audit, any findings will be considered those of the taxing authority and a contingent fee may be accepted. Fees to be fixed by courts or other public authorities, which are of an indeterminate amount at the time a public accounting service is undertaken, shall not be regarded as contingent fees for the purposes of this rule. However, a certified public accountant’s or firm’s fee may vary depending, for example, on the complexity of the service rendered.

Points to Ponder 5.3

*Couches Corporation is undergoing an income tax audit by the IRS on its income tax return that was filed two years ago. Couch Corporation has hired Carly, their CPA, to assist in the tax audit. The IRS subsequently determined that Couches Corporation will receive a refund of $5,500 for overpaid tax. Is Carly, who filed the original tax return, able to accept a contingency fee based on the amount refunded?*

**Communication with Client of Another Licensee**

There are also rules for communicating with the client of another licensee.

**61H1-21.006 Communication with Client of Another Licensee**

If a client of one certified public accountant or firm requests a second certified public accountant or firm to provide professional advice on
accounting or auditing matters in connection with an expression of opinion, the second certified public accountant or firm must consult with the first certified public accountant or firm, after obtaining the client's consent, to make certain that the (second certified public accountant or firm) is aware of all the relevant facts.


Points to Ponder 5.4

At a youth softball practice, the owner of a hardware store asks Jay CPA if he would be willing to review the store’s financial statements. The owner wants a second opinion about whether or not to open another store. Jay agrees to do so and they schedule an appointment to review the financials. Is there any reason to inform the CPA who prepared the hardware store’s financial statements of this action?

Case Study 5.1

1. Doe & Doe has the opportunity to participate in several types of activities as a new firm. Discuss how the following actions may create problems for the new firm.
   A. Referral fees on new engagements.
   B. Commissions on new engagements.
   C. Contingency fees on new engagements.
   D. Communication with the client of another licensee.

2. Doe & Doe is interested in expanding the tax base of their accounting firm. They enter into an agreement with a real estate agent to pay the real estate agent $75 for every referred homeowner that becomes a tax client. Is this allowed under the Florida Rules?

3. Doe & Doe is interested in expanding their base of audit clients. They enter into an agreement with an employee benefits (EB) firm. They will pay the EB firm 10 percent of their collected fee for the first year on any audit clients referred by the EB firm. Is this an acceptable action?
4. Doe & Doe wishes to expand their accounting practice and begin the process of acquiring other practices that are for sale. *Is this a proper procedure in Florida?*

5. Doe & Doe is interested in expanding their tax practice and wishes to offer original or amended federal income tax returns on a contingency basis. *May they do so under the Florida Statutes and Rules?*

**Case Study 5.2**

John and Jane Doe of Doe & Doe, P. A. were performing an annual audit of the XYZ Testing Company of Florida, Inc., (the Company), a small privately held manufacturing corporation. This was the first year that the company had ever undergone an audit. The audit was requested as part of a bank requirement for potential borrowings for expansion. The company has been in existence for 5 years, has a balance sheet of approximately $20,000,000 of total assets, and has shown promising growth and profitability on previous unaudited financial statements.

The audit was progressing nicely. John Doe was auditing the Company’s property and equipment accounts and noticed that the equipment account had increased by $1,000,000 over the prior year. He noticed a purchase reflected in February of the audit year and investigated. He found an invoice from Indiana Testing Company, Inc. in Indianapolis, Indiana, and pulled it for testing. The invoice appeared correct in every detail and tied to the Company’s transaction listings where it had been paid by company check. John thought that this was a “tic and tie” situation and a straightforward transaction. After replacing the invoice and completing the work paper details, he remembered something about the invoice. He pulled the invoice again and immediately noticed that the equipment had been delivered to their site in Florida, there were no special exemptions at play, but there was no Florida sales tax stated on the invoice. John determined that there should have been a Florida sales tax paid or accrued.

He tested the Company’s monthly Sales and Use Tax Reports that had been filed timely. There was no evidence that any Florida sales or use tax on the equipment acquisition for $1,000,000 had ever been accrued, reported, or paid. The county in Florida where the purchase transaction had occurred has a sales tax rate of 7 percent. The sales and use tax calculation indicated a tax due of over $70,000 on the purchase. John was able to determine that the amount had never been accrued or paid.

John went to the Company’s President and informed him of the situation. The President said, “We did very well, didn’t we? We had our own truck pick up the
equipment in Indianapolis and bring it into our plant in Florida over the back roads in Georgia. We saved over $70,000 in sales tax. Good, smart management, right?”

John immediately conferred with his sister Jane on the situation. They raised the following questions:

1. How do the standards of integrity and objectivity apply here?
2. Were the auditors under any obligations to find and locate unpaid sales tax?
3. Was the amount due considered material?
4. Was the omission considered a misstatement?
5. Was the omission an illegal act?
6. What are the auditor’s obligations under professional standards?
7. What should the auditors do about their finding?
8. The above situation may come to the attention of the Company’s Chief Financial Officer before it ever goes to the Company’s CEO. What are the considerations should this occur? How do the questions above change when the CFO is involved?

Case Study 5.3

Doe & Doe, PA had barely opened their doors when John Doe found himself with a dilemma. Sam Jones, a close, personal friend of John Doe had accepted a job as the Assistant Controller with Florida Construction Company, Inc. This company was a potential client. Sam Jones, CPA had been hired by the Controller and CFO of Florida Construction. The Controller was expecting to move up within the company to bigger and better things. Sam Jones respected and liked the Controller but was also excited about the prospect of further advancement in Florida Construction.

To give Sam additional exposure to the Board of Directors the Controller had asked him to make a brief presentation to the Board about a recent audit performed by an independent CPA firm.

The independent auditors had discovered a material (in their opinion) weakness along with several other weaknesses in the company’s internal control system. The material weakness involved the CFO’s authority to buy and sell any type of security without Board approval. The material weakness was not presented in Sam’s Board appearance,
but Sam and the CFO did have an appointment with the auditors to discuss the auditor’s position.

After the presentation, one of the Board members approached Sam and asked, “Our CFO told me that Florida Construction’s internal control system was excellent. Did the auditors say anything to you about it? Please call me tomorrow with an answer. I have another appointment and am not available right now.”

As soon as Sam was alone, he called his friend John Doe for advice. There are two things that one might conclude. First, Sam was not aware of the auditor’s material weakness. Second, one does not know if the board member knew of the weakness either. Would these two things change the answers? Sam and John concluded that there was maybe more than one acceptable answer to the question:

1. Sam could say that the CFO had the authority and opportunity to commit a possible fraud against Florida Construction. Sam had advised against this policy, but the CFO proceeded anyway.

2. Sam could say the CFO’s statement that the internal control system of Florida Construction is excellent is factual and no further action is required.

3. Sam might consider saying that the auditors had some recommendations to improve Florida Construction’s internal control situation. The CFO and Sam could plan a meeting for discussion of the auditor’s conclusions.

4. Sam might say that he has no idea about what the member is talking about and will refer the question to the CFO.

*Which answer do you consider the best and why?*

---

**Case Study 5.4**

Jane Doe received a request for an appointment from the CFO of a potential client. Jane met with the CFO and they discussed a potential audit. The CFO indicated that he felt the company needed a standard cost accounting system installed to enhance their financial reporting. The CFO wanted Jane to be sure to include the recommendation for a standard cost accounting system in a Management Letter at the end of the audit. With that being said, the CFO indicated that Jane could proceed with the audit. The CFO further indicated that the company was willing to pay Doe & Doe, PA for designing and installing the system after the audit.

Prior to accepting the engagement, Jane looked over the company’s accounting system and concluded that the Company would not benefit from a standard cost accounting system until the company had more product lines being manufactured. Further, given
the nature of designing a financial reporting system and then auditing that same system in the future would possibly be an impairment of independence.

*How should Jane advise the potential client?* There are several possible points to be made:

1. The firm is anticipating the audit and could begin immediately.

2. A standard cost accounting system will not benefit the Company until more product lines are being manufactured. Further, the client should be advised that there is a potential impairment of independence if the firm does the design and implementation of the system.

3. The firm could begin immediately because the extra design work will take longer and cost more to the company.

*What would your answer be?*

---

**Case Study 5.5**

In the case of Doe & Doe, how would the above situations raise questions about their objectivity?
Chapter Review Questions

5.1 Florida’s ethical standards (61H1-21.002 FAC) are derived from:
   a. AICPA standards
   b. FASB standards
   c. Florida legislature
   d. NASBA standards

5.2 Which of the following statements is true regarding materiality?
   a. Materiality can be applied to qualitative data.
   b. Materiality has little influence on someone reviewing accounting data.
   c. Materiality is infrequently mentioned in most auditing standards.
   d. Materiality is well defined by law and standards.

5.3 Which of the following statements is NOT true regarding commissions?
   a. A CPA must have a Series 7 license to receive commissions from the sale of insurance products.
   b. The engagement letter must be signed by the client in advance of the engagement.
   c. The engagement letter must disclose lack of independence from receiving a commission.
   d. The engagement letter must specify the details of the commission.
Answers to Review Questions

5.1 Florida’s ethical standards (61H1-21.002 FAC) are derived from:

   a. Correct. Florida’s ethical standards are based on the AICPA’s Code of Conduct Section 102.
   b. Incorrect. None of Florida’s ethical standards are based on FASB standards.
   c. Incorrect. The Florida legislature does create standards for CPAs including 61H1-21.002 FAC, but this is not the source.
   d. Incorrect. None of Florida’s ethical standards are based on NASBA standards.

5.2 Which of the following statements is true regarding materiality?

   a. Correct. Materiality can be applied to both qualitative and quantitative data.
   b. Incorrect. Materiality thresholds are very important to someone reviewing accounting data.
   c. Incorrect. Materiality is mentioned frequently in most auditing standards though is not always well defined.
   d. Incorrect. Materiality is not well defined by law and standards. This is considered a “gray area” in accounting literature.

5.3 Which of the following statements is NOT true regarding commissions?

   a. Incorrect. A CPA is required to have a Series 7 license to receive commissions from the sale of insurance products. If the CPA is not the seller but only referring a client, a commission is permissible.
   b. Incorrect. The engagement letter must be signed by the client in advance of the engagement as specified by 61H1-21.003(2).
   c. Correct. The engagement letter does not have to disclose lack of independence if the CPA is receiving a commission or contingent fee.
   d. Incorrect. The engagement letter must specify the details of the commission as specified by 61H1-21.003(2).

For More Information

Please see Appendix B for a list of additional resources for this chapter.
Chapter 6

Competency and Related Issues

Learning Objectives

The purpose of Chapter 6 is to review the idea of competency and its effect on public accounting. The learning objectives for this chapter include:

1. Describe the four general standards of competence listed in 61H1-22.001.
2. Apply standards of documentation to the performance of audits, reviews, and compilations.
3. Review new amendments to the Code of Professional Conduct ethics interpretations and rulings.

Statutory References and Information

F.A.C. Chapter 61H1-22 deals with general competence and other technical standards. The general standards are set out in Chapter 61H1-22.001. This section requires the licensee to comply with the general standards which include:

1. Professional competence – Undertake only those engagements reasonably expected to be completed
2. Due professional care
3. Planning and supervision – adequately plan and supervise
4. Sufficient relevant data – data for a reasonable basis for a conclusion or recommendations

61H1-22.001 Competence (General Standards)

A certified public accountant shall comply with the following general standards and must justify any departures there from:

(1) Professional competence. A certified public accountant shall undertake only those engagements which he or his firm can reasonably expect to complete with professional competence. A certified public accountant must be in charge of all public accounting services performed by the firm.

(2) Due professional care. A certified public accountant shall exercise due professional care in the performance of an engagement.

(3) Planning and supervision. A certified public accountant shall adequately plan and supervise an engagement.
(4) Sufficient relevant data. A certified public accountant shall obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

**Professional Competence**

- Agreement to perform implies that the member has necessary competence to complete the engagement.
- Member does not assume a responsibility for infallibility of knowledge or judgment.
- Competence involves both member and staff.

**Due Professional Care**

- Assumes the person offering services will possess the “degree of skill commonly possessed” by other persons as described in Cooley on Torts, a legal treatise.
- Further assumes the person should exercise that skill with “reasonable care and diligence.”
- Such as, “due professional care”

**Planning and Supervision**

Adequately plan and supervise the performance of professional services.

**Sufficient Relevant Data**

Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

**AICPA ET Section 201 - General Standards**

.01 Rule 201—General Standards
A member shall comply with the following standards and with any interpretations thereof by bodies designated by Council.

A. Professional Competence. Undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.

B. Due Professional Care. Exercise due professional care in the performance of professional services.

C. Planning and Supervision. Adequately plan and supervise the performance of professional services.
D. Sufficient Relevant Data. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

**Interpretations under Rule 201**

**General Standard.** .02 201-1—Competence
A member's agreement to perform professional services implies that the member has the necessary competence to complete those professional services according to professional standards, applying his or her knowledge and skill with reasonable care and diligence, but the member does not assume a responsibility for infallibility of knowledge or judgment.

Competence to perform professional services involves both the technical qualifications of the member and the member's staff and the ability to supervise and evaluate the quality of the work performed. Competence relates both to knowledge of the profession’s standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgment in applying such knowledge in the performance of professional services.

The member may have the knowledge required to complete the services in accordance with professional standards prior to performance. In some cases, however, additional research or consultation with others may be necessary during the performance of the professional services. This does not ordinarily represent a lack of competence, but rather is a normal part of the performance of professional services.

However, if a member is unable to gain sufficient competence through these means, the member should suggest, in fairness to the client and the public, the engagement of someone competent to perform the needed professional service, either independently or as an associate.

**Hindsight Judgment**

Hindsight is often how the CPA will be judged. The CPA will be judged in almost all situations for compliance with the ethical standards such as professional competence, due professional care, planning and supervision, and sufficient relevant data based on hindsight. So often these standards may only be judged after the situation has occurred.

Rather than being asked, “do you ...” or “will you ...”
Those judging us will tend to ask, “did you ...” or “will you...”.

**Judgment Protection**

In real estate it has been often said that the three most important things in real estate are:
For protection from hindsight judgments, the three most important things are:
1. **Documentation**
2. **Documentation**
3. **Documentation**!

There are only a few means available to the professional as a defense against an attack on our ethical compliance. One of the primary means available is to document your compliance with the ethical standards.

**Many standards today require documentation which was not required in the past.**

**Documentation Requirements**

Documentation requirements are found in many professional standards:
1. Auditing Standards
2. Review Standards
3. Compilation Standards
4. Quality Control Standards
5. Peer Review Standards
6. Attestation Standards
7. Other Standards

**Audit Documentation**

AU Section 339, Audit Documentation, currently establishes standards and provides guidance on audit documentation. **SAS 103, Audit Documentation** is effective for audits of periods ending on or after December 15, 2006. This SAS replace the former SAS 96 with the same name. This SAS and the entire issue of audit documentation are being redrafted as part of the ASB’s Clarity Project.

Audit documentation is the record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached. Audit documentation, also known as working papers or work papers, may be recorded on paper or on electronic or other media.

When transferring or copying paper documentation to another media, the auditor should apply procedures to generate a copy that is faithful in form and content to the original paper document.
Audit documentation includes, for example,

- audit programs
- analyses
- issues memoranda
- summaries of significant findings or issues
- letters of confirmation and representation
- checklists
- abstracts or copies of important documents
- correspondence (including e-mail) concerning significant findings or issues
- schedules of the work the auditor performed.
- abstracts or copies of the entity’s records (for example, significant and specific contracts and agreements) should be included as part of the audit documentation if they are needed to enable an experienced auditor to understand the work performed and conclusions reached.

The audit documentation for a specific engagement is assembled in an audit file. The auditor need not retain in audit documentation superseded drafts of working papers or financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

The auditor should prepare audit documentation that enables an experienced auditor, having no previous connection to the audit, to understand:

- The nature, timing, and extent of auditing procedures performed to comply with SASs and applicable legal and regulatory requirements;
- The results of the audit procedures performed and the audit evidence obtained;
- The conclusions reached on significant matters; and
- That the accounting records agree or reconcile with the audited financial statements or other audited information.

In order for us to understand some of the protection that we should use in these situations, we must understand what general body of standards to which we will be held accountable. This includes the AICPA standards as well as Florida requirements.

Documenting is your best means of defense. Be sure to document in writing and in a way that is industry specific and timely.

Documentation implies that each work paper will include the following six points:

1. Who prepared it?
2. When?
3. Who reviewed it?
4. When?
5. Where did it come from?
6. Where is it going?
Risk Assessment Standards - Statement on Auditing Standards No. 104—No. 111

These standards are also currently being redrafted for the future and will include several revised pieces of documentation.

The Standards are:

- SAS 104 – Due Professional Care
- SAS 105 – GAAS
- SAS 106 – Audit Evidence
- SAS 107 – Risk and Materiality
- SAS 108 – Planning and Supervision
- SAS 109 – Understanding the Entity
- SAS 110 – Performing Procedures

Compilation and Review Documentation

Documentation for compilation and review engagements has changed over time as well as the audit documentation requirements. Several changes in the SSARS standards now require additional documentation.

SSARS 19 requires additional documentation for compilations and review for periods beginning after December 15, 2010. Further, SSARS 19 allows (but does not require) that the reason(s) for the lack of independence in a compilation engagement may be disclosed.

New Ethics Guidance from AICPA

A comprehensive article “New Ethics Guidance for CPAs in Public Practice and Business” (see A. Reinstein and R. Weirich, CPA Journal, March 2012) highlights the new ethics interpretations and rulings from the AICPA’s Professional Ethics Executive Committee. Some of the Code amendments went into effect in November 2011, and other changes in April 2012. The following chart is based on data from their article.

Figure 6.1: Summary of Recent Changes to AICPA’s Code of Professional Conduct

<table>
<thead>
<tr>
<th>New Ethics Section</th>
<th>Old Code</th>
<th>New Code</th>
<th>Effect on CPAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comprehensive framework for</td>
<td>Definitions of public interest and mitigating safeguards were unclear</td>
<td>Public interest entities are defined as subject to SEC, PCAOB, others.</td>
<td>Clarify these definitions</td>
</tr>
<tr>
<td>independence standards [ET Section 100-1.20]</td>
<td></td>
<td>‘Reduce threats’ replaced with ‘mitigate threats’ to an acceptable level.</td>
<td></td>
</tr>
<tr>
<td>New Ethics Section</td>
<td>Old Code</td>
<td>New Code</td>
<td>Effect on CPAs</td>
</tr>
<tr>
<td>---------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Clarify Applicability</td>
<td>Code did not address international applicability of disciplinary procedures.</td>
<td>Members adhering to IESBA standards face no separate AICPA disciplinary procedures</td>
<td>Clarify which ethics standards members operating in international arena should follow</td>
</tr>
<tr>
<td>Clarify Members in business</td>
<td>Code did not explicitly disclose whether members in public practice or business had to follow certain code sections</td>
<td>Clarify that members must follow code sections based on the types of services provided</td>
<td>Members serving as volunteers may need to follow both public practice and business sections</td>
</tr>
<tr>
<td>Disclose client information to third parties</td>
<td>No specific guidance on disclosing client information to outsiders (e.g., academic research)</td>
<td>Disclosing client information to outsiders without client permission is more limited</td>
<td>The ability to market client industry trends and obtain research data is impaired</td>
</tr>
<tr>
<td>Disclose confidential information learned from former employers</td>
<td>No DIRs regarding disclosing confidential information learned from former employers</td>
<td>Members are limited in disclosing information learned from former employers</td>
<td>The ability of a CPA to inform a new employer of technological advances or sensitive client information learned from former employer is impaired</td>
</tr>
<tr>
<td>Expand concept of financial interest threats to members in business and industry</td>
<td>Concept of financial interest threats applied only to members in public practice</td>
<td>Members in business are required to recognize financial interests “threats and safeguards” to their integrity and objectivity</td>
<td>CPAs should recognize potential actions that could harm the member’s employer but could help the member’s family’s financial interests</td>
</tr>
<tr>
<td>Expand the ban on false or misleading acts to members in business and industry</td>
<td>The concept of prohibiting false, misleading, or deceptive acts applied only to members in public practice</td>
<td>Members in business are required to not use false, misleading, or deceptive acts</td>
<td>Making false claims about education or experience to secure a new professional position is more limited</td>
</tr>
<tr>
<td>New Ethics Section</td>
<td>Old Code</td>
<td>New Code</td>
<td>Effect on CPAs</td>
</tr>
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</tr>
<tr>
<td>Reinterpret how to apply independence requirements to entities affiliated with attest clients [Interp.101-18, 20]</td>
<td>The EIRs on how to apply independence requirements to entities affiliated with attest clients were ambiguous</td>
<td>Applying independence requirements applications to entities affiliated with attest clients has been reinterpreted</td>
<td>CPAs should not adhere to the provisions of ET section 101.01 and all its EITs, including their separate businesses, owners and employees</td>
</tr>
<tr>
<td>Allow members of CPAs firms to teach part-time for employer educational institution clients [101-.19,.21]</td>
<td>Code did not address the issue of auditors of educational institutions to work as part-time faculty for those clients</td>
<td>Auditors may now work as part-time faculty for these clients</td>
<td>CPAs can teach part-time at their client institutions, as long as they are not part of the firm’s audit team</td>
</tr>
<tr>
<td>Modify application of Rule 101-3 for Attestation Engagements [101-.11,.13]</td>
<td>The code did not address the effect of independence when providing certain information to responsible parties for SSAE engagements</td>
<td>Members can provide nonattest services that would otherwise impair their independence to the responsible parties when such services do not relate to the specific subject matter of the SSAE engagement and follow the general requirements of Interpretation 101-3</td>
<td>Members can make journal entries for and maintain custody of plan assets in SSAE engagement, provided that it does not affect the independence of the engagement itself</td>
</tr>
<tr>
<td>Modify the application of the context of GAAP for Rule 203 [Interpretation 203-5]</td>
<td>Rule 203 did not allow members to apply non US GAAP for attest engagements</td>
<td>Members can apply foreign country’s comprehensive GAAP standards, but denote the framework used</td>
<td>Members can apply foreign country’s financial framework for GAAP financial statements, as long as they use proper disclosures</td>
</tr>
<tr>
<td>New Ethics Section</td>
<td>Old Code</td>
<td>New Code</td>
<td>Effect on CPAs</td>
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</tr>
<tr>
<td>Clarify when members can withhold records prepared for clients [Interp. 501-1]</td>
<td>Code listed some types of member-prepared client records and did not address the issue of member withholding records related to litigation involving the client</td>
<td>Members must return client prepared records on request but can retain certain member-prepared records for unpaid fees or if pending litigation exists</td>
<td>Members can withhold prepared client depreciation schedules until they receive the related professional fees</td>
</tr>
<tr>
<td>Limit members from using misleading firm names [Interpretations 505-4 and 505-5], still pending</td>
<td>Not specifically prohibited by Code</td>
<td>Members should not use confusing or improper firm names</td>
<td>Members cannot call themselves an LLC or PC or PA unless they file proper incorporating documents with the applicable state agency</td>
</tr>
</tbody>
</table>


**Chapter Review Questions**

6.1 Documentation is considered any of the following EXCEPT:

- a. A key defense in ethics compliance
- b. A major component of work papers
- c. A part of the GAAS hierarchy
- d. The focus of SAS 103

6.2 The four general standards of competence per 61H1-22.001 include which four areas?

- a. Professional competence; due professional care; planning and supervision, and sufficient relevant data
- b. Professional competence; due professional care; invoicing and administration, and sufficient relevant data
- c. Professional communications; due professional care; invoicing and administration, and hindsight judgment
- d. Professional communications; due professional care; invoicing and administration, and sufficient relevant data
Answers to Review Questions

6.1 Documentation is considered any of the following EXCEPT:

a. Incorrect. Documentation is the key defense in ethics compliance.

b. Incorrect. The major component of work papers is documentation in various forms.

c. Correct. Documentation is not a viable part of the GAAS hierarchy.

d. Incorrect. SAS 103 is concerned with audit documentation and focuses on the documentation needed.

6.2 The four general standards of competence per 61H1-22.001 include which four areas?

a. Correct. The four areas include professional competence; due professional care; planning and supervision, and sufficient relevant data.

b. Incorrect. The area of invoicing and administration is not one of the four general standards of competence.

c. Incorrect. Though important to a CPA’s work, professional communications is not one of the four general standards of competence.

d. Incorrect. Neither professional communications or invoicing and administration are one of the four general standards of competence.

For More Information

Please see Appendix B for a list of additional resources for this chapter.
Chapter 7

Tax Ethics

Learning Objectives

The purpose of Chapter 7 is to review the tax practice ethical provisions and their effect on public accounting. The learning objectives for this chapter include:

1. Describe the main responsibilities of a paid tax preparer in regards to ethics.
2. Describe the major ethical considerations discussed in the AICPA’s Statement of Standards for Tax Services.
3. Describe the main areas of ethical conduct as discussed in IRS Circular 230.

Statutory References and Information

Ethical Implications on Tax Services and Tax Preparation

This section on ethics for professionals is concerned with the requirements of Treasury Department Circular 230 (revised 8-2011), Regulations Governing Practice before the Internal Revenue Service which applies to CPAs, Attorneys, and Enrolled Agents. This section also looks at the AICPA Statements on Standards for Tax Services and the IRS requirements for:

- Confidentiality
- Due Diligence
- Professional Conduct

Specifically, Circular 230 has been revised to require CPAs, Attorneys, Enrolled Agents, and Enrolled Actuaries to take 16 hours of continuing education each year to include 2 hours of ethics.

There are several points to make concerning the phrase, “Doing the Right Thing”:

- “Doing the right thing” is a common definition of ethics
- “Doing the right thing” is not always commonly done.
- “Doing the right thing” may depend on one’s definition of “the right thing”.
Former Supreme Court Justice Potter Stewart said about ethics, “...knowing the difference between what you have a right to do, and what is the right thing to do.”

**Ethical Environment in Tax Practice**

In an ethical environment communication is key. Everyone must realize that ethical behavior is expected, will be rewarded, and is everyone’s responsibility.

A “Tax Practice” involves more than one type of service. It includes:

- Preparation and filing of tax returns
- Tax and estate planning
- Representing the taxpayer
- Tax education
- Tax court or judicial representation

For CPAs, the conduct guideline issuers include:

- AICPA
- Internal Revenue Service
- Florida Board of Accountancy

**Professional Responsibilities**

The professional responsibilities of the CPAs include:

- Protecting the client’s interest.
- Operating in the guidelines of tax laws and ethics rules.
- **Remember - Tax avoidance is a legal right of taxpayers; however, tax evasion is illegal**

Other responsibilities include:

- Continuing education
- Taxpayer education
- Know the client
- Planning
- Research

**Paid Preparer’s Responsibilities**

- **Signature** – IRC Sec. 6061 and Reg. 1.6695 mandate that a paid tax preparer sign any tax return, document, or other statement presented to the IRS. A failure to do so may involve a $50 fine per return up to $25,000 per calendar year. Further, the regulations indicate that this must be an original signature. However, IRS Notice 2004-54, *Alternative Methods of Signing for Income Tax*
Return Preparers, allows the signing of original and amended returns and extension requests by “rubber stamp, mechanical device, or computer software program”.

- ID Number – a Social Security number or preparer tax identification number (PTIN) must be in the paid preparer section of the taxpayer’s return. The PTIN may be obtained by filing Form W-7P. A fine of $50 per return up to $25,000 per year may be assessed if the number is missing.

- Record Retention – The IRS requires a copy of the return or a list including the name and ID number of every client a return was prepared for. These records must be retained for the “period ending three years after the close of the return period” per IRC Sec 6107(b). The return period is defined by IRC Sec 6060(c) as “the 12 month period beginning on July 1 of each year”. Fines are possible.

- Third Party Designee – Taxpayers may designate a “third-party designee” by checking the box on the return. The taxpayer is not authorizing the designee to receive refunds, bind the taxpayer, or otherwise represent the taxpayer before the IRS. The authorization may not be revoked but will end automatically no later than the due date without extensions for filing the next tax return.

- Confidentiality – In addition to other “privacy” or confidentiality rules the preparers are required to:
  1. Not use client information for other than the tax return preparation
  2. Keep information confidential. Share with associates only on a “need to know” basis.
  3. Control access to client files
  4. Store in a limited access area
  5. Do not let other clients view or see any files
  6. Computer access should be limited
  7. Confirm identities before releasing information
  8. Get client approval before releasing any information
  9. Do not casually divulge information about who clients are and what they do or have.

- Outsourcing – The AICPA Professional Ethics Executive Committee has issued a ruling regarding outsourcing for services performed on or after July 1, 2005. The basic provisions of this are:
  1. Members of the AICPA must now tell their clients if they will be using a third-party service provider.
  2. Client consent should be obtained prior to disclosing any confidential client information.
  3. Members are still responsible for any outsourcing work.
AICPA “Statements on Standards for Tax Services”

The Statements on Standards for Tax Services (SSTSs) set forth the ethical tax practice standards for members of the AICPA. The original SSTSs, adopted in 2000, were revised in 2009, effective January 1, 2010. In addition, SSTS Interpretation No. 1-1 and No. 1-2 are being updated.

Statement on Standards for Tax Services No. 1,
Tax Return Positions
The applicable standards for members when recommending tax return positions, or preparing or signing tax returns (including amended returns, claims for refund, and information returns) filed with any taxing authority

Statement on Standards for Tax Services No. 2,
Answers to Questions on Returns
The applicable standards for members when signing the preparer’s declaration on a tax return if one or more questions on the return have not been answered.

Statement on Standards for Tax Services No. 3,
Certain Procedural Aspects of Preparing Returns
The applicable standards for members concerning the obligation to examine or verify certain supporting data or to consider information related to another taxpayer when preparing a taxpayer’s tax return.

Statement on Standards for Tax Services No. 4,
Use of Estimates
The applicable standards for members when using the taxpayer’s estimates in the preparation of a tax return. A member may advise on estimates used in the preparation of a tax return, but the taxpayer has the responsibility to provide the estimated data.

Statement on Standards for Tax Services No. 5,
Departure from a Position Previously Concluded in an Administrative Proceeding or Court Decision
The applicable standards for members in recommending a tax return position that departs from the position determined in an administrative proceeding or in a court decision with respect to the taxpayer’s prior return.

Statement on Standards for Tax Services No. 6,
Knowledge of Error: Return Preparation and Administrative Proceedings
The applicable standards for a member who becomes aware of (a) an error in a taxpayer’s previously filed tax return; (b) an error in a return that is the subject of an administrative proceeding, such as an examination by a taxing authority or an appeals conference; or (c) a taxpayer’s failure to file a required tax return.
Statement on Standards for Tax Services No. 7

Form and Content of Advice to Taxpayers

The applicable standards for members concerning certain aspects of providing advice to a taxpayer and considers the circumstances in which a member has a responsibility to communicate with a taxpayer when subsequent developments affect advice previously provided.

Ethical Guidelines – Circular 230 and Publication 470

Circular 230, Regulations Governing the Practice before the Internal Revenue Service, and Publication 470, Limited Practice without Enrollment deal with many issues.

Circular 230 consists of the following five subparts:

- Subpart A – describes the rules governing authority to practice before the IRS, who is eligible to practice before the IRS, who is eligible to practice as an enrolled agent or enrolled actuary, and how one applies for enrollment.
- Subpart B – discusses the duties and restrictions relating to practice before the IRS and other practice matters.
- Subpart C – provides sanctions for violations of Circular 230.
- Subpart D – sets forth detailed rules for the conduct of disciplinary actions and proceedings in connection with violations of Circular 230.
- Subpart E – contains miscellaneous procedural rules.

Circular 230 Specifics

- 10.20 – Information to be furnished – tax preparer is required by law to furnish information or records requested by the IRS. Please note that privilege does not apply even in a criminal matter unless the practitioner is an attorney.
- 10.21 – Knowledge of client’s omission – If tax preparer knows that the client has omitted information, or that there is an error in return, or the client has failed to comply with laws, the preparer is required to immediately notify the client and to explain the consequences of failure to correct or comply with the laws. Other actions are needed if the client fails or refuses to comply or correct.
- 10.22 – Diligence as to accuracy – The tax preparer must exercise due diligence both in preparing, assisting, and making oral or written representations to the Department of Treasury.
• 10.23 – Prompt disposition of pending matters – The CPA shall not unreasonably delay prompt disposition of any matter before the IRS.

• 10.24 – Assistance from disbarred or suspended persons

• 10.27 – Fees – Practitioners may not charge unconscionable fees for representing a client before the IRS. No contingent fees are allowed for an original return or for advice for any position to be taken or taken on an original return. Contingent fees may be charged for claims that the practitioner reasonably expects to receive substantive review by the IRS.

• 10.28 – Return of client’s records – A prompt return of client records is required when requested. Copies may be made and kept.

• 10.29 – Conflicting Interests – Except as provided otherwise, a practitioner shall not represent a client before the Internal Revenue Service if the representation involves a conflict of interest as defined in subsection (a). This may involve informed consent given by the client in writing as set out in subpart (b). Also remember that the AICPA Code of Professional Conduct Rule 102-2 sets out examples of numerous conflicts of interest. When in doubt consider contacting your malpractice carrier (if any) and/or your attorney.

• 10.30 – Solicitation. No false or misleading claims or statements.

• 10.31 – Negotiation of taxpayer refund checks – Not allowed.

• 10.33 – Best practices – Circular 230 sets out four “best practices.”
  • Communicating clearly
  • Establish facts
  • Advising
  • Acting fairly

• 10.34 – Standards for advising with respect to tax return positions and for preparing or signing returns
  1. Realistic possibility standard for sustaining a position
  2. Advising clients on potential penalties when advising on a position
  3. Relying on information furnished by clients may be done in good faith; however, reasonable inquiries must be made if information is suspect.

• 10.35 – Requirements for covered opinions

• 10.51 – Incompetence and disreputable conduct – this section has a long list of activities that should be reviewed by the practitioners.
• 10.52 – Violation of regulations

• 10.53 – Receipt of information - An officer or employee of the IRS is required to make a written report of any violations of the Circular 230.

**FIRAC**

What is **FIRAC** in tax research and why is it so important? FIRAC stands for:

- **F**acts
- **I**ssue
- **R**ule of law
- **A**nalysis/ argument
- **C**onclusion

If the practitioner FIRACs, they have done their job and meet the aspirational standards as well as the standards under Circular 230, Sections 10.34, 10.35, 10.36, 10.37, and IRC 6694.

In conclusion, if the preparer has substantial authority there will be no penalties. Substantial authority means you did your duty with FIRAC and did sufficient research.

**Remember. The preparer’s work is never passive. Never.**

**Tax Practice Situations**

**Error in Prior Return A**

- You did not prepare prior return.
- You review prior return for any info needed.
- In the review you discover an error.
- *What should you do?*

**Error in Prior Return B**

- You prepared prior returns for your client.
- In current year, you discover error you made for past three years.
- Error will result in taxes, penalties, and interest.
- Your firm has a policy for interest and penalties.
- *What should you do?*
Error in Prior Return C

- Because of nature of error in prior returns, you may face preparer penalties.
- However, if not amended the error may not be discovered.
- What should you do?

New Client

- New client interviews you as potential tax preparer.
- Client states no returns for five years, books contain only receipts by checks, invoices paid covered by checks in receipt, pocketed all cash, and has no records of cash transactions.
- Your call?

Check Issued in Error

- Client informs you of second refund check with interest received.
- After review, you determine that check was in error and suggest calling the IRS.
- Client refuses and explains the planned use for the money.
- What should you do?

Offer in Compromise

- Client hires you to help with OIC.
- After many hours of research and gathering documents, you submit OIC of $1,500 for tax debt of $75,000.
- Client later tells you OIC was accepted and that she was glad the IRS did not find out about her lottery winnings of $400,000 prior to filing.
- She had assistance from her brother in obtaining the money. No traceable actions.
- Your call?

Divorce

- Mr. and Mrs. Sunshine have been clients for several years.
- Mr. Sunshine has return prepared and tells of separation and pending divorce.
- Mrs. Sunshine comes in four weeks later to have her return prepared.
- She asks if Mr. Sunshine has been in.
- What should you do?
Chapter Review Questions

7.1 Which service is NOT included under the definition of a “tax practice”?

a. Estate planning
b. Expert witness in a business valuation
c. Representing the taxpayer before the IRS
d. Tax education

7.2 Which of the following is NOT specified in Circular 230?

a. Advise the client on any potential penalties of a tax position.
b. Contingent fees are not permissible for any position taken on an original return
c. Exercise due diligence in preparing a tax return.
d. Privilege communication between the CPA and client is confidential in all situations.

7.3 The AICPA “Statements on Standards for Tax Services” include all of the following EXCEPT:

a. The CPA should immediately notify the IRS of any errors discovered in a previously filed tax return.
b. The CPA may prepare a tax return with estimates.
c. The CPA is not required to advise the client when subsequent developments affect the original advice provided.
d. The CPA has a responsibility to make a reasonable effort to find correct answers to any and all questions before signing a return.
Answers to Review Questions

7.1 Which service is NOT included under the definition of a “tax practice”?

a. Incorrect. Estate planning is considered a service under the definition of a tax practice.

b. Correct. Expert witness in a business valuation engagement falls under the business valuation standards and is not considered a service under a tax practice.

c. Incorrect. Representing the taxpayer before the IRS is a service under a tax practice.

d. Incorrect. Tax education is a service under a tax practice.

7.2 Which of the following is NOT specified in Circular 230?

a. Incorrect. Section 10.34 requires you to advise the client of any potential penalties on a tax position.

b. Incorrect. Section 10.28 prohibits taking contingent fees on original returns.

c. Incorrect. Section 10.22 of Circular 230 requires the taxpayer to exercise due diligence in preparing, assisting, and making oral or written representations to the Department of Treasury.

d. Correct. Section 10.20 requires tax preparer by law to furnish information or records requested by the IRS. Privilege does not apply even in a criminal matter unless the practitioner is an attorney.

7.3 The AICPA “Statements on Standards for Tax Services” include all of the following EXCEPT:

a. Correct. The CPA should inform the client of any error but may not inform the IRS without permission from the client.

b. Incorrect. Returns can be prepared with data estimates if not possibly to get exact data and estimates are reasonable and consistent.

c. Incorrect. There is no requirement to advise the client on subsequent developments that affect the original advice.

d. Incorrect. The CPA has a responsibility to make a reasonable effort to find correct answers.

For More Information

Please see Appendix B for a complete list of additional resources for this chapter.
Learning Objectives

The purpose of Chapter 8 is to review the standards for independence. The learning objectives for this chapter include:

1. Compare the similarities and differences between Florida and national rules for Independence.
2. Compare independence standards between the Florida Board of Accountancy, American Institute of CPAs, Securities and Exchange Commission, and Government Accountability Office.
3. Define the key terms per AICPA’s Professional Standards ET 92.04.
4. Identify the types of individuals who may impair the independence of an engagement team.
5. Distinguish when independence is or is not impaired when providing non-attest services to attest clients per AICPA Interpretation 101-3.

Statutory References and Information

Which Rules are for You?

One of the difficult aspects of independence is determining which rules apply to you. The following figure will assist in that decision process.

Standards for Independence

One of the key dilemmas of our profession is independence. The standards for independence come from a variety of sources:

- The Florida Legislature
- The Florida Board of Accountancy
- The American Institute of Certified Public Accountants
- The Public Company Accounting Oversight Board
- The Security and Exchange Commission
- Yellow Book and/or OMB Requirements
**Figure 8.1: Independence Rules**

<table>
<thead>
<tr>
<th>WHAT</th>
<th>FLORIDA</th>
<th>AICPA</th>
<th>SEC</th>
<th>GAO</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Florida CPAs</td>
<td>AICPA Members</td>
<td>Auditors of Issuers</td>
<td>Governmental auditors</td>
</tr>
</tbody>
</table>
| WHAT | • Florida Statutes  
• Florida Administrative Code  
• Standards for Independence | • Rule of Conduct 101  
• Interpretation of Rule 101  
• Ethics Rulings | • Regulation S-X  
• Rule 2-01  
• Accounting Series Releases  
• Independence Standards  
• Board standards and interpretations  
• Financial Reporting Releases | • GAGAS |
| WHERE | • Florida Statutes  
• Florida Administrative Code  
• Florida BOA Web site & related links* | • Code of Professional Conduct  
• ET §101  
• ET §191  
• ET §92  
• AICPA Web site & related links* | • Regulation S-X, Rule 2-01  
• Codification of Financial Reporting Policies §601 and §602  
• ISB Web site & related links* | • Government Auditing Standards at Web site* |
| WHEN | • All attest functions | • All attest functions | • All attest functions for public companies | • All attest functions for governmental entities |

* www.myflorida.com/dbpr/cpa
* www.aicpa.org
* www.sec.gov
* www.gao.gov

**Key Terms**

There are several aspects to independence apart from their source of origin such as:

1. The covered member
2. The services performed
3. The client
4. The relationship
Who is a Covered Member?

You, the CPA, and your firm will be considered a covered member if you participate in or are able to influence a client’s attest engagement. Further, if you or your firm controls any entities, then that entity is considered a covered member as well.

Stated another way in ET §92.04, a covered member will be all that follow:

1. An individual on the attest engagement team.
2. An individual in a position to influence the attest engagement.
3. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten hours of nonattest services to the client within any fiscal year and ending on the later of the date (a) the firm signs the report on the financial statements for the fiscal year during which those services were provided or (b) he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
4. A partner in the office in which the lead attest engagement partner primarily practices, in connection with the attest engagement.
5. The firm, including the firm’s employee benefit plan.
6. An entity who’s operating, financial, or accounting policies can be controlled by any of the individuals or entities described in 1 through 5 or by two or more such individuals or entities if they act together.

Services Performed - An Attest Engagement?

In ET 92.01, an attest engagement is an engagement that requires independence as defined in AICPA Professional Standards.

These rules for independence all echo the other; some rules being more restrictive than others. For Florida CPAs the Florida Statutes and FAC generally set the stage. Chapter 473.15, F.S. indicates the following:

473.315 Independence, Technical Standards

(1) A certified public accountant shall not express an opinion on the financial statements of an enterprise unless she or he and her or his firm are independent with respect to such enterprise.

(2) A certified public accountant shall not undertake any engagement in the practice of public accounting which she or he or her or his firm cannot reasonably expect to complete with professional competence.
(3) The board shall adopt rules establishing the standards of practice of public accounting, including, but not limited to, independence, competence, and technical standards.

(4) Attorneys who are admitted to practice law by the Supreme Court of Florida are exempt from the standards of practice of public accounting as defined in s. 473.302(8)(b) and (c) when such standards conflict with the rules of The Florida Bar or orders of the Florida Supreme Court.

History. -- ss. 14, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 10, 11, ch. 85-9; s. 4, ch. 91-429; s. 349, ch. 97-103; s. 9, ch. 98-340; s. 107, ch. 2010-5.

The Florida Administrative Code (FAC), Section 61H1-21.001 specifies:

61H1-21.001 Independence

(1) A firm shall not express an opinion on financial statements (as that term is defined in the Standards for Independence) of an enterprise or on the reliability of an assertion by one party for use by another (third) party unless the firm is independent with respect to such enterprise or the party making the assertion. A licensed firm is also precluded from expressing such an opinion if the firm is aware that an individual in the firm is not independent and that individual is a covered certified public accountant or is otherwise required to be independent. A certified public accountant shall not express such an opinion unless the individual is independent with respect to such enterprise or the party making the assertion. A certified public accountant is also precluded from expressing such an opinion if he or she is aware that an individual in the firm is not independent and that individual is a covered licensee or is otherwise required to be independent. All covered licensees and all other individuals who are required to be independent are required to disclose to the firm that they are not independent prior to the issuance of such an opinion; failure to do so is a violation of this rule.

All firms are required to adopt appropriate policies to implement the disclosure requirement and to monitor compliance therewith.

(2) In order to delineate the standards against which a certified public accountant’s independence or lack thereof is to be judged, the Board has created a document entitled “Standards for Determining Independence in the Practice of Public Accountancy for CPAs Practicing Public Accountancy in the State of Florida” (effective 12-31-2004) (hereinafter “Standards for Independence”) which document is hereby incorporated by reference in this Rule. The standards contained in the “Standards for Independence” are similar to those contained in the Code of Professional Conduct promulgated by the American Institute of Certified Public Accountants.

(3) In order to be considered independent a certified public accountant must comply with the requirements set out in the “Standards for Independence” and the requirements of this rule.

Specific Authority 473.304, 473.315 FS.
Law Implemented 473.315 FS.
Code of Professional Conduct

In the “Standards for Independence” set out by the Florida BOA, there is a direct reference to the Code of Professional Conduct of the AICPA.

“The Code of Professional Conduct was adopted by the membership to provide guidance and rules to all members - those in public practice, in industry, in government, and in education - in the performance of their professional responsibilities.” (Intro. to Code of Professional conduct of the AICPA)

From the pronouncements, one can assume that if you are either a member of the American Institute of CPAs or a licensed Florida CPA, the provisions for independence will apply.

The major question is – apply to which engagements?

Engagements

It would appear from a reading of the AICPA’s Ethics Interpretation No. 101-3, Performance of Nonattest Services, that an attest engagement is any engagement which requires the CPA to be independent. Five basic engagements would meet that requirement:

1. Audit
2. Review
3. Compilation
4. Attestation
5. Prospective Financial Statements

Under this standard, the Interpretation would not apply to a compilation engagement which the accountant has modified the report to indicate a lack of independence.

In considering this question, we run into several issues. First, there is no question that a review engagement or an audit engagement is an “attest” engagement.

In SSARS 19 there is a clear indication that a compilation is an attest engagement.

AR 60 .05 A compilation is a service, the objective of which is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for the
statements to be in conformity with the applicable financial reporting framework. Although a compilation is not an assurance engagement, it is an attest engagement. (Emphasis added by Patterson)

Because the Florida rules indicate that the “Standards of Independence” are similar to those in the AICPA’s Code of Professional Conduct, we should consider the compilation engagement as being one that requires independence. We also recognize that a compilation may be performed when the CPA is not independent if the report is modified to indicate the lack of independence. Further evidence of this status for compilations is the position of the peer review program where the program will consider a compilation engagement as an “attest” engagement.

**Covered Members and Independence**

Having determined which engagements require independence, one then needs to consider “who” needs to be independent. The expression of “covered member” is used throughout the AICPA standards on independence. The Florida BOA and the AICPA have recently changed the concept of independence. Formerly, the approach was called the “firm wide” approach to independence. With the change, the term is now called the “engagement team” approach to independence. Covered members are subject to the independence rules. Who is a covered member?

**Single Office Firm:**

- Firm
- Entities controlled by the firm or other covered members
- Equity owners of the firm
- Nonattest equity owners or managers
- Managers of the firm who perform owner’s functions
- Professionals who work on the attest client
- Any other person in the firm who could or may influence the engagement

**Multi Office Firm:**

- The Firm office where the primary equity owner on the engagement practices
- Entities controlled by the Firm office or other covered members
- Equity owners of the primary equity owner’s office
- Nonattest equity owners or managers of the primary equity owner’s office
- Managers of the primary equity owner’s office
• Professionals who work on the attest client
• Any other person in the firm who could or may influence the engagement

Some terms will bear explanation under these standards:

Definitions

Firm – any entity allowed by the AICPA or permitted by law or regulation which is in public accounting.

Engagement Team – all owners, employees, and contractors who participate on or influence the engagement.

Equity Owner – any partner, shareholder, proprietor, or other equity owner of the firm.

Nonattest equity owner or manager – any equity owner or manager providing ten (10) or more hours of non attest services to the client in any fiscal year of the attest engagement.

Equity owners of the primary equity owner’s office – owners who work in the same office as the primary equity owner.

Professionals – CPAs or those seeking that status.

Influence the engagement – there are several examples of influence:

1. Anyone directly in charge of the primary attest owner
2. Anyone who sets compensation or evaluates the primary attest owner
3. Anyone consulting with or advises the engagement team on things pertaining to the engagement
4. Anyone reviewing quality control activities regarding the engagement

Key Position

Family members in key positions may impair independence. If the family member is in a key position, the independence may be impaired because of the member’s responsibilities. A key position is considered if:

1. Primary responsibility for preparing financial statements.
2. Primary responsibility supporting material components of financial statements.
3. May have influence over financial statement contents.
Close relatives may be covered as well as immediate family. Parents, nondependent children, and siblings may be in a position to impair independence as well. The key here is influence and employment responsibilities. Further, the investments of a close relative might be considered to impair when:

1. You have knowledge of a material financial interest by the family member.
2. The relative has such an investment that influence might be exerted.

**Who is the Client?**
A major issue is “who is the client”? In Chapter 61H1-20.003, a client is defined as:

**61H1-20.003 Client**

“Client” shall be deemed and construed to mean the person(s) or entity which retains a certified public accountant or firm for the performance of public accounting services.  

*History—New 12-4-79, Formerly 21A-20.03, 21A-20.003; Amended 9-21-10.*

**Independence and Gifts and Entertainment**

The AICPA Professional Ethics Executive Committee has approved the release of the following ethics ruling. Ethics Ruling No. 1 under Rule 101 has been deleted because the substance has been incorporated into Ethics Ruling No. 114.

**Rule 101, Ethics Ruling No. 114 Acceptance or Offering of Gifts or Entertainment to or from an Attest Client**

.228 Question—Would independence be considered to be impaired if a member or the member’s firm offers or accepts gifts or entertainment to or from an attest client, an individual in a key position with an attest client, or an individual owning 10 percent or more of the attest client’s outstanding equity securities or other ownership interests (collectively, an attest client)?

.229 Answer—Independence would be considered to be impaired if the member’s firm or a member on the attest engagement team or in a position to influence the attest engagement accepts a gift from an attest client, unless the value is clearly insignificant to the recipient. Independence would not be considered to be impaired if a covered member accepts entertainment from an attest client, provided the entertainment is reasonable in the circumstances.

Independence would not be considered to be impaired if a covered member offers gifts or entertainment to an attest client, provided the gift or entertainment is reasonable in the circumstances.
AICPA Interpretation 101-3

Revisions to Interpretation 101-3 have been issued by the Professional Ethics Executive Committee (PEEC). These revisions concern the area of bookkeeping, internal audit services, valuation, appraisal, actuarial services, and information systems design and implementation. Further, the revisions tighten the requirements for documentation of the member’s understanding with the client regarding the services to be performed. This is effective for engagements beginning after December 31, 2003. The documentation in the revised interpretation is effective for any nonattest services performed for an attest client after December 31, 2004.

Professional Ethics Quiz

Periodically, the Professional Ethics Division submits questions on varying ethics topics that AICPA members have questioned. This set of questions relates specifically to the revised Interpretation 101-3 Performance of Nonattest Services, as described in the Code of Professional Conduct (AICPA Professional Standards).

The Professional Ethics Executive Committee (PEEC) issued revisions to Interpretation 101-3, updating the independence rules to clarify whether or not a member impairs his or her independence when providing nonattest services to attest clients. The revisions to Interpretation 101-3 clarify existing guidance in the areas of bookkeeping and internal audit services, place further restrictions on valuation, appraisal, and actuarial services and information systems design and implementation, and strengthen the general requirements of the rule to require that a member document his or her understanding with the client regarding the services to be performed.

You can view the complete Code of Professional Conduct and any other related information on the American Institute’s Web site at: http://www.aicpa.org/Research/Standards/CodeOfConduct/Pages/default.aspx

Questions about the Code also can be directed to the Professional Ethics Division at ethics@aicpa.org or by calling the AICPA’s hotline for guidance.

To access the Ethics Hotline, dial 888-777-7077, menu option #5, followed by menu option #2. You will be asked to leave a message with your name, phone number and whether you are an AICPA member. The call will be returned regardless of your membership status. Anonymous callers must leave a phone number.

Important Note:

For the following questions, it is assumed that the member is in compliance with all applicable provisions of Interpretation 101-3 (for example, the general requirements) unless specifically identified otherwise and that the client in question is an attest client that is not required to file with the Securities and Exchange Commission.
1. A member records journal entries while performing monthly bookkeeping services without obtaining client approval. Would independence be impaired?

Yes. In order for the member to maintain his or her independence, the client must review and approve the journal entries and the member should be satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.

2. During the course of providing monthly bookkeeping services, the member receives invoices from the client, indicating approval for payment and identifying the appropriate general ledger accounts to record the transaction. The member prepares the client’s checks for payment of those invoices, records the transactions in the client’s general ledger system and returns the checks to the client for approval and signature. The member does not have signature authority over the client’s checking account. Would independence be impaired?

No, because management determined and approved the appropriate account classifications approved the invoices for payment and reviewed and signed the prepared checks.

3. During the course of providing monthly bookkeeping services, the member discusses with client management the need to record recurring journal entries (for example, depreciation expense) each month in the general ledger. The client approves the recurring journal entries and makes any necessary decisions (for example, useful lives of the assets). The member then records these entries in the client’s general ledger each month. Would independence be impaired?

No, because the client understands the general nature of the journal entries and the impact they have on its financial statements.

4. A client records all disbursements in its checkbook and identifies the type of expense (for example, telephone, rent) on the checkbook stubs. During the course of providing monthly bookkeeping services, the member assigns the general ledger account number based on the type of expense indicated by the client and records these payments in the client’s accounting system. Would independence be impaired?

No, because the member would not be considered coding transactions.

5. A member is engaged to perform an audit, review or compilation of a client’s financial statements. During the course of the audit, review or compilation the member proposes audit adjustments to the financial statements. Examples of these entries include the current tax accrual and deferred tax assets or liabilities and the amount of depreciation and amortization necessary for the current year. The client reviews these entries and understands the impact on its financial statements.
and records the adjustments identified by the member.  Would the proposal of such entries constitute a nonattest bookkeeping service subject to Interpretation 101-3?

No, proposing entries as a result of the member’s audit, review or compilation services is a normal part of those engagements and would not constitute performing a nonattest bookkeeping service subject to Interpretation 101-3.

6. A member is engaged to perform an audit for a client who records all transactions on a cash basis in its general ledger. During the audit process, the member identifies all appropriate journal entries required to convert the client’s general ledger to an accrual basis and prepares the financial statements, including footnotes, on the accrual basis in order to conform with generally accepted accounting principles. The client reviews the entries and financial statements, including all footnote disclosures, and understands the impact these entries have on the financial statements. As part of the management representation letter, the client acknowledges responsibility for the financial statements and footnotes. Would these services be considered nonattest bookkeeping services subject to Interpretation 101-3?

No. Providing these services as part of the member’s audit of the client’s financial statements would not be considered bookkeeping services subject to the requirements of Interpretation 101-3. In addition, a member should use judgment as to what would be considered part of the normal audit process and what would be a separate nonattest service. A client’s books and records have to be substantially complete and current in order to conduct an audit of those books and records. The client’s books and records would include all subsidiary ledgers or information required by the auditor (such as accounts receivable or payable) for the necessary conversion. If a member performs a service to bring those books and records current or complete (such as compiling the subsidiary information), the service should be considered outside the scope of the normal audit process and therefore, a nonattest service subject to Interpretation 101-3. However, Interpretation 101-3 would be applicable where the member was engaged to perform a stand alone engagement to perform bookkeeping services for the client. An example would be where a member is engaged to perform monthly bookkeeping services, including the preparation of monthly compiled financial statements.

7. The member performs year end tax planning and prepares the tax returns for an attest client. Would these services be considered nonattest services and therefore subject to the requirements of Interpretation 101-3?

Yes, tax services are considered nonattest services and are therefore subject to the general requirements of Interpretation 101-3, including the member’s understanding with the client with respect to the tax services must be documented in writing.
8. The member prepares a bank reconciliation of a client’s bank account in connection with monthly bookkeeping services. The client reviews and approves the bank reconciliation. *Would independence be impaired?*

No, because the client reviews and approves the bank reconciliation and understands the services performed sufficiently to oversee them.

9. General Requirement No. 3 of Interpretation 101-3 requires that the member should establish and document in writing his or her understanding with the client regarding the a) objectives of the engagement; b) services to be performed; c) client’s acceptance of its responsibilities; d) member's responsibilities; and e) any limitations of the engagement. *Would a member be in compliance with this requirement if such was documented in; an engagement letter; the audit planning memo or in a memo of understanding maintained in the member’s billing files?*

Yes, however since the general requirements of Interpretation 101-3 only require a member to document his or her understanding with the client and does not indicate any specific method of documentation the methods indicated are not all inclusive and other methods may be appropriate as well.

10. A member provides only nonattest services to a client for the year ending December 31, 2004. In 2005, the member is asked to perform an audit of the client’s year-end 2004 financial statements. *Would the member be in violation of General Requirement No. 3 under Interpretation 101-3 because the firm did not comply with the documentation requirement with respect to the nonattest services performed in 2004?*

No. The documentation requirement does not apply to nonattest services performed prior to the client becoming an attest client. However, upon the acceptance of an attest engagement, the member should prepare written documentation demonstrating his or her compliance with the other general requirements of Interpretation 101-3 during the period covered by the financial statements, including the requirement to establish an understanding with the client.

11. A member performing bookkeeping services records adjusting and reclassification journal entries and compiles preliminary financial statements. The member delivers the financial statements and compilation report to the client and provides the client copies of the general ledger, journals and journal entries, which contain a description of the nature of each entry. The member asks the client to review the journal entries and then asks whether the client has any questions about any of the entries. *Would the requirements of Interpretation 101-3 be met?*
Yes. Provided the member is satisfied that client understands the nature and impact of the journal entries, the requirements of Interpretation 101-3 would be met.

12. **Must the member review the proposed journal entries with the client and explain their impact on the financial statements with the client in person or can this review take place by phone, fax, mail or email?**

   The review process can take place in person, by phone, fax, mail, email or a combination thereof. Regardless of the method used, the member must be satisfied that the client understands the nature and impact of the journal entries.

13. **Must the member document the client’s review of the journal entries?**

   Interpretation 101-3 does not require that the member document the client’s review of the journal entries. However, the member may wish to document the name of the client representative who reviewed the journal entries and the date of his or her review to provide evidence that such review took place.

14. Interpretation 101-3 requires that the client designate an individual who possesses suitable skill, knowledge and/or experience, preferably within senior management, to oversee the nonattest services. **Which individual(s) at the client can serve in this capacity (e.g., the owner(s), controller, bookkeeper)?**

   The individual(s) designated by the client will likely depend on the nature of the client’s organization and the nature of the nonattest engagement. In an owner-managed business, it will often be the owner, but depending on the nature of the nonattest services and the skill, knowledge and/or experience of other employees or individuals, it could also be the controller or bookkeeper. In larger organizations or for more complex services, the client is more likely to designate a senior officer to oversee the services. The employee or individual responsible for overseeing the nonattest services needs to understand the services sufficiently to oversee them, but does not need to possess the technical qualifications to perform or re-perform the services.

15. **My client has difficulty understanding deferred tax assets and deferred tax liabilities. What must a client know about these concepts in order to be considered to possess the skill, knowledge, and/or experience necessary to fulfill the requirement(s) under Interpretation 101-3?**

   The intent of Interpretation 101-3 is not for the client to possess a level of technical expertise commensurate with that of the member. In the case of deferred taxes, the client should understand the basis for the deferred tax assets or liabilities and the impact of the deferred taxes on the financial statements.
16. *Is a member permitted to assist the client in understanding the nature of adjusting entries and their impact on the financial statements?*

Yes. If a client needs assistance in understanding the nature of the entries and their impact on the financial statements, the member may explain the accounting principles giving rise to the adjustments, as well as the impact of the adjustments on the financial statements.

17. *A member’s clients consist of very small businesses with informal control environments and an insufficient number of employees to achieve a proper segregation of duties. How can such clients establish and maintain internal controls as required under Interpretation 101-3?*

The requirement for the client to establish and maintain internal controls, including monitoring ongoing activities, precludes the member from performing internal control activities, including monitoring activities. Accordingly, a member cannot authorize, execute or consummate transactions, maintain custody of the client’s assets, supervise client employees or make management decisions. Regardless of its size, the client must establish and maintain internal control related to the member’s services. These controls are often supervisory controls, for example, if the member prepares the client’s bank reconciliation, the client should review and approve the reconciliation.

18. *A member’s firm does not require its clients to sign engagement letters for tax return preparation services. How does the documentation requirement under Interpretation 101-3 apply with respect to these clients?*

Tax services are nonattest services subject to the requirements of Interpretation 101-3. Therefore, the documentation requirement applies where the member provides tax services to a client for which the member also provides attest services. However, the method of documentation is left to the member’s discretion and, provided it contains all of the required elements, it could be documented in a tax organizer or disclosure statement provided to the client, in a memo in the tax or attest service working papers, or through other means.

19. *Does Interpretation 101-3 apply where the member prepares the personal tax returns of the owners and officers of an audit, review or compilation client? Does it matter whether the owners or officers pay for the services themselves or whether the client pays for the services as an executive perk?*

If the personal tax returns are prepared without having to rely on representations of the client, then Interpretation 101-3 would not apply. The mere fact that the client pays for the services would also not cause Interpretation 101-3 to apply.

20. *A member provides temporary “controllership services” and various types of other temporary accounting services for clients during client maternity leaves,*
illness, and sudden departures. *Do these activities impair independence under Interpretation 101-3?*

These services would be subject to Interpretation 101-3. If a member performs controller-type activities, independence would be impaired since such activities typically involve the performance of management functions or the supervision of client employees. However, if the member performs temporary accounting and other services in compliance with the requirements of Interpretation 101-3, independence would not be impaired. The member should also consider whether the duration or regularity of the services might appear to impair independence. Having the title of controller would impair independence regardless of the actual services performed.

21. As part of performing bookkeeping services, a member records adjusting journal and reclassification entries and prepares the client’s preliminary financial statements. The member does not review each and every journal entry with the client but rather, the member describes the nature of the journal entries and their impact on the preliminary financial statements. The client approves the preliminary financial statements and issues them to its bank. *Would the requirements of Interpretation 101-3 be met?*

Yes, provided all of the other requirements of Interpretation 101-3 are met.

22. General requirement No. 1 under Interpretation 101-3 states that the member should not perform management functions or make management decisions for the attest client. *What are some examples of management functions for purposes of Interpretation 101-3?*

A management function would generally include doing or having the authority to:

- Make decisions on behalf of the client
- Authorize, execute or consummate client transactions
- Supervise, hire or terminate client employees,
- Oversee or manage any aspect of the client’s business
- Set policy for the client
- Have access to or custody of client assets
- Sign or co-sign client checks
- Establish or maintain internal controls for the client
- Note: the preceding list is not intended to be all inclusive.

Providing advice, research materials, and recommendations to assist the client’s management in performing its functions and making decisions would not constitute the performance of a management function.
Test Your Knowledge of Professional Ethics

Here are further examples of questions and answers from the AICPA: “Test Your Knowledge of Professional Ethics” by Jason Evans, CPA; Journal of Accountancy, October 2010

JOA Editor’s Note
This quiz is based on responses of the AICPA Professional Ethics Division staff to members’ inquiries. It is not a pronouncement of the PEEC nor does it purport to set forth an official position of the AICPA. In addition, the questions and answers do not address the requirements of other regulatory bodies, such as state boards of accountancy and the SEC, whose positions may differ from those of the AICPA.

1. A sole practitioner performs a review engagement for a small company owned by two partners. The two partners are involved in the sale of the company’s products and neither has ever performed an accounting function. The client has an office manager who maintains the accounting records among his various responsibilities. The office manager is not a CPA and does not have a degree in accounting. The company’s remaining employees work in the production facilities. The sole practitioner performs certain tax and bookkeeping services permitted under Interpretation 101-3 for the client. Based on the fact that none of the client’s employees have an accounting background, can the sole practitioner perform the nonattest services and still remain in compliance with the general requirements of Interpretation 101-3?

Yes. The general requirements for performing nonattest services under Interpretation 101-3 include a requirement that the client must designate an individual who possesses suitable skill, knowledge and/or experience, preferably within senior management, to oversee the service. While the client does not have anyone who is a CPA or anyone who has a formal accounting education, the owners of the company and/or the office manager may possess the suitable skills and knowledge to understand and oversee the nature of the services provided based on their working knowledge of the client’s operations, the industry and general business knowledge. Overseeing the service does not require the designated individual to supervise the member in the day-to-day rendering of the services. Rather, the individual should agree on the nature, objective and scope of the services; receive periodic progress reports when appropriate; make all significant judgments; evaluate the adequacy and results of the service; accept responsibility for the service results; and ensure that the resulting work product meets the agreed-upon specifications. The skill, knowledge and/or experience needed will vary depending on the nature of the nonattest service.

2. Based on the fact pattern in Question 1, the sole practitioner calculates the deferred tax asset for the financial statements. Neither of the partners nor the office manager possesses the skills to calculate the deferred tax asset in the current
year nor do they intend to learn how to perform such a calculation in future years. *Is the sole practitioner’s independence impaired?*

**No.** Interpretation 101-3 does not require that the client have a representative who can re-perform the nonattest services. In this instance, the client is not expected to possess the expertise of the member in terms of deferred tax assets. The client must, however, understand the basis for the deferred tax assets and the impact the deferred taxes have on the financial statements.

3. A CPA audits a small privately held company. The owners of the company are considering offering some key employees life insurance as part of their compensation. The owners inquired with the CPA on the effects such a plan may have on their financial statements. **Would the CPA have to follow the general requirements of Interpretation 101-3 in providing the advice?**

**No.** Providing such advice to the owners would generally be considered a routine activity that would not be considered a nonattest service that is subject to Interpretation 101-3. Routine activities involve providing advice or assistance to a client on an informal basis in the normal course of a client-CPA relationship. Routine activities typically are insignificant in terms of time incurred or resources expended and generally do not result in a specific project or engagement or in the member’s producing a formal report or other formal work product.

4. A CPA performs the audit of a small privately held company. The client has a bookkeeper, but no CPA on staff. During the audit, the CPA proposes adjustments to the financial statements. The journal entries include adjustments to the accumulated depreciation account, a reclassification of long-term assets and an adjustment based on sales cutoff testing. **Would the proposal of these entries be considered a bookkeeping service subject to Interpretation 101-3?**

**No.** Proposing adjusting journal entries is considered to be a normal function of an audit and is not considered a nonattest service subject to Interpretation 101-3.

5. A CPA performs a review engagement for a small company that has limited staff for its accounting and finance functions. The CPA receives copies of check disbursements, invoices and purchase orders, and books the journal entries accordingly for the client. The client has identified each cash disbursement, invoice and purchase order (for example, inventory, phone bill, payroll, misc., etc.). As the CPA is booking the entry, the CPA assigns the general ledger account number for the type of expense as identified by the client. **Would this be considered determining or changing journal entries, account codings or classifications as prohibited by Interpretation 101-3?**
No. If the client sufficiently identifies the type of expense and the CPA books the entry to the general ledger account based on the expense identified by the client, independence has not been impaired.

6. Based on the fact pattern in Question 5, the CPA also receives a copy of the client’s bank statement and performs a bank reconciliation at the end of each month. The client reviews and approves the bank reconciliation. Would preparing the client’s bank reconciliation be considered “maintaining internal controls” for the client and impair independence?

No. For purposes of Interpretation 101-3, preparing the client’s bank reconciliation would not be considered maintaining internal controls and is permitted provided the client reviews and approves the bank reconciliation and meets the other requirements of Interpretation 101-3. The client, however, must still accept responsibility for designing, implementing and maintaining internal controls for the company.

7. In the questions above, must the CPA document the client’s review and approval of the bank reconciliation and the journal entries made?

No. Interpretation 101-3 states that, before a member begins performing nonattest services, he or she should document in writing his or her understanding with the client regarding the objective of the engagement, the services to be performed, the client’s acceptance of its responsibilities, the member’s responsibilities, and any limitations of the engagement. However, the member does not have to document who reviewed and approved the work performed, although the member may wish to provide documentation to provide evidence that such a review and approval took place.

8. A CPA performs an audit for a private closely held company. The two owners of the company are heavily involved in day-to-day operations and the accounting and finance functions. The CPA is asked to perform financial planning activities for the owners on a personal basis. Would these services be subject to Interpretation 101-3?

No. The engagement to perform personal financial services for the owners would not be subject to Interpretation 101-3 since the owners are considered to be separate from the company, which is the attest client.

9. A CPA performs the audit of a company. The client deposits money into the CPA firm’s account. The account is totally separated from that of the firm’s money and other accounts. The client is a signer on the account and is able to make transfers and write checks from the account. The CPA only transfers money to vendors of the client when the client requests and formally approves. Would this service be permitted under Interpretation 101-3?
The member must not have custody of client funds.

10. A review client of a CPA has a pile of invoices indicating the purchase date and purchase price of all of its fixed assets. The CPA compiles the information into an Excel spreadsheet creating a fixed assets schedule with formulas to calculate monthly depreciation on the assets. Would this service impair independence under Interpretation 101-3?

No. Independence would not be impaired provided the client reviews and approves the amounts and calculations in the schedule and makes any necessary decisions (for example, useful lives of the assets), understands the nature of the service, and accepts responsibility for the schedule.

Independence Changes in Compilation and Review Engagements

SSARS 19 - Reporting When the Accountant Is Not Independent

.21 - When the accountant is issuing a report with respect to a compilation of financial statements for an entity, with respect to which the accountant is not independent, the accountant’s report should be modified. In making a judgment about whether he or she is independent, the accountant should be guided by the AICPA’s Code of Professional Conduct. The accountant should indicate his or her lack of independence in a final paragraph of the accountant’s compilation report. An example of such a disclosure would be -- I am (We are) not independent with respect to XYZ Company.

The accountant is not precluded from disclosing a description about the reason(s) that his or her independence is impaired. The following are examples of descriptions the accountant may use: (emphasis Patterson)

- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (a member of the engagement team) had a direct financial interest in XYZ Company;
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because an individual of my immediate family (an immediate family member of one of the members of the engagement team) was employed by XYZ Company; or
- I am (We are) not independent with respect to XYZ Company as of and for the year ended December 31, 20XX, because I (we) performed certain accounting services (the accountant may include a specific description of those services) that impaired my (our) independence.
If the accountant elects to disclose a description about the reasons his or her independence is impaired, the accountant should ensure that all reasons are included in the description.

**SSARS 19, Compilation and Review Engagements** allows but does not require the disclosure of the reason(s) for independence in a compilation engagement. The standard still requires that review engagements be performed by an independent CPA.

**Points to Ponder**

8.1 Before performing nonattest services for an attest client, the CPA needs to establish and document in writing the firm’s understanding with the client regarding the following: objectives of the engagement; services to be performed; client’s acceptance of its responsibilities; the covered licensee’s or firm’s responsibilities; and, any limitations on the engagement. Would you agree or disagree with this statement?

**Proposed Change to SSARS 19**

The proposed SSARS, *The Use of the Accountant's Name in a Document or Communication Containing Unaudited Financial Statements That Have Not Been Compiled or Reviewed*, amends SSARS No. 19, *Compilation and Review Engagements* to address the accountant’s considerations when the accountant is requested to permit the use of his or her name in a document or communication containing unaudited financial statements that have not been compiled or reviewed. This proposed SSARS would be effective for periods beginning on or after Dec. 15, 2011.

**Changes from Existing Standards as a Result of the Proposed SSARS**

The proposed SSARS would establish a requirement that prior to permitting the use of his or her name in a document or written communication containing unaudited financial statements that have not been compiled or reviewed, the accountant should read the financial statements and other information in the document and consider whether such financial statements and other information appears free from obvious material misstatements and from material inconsistencies with other knowledge or information that the accountant may have obtained.

The proposed SSARS would establish a nonreporting option when the accountant permits the use of his or her name in a document or written communication containing unaudited financial statements that have not been compiled or reviewed provided that the accountant requests that the client clearly indicate that the unaudited financial statements were not compiled or reviewed by the accountant.
Independence Changes in Attestation Engagements

SSAE No. 17 - Reporting on Compiled Prospective Financial Statements When the Practitioner's Independence Is Impaired

The Accounting and Review Services Committee has issued SSAE No. 17, Reporting on Compiled Prospective Financial Statements When the Practitioner's Independence Is Impaired, to amend paragraph 23 of Statement on Standards for Attestation Engagements No. 10 section 301, Financial Forecasts and Projections (AICPA, Professional Standards, vol. 1, AT sec. 301), to permit, but not require, the accountant to disclose the reason(s) for an independence impairment in a report on compiled prospective financial information. SSAE No. 17 is effective for compilations of prospective financial statements for periods ending on or after Dec. 15, 2010.
Case Study Exercise 8.1

In the situation that John and Jane Doe find themselves, there are numerous questions involving independence for the young firm.

Discuss the following questions as to the best approach for the firm:

1. What about family interests as clients?
2. What about related party interests as clients?
3. What about loans from clients as start up capital?
4. What services require independence from the covered member and the firm?
5. What about family members and independence?

Case Study Exercise 8.2

The new CPA firm of Doe & Doe will have many decisions facing them which may not have been considered based on the recent Interpretation 101-3 of Independence Rule 101. The firm will be considering many types of services for the future of the firm.

Given Independence Interpretation 101-3, how might it impact the following types of nonattest services? Under what situations would independence be impaired?

- Bookkeeping
- Payroll and other disbursement
- Benefit plan administration
- Investment – advisory or management
- Corporate finance – consulting or advisory
- Executive or employee search
- Business risk consulting
- Information systems – design, installation or integration
Chapter Review Questions

8.1 Independence standards define an attest engagement as any engagement that requires the CPA to be independent. The following are engagements that would meet the requirement EXCEPT:

a. Agreed-upon procedures engagements
b. Compilation omitting substantially all disclosures on an income tax basis of accounting.
c. Financial statements that are presented as part of an estate plan.
d. Performance audit of a program involving federal grant monies.

8.2 Covered members/licensees are required to be independent with respect to an attest engagement. Which of the following is NOT considered to be a covered member/licensee?

a. The engagement quality control owner of the firm located in an office other than the office performing the engagement, when that owner reviews the quality control activities regarding the specific engagement.
b. The owner of the firm who heads up the audit department in a different office location than the engagement team and has no influence on the engagement.
c. The professionals who work on the attest client.
d. The tax partner or owner of the primary partner’s or owner’s office.

8.3 All of the following services are considered nonattest services for attest client under Interpretation No. 101-3 EXCEPT for:

a. The firm maintains the depreciation schedule for the client and books the related journal entries for the client without approval from the client.
b. The firm obtains client approval for all journal entries booked while performing monthly bookkeeping services.
c. The firm performs back reconciliation for the client without the client approving and reviewing the reconciliation.
d. The firm prepares the Form 990 tax return for the not-for-profit client it is auditing.

8.4 Of the functions listed below, which is NOT considered a management function under Interpretation No. 101-3?

a. Assign general ledger accounting numbers on the type of expense indicated by the client
b. Authorize, execute or consummate client transactions
c. Establish or maintain internal controls for the client
d. Supervise, hire or terminate client employees
8.5 Are the following statements true or false under Independence Interpretation 101-3?

a. The CPA must evaluate the adequacy and the results of the nonattest services performed.

b. Performing write-up work for a compilation engagement is considered a nonattest engagement for an attest client.

c. It is the client’s responsibility to establish and maintain internal controls over the nonattest engagements.

d. The CPA can prepare and maintain a client’s depreciation schedule and still be independent.

Answers to Review Questions

8.1 Independence standards define an attest engagement as any engagement that requires the CPA to be independent. The following are engagements that would meet the requirement EXCEPT:

a. Incorrect. Agreed-upon procedures are covered under the attestation standards which require independence.

b. Incorrect. Compilations require independence. However, you can issue a compilation when you are not independent as long as you state that you are not independent.

c. Correct. Financial statements that are included in an estate plan do not require independence.

d. Incorrect. Performance audit of a program involving federal grant monies do require independence.

8.2 Covered members/licensees are required to be independent with respect to an attest engagement. Which of the following is NOT considered to be a covered member/licensee?

a. Incorrect. The engagement quality control owner would be considered to have influence on the engagement and thus is defined as a covered member.

b. Correct. The owner of the firm who head up the audit department in a different office location is not a covered member since the owner is not in the same office where the engagement is being performed, and the owner cannot influence the engagement.

c. Incorrect. The professionals who work on the attest client are covered members and are required to be independent.

d. Incorrect. The nonattest owners of the primary owner’s office are considered covered members and required to be independent.
8.3 All of the following services are considered nonattest services for attest client under Interpretation No. 101-3 EXCEPT for:

a. Incorrect. The firm maintains the depreciation schedule for the client and books the related journal entries for the client without approval from the client. This is an example of a nonattest service that must meet the general and documentation requirements of Interpretation No. 101-3.

b. Correct. The firm obtains client approval for all journal entries booked while performing monthly bookkeeping services. Since the client has approved all of the journal entries this is not considered a nonattest service and thus independent has not been impaired.

c. Incorrect. The firm performs back reconciliation for the client without the client approving and reviewing the reconciliation. This is an example of a nonattest services under Interpretation No. 101-3.

d. Incorrect. The firm prepares the Form 990 tax return for the not-for-profit client it is auditing. Tax preparation is considered a nonattest function and is therefore subject to the general and documentation requirements of Interpretation No. 101-3 to remain independent.

8.4 Of the functions listed below, which is NOT considered a management function under Interpretation No. 101-3?

a. Correct. Since the client is indicating the type of expense, the CPA has not performed any management functions.

b. Incorrect. Authorize, execute or consummate client transactions is considered a management function.

c. Incorrect. Establish or maintain internal controls for the client is considered a management function.

d. Incorrect. Supervise, hire or terminate client employees is considered a management function.

8.5 Are the following statements true or false under Independence Interpretation 101-3?

a. False: The client must agree to evaluate the adequacy and results of the non attest services performed. The CPA does not have to.

b. True: Write up work is not a compilation and therefore performing write up work is considered a non attest service for a client. The same understanding with the entity must be obtained for the non attest work on any attest engagement. A compilation engagement is an attest engagement.

c. True: Under Ethics Interpretation 101-3, it is the client’s responsibility to establish and maintain internal controls over the nonattest engagements. It is not the CPA’s responsibility.
d. True: If the CPA follows the procedures for non attest engagements as detailed in Interpretation 101-3, the client’s depreciation schedule will be considered a nonattest schedule and independence will not be impaired.

For More Information

Please see Appendix B for a complete list of additional resources for this chapter.
Chapter 9
Ethical Responsibilities to Clients and Other Considerations
61H1-23, FAC

Learning Objectives

The purpose of Chapter 9 is to examine the responsibilities of the CPA to his or her client. The learning objectives for this chapter include:

1. Describe “privileged communication” between a CPA and client under Florida statutes and rules.
2. Describe the disposition of client records per national and Florida rules.
3. Define the term “client record” per AICPA Ethics rule 501-1.
4. Differentiate between appropriate and inappropriate ethical behavior as defined by AICPA Ethics rule 501-2 through 501-7.
5. Describe what is permissible in regards to advertising and solicitations of clients per national and Florida rules.
6. Describe the various forms of practice available to a licensee per 61H1-26.001.
7. Explain how a practice can be named and share office space per 61H1-26.001.

Statutory References and Information

In the Florida Statutes, Chapter 473.316, Communications between the accountant and client privileged, indicates the statutory grounds for communications.

473.316 Communications between the accountant and client privileged. —

(1) For purposes of this section:
(a) An “accountant” is a certified public accountant.
(b) A “client” is any person, public officer, corporation, association, or other organization or entity, either public or private, who consults an accountant with the purpose of obtaining accounting services.
(c) A communication between an accountant and her or his client is “confidential” if it is not intended to be disclosed to third persons other than:
1. Those to whom disclosure is in furtherance of the rendition of accounting services to the client.
2. Those reasonably necessary for the transmission of the communication.
(d) A “quality review” is a study, appraisal, or review of one or more aspects of the professional work of an accountant in the practice of public accountancy which is conducted by a professional organization for the purpose...
of evaluating quality assurance required by professional standards, including a quality assurance or peer review.

(e) A “review committee” is any person or persons who are not owners or employees of an accountant or firm that is the subject of a quality review and who carry out, administer, or oversee a quality review.

(2) A client has a privilege to refuse to disclose, and to prevent any other person from disclosing, the contents of confidential communications with an accountant when such other person learned of the communications because they were made in the rendition of accounting services to the client. This privilege includes other confidential information obtained by the accountant from the client for the purpose of rendering accounting advice.

(3) The privilege may be claimed by:
(a) The client.
(b) A guardian or conservator of the client.
(c) The personal representative of a deceased client.
(d) A successor, assignee, trustee in dissolution, or any similar representative of an organization, corporation, or association or other entity, either public or private, whether or not in existence.
(e) The accountant, but only on behalf of the client. The accountant’s authority to claim the privilege is presumed in the absence of contrary evidence.

(4) There is no accountant-client privilege under this section when:
(a) The services of the accountant were sought or obtained to enable or aid anyone to commit or plan to commit what the client knew or should have known was a crime or fraud.
(b) A communication is relevant to an issue of breach of duty by the accountant to her or his client or by the client to her or his accountant.
(c) A communication is relevant to a matter of common interest between two or more clients, if the communication was made by any of them to an accountant retained or consulted in common when offered in a civil action between the clients.

(5) Communications are not privileged from disclosure in any disciplinary investigation or proceeding conducted pursuant to this act by the department or before the board or in any judicial review of such a proceeding. In any such proceeding, a certified public accountant or public accountant, without the consent of her or his client, may testify with respect to any communication between the accountant and the accountant’s client or be compelled, pursuant to a subpoena of the department or the board, to testify or produce records, books, or papers. Such a communication disclosed to the board and records of the board relating to the communication shall for all other purposes and proceedings be a privileged communication in all of the courts of this state.

(6) The proceedings, records, and work papers of a review committee are privileged and are not subject to discovery, subpoena, or other means of legal process or to introduction into evidence in a civil action or arbitration, administrative proceeding, or state accountancy board proceeding. A member of a review committee or person who was involved in a quality review may not testify in a civil action or
arbitration, administrative proceeding, or state accountancy board proceeding as to any matter produced or disclosed during the quality review or as to any findings, recommendations, evaluations, opinions, or other actions of the review committee or any members thereof. Public records and materials prepared for a particular engagement are not privileged merely because they were presented during the quality review. This privilege does not apply to disputes between a review committee and a person subject to a quality review.

History. — ss. 15, 25, ch. 79-202; ss. 2, 3, ch. 81-318; ss. 10, 11, ch. 85-9; s. 1, ch. 91-63; s. 26, ch. 91-140; s. 4, ch. 91-429; s. 350, ch. 97-103; s. 15, ch. 2009-54.

The FAC and Responsibilities

There are two responsibilities to clients set out in F.A.C. 61H1-23:

1. Confidential client information
2. Records disposition responsibility

Confidential Client Information

The CPA should not disclose any confidential information without the client’s consent. This rule is not intended to relieve any obligations under the auditing or accounting principles. Peer reviews are also not prohibited under the rule.

Confidential client information encompasses other aspects of confidentiality. For instance, how records are stored in an office is important. Open files on desks that may be viewed are inappropriate for the office. Files that are easily accessible to other customers are also not appropriate.

Client information must also be kept confidential when stored off-site. Access to off-site storage should be limited and the off-site location should be secure. “Off-site” means digitally as well as physically. Passwords, encryptions, and other security measures should be in place to further secure the data.

61H1-23.001 Confidential Client Information

A certified public accountant shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client. This rule shall not be construed to relieve a certified public accountant of his obligation under Rules 61H1-22.002 and 22.003 or to contravene or contradict any of the provisions of 473, F.S. Furthermore, this rule shall not prohibit a confidential review of a certified public accountant’s professional practice as a part of a quality review program.

History—New 12-4-79, Formerly 21A-23.01, 21A-23.001.
Black and Brown, CPAs, are undergoing a peer review. The reviewers have requested documents containing confidential client information. According to rule, what must Black and Brown do when satisfying this request to the reviewers? To their clients?

**Records Disposition Responsibility**

The licensee may not retain client documents after the document has been requested by the client. These documents include:

- Accounting records of the client
- Other records of the client
- Any records received from the client

Reasonable charges for costs incurred may be made by the licensee.

Simply put, give the record back to the client when asked. If client records are returned more than three months after the date requested and there is no evidence that the failure was due to any fees not being paid, you could get fined $500 per Rule 61H1-36.005(3)(e), F.A.C.

**61H1-23.002 Records Disposition Responsibility**

(1) A certified public accountant shall furnish to a client or former client within a reasonable time after request of the document the following if they are in the certified public accountant's possession or control at the time of the request. Any accounting or other records belonging to the client which the certified public accountant may have had occasion to remove from client's premises, or to receive for the client's account, including records prepared as part of the service to the client which would be needed to reconcile to the financial statements or tax return prepared and issued by the certified public accountant. If the tax return or financial statement has not been issued, the certified public accountant must only return records received from the client, but this shall not preclude the licensee from making copies of such documents when same form the basis of work done by the certified public accountant.

(2) This rule shall not preclude a licensee from making reasonable charges for costs incurred. A certified public accountant shall not withhold those items contemplated above under any circumstances following a demand for same from the client.

(3) Provisions of this rule apply to Licensed Audit Firms and to all certified public accountants practicing public accounting.

Revisions to Ethics Rule 501-1

Interpretations under Rule 501
—Acts Discreditable
.02  501-1—Response to requests by clients and former clients for records.

Terminology
The following terms are defined below solely for use with this interpretation:

- **Client provided records** are accounting or other records belonging to the client that were provided to the member by or on behalf of the client.

- **Client records prepared by the member** are accounting or other records (for example, tax returns, general ledgers, subsidiary journals, and supporting schedules such as detailed employee payroll records and depreciation schedules) that the member was engaged to prepare for the client.

- **Supporting records** are information not reflected in the client’s books and records that are otherwise not available to the client with the result that the client’s financial information is incomplete. For example, supporting records include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) that are produced by the member during an engagement (for example, an audit).

- **Member’s working papers** include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the member.

Interpretation
When a client or former client (client) makes a request for client-provided records, client records prepared by the member, or supporting records that are in the custody or control of the member or the member’s firm (member) that have not previously been provided to the client, the member should respond to the client’s request as follows:

- **Client provided records** in the member’s custody or control should be returned to the client.

- **Client records prepared by the member** should be provided to the client, except that client records prepared by the member may be withheld if the

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1 The member is under no obligation to retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed.
preparation of such records is not complete or there are fees due the member for the engagement to prepare those records.

- **Supporting records** relating to a completed and issued work product should be provided to the client, except that such supporting records may be withheld if there are fees due to the member for the specific work product.

Once the member has complied with these requirements, he or she is under no ethical obligation to comply with any subsequent requests to again provide such records or copies of such records. 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.

Member’s working papers are the member’s property and need not be provided to the client under provisions of this interpretation; however, such requirements may be imposed by state and federal statutes and regulations, and contractual agreements.

In connection with any request for client-provided records, client records prepared by the member, or supporting records, the member may:

- Charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that such fee be paid prior to the time such records are provided to the client;
- Provide the requested records in any format usable by the client; and
- Make and retain copies of any records returned or provided to the client.

Where a member is required to return or provide records to the client, the member 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. The fact that the statutes of the state in which the member practices grants 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. In addition, certain states have laws and regulations that impose obligations on the member greater than the provisions of this interpretation and should be complied with.

[Revised, effective April 30, 2006, by the Professional Ethics Executive Committee.]

.03 **501-2—Discrimination and harassment in employment practices.**

Whenever a member is finally determined by a court of competent jurisdiction to have violated any of the antidiscrimination laws of the United States or any state or municipality thereof, including those related to sexual and other forms of harassment,

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2 The member is not required to convert records that are not in electronic format to electronic format. However if the client requests records in a specific format and the member was engaged to prepare the records in that format, the client’s request should be honored.
or has waived or lost his/her right of appeal after a hearing by an administrative agency, the member will be presumed to have committed an act discreditable to the profession in violation of rule 501.

.04 501-3—Failure to follow standards and/or procedures or other requirements in governmental audits.

Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standards. If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally accepted auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of rule 501, unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore.

.05 501-4—Negligence in the preparation of financial statements or records.

A member shall be considered to have committed an act discreditable to the profession in violation of rule 501 when, by virtue of his or her negligence, such member—
   a. Makes, or permits or directs another to make, materially false and misleading entries in the financial statements or records of an entity; or
   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; or
   c. Signs, or permits or directs another to sign, a document containing materially false and misleading information.

.06 501-5—Failure to follow requirements of governmental bodies, commissions, or other regulatory agencies.

Many governmental bodies, commissions or other regulatory agencies have established requirements such as audit standards, guides, rules, and regulations that members are required to follow in the preparation of financial statements or related information, or in performing attest or similar services for entities subject to their jurisdiction. For example, the Securities and Exchange Commission, Federal Communications Commission, state insurance commissions, and other regulatory agencies, such as the Public Company Accounting Oversight Board, have established such requirements.

If a member prepares financial statements or related information (for example, management’s discussion and analysis) for purposes of reporting to such bodies, commissions, or regulatory agencies, the member should follow the requirements of such organizations in addition to generally accepted accounting principles. If a member agrees to perform an attest or similar service for the purpose of reporting to such bodies, commissions, or regulatory agencies, the member should follow such
requirements, in addition to generally accepted auditing standards (where applicable). A material departure from such requirements is an act discreditable to the profession, unless the member discloses in the financial statements or his or her report, as applicable, that such requirements were not followed and the reasons therefore.

[Revised, effective April 30, 2004, by the Professional Ethics Executive Committee.]

.07 501-6—Solicitation or disclosure of CPA examination questions and answers.
A member who solicits or knowingly discloses the May 1996 or later Uniform CPA Examination question(s) and/or answer(s) without the written authorization of the AICPA shall be considered to have committed an act discreditable to the profession in violation of rule 501.

.08 501-7—Failure to file tax return or pay tax liability.
A member who fails to comply with applicable federal, state, or local laws or regulations regarding the timely filing of his or her personal tax returns or tax returns of the member’s firm, or the timely remittance of all payroll and other taxes collected on behalf of others, may be considered to have committed an act discreditable to the profession in violation of rule 501.

.09 501-8—Failure to Follow Requirements of Governmental Bodies, Commissions, or Other Regulatory Agencies on Indemnification and Limitation of Liability Provisions in Connection With Audit and Other Attest Services
A member who enters into, or directs or knowingly permits another individual to enter into, a contract for the performance of audit or other attest services that are subject to the requirements of these regulators, the member should not include, or knowingly permit or direct another individual to include, an indemnification or limitation of liability provision that would cause the regulated entity or a member to be in violation of such requirements or that would cause a member to be disqualified from providing such services to the regulated entity. Certain governmental bodies, commissions, or other regulatory agencies (collectively, regulators) have established requirements through laws, regulations, or published interpretations that prohibit entities subject to their regulation (regulated entity) from including certain types of indemnification and limitation of liability provisions in agreements for the performance of audit or other attest services.

.10 501-9, Confidential Information Obtained From Employment or Volunteer Activities.
A member should maintain 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 (for example, discussions with the employer’s vendors, customers, or lenders). This includes, but is not limited to, 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. 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.

.10 501-10, False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services.

“False, misleading, or deceptive acts in promoting or marketing professional services,” which addresses false, misleading, or deceptive claims that a member in business and industry may make about the member’s qualifications. The interpretation states that a member in business and industry would be considered to have committed an act discreditable if the member promotes or markets his or her abilities to provide professional services or makes claims about his or her experience or qualifications in a manner that is false, misleading, or deceptive.

[Ethics interpretation issued June 2012.]

Ethics Interpretation and Rulings

Ethics interpretations and rulings are promulgated by the executive committee of the professional ethics division to provide guidelines as to the scope and application of the rules but are not intended to limit such scope or application. Publication of an interpretation or ethics ruling in the Journal of Accountancy constitutes notice to members. A member who departs from interpretations or rulings shall have the burden of justifying such departure in any disciplinary hearing.

Points to Ponder

9.2 When can a licensee withhold client documents for non-payment of fees, when those documents are requested by the client?

9.3 What are some examples of client records that a CPA may have in his possession in preparing a corporation income tax return? A reviewed financial statement? An Audit?

Advertising/Advertisements

Other responsibilities are deemed more practical. One of these responsibilities is in advertising.

Advertising or advertisements may not be:

- Fraudulent
- False
- Deceptive
- Misleading
The major points to consider for fraudulent, false, deceptive, or misleading include:

a. Misrepresentation of facts
b. Only partial disclosure of relevant facts
c. False or unjustified expectations of beneficial assistance
d. Appeals to:
   (1) fears
   (2) ignorance
   (3) anxieties
e. False claims on performance
f. Misleading or deceptive claims
g. Designations
h. False information on fees or failure to disclose variables affecting fees

The terms, “advertisement,” “advertising,” and other such words have distinct meanings in F.A.C. 61H1-24.001.

CHAPTER 61H1-24

- 61H1-24.001 Advertising
- 61H1-24.002 Solicitation
- 61H1-24.003 Competitive Negotiation (Repealed)

61H1-24.001 Advertising

(1) No certified public accountant shall disseminate or cause the dissemination of any advertisement or advertising which is in any way fraudulent, false, deceptive, or misleading, if it, among other things:
(a) Contains a misrepresentation of facts; or
(b) Makes only a partial disclosure of relevant facts; or
(c) Creates false or unjustified expectations of beneficial assistance; or
(d) Appeals primarily to a layperson’s fears, ignorance, or anxieties regarding his state of financial well-being; or
(e) Contains any representation or claims, as to which the certified public accountant, referred to in the advertising, does not expect to perform; or
(f) Contains any other representation, statement, or claim which misleads or deceives; or
(g) In the event that a certified public accountant uses the term "specialty" or "specialist" or any other term tending to indicate an advanced standing in any aspect of the practice of public accountancy, in any advertisement or offering to the public, the advertisement must state that the use of the term is a self-designation and is not sanctioned by the state or federal government; or
(h) Represents that professional services can or will be competently performed
for a stated fee when this is not the case, or makes representations with respect to fees for professional services that do not disclose all variables affecting the fees that will in fact be charged; or

(2) "Advertising" shall mean:

(a) Any statements, oral or written, disseminated to or before the public or any portion thereof, with the intent of furthering the purpose, either directly or indirectly, of selling public accounting services, or offering to perform public accounting services, or including members of the public to enter into any obligation relating to such public accounting services. For purposes of this rule, oral or written statements include:
   1. Business cards
   2. Letterhead
   3. Signs
   4. Listings in telephone and other media or communication directories
   5. Display of certificate or license from this or any other state
   6. Business reports
   7. Transmittal letters or other written communication issued or associated with accompanying financial statements
   8. Brochures
   9. Forms filed with state and federal regulatory agencies
   10. Press releases

1. Paid promotional listing in any media
2. Display of membership in CPA associations
3. Listings in professional directories
4. Presentation during court proceedings
5. Website, e-mail, or any other electronic communication
(b) "Advertisement," "advertising" and "advertising as a part of a certified public accountant's business activities" as defined terms by this rule does not include:
   1. Verbal statements in a social context
   2. Use of the designation by faculty members in an educational institution when functioning in the capacity of a faculty member, and
   3. Use of the designation by authors when used only for identification as authors of books, articles or other publications, provided that such publications, do not offer the performance of services or the sale of products (other than books, articles or other publications).

History–New 12-4-79, Amended 2-3-81, 12-29-83, Formerly 21A-24.01, Amended 5-20-91, Formerly 21A-24.001, Amended 2-12-95, 5-7-96, 10-8-97, 11-18-07, 12-10-09.

A CPA may solicit an engagement or respond to a request either verbally or in writing in accordance with F.A.C. 61H1-24.001.

**AICPA Rules on Advertising**

**ET Section 502 – Advertising and Other Forms of Solicitation**
.01 Rule 502—Advertising and other forms of solicitation.
A member in public practice shall not seek to obtain clients by advertising or other
forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by
the use of coercion, over-reaching, or harassing conduct is prohibited.

.03 502-2—False, misleading or deceptive acts in advertising or 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.

.06 502-5—Engagements obtained through efforts of third parties.
Members are often asked to render professional services to clients or customers of third
parties. Such third parties may have obtained such clients or customers as the result of
their advertising and solicitation efforts.

Members are permitted to enter into such engagements. The member has the
responsibility to ascertain that all promotional efforts are within the bounds of the Rules
of Conduct. Such action is required because the members will receive the benefits of
such efforts by third parties, and members must not do through others what they are
prohibited from doing themselves by the Rules of Conduct.

Points to
Ponder
9.4
A CPA is starting business as a sole practitioner. She wants to work
close to home and temporarily moves into a small office area within
her aunt’s flower shop. May she add “& CPA” to her aunt’s existing
business sign, or does she need a separate sign?

61H1-24.002 Solicitation

(1) A certified public accountant may
respond to any request for a proposal to
provide public accounting services and
may provide such services to those
requesting it.

(2) A certified public accountant may
solicit an engagement to perform public
accounting services provided the
licensee comply with 61H1-24.001 and
provided the licensee does not use
coercion, duress, compulsion,
intimidation, threats, or conduct that is
overreaching, or vexatious or harassing.

(3) Any form of written communication
to a potential client, invited or not, is
permissible under this rule provided
such communication conforms to the advertising guidelines of Rule 61H1-24.001.

History—New 12-4-79, Amended 2-3-81, Formerly 21A-24.02, 21A-24.002, Amended 11-30-93, 12-10-09.

The CPA has responsibilities not only to the clients but also for other persons. Any work performed in violation of the statutes or FAC is not permitted whether by the CPA or others on their behalf.

**Points to Ponder 9.5**

Tax guru and college professor, Marlene Feish, is the keynote speaker at an FICPA conference. By listing herself as - Marlene Feish, CPA – is this considered a form of advertising?

### 61H1-25.001 Responsibility for Other Persons

A certified public accountant shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the certified public accountant would place him in violation of Chapters 455 and 473, F.S., or rules promulgated thereto.

History—New 12-4-79, Formerly 21A-25.01, 21A-25.001, Amended 10-20-09.

### Administrative and Office Considerations

Other practical considerations include:

- Names
- Terms
- Branch Offices

Other considerations include administrative details such as:

- Licensure of Firm Names
- Licensure of changes by firms
- Notification of address changes

### Chapter 61H1-26 Names, Terms, Branch Offices

- 61H1-26.001 Form of Practice and Name-Shared Office Space
- 61H1-26.002 Minimum Capitalization or Adequate Public Liability Insurance for Public Accounting Corporations, Limited Liability Companies (LLCs) and Partnerships (LLPs)
- 61H1-26.003 Licensure of Firm Names
- 61H1-26.004 Licensure of Changes by Firms
- 61H1-26.005 Notification of Address Change
61H1-26.001  Form of Practice and Name-Shared Office Space

(1) A Florida certified public accountant may practice public accounting, whether as an owner or employee, only in the form of a proprietorship, a partnership or a corporation, or a limited liability company. A Florida certified public accountant shall not allow any person to practice in his name that is not a partner or shareholder with him or in his employ. A Florida certified public accountant shall not practice under a name which is misleading or deceptive as to the legal form of the firm or as to persons who are partners, or shareholders of the firm or as to any other matter. In this regard:

(a) A Florida certified public accountant may practice public accounting under a fictitious name which is not misleading or deceptive as to the persons who are sole proprietors, partners, or shareholders; and

(b) A firm name may include the names of retired or deceased partners or shareholders or members who were active partners or shareholders or members of the entity. This provision permits a firm, in the same line of succession, to change from one form of business to another and continue to use the names of retired or deceased partners, shareholders or members.

(c) Use of the term “and Company” or “and Associates” requires at least one other fully employed Florida certified public accountant or non-certified public accountant owner other than those named in the firm name; however, this rule does not preclude a Florida certified public accountant initially meeting this requirement from using the above-mentioned terms if the Florida certified public accountant subsequently does not fully employ at least one Florida certified public accountant other than those named in the firm name.

(d) A firm may use the term “Certified Public Accountants” in the firm’s name if all owners are certified public accountants. If there are non-certified public accountant owners, the firm may use the terms “CPA Firm” “CPAs and Associates” or “Certified Public Accountants and Associates” provided the firm has more than one certified public accountant. Further, a certified public accountant firm with non-certified public accountant owners may not use the term Certified Public Accountants without indicating there are other owners such as Associates or Consultants.

(2) The term “certified public accountant(s)” or the abbreviation “CPAs” must appear with the name of a certified public accountant when used in connection with an expression of opinion.

(3) Florida certified public accountant may share office facilities provided there is adequate disclosure that would enable a reasonable person to determine the practice is not associated with the profession or occupation not regulated by the Board, such as written agreements, signs, etc.

History–New 12-4-79, Amended 11-7-84, 10-28-85, Formerly 21A-26.01, Amended 10-20-86, 12-28-89, 7-1-91, 1-7-93, Formerly 21A-26.001, Amended 11-30-93, 12-30-97, 8-16-99, 9-20-00, 12-10-09.
A public accounting corporation, LLC, or LLP shall not engage in the practice of public accounting in this state unless:

(1) Assets in excess of liabilities and professional liability insurance combined are at least equal to $50,000 per shareholder, officer, member, or partner and any Florida licensed CPA to a maximum of $2,000,000; or,

(2) It has an irrevocable letter of credit which meets the following criteria:

(a) The responsibility for repayment of any sums disbursed under the letter of credit is not an obligation of the CPA firm, its owners, or any entity affiliated with the CPA firm;

(b) The letter of credit contains an “evergreen clause,” which automatically renews the letter of credit unless the issuer of the letter of credit notifies the CPA firm and the Board within sixty (60) days of the decision not to renew; and

(c) The letter of credit is issued by a financial institution authorized to do so under applicable state or federal banking laws; or,

(3) The corporation, each shareholder, and each officer who has authority over the practice of public accountancy, the LLC or the limited liability company and each member of the LLC, or the LLP and each partner have executed the waiver of limitation on liability approved by the Board which must be set forth as follows:

WAIVER ON LIMITATION OF LIABILITY

The shareholders, officers, members, or partners of ___________ (Name of Firm), do jointly and severally covenant and agree that they will pay any award or judgment arising out of any claim the basis of which is grounded upon an allegation of negligence, incompetence, misconduct, fraud or deceit in the firm’s or its owners’, officers’, members’, or employees’ practice of public accounting as soon as the same shall become payable regardless of any limitation on liability provided by Chapter 621 and Chapter 608, and Chapter 620, F.S. (1985). – 131 Unless executed by a partnership and its partners, the members intend this agreement as a mutual covenant of assumption and not as a partnership, but should any court of competent jurisdiction construe same to be a partnership then it is the intention of the parties that such partnership be limited in scope to the uses for which this contract is executed and no other. Any individual who, subsequent to the date of this instrument, becomes a shareholder, officer, member, or partner in ___________ (Name of Firm), shall immediately become a party to this waiver and be bound to the conditions thereof. Said shareholder, officer, member, or partner shall execute an amended Waiver on Limitation of Liability which shall become a part of the original Waiver on Limitation of Liability. We the undersigned shareholders, officers, members, or partners in


(Signatures of all shareholders, officers,
members, or partners)

(4) For purposes of subsection 61H1-
26.002(1), F.A.C., financial statements
prepared to substantiate the excess of
assets over liabilities must be submitted
to the Board with the application for
licensure. These Financial statements
must be prepared in accordance with
Generally Accepted Accounting
Principles and Work-in-Process may be
considered as an unbilled receivable
together with an appropriate evaluation
allowance.

History–New 12-4-79, Formerly 21A-26.02,
Amended 10-20-86, Formerly 21A-26.002,
Amended 11-30-93, 5-23-94, 6-10-96, 10-6-
96, 12-30-97, 9-21-00.

AICPA Rulings and Interpretations on Ethics

ET Section 591 - Ethics Rulings on Other Responsibilities and Practices
(Selected paragraphs.)

2. Fees: Collection of Notes Issued in Payment

.003 Question—A member’s firm made arrangements with a bank to collect notes issued
by a client in payment of fees due, and so advised the delinquent client. Is this
procedure ethical?

.004 Answer—The procedure followed does not violate any provision of the Code.

3. Employment by Non-CPA Firm

.005 Question—A member is considering employment with a public accounting firm made
up of one or more non-CPA practitioners. If he is employed by such a firm, what
are his responsibilities under the Rules of Conduct?

.006 Answer—A member so employed must comply with all the Rules of Conduct. If he
becomes a partner in such a firm, he will then in addition be held responsible for
compliance with the Rules of Conduct by all persons associated with him.

38. CPA Title, Controller of Bank

.075 Question—A member not in public practice is controller of a bank. May the member
permit the bank to use his CPA title on bank stationery and in paid advertisements
listing the officers and directors of the bank?

.076
Answer—The use of the CPA title on bank stationery by a member not in public practice is proper. It would also be proper for the CPA title of the member to appear in paid advertisements of the bank that list the officers and directors.

78. Letterhead: Lawyer-CPA

Question—May a member who is also admitted to the Bar represent himself on his letterhead as both an attorney and a CPA, or should he use separate letterheads in the conduct of the two practices?

Answer—The Code does not prohibit the simultaneous practice of accounting and law by a member licensed in both professions. Either a single or separate letterheads may be used, provided the information with respect to the CPA designation complies with rule 502 (section 502.01). However, the member should also consult the rules of the applicable Bar Association.

136. Audit with Former Partner

Question—A member’s firm consisting of one certified and one noncertified partner has been dissolved. One account was retained which the two practitioners plan to continue to service together. Should the audit report be submitted on partnership stationery?

Answer—It would appear proper for the audit to be carried out jointly by the two former partners. The opinion should be presented on plain paper and signed somewhat as follows:

John Doe, Certified Public Accountant
Richard Roe, Accountant

Such a signature would leave no doubt as to whether a partnership existed, and the client and others would have the assurance that both accountants participated in the audit.

137. Nonproprietary Partners

Question—A member’s firm wishes to institute the designation "nonproprietary partner" to describe certain high-ranking staff who were former partners of merged firms who did not qualify for partnership in the merging firm. With this title, they would be eligible to participate in the firm’s pension plan. In holding themselves out to the public they would be required to use this designation. Is there any impropriety in the proposed title?

Answer—The use of the designation "partner" should be restricted to those members of the firm who are legally partners. Those who are not parties to the partnership agreement should not hold themselves out in any manner which might lead others to believe that they are partners. The use of the designation "nonproprietary partner"
by one who is not in fact a partner is considered misleading and therefore is not permitted.

138. Partner Having Separate Proprietorship

*Question*—May a member be a partner of a firm of public accountants, all other members of which are noncertified, and at the same time retain for himself a practice of his own as a CPA?

*Answer*—Rule 505 (section 505.01) would not prohibit such a practice. However, clients and others interested should be advised about the dual position of the member to prevent any misunderstanding or misrepresentation.

141. Responsibility for Non-CPA Partner

*Question*—Is a member who has formed a partnership with a noncertified public accountant ethically responsible for all the acts of the partnership?

*Answer*—Yes. If the noncertified partner should violate the Code, the member would be held accountable.

145. Firm Name of Merged Partnerships

*Question*—When two partnerships merge, is it permissible for the newly merged firm to practice under a title which includes the name of a partner who had retired from one of the two firms prior to the merger?

*Answer*—Rule 505 (section 505.01 of the Code of Professional Conduct states that partnerships may practice under a firm title which includes the name or names of former partners. Since the retired partner was once a partner in one of the merged firms, it would be proper for his name to appear in the title of a newly created firm.

183. Use of the AICPA Personal Financial Specialist Designation

*Question*—In what circumstances may a firm include the AICPA-awarded designation "Personal Financial Specialists" on the firm’s letterhead and in marketing materials?

*Answer*—It is permissible under rule 502 (section 502.01) for the designation "Personal Financial Specialists" (PFS) to be used on a firm's letterhead and in marketing materials if all partners or shareholders of the firm currently have the AICPA-awarded designation. An individual member who holds the designation may use it after his or her name.
184. Definition of the Receipt of a Contingent Fee or a Commission

Question—Rules 302 (section 302.01) and 503 (section 503.01) prohibit, among other acts, the receipt of contingent fees for the performance of certain services and the receipt of a commission for the referral of products or services under certain circumstances. When is a contingent fee or commission deemed to be received?

Answer—A contingent fee or commission is deemed to be received when the performance of the related services is complete and the fee or the commission is determined. For example, if in one year a member sells a life insurance policy to a client and the member’s commission payments are determined to be a fixed percentage of future years’ renewal premiums, the commission is deemed to be received in the year the policy is sold.

185. Sale of Products to Clients

Question—May a member purchase a product from a third-party supplier and resell the product to a client without violating rule 503 (section 503.01)?

Answer—Yes. If a member purchases a product and resells it to a client, any profit on the sale would not constitute a commission. Purchasing entails taking title to the product and having all the associated risks of ownership.

186. Billing for Subcontractor's Services

Question—A member has contracted with a computer-hardware maintenance servicer to provide support for a client’s computer operations. Would it be a violation of rule 503 (section 503.01) for that member to bill the client a higher service fee than that charged the member by the service provider?

Answer—No. The increased fee would not constitute a commission.

187. Receipt of Contingent Fees or Commissions by Member's Spouse

Question—May a member’s spouse provide services to the member’s attest client for a contingent fee or refer products or services for a commission to or from the member’s attest client without causing the member to be in violation of rule 302 (section 302.01) or rule 503 (section 503.01)?

Answer—Yes, if the activities of the member's spouse are separate from the member’s practice and the member is not significantly involved in those activities. The member, however, should consider whether a conflict of interest may exist as described in rule 102 (section 102.01) and interpretation 102-2 (section 102.03).
188. Referral of Products of Others

*Question*—A member refers computer products of wholesalers to clients of the firm through distributors and agents. A payment is received by the member from the wholesaler if the clients purchase the computer products. Must the member consider rule 503 (section 503.01) in connection with this payment?

*Answer*—Yes. Section 91.02 (section 91.02) of the Code of Professional Conduct provides that a member shall not permit others to perform acts on behalf of the member that, if carried out by the member, would place the member in violation of the rules. Therefore, the member would be held responsible for the actions of the distributors and agents.

Rule 503 (section 503.01) provides that, if a member or the member’s firm performs for a client a service described in rule 503, the member may not recommend or refer to that client for a commission any product or service, or receive a commission for a recommendation or referral. This prohibition applies during the period in which the member is engaged to perform any of the services described in rule 503 and during the period covered by any historical financial statements in such services.

If the products are referred on a commission basis to clients for which the member is not engaged to perform any of the services described in rule 503, rule 503 would not be violated as long as the commission is disclosed to the client. However, any subsequent performance of services described in rule 503 during a period in which the commission was received would constitute a violation of rule 503.

189. Requests for Records Pursuant to Interpretation 501-1

*Question*—Individuals associated with a client entity who are currently on opposing sides in an internal dispute have each issued separate requests calling for the member to supply them with records pursuant to interpretation 501-1 (section 501.02). Does the member have to comply with all such requests?

*Answer*—In providing professional services to individuals, partnerships, or corporations, a member will usually deal with an individual who has been designated or held out as the client’s representative. Such a representative might include, for example, a general partner or a majority shareholder. A member who has provided the records to the individual designated or held out as the client’s representative has no obligation to provide such records to other individuals associated with the client.

190. Non-CPA Partner

*Question*—May a member who is in partnership with non-CPAs sign reports with the firm name and below it affix his own signature with the designation "Certified Public Accountant"?
Answer—This would not be improper, provided it is clear that the partnership itself is not being held out as composed entirely of CPAs.

191. Member Removing Client Files from an Accounting Firm

Question—If the relationship of a member who is not an owner of a firm is terminated, may he or she take or retain originals or copies from the firm's client files or proprietary information without the firm’s permission?

Answer—No, except where permitted by contractual arrangement.

192. Commission and Contingent Fee Arrangements with Nonattest Client

Question—A member or member’s firm (member) provides for a contingent fee investment advisory services, or refers for a commission products or services of a nonclient or a nonattest client, to the owners, officers, or employees of an attest client or to a nonattest client employee benefit plan sponsored by an attest client. Would the member be considered to be in violation of either rule 302 (section 302.01) or rule 503 (section 503.01)?

Answer—No. The member would not be in violation of either rule 302 or rule 503 provided that, with respect to rule 503, the member discloses the commission to the owners, officers, or employees or to the employee benefit plan. The member should also consider the applicability of interpretation 102-2, Conflicts of Interest (section 102.03), and his or her professional responsibility to clients under Rule 301, Confidential Client Information (section 301.01).

Case Study Exercise 9.1

What are the key points that Doe & Doe can convey to their clients to assure them that client information will remain confidential and that their records will be disposed of properly?

Case Study Exercise 9.2

How can Doe & Doe comply with the rules on advertising and solicitation and still maintain their professional standing?
Chapter Review Questions

9.1 Under the Florida Administrative Code rule for Records Disposition Responsibility and AICPA Interpretations under Rule 501 which is NOT considered a client document?

a. Adjusting journal entries needed to reconcile from the client’s books to the tax return prepared by the CPA
b. Bank statements of the client
c. CPA’s working papers used to help support a position provided by the client
d. Depreciation schedule used to book depreciation on the client’s tax return

9.2 May a client record be held by the CPA for payment of fees? True or False?

9.3 When advertising as a CPA under Florida law, no licensee shall disseminate any advertisement which is any way fraudulent, false, deceptive, or misleading. Which of the following situations is NOT considered fraudulent, false, deceptive or misleading?

a. The CPA indicates that he/she is an Estate Planning specialist
b. The CPA represents that he/she is a certified fraud examiner when in fact they have received such a designation
c. The CPA indicates that unless he/she prepares your tax return you will likely be audited by the IRS
d. The CPA’s letterhead indicates that they are a CPA licensed in Michigan

9.4 A CPA may practice public accounting on in the form of a proprietorship, a partnership or a corporation, or a limited liability company. Which of the following names is NOT allowed under state law?

a. John R. Smith, CPA, CFE
b. John Smith, CPA & Joe Jones, EA, CPAs
c. Smith, Jones, and Boyd, CPAs, PA
d. Smith, Jones, Boyd & Associates, LLC

Answers to Review Questions
9.1 Under the Florida Administrative Code rule for Records Disposition Responsibility and AICPA Interpretations under Rule 501 which is NOT considered a client document?

a. Incorrect. Adjusting journal entries is considered a client document since the journal entries are needed to reconcile from the books of original entry to the tax return.

b. Incorrect. Bank statements of the client are considered a client document.

c. Correct. A CPA’s working papers is considered the CPA’s document and is not an original document provided by the client. It is not needed to reconcile to a tax return or financial statement.

d. Incorrect. A depreciation schedule is considered a client document since it is needed to reconcile from the client’s books to the tax return issued.
9.2 May a client record be held by the CPA for payment of fees? True or False?

True - Incorrect.
Although Interpretation 501-1 of the AICPA Code of Professional Conduct allows a CPA to withhold client records prepared by the member, Florida law does not allow for such.

False - Correct.
If a record is considered a client record under Florida law it must be returned even if the client’s fees have not been paid.

9.3 When advertising as a CPA under Florida law, no licensee shall disseminate any advertisement which is any way fraudulent, false, deceptive, or misleading. Which of the following situations is NOT considered fraudulent, false, deceptive or misleading?

a. Incorrect. A licensee cannot use such a term as specialist or specialty or any other term to indicate an advanced standing unless the licensee has received bona fide from recognition or attainment.

b. Correct. The CPA claims to be a certified fraud examiner and this is considered a bona fide recognition or attainment.

c. Incorrect. A CPA indicating that he/she should prepare your tax return to avoid an audit appeals to a layperson’s fears or anxiety.

d. Incorrect. A CPA promoting licensure in another state is misrepresenting facts as the licensee who resides in the state of Florida must be licensed in the Florida in order to advertise that he/she is a CPA.

9.4 A CPA may practice public accounting on in the form of a proprietorship, a partnership or a corporation, or a limited liability company. Which of the following names is NOT allowed under state law?

a. Incorrect. John R. Smith, CPA, CFE is an appropriate firm name. The CFE designation is a bona fide recognition and the firm is a proprietorship.

b. Correct. John Smith, CPA & Joe Jones, EA, CPAs is calling itself CPAs. However, one person listed on the firm name is not a licensed CPA and thus does not meet the allowed names of firms under 61H1-26.001.

c. Incorrect. Smith, Jones, and Boyd, CPAs, PA is an appropriate name of a public practice unit under 61H1-26.001.

d. Incorrect. Smith, Jones, Boyd & Associates, LLC is an appropriate name of a public practice unit under 61H1-26.001.

For More Information
Please see Appendix B for a list of additional resources for this chapter.
Chapter 10

Future Implications

Learning Objectives

The purpose of Chapter 10 is to review the CPA profession’s future and to discuss the ethical provisions and their effect on public accounting. The learning objectives for this chapter are:

1. Name several changes to the accounting profession that could occur within the next 10 years.
2. Highlight several major differences between the IFAC and AICPA ethics codes of conduct.
3. Discuss aspects of the CPA Horizons 2025 Project.

Statutory References and Information

Our Future

To prophesy is extremely difficult – especially with regard to the future.

Chinese Proverb

We can expect many, many changes in the near future for CPAs.

First, many changes previously mentioned have occurred. Most large audits are still performed by the “Quadropoly”. This was a coined word used to describe the large international firms by Mr. Christopher Cox, the former Chairman of the SEC.

Second, the software applications involving EXtensible Business Reporting Language (XBRL) are well on their way to reality. The SEC has already begun to receive statements in XBRL format.

Third, GAAP was forever affected by the GAAP Codification Project. GAAP Codification was officially recognized and implemented July 1, 2009. This changes the way GAAP is:

- Documented
- Updated
- Referenced
- Accessed
**Mobility**

In 2007 only four states had passed mobility provisions to allow CPAs that were licensed in other states to practice in their states. As of Spring 2012, 49 states have enacted mobility statutes. California, Guam, Hawaii, Puerto Rico, and US Virgin Islands are “in process”.

**International Implications**

On May 18, 2008, at Amelia Island, the AICPA Council approved the use of International Financial Reporting Standards (IFRS) as *generally accepted accounting principles* for the United States.

At present the SEC has released an SEC Roadmap which reflects that the SEC will make a major is deliberating whether or not to mandate IFRS for issuing entities. Ultimately, the convergence for non issuers will be determined by the FASB, the AICPA, and possibly others.

Figure 10.1: SEC Roadmap to IFRS
The major question facing the United States is, “If the United States mandates IFRS for publicly traded companies, will private companies and not-for-profit organizations be required to adopt IFRS?

The simple answer is no. All the discussion thus far about the possibility of the Securities and Exchange Commission designating a future date for voluntary, or even mandatory, adoption of IFRS has been for U.S. public companies only.

IFRS for Small and Medium Entities (SME) was released on July 9, 2009. You can view questions and answers developed by the AICPA regarding IFRS for SMEs at the AICPA site.

Will IFRS be incorporated into the Uniform CPA Exam?

Yes. The AICPA Board of Examiners included IFRS questions on the Uniform CPA Exam in January 2011.

International Audit Convergence

Parallel to this project is the AICPA’s Auditing Standards Board convergence project with the International Auditing and Assurance Standards Board (IAASB).

International Compilation and Review Convergence


ISRS 4410 and ISRE 2400 can be found in IFAC’s Handbook of International Auditing, Assurance, and Ethics Pronouncements. The reference is available at www.ifac.org

Comparison of IFAC and AICPA Ethics Standards

The AICPA and the International Federation of Accountants (IFAC) have begun to converge the IFAC’s International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code) and the AICPA’s Code of Professional Conduct (AICPA Code).

On April 19, 1917, the AICPA’s predecessor organization, the American Institute of Accountants, adopted eight rules of conduct that fit on one sheet of paper. Over time, the rules evolved. In 1973, they were codified into the current AICPA Code.
Almost 100 years – and many sheets of paper – later, the AICPA Code and related guidance is ripe for reorganization.

The standard setting organizations in more than 100 countries have adopted the IFAC’s Code of Ethics for Professional Accountants and many others are in the process of converging with the code. The code will impact those in public practice, business, academia, and government.

The IFAC code uses a conceptual framework approach to evaluate relationships or circumstances that raise ethical issues. Most of the same issues in the AICPA’s Code and the IFAC’s Code are addressed like:

- Independence
- Objectivity
- Due care
- Confidentiality

The International Ethics Standards Board for Accountants establishes and maintains the requirements in the IFAC Code.

Like the much larger initiative to create the *FASB Accounting Standards Codification™* from the accounting literature, the AICPA’s ethics literature needs to undergo a transformation.

Existing in multiple locations, similar subject matters are sometimes disjointed, making it difficult for members to know for certain whether they have considered all the relevant matters.

As a result, in 2009 the AICPA launched the Codification Project to reformat and enhance its ethics literature. As part of this effort, the AICPA will continue to converge the *Code of Professional Conduct* with international standards where appropriate.

Starting in 2001, the AICPA Professional Ethics Executive Committee (PEEC) sought to align or “converge” the AICPA Code with the *Code of Ethics for Professional Accountants*, which is issued by the International Ethics Standards Board for Accountants (IESBA).

As a member body of the International Federation of Accountants (IFAC), the AICPA agrees to have ethics standards that are at least as stringent as the IESBA ethics standards. The PEEC will continue to consider convergence issues as part of the Codification effort.
Some confusion exists around the meaning of “convergence” – and rightly so as the term is subject to some interpretation. In this context, “convergence” means the PEEC may propose changes to AICPA guidance that is less strict than guidance in the IESBA Code or does not exist in the current Code.

Of course, any proposed changes to the AICPA Code resulting from convergence efforts will follow full due process as set out in the AICPA Bylaws; this includes exposure of the proposed standard to the membership and consideration of all comments at PEEC meetings, which are open to the public.

Convergence does not mean that the PEEC will adopt lower standards when international standards are less strict. Rather, the PEEC will maintain the high ethical standards of the current AICPA Code.

In an article in the October 2010 issue of the *Journal of Accountancy*, “Comparing the Ethics Codes: AICPA and IFAC”, the reference is made to the phrase “More similar than different”.

The IESBA Code is in three parts:

1. Part A – applies to all professional accountants;
2. Part B – applies only to persons in public accounting;
3. Part C – applies to persons in business (everyone not in public)

The AICPA does divide its Code in this way.

The following table illustrates certain requirements in the IESBA Ethics that do NOT appear in the AICPA Code:

**Figure 10.2: IESBA Ethics Requirements**

<table>
<thead>
<tr>
<th>IESBA Provision</th>
<th>Summary</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Appointment §210</td>
<td>Ethical considerations related to the acceptance and continuance of client engagements and responsibilities of successor/predecessor accountants</td>
<td>Addressed by the AICPA in SQCS 7, Rule 201-A, Rule 201-B and Rule 501</td>
</tr>
<tr>
<td>Second Opinions §230</td>
<td>Ethical considerations related to the provision of a second opinion on the application of accounting, auditing, reporting, or other standards or principles to specific circumstances or transactions of entity not an existing client.</td>
<td>Addressed in AICPA Rule 102 and Rule 201-B.</td>
</tr>
<tr>
<td>Custody of Assets §270</td>
<td>Ethics relating to holding client assets.</td>
<td>AICPA Rule 102, Rule 201-B, and Rule 501 would apply</td>
</tr>
</tbody>
</table>
The following table shows some of the IESBA independence requirements in §290 that exceed AICPA requirements:

Figure 10.3: IESBA and AICPA Ethics Comparisons

<table>
<thead>
<tr>
<th>Provision</th>
<th>IESBA Code – Independence Requirements</th>
<th>AICPA Code</th>
<th>Discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related entities</td>
<td>Except for “listed entities,” the term “audit client” includes directly or indirectly controlled entities by the audit client. Restrictions apply to both.</td>
<td>Generally does not apply to related entities.</td>
<td>The IESBA Code is more restrictive than the AICPA Code. The PEEC is studying the issue.</td>
</tr>
<tr>
<td>Listed Entities on Non-US Exchanges</td>
<td>Listed entities anywhere in the world are considered Public Interest Entities and subject to more restrictive independence rules.</td>
<td>Members who audit an entity subject to other, Non-AICPA independence rules must apply those rules also.</td>
<td>Requirements for listed entities in the US meet or exceed the IESBA independence requirements for audits of PIEs.</td>
</tr>
<tr>
<td>Documentation of Independence Matters</td>
<td>A professional accountant must document his or her determination that, after significant analysis of a threat to independence, it was not necessary to apply safeguards because the threat was already at an acceptable level. (§290.29(b))</td>
<td>IESBA Code requirement is not in the AICPA Code.</td>
<td>The AICPA Code does not require documentation unless the member concluded that the threat required safeguards.</td>
</tr>
<tr>
<td>Entertainment or Hospitality from Clients</td>
<td>Firms and audit teams may only accept entertainment from a client is value is trivial and inconsequential. (§290.230)</td>
<td>Independence would not be considered impaired if the entertainment was reasonable.</td>
<td>The IESBA is a lower threshold than the AICPA.</td>
</tr>
<tr>
<td>Corporate Finance or Tax Advisory Services</td>
<td>Professional accountants may not perform corporate finance or tax advisory services for an audit client under several conditions.</td>
<td>Members must only meet the general requirements for non-attest services.</td>
<td>The IESBA is more restrictive.</td>
</tr>
</tbody>
</table>
CPA Horizons 2025 Report

Over a six-month period, CPA Horizons 2025 sought the insights of CPAs on current and forecasted trends that will surely affect not only the profession, but also the world. Through an online survey, 16 in-person forums and online discussion and focus groups, about 5,600 CPAs weighed in and generated more than 75,000 comments about the current state and future of their profession.

The research shows that the entire profession—from sole practitioners to medium and large firm members to members in business and industry to those in government and academia—has a bright future and will need to respond quickly and competitively to the shifting ground on political, economic, social, technological and regulatory fronts.

Insights and directions related to opportunities and challenges for the profession over the next 15 years emerged. Using these insights and directions as a road map, CPAs and the accounting profession will mold their future.

- CPAs overwhelmingly agreed that the profession’s Core Purpose, “Making sense of a changing and complex world,” remains relevant today and for the future.
- The profession’s core values and competencies resonate with CPAs conceptually, but the definitions need to be refined and updated to reflect the 21st century.
- The services provided by CPAs have become so varied and diverse that the concept of core services is no longer representative of the profession and has been dropped.

For more information, visit the AICPA website at http://www.aicpa.org/research/cpahorizons2025

So, where are we going by 2025?

1. TECHNOLOGY

- Understand and leverage relevant technology in conjunction with core CPA competencies to deliver superior services.
- Throughout the CPA Horizons 2025 project, CPAs identified technology as having a major impact on CPAs.
- With the increasing prevalence of mobile technology and faster networks, people expect to have up-to-date information available wherever and whenever. This will drive financial reporting to be faster and, eventually, to be delivered in real-time.
- Technology also is changing the way people interact with each other. Face-to-face meetings are being replaced by conference calls, which are evolving to
video conferences. Emails have replaced letters and are being replaced by text messages.

- Social media is blurring the boundary of business and personal and a social media presence is becoming as much a marketing imperative today as a website was just five years ago.
- The office is becoming anywhere with an Internet connection, rather than a specific place.
- Today a CPA can offer services to a client or employer half a world away almost as easily as to one just down the street.

What is the impact of Technology on the profession?

1. CPAs must stay current with, embrace and exploit technology for their benefit for increased efficiency and expansion of services.
2. The profession must find solutions to offer investors and stakeholders up-to-date, real-time financial information and to increase transparency.
3. CPAs must embrace mobile technologies and social media to modernize and enhance interaction and collaboration with clients and colleagues.
4. Fraud may be easier to commit and more difficult to prevent and detect. CPAs must continue to be vigilant in ensuring data is captured and managed properly and protected from malfeasance.

2. PRE-CERTIFICATION AND LIFELONG LEARNING

- Evolve the educational framework to keep pace with the changing dynamics of business, government and our profession.
- Education will remain a cornerstone both as preparation for certification and as an ongoing activity throughout a CPA’s career.
- While the importance of education will not diminish, what CPAs learn and how they learn will evolve.
- Strong technical accounting knowledge will continue to be a foundational requirement but it alone will not be sufficient.
- CPAs must also develop problem-solving, communications, leadership and other interpersonal skills.
- For CPAs to obtain and maintain the knowledge needed, the educational framework will also need to change.
- The Internet and the growth of mobile technologies allow CPAs to engage in education whenever and wherever it is needed.
- Whereas in the past, CPAs often had to schedule classes in advance or order self-study manuals, today a CPA can identify a need and potentially
immediately find a webcast, podcast or seminar available and participate without ever leaving his or her desk.

- This evolution also allows education to be consumed in smaller, more digestible increments – instead of spending hours or days in a class, CPAs can find education in smaller targeted segments.

**What is the impact of Life-Long Learning on the profession?**

1. CPAs must devote more time to staying current with regulations and standards and social, economic, technological and political trends domestically and abroad.

2. CPAs must further develop interpersonal skills to enhance relationships with colleagues, clients, businesses and employers.

3. Real-time learning in the workplace will change the way CPAs learn and will help them adopt and adapt quickly and knowledgeably to ever-changing circumstances.

4. Requirements for new CPAs must remain rigorous and demanding and be practical and relevant.

5. New CPAs must have a broad knowledge of business and soft skills and not simply focus on technical accounting.

**3. WORLDWIDE PROFESSION**

- Position the CPA as a premier designation of the accounting and finance profession throughout the world.

- A growing number of CPAs believe it is increasingly important for the profession to be aware of global business issues and trends.

- Globalization offers unprecedented opportunities for the profession to expand into new markets.

- Yet globalization also brings challenges including greater competition for CPAs, both in the U.S. and internationally.

- CPAs also will face increasing complexity with varying standards and customs across the globe.

- CPAs must navigate through different communication challenges and business practices while maintaining the highest ethics and standards that define the CPA profession.

- As global business becomes more complex, there will be an opportunity for CPAs to become the leading experts for all financial needs.
**What is the impact of a Worldwide Profession?**

1. CPAs must be increasingly aware of international business issues and trends.

2. CPAs must assess the trend toward outsourcing overseas and create opportunities to expand services to serve these markets.

3. CPAs must continue to market the quality and value of their services in order to expand and thrive globally.

**4. PRIDE IN THE PROFESSION**

- Encourage pride among CPAs in the CPA profession and in the value CPAs create throughout society.

- CPAs are proud of the long-standing resilience of their positive reputation.

- Research conducted by the AICPA over the past 20 years found that CPAs are among the most respected and trusted financial professionals. They are known for their objectivity, integrity and financial and business expertise, earning the title of trusted advisor to individuals and businesses.

- Defending a strong positive reputation remains a high priority for the profession and CPAs remain vigilant in preventing the weakening of ethics and loosening of standards, as well as instances of fraud both within and outside the profession.

- Greater focus on integrity, detection and reporting of fraud, and ethical behavior are requirements to continue to uphold this reputation.

- When CPAs work in countries with differing ethics, upholding the integrity of the profession and maintaining high standards will be challenges the profession will need to meet.

**What is the impact of Pride on the profession?**

1. The profession must continue to advocate on behalf of itself to ensure continued recognition as a trusted advisor.

2. CPAs must uphold the integrity of the profession and maintain high standards in an ever-changing environment and in cultures where business practices differ from U.S. practices.

**5. TRUSTED ATTESTER**

- Preserve the role of the CPA as the trusted attester of financial and other information.

- Although most CPAs are not involved in providing audit and attest services, attest remains a fundamental service for the profession.
• While CPAs’ skills and knowledge allow them to offer many other services to employers and clients, there is no other profession that is as qualified, or even allowed by law, to fulfill the role of auditor.

• It is a unique niche filled by CPAs and will continue to be an important role.

**What is the impact of Trusted Attester on the profession?**

1. The profession must stay vigilant in defending its unique role as providers of audit and attest services.

2. All CPAs benefit from the public trust that is rooted in the provision of audit and assurances services.

3. Audit and attest functions must evolve to meet changing regulatory demands and client and business needs.

**6. TRUSTED ADVISOR**

• Promote the CPA as the trusted advisor who, in addition to providing core CPA services, develops solutions to complex problems by integrating knowledge, expertise and resources from multiple disciplines.

• Regulatory, technical, global and competitive forces (including non-CPAs who compete with the profession to offer non audit services) provide increased challenges and opportunities for the profession.

• In today’s fast-paced globalized and highly networked economy, CPA professionals must maintain and improve their technical skills, business skills and knowledge.

• To be successful, the profession must earn and uphold the trust and confidence of those they serve.

**What is the impact of Trusted Advisor on the profession?**

1. CPAs must continue to evolve as strategic partners of clients, business and employers, applying multidisciplinary and integrated problem solving to expand traditional services and enhance nontraditional offerings and the perception of trusted advisor.

**7. MARKET PERMISSIONS**

• Leverage the strengths of the profession to expand market permissions.

• While the public often thinks of CPAs in terms of financial reports, audits and taxes, CPAs’ competencies allow them to offer a much wider range of services.

• CPAs collaborate on corporate responsibility reports; lead risk management and sustainability efforts; consult on technology solutions; develop business
strategies; valuate the use of tax dollars for local, state and federal government programs and much more.

- CPAs are trusted to fill these roles because the profession’s reputation is associated with the unparalleled core competencies delivered at the highest level of excellence.
- The increasingly international nature of business and finance will allow CPAs to expand in new directions.
- CPAs knowledgeable about international business and financial regulations and norms will be able to guide businesses as they expand internationally.
- The profession’s role as an assurer of financial information can be expanded to include such areas as corporate responsibility, environmental compliance and other growing areas in business reporting.
- Whether serving as preparers or auditors, CPAs are already associated with ensuring that information produced in reports is accurate and in compliance with standards.
- This skill can be leveraged to strengthen the reputation of CPAs as assurers of information.

**What is the impact of Market Permissions on the profession?**

1. Emerging opportunities for specialization will allow CPAs to strengthen their expertise and provide additional value to clients, employers and business.
2. The profession must continue to evaluate which services it offers locally and globally and how it will deliver these services to adapt to the needs of clients, employers and business.

8. **MARKETPLACE**

- Address continual changes in the marketplace, economy, businesses and regulations.
- The inevitability of change was a recurring theme throughout the CPA Horizons 2025 project.
- Whether the topic was regulation, business, the economy, society or technology, CPAs expressed the belief that the profession must remain dynamic.
- CPAs are united in their opinion that in order for the profession to thrive, it will need to quickly adjust and adapt while remaining rooted in its foundational values and competencies.
- Amid this change, one thing is certain: “What makes the CPA profession so exciting [and] interesting … is that when and where there is change, CPA skills and knowledge are needed.
• We have always changed with the times. We must, our clients demand the best,” said one CPA Horizons 2025 survey respondent.

**What is the impact of Marketplace on the profession?**

1. The exact nature of the work that CPAs perform must evolve to respond to shifts in business, society and technology.

2. These changes will offer opportunities to enhance the value of CPA services, positioning CPAs to be leaders in helping clients and employers adapt to change while also responding to change themselves.

3. Lifelong learning will take on greater importance as a way for CPAs to stay up-to-date as the pace of change accelerates.

**9. VALUE PROPOSITION**

• Increase the visibility of the profession’s value proposition by demonstrating the profession’s Core Values in multiple areas of business and society

• Much of the profession’s value proposition stems directly from the Core Values shared by all CPAs.

• The integrity, objectivity and commitment to excellence demonstrated by CPAs lead the public to trust CPAs.

• The dedication of CPAs to lifelong learning, competence and relevance in the global marketplace gives clients, employers and the public the confidence that CPAs will continue to evolve and innovate to meet the changing needs of business and society.

• In a globalizing society in which competitive credentials are proliferating, the Core Values allow CPAs to distinguish themselves.

• While CPA values are unchanging, how those values are applied will evolve with the changing marketplace.

• CPAs should not be afraid to be creative when it comes to developing services that align with their Core Values.

• By listening to their clients and employers and staying abreast of market trends, CPAs will be able to customize their services in ways that keep pace with the changing needs of businesses and individuals.

• CPAs help businesses foresee and understand the effects of changes in the financial and regulatory markets and play a larger role in helping individuals create plans to build secure retirements and estates.
What is the impact of Value Proposition on the profession?

1. By listening to and understanding the needs and challenges of employers and clients, opportunities for CPAs to develop services that align with Core Values will emerge.

2. The profession must spend more time demonstrating their value to clients, businesses and the public about the role and value of the CPA in order thrive amid increased competition and economic pressures.

10. DEMOGRAPHIC SHIFTS

- Continue to offer opportunities that enhance the appeal of the profession and be proactive in addressing both U.S. and global demographic shifts.

- The convergence of Baby Boomers, Generation X, Generation Y and Millennials is transforming the workplace.

- CPA Horizons 2025 respondents widely perceive that differences in the needs, wants and work styles of these generations create numerous challenges.

- Enormous changes are taking place within the profession as younger workers bring their own priorities to the workplace.

- Younger CPAs (late wave Generation Xers and Millennials) desire greater work/life balance, increased technological integration and innovation, and meaningful learning and advancement opportunities.

- Older CPAs (Baby Boomers and the early wave Generation Xers) are concerned that traditional relationship-building and commitment to business and client needs are losing importance.

- Older CPAs can build bridges by mentoring younger CPAs and by meeting personal and family needs with flexible programs and benefits.

- Younger CPAs can leverage their technological skills in a rapidly evolving marketplace.

What is the impact of Demographic Shifts on the profession?

1. The profession must strive to reflect the demographic shifts of incoming accounting students, clients, business and society.

2. Programs offered to support minorities; women and young CPAs in the workplace must be more widely implemented throughout the profession.

3. Experienced and older CPAs must continue to mentor young CPAs and identify leadership and advancement opportunities that will foster stronger relationships and loyalty.

4. In order to attract and retain younger generations, employers must increase flexible work arrangements and work-at-home options.
5. The profession must continue to support and enhance programs that build awareness of the CPA profession to young audiences.

**Embracing The Future - What Have We Learned?**

- *It is a small world after all* — every business is becoming a global business
- *The future is here* — embracing the future now will ensure viability in the long run
- *Change is inevitable* — technology already is changing the way we work … and the change will continue
- *Generations are working side by side* — Baby Boomers are not retiring and Millennials are bringing a new set of skills and ideals to the workplace

**What Must We Do?**

- *Be open to change* — embrace, don’t fear, the future
- *Be nimble* — adapt traditional services and establish new ones to take advantage of change
- *Be collaborative* — work with each other and with the global community to shape and execute the standards and services that will emerge over the next decade
- *Be forward-thinking* — assess and evaluate the current and future environments and plan accordingly

**How Do We Do It?**

- *Technology*: Address security and privacy concerns; adapt traditional services; utilize state-of-the-art tools to reach out to new markets
- *Education*: Balance judgment with technical skills; teach soft skills; stay ahead of the curve on regulations and standards
- *Globalization*: Understand international issues, trends, standards and regulations; identify new markets; explore new job opportunities
- *Promotion*: Market the profession’s virtues of integrity, objectivity and trust to local, national and international audiences
- *Collaboration*: Understand the different perceptions and realities of the generations and find ways to bridge the gap and take advantage of the best each can offer
- *Integration*: Review our competencies and align them with new realities; enhance our role as a business advisor
• **Adaptation:** Address changes in the marketplace, economy, business and regulations; immerse ourselves in domestic and international trends

• **Competition:** Understand the numerous choices available to clients and employers; market the CPA value

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**Welcome to the future!**

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**For More Information**

Please see Appendix B for a complete list of additional resources for this chapter.
Appendix A

Answer Key

Chapter 1
No questions

Chapter 2
No questions

Chapter 3

Points to Ponder

3.1 Yes, see Chapter 455.224(3). This section of the F.S. indicates that the DBPR is entitled to recover the costs of investigation in addition to any penalty provided.

3.2 The complaint filed must be in writing, signed by the complainant, and legally sufficient per F.S. 455.225(1)(b). If the complainant does this, DBPR is required to review the complaint for legal sufficiency. Legal sufficiency is when the complaint contains ultimate facts that show a violation of this chapter, F.S. 455, of any of the practice acts related to professions regulated by the department, or any rule adopted by the department, or any regulatory board in the department by DBPR. On occasion, the department may require supporting documentation or information. Further, the department may also conduct an investigation. If so, the CPA has 20 days to respond. See Chapter 455.225(1)(b).

3.3 Assuming the complaint is not legally sufficient, nothing will happen to the CPA. However, if all the procedures are followed and the complaint is judged legally sufficient, an investigation may start. Normally, domestic matters are not part of the DBPR’s complaint process and are properly addressed in civil court.

Case Study Questions

3.1 (1) The considerations that Doe and Doe must address are found in the FS 473.309. These include the organization itself which must be recognized by Florida law, CPA owners of at least 51%, and at least one CPA owner licensed in the state of Florida and holding an active license.

3.1 (2) The DBPR may investigate a complaint when it is determined to be “legally sufficient.” Reference 455.225, FS

Appendix A-1
3.1 (3) No, the complaint must be in writing. Reference 455.225(1)(a), FS

3.1 (4) No, the friend has 20 days to dispute the citation. Reference 455.224, FS

3.1 (5) A complaint is legally sufficient if it contains ultimate facts that show that a violation of this chapter, of any of the practice acts relating to the professions regulated by the department, or of any rule adopted by the department or a regulatory board in the department has occurred. In order to determine legal sufficiency, the department may require supporting information or documentation. Reference 455.224(1)(a), FS

Chapter 4

Points to Ponder

4.1 No, she cannot sign for the firm as a CPA. However, she can physically sign the compilation report if all the requirements of SSARS 1-14 have been adhered to and a CPA responsible for the financial statements has performed the required reading of the financials and decided no further actions were needed. SSARS 9 requires the compilation report to be signed, but it does not specify who must sign. It only indicates that the firm’s name must be in the general signature area.

4.2 No, she is not recognized as a CPA in Florida even though she holds a CPA license from Iowa. She will need to establish herself as a Florida CPA before she can use the designation and practice accounting.

4.3 Yes. According to 473.306(2), Shawna is eligible to begin sitting for the CPA exam as early as completing 120 hours as long as she satisfies the course requirements as specified by rule. Once she begins taking the exam, she has an 18-month window after passing any one of the 4 sections of the exam to finish. During this time, she can continue to complete the additional 30 hours necessary to satisfy the 150-hour requirement that is required for licensure once she passes all four parts of the exam.

As an employer, you should check with your human resources department for policies regarding tuition reimbursement, flexible scheduling for anyone taking the CPA or other credentialing exam, and financial assistance for a review course.

4.4 No. Duke must have at least 5 years of experience as an auditor or accountant in the employment of a unit of federal, state, or local government. Employment must require the use of accounting skills as a substantial part of the applicant’s duties and must be under the supervision of a certified public accountant licensed by a state or territory.

Appendix A-2
of the United States. If that is the case, the requirements of FS 473.306 (2)(b)(2) will be waived. This waiver effectively eliminates the Florida’s fifth year requirement.

4.5 The professional services corporation must file an application for licensure with the department and supply the information the board requires. The Board will decide whether they meet the requirements for practice. See FS 473.3101(1).

4.6 No. The CPA domiciled in Florida must have an active Florida license in order for the firm to be recognized as a public practice firm in Florida. Reference FS 473.309(1)(b) and (c).

4.7 Any firm “holding out” as a Florida CPA firm per FS 473.302(7)(a) must be licensed in Florida. “Holding out” would include offering to perform services resulting in a level of assurance which a compilation engagement would do. See FS 473.3101 and FS 473.302(7)(a).

4.8 Yes – she is a CPA and the sole proprietor. This is permissible even though it comes from the sole proprietor.

4.9 Yes. To renew your license, you need to do those things - submit a renewal application, complete the CPE requirements including four hours of Ethics, and pay the renewal fee.

4.10 Yes, a written notification must be made to the DBPR within 30 days of any changes regarding the admission of a non-CPA co-partner, shareholder, or member in any Florida office per FAC 61H1-26.004 (1)(a).

4.11 Yes – there is no requirement or limit on TB; and she has at least 20 AA and 4 ETH, and no more than 20 B. Reference FS 473.312.

4.12 Yes. Technical sessions from meetings of the AICPA, state societies, chapters, or other organizational meetings are acceptable sources that satisfy CPE requirements. Reference FS 473.312.

4.13 This is hypothetical but the board will act with compassion when the circumstances warrant it. F.S. 473.311 specifies the requirements that Percy must meet. Unless the Board of Accountancy prescribes other requirements by rules, the minimum CPE requirements shall be those prescribed by board rule and those of the most recent biennium plus one-half of the requirements in F.S. 473.312. Notwithstanding any other provision of this section, the CPE requirements are 120 hours, including at least 30 hours in accounting-related and auditing-related subjects and not more than 30 hours in behavioral subjects and a minimum of 8 hours.
on ethics subjects approved by the board. He would also have to pay the appropriate fee.

4.14 Yes. The firm needs a temporary permit. The key word here is “entering the state”. A CPA firm performing services such as an audit in Florida must be licensed in Florida in order to perform the services. However, the board may provide for a temporary license on proper application and payment of the temporary license fee. The temporary license is valid for only one engagement and for no more than 90 days after its issuance. After 90 days a new license shall be required. Reference FS 473.313(4).

Case Study Question

4.1 Requirements of the Individual

John and Jane Doe decided to start their own CPA firm in Orlando. As individuals they will need to obtain their licenses. Since Jane Doe is already licensed in Florida, she will have to do nothing else except change addresses and employers with the DBPR and the Florida Board of Accountancy (FBOA).

John Doe will have to apply for the Florida license as his license is from Texas and is not valid in Florida until such time as the FBOA grants the Florida license. While John was in Texas he did complete course work towards a Masters Degree and that work was sufficient to qualify under Florida laws for the additional hours which Florida requires.

See §473.308, F.S., Licensure for more information.

Requirements as to form of practice

Under §473.309 FS, the firm may be a sole proprietorship, a partnership, a corporation, or a limited liability company.

John and Jane decide to form a corporate entity and name it Doe & Doe, P.A., Certified Public Accountants. On checking the rules for §473.309 (2) they discover that the corporation must:

(2) A corporation may not engage in the practice of public accounting, as defined in s. 473.302(7)(a), unless:

(a) It is a corporation duly organized in this or some other state.

(b) Shareholders of the corporation owning at least 51 percent of the financial interest and voting rights of the corporation are certified public accountants in some state and are principally engaged in the business of the corporation. However, each shareholder who is a
certified public accountant in another state and is domiciled in this state must be a certified public accountant of this state and hold an active license.

(c) The principal officer of the corporation is a certified public accountant in some state.

(d) At least one shareholder of the corporation is a certified public accountant and holds an active license in this state.

(e) All shareholders who are not certified public accountants in any state are engaged in the business of the corporation as their principal occupation.

(f) It is in compliance with rules adopted by the board pertaining to minimum capitalization, letters of credit, and adequate public liability insurance.

(g) It is currently licensed as required by s. 473.3101.

Chapter 5

Points to Ponder

5.1 Yes, “The CPA must have an engagement letter signed by the client prior to beginning any engagement for which the CPA will receive a commission. The letter must include the complete details of the financial arrangements involving compensation for the services rendered.” This is required per FAC 61H1-21.003(2).

5.2 Yes, technically it is not in violation of commission fees as cited in 61H1-21.003. However, there are ethical issues such as whether or not to use family or friends to make money, or make staff feel compelled to buy from the boss’ sister.

5.3 Yes, since the findings were the result of a taxing authority.

5.4 Yes, according to 61H1-21.006, Jay must consult with the hardware store’s CPA to make certain that he has all the relevant information. The owner of the store must grant permission for this to occur.

Case Study Questions

Any attest services will not be allowed to have commissions, contingencies, or referral fees per FAC 61H1-21.003(2). If the engagement is a nonattest engagement, then referral fees or commissions may be accepted or paid. In part 4, a contingency may only be accepted on a nonattest client when the findings are findings of government. Also,
communication with the first CPA is required when the consideration of an expression of opinion is being questioned or used as an input. This is required to make certain that the second CPA has all the relevant facts and circumstances.

5.1 (2) Yes, because the tax return is a non-attest function. Paying or accepting referral fees or commissions would not be allowed on attest functions.

5.1 (3) No, an audit referral from the Employee Benefits firm is an attest function and no commission or referral fee may be paid or accepted.

5.1 (4) Yes. The merger and acquisition process of CPA firms by purchase or acquiring other CPA firms is an accepted and allowed practice. It does not involve contingency fees or commissions.

5.1 (5) No. Amended and original federal, state, or local tax returns are not a finding of government and are not allowed on a contingency basis. If the engagement results in a finding of government, it would be considered eligible for a contingency fee.

5.2 The answers presented here are for discussion purposes only. Situations vary, responses vary, and the independent auditor may be faced with other unusual circumstances which could influence an answer. This case is not intended to present all possible or probable occurrences.

5.2 (1) The bullet points made on Section 102, Integrity and Objectivity indicate the following:

If a member acts in the following way, they shall be considered to have knowingly misrepresented facts in direct violation of Rule 102:

- Makes, or permits or directs another to make, materially false and misleading entries in an entity’s financial statements or records
- Fails to correct materially false and misleading financial statements or records when they have the authority to do so.
- When a document containing materially false or misleading information is signed or permitted to sign or directs another to sign.

In one way or another, all of the bullet points above may be applicable.

5.2 (2) The auditors were not under any obligation to find and locate unpaid sales tax. However, when they discovered the unpaid amount, they did have a responsibility to detect “material misstatements” in accordance with SAS 99, “Consideration of Fraud...”
5.2 (3) The amount would be material. This is due to the amount and the fact that the Company was not in compliance with sales or use tax law in Florida which will constitute an illegal act on adjudication.

5.2 (4) The omission of the sales or use tax based on the liabilities being correctly stated and all costs being capitalized into the equipment account would constitute a GAAP departure and therefore represent a misstatement.

5.2 (5) According to the Florida Department of Revenue, the omission of either a sales or use tax would be considered a criminal act.

5.2 (6) The auditor is responsible for detecting material misstatements under SAS 99. However, the auditor may only recommend adjusting or correcting entries to management’s financial statements. It is management’s responsibility to actually record or post the proposed entries. If management refuses to record the AJE, the auditor has limited options available. First, the auditor may qualify the opinion in the audit report. Second, the auditor may withdraw from the engagement as a last resort. If management refuses to consider the adjustment, the auditor should consider also management’s integrity and honesty in regards to the engagement.

5.2 (7) Under most considerations, the auditor is under no responsibility to notify any other agencies of the situation. However, in some situations, the auditor may be required to notify other authorities. These might be the case in some governmental audits or audits where it is a state requirement to notify an agency of problems.

5.2 (8) When the CFO of the Company is the first to be notified of the problem, the CFO may have the same ethics implications of the independent auditor, if the CFO is a CPA. The CFO may also have serious considerations for continued employment if management refuses to consider the adjustments.

5.3 The best is option 3. The auditors had some recommendations to improve Florida Construction’s internal control situation. The CFO and John could plan a meeting for discussion of the auditor’s conclusions. Options 1 and 2 are obviously untrue and integrity would be damaged. Option 4 is also untrue and would result in a violation of Ethics 102 for the same reasons.

However, there is also an acceptable option not listed here. This option involves the CPA delaying the answer until all facts and circumstances are known. The delay should not be longer than needed to answer the questions correctly.
5.4 The best is option 2. A Standard Cost Accounting System will not benefit the Company until more product lines are being manufactured. Further, the client should be advised that there is a potential impairment of independence if the firm does the design and implementation of the system. Options 1 and 3 are not acceptable because they do subordinate the auditor’s judgment to the judgment of the client.

5.5 Under the AICPA ET§102.03, a conflict of interest may occur when there is a relationship with another person, entity, product, or service which if viewed by the client, employer, or appropriate parties would be seen as impairing the member’s objectivity.

There are several examples (not all-inclusive) which could raise questions about the member’s objectivity.

- A member has been asked to perform litigation services for the plaintiff in a lawsuit against a member firm’s client.
- A member is asked to perform engagements at the request of a client which the member does not feel would be beneficial to the client.
- Tax or personal financial planning for both parties in a divorce situation.
- Member suggests that a PFP client invest in a business the member has a financial interest in.
- PFP services for family members with opposing interests.
- Member on a city’s board of tax appeals, which considers matters about member’s clients.

Chapter 6
No questions

Chapter 7
No questions

Chapter 8

Points to Ponder

8.1 True. The CPA should never perform any management functions. Further, in accordance with Ethics Interpretation 101-3, the CPA should establish and document in writing the firm’s understanding with the client regarding objectives, services, client’s responsibilities, firm’s
responsibilities, and any limitations on the engagement. A failure to do so will impair the firms Independence.

Case Study Questions

8.1 (1) Independence is impaired.
Family interest as clients usually will impair Independence. This is especially true if the family interest can influence the financial statements of the entity. In some unusual situations, there may be no influence of family interest on the financial statements, but there is the appearance of a lack of independence.

8.1 (2) Independence is impaired.
Related party interest will impair Independence. This is especially true when the related party interest may influence the financial statements.

8.1 (3) Independence is impaired.
Financial interest either direct or indirect with clients will more likely than not impair Independence with regard to the client.

8.1 (4) Any attest functions require independence from the covered member and the firm. The new “Engagement Approach” from the AICPA is the standard by which we will be measured. If the CPA is a Florida CPA, the Florida Independence Standards as promulgated by the Florida Board of Accountancy will be used to measure whether or not our independence is impaired.

8.1 (5) Independence is most likely impaired. Perceptions are important. It is difficult to defend self against perception of others.

8.2 In any of these situations independence would be impaired if the CPA firm or the CPAs working on the engagements acted as management or tried to audit the systems or procedures that they were responsible for designing or installing. Reference - AICPA Ethics Interpretation 101-3.

Chapter 9

Points to Ponder

9.1 Black and Brown need to provide the peer reviewers with the requested information but do not need to notify the clients. Review of confidential information is a normal part of the peer review process.
9.2 They may not withhold client documents under any circumstances. This includes even those situations when the client has not paid their fees. The CPA must return all client-provided documents within a reasonable time when requested by the client.

9.3 The answer may involve many client records, but most commonly will involve a trial balance, a client prepared financial statement, supporting journal entries, or other sources of data. Any client-supplied data or records must be returned to the client within a reasonable time when requested by the client.

9.4 She needs a separate sign to show that her CPA practice is separate and regulated by the state and not part of the floral business.

9.5 Yes. Even though she is professor, her presentation is not part of her teaching role at the college. She is being promoted as an expert in the field and presenting.

Case Study Question

9.1 There are several points to consider. First, they could mention their security precautions for data retention and destruction. Second, they could explain their record destruction procedures. Third, they could describe their on-site and off-site record storage security procedures.

9.2 They should make sure that their advertising, solicitation procedures, and policies meet the legal requirements in the state of Florida. If there is an issue or question, they should seek legal counsel or inquire of the FL BOA for assistance. Reference - Florida Administrative Code 61H1-24.001 for advertising.

Chapter 10

No questions
Appendix B

Additional Resources

For ALL Chapters

AICPA Audit and Accounting Manual
AICPA Journal of Accountancy (various issues)
FICPA, Florida CPA Today (various issues)

Chapter 1

*AICPA Professional Standards:*

- Bylaws of the American Institute of Certified Public Accountants
- Code of Professional Conduct
- IFAC Code of Ethics for Professional Accountants
- International Financial Reporting Standards
- International Standards on Auditing
- Statement on Standards for Consulting Services

American Institute of CPAs Web Site, www.aicpa.org/index.htm
Financial Accounting Standards Board, Accounting Standards, Current Text
Florida Board of Accountancy Web Site, www.state.fl.us/dbpr/cpa
Florida Institute of CPAs Web Site, www.ficpa.org/ethics

Chapter 2

Ethics Resource Center (ERC), www.ethics.org

Chapter 3

*AICPA Professional Standards:*

- Bylaws of the American Institute of Certified Public Accountants
- Code of Professional Conduct

Florida Board of Accountancy Web Site, http://www.state.fl.us/dbpr/cpa
Florida Institute of CPAs Web Site, http://www.ficpa.org/ethics
Florida Statutes, Chapter 455
Chapter 4

AICPA Professional Standards:

- Continuing Professional Education
- Statements on Responsibilities in Personal Financial Planning Practice

Florida Board of Accountancy Web Site, http://www.state.fl.us/dbpr/cpa
Florida Institute of CPAs Web Site, http://www.ficpa.org/ethics
Florida Statutes, Chapter 473

Chapter 5

AICPA Professional Standards:

- Continuing Professional Education
- International Financial Reporting Standards
- Standards for Performing and Reporting on Peer Reviews
- Statement on Standards for Consulting Services
- Statements on Quality Control Standards
- Statements on Responsibilities in Personal Financial Planning Practice
- Statements on Standards for Accounting and Review Services

AICPA, Annual Update for Accountants and Auditors
AICPA, Compilation and Review Engagements
Florida Board of Accountancy Web Site, http://www.state.fl.us/dbpr/cpa
Florida Administrative Code, Chapter 61H1
Florida Statutes, Chapter 473

Chapter 6

AICPA Professional Standards:

- Continuing Professional Education
- Standards for Performing and Reporting on Peer Reviews
- Statement on Standards for Consulting Services
- Statements on Auditing Standards
- Statements on Quality Control Standards
• Statements on Responsibilities in Personal Financial Planning Practice
• Statements on Standards for Accounting and Review Services
• Statements on Standards for Tax Services
AICPA, Annual Update for Accountants and Auditors
AICPA, Compilation and Review Engagements
Florida Administrative Code, Chapter 61H1
Florida Statutes, Chapter 473

Chapter 7

AICPA Professional Standards:
• Statements on Standards for Tax Services
• Statements on Standards for Accounting and Review Services

Chapter 8

AICPA Professional Standards:
• Bylaws of the American Institute of Certified Public Accountants
• Code of Professional Conduct
• Standards for Performing and Reporting on Peer Reviews
• Statement on Standards for Consulting Services
• Statements on Auditing Standards
• Statements on Quality Control Standards
• Statements on Standards for Accounting and Review Services
• Statements on Standards for Attestation Engagements
AICPA, Annual Update for Accountants and Auditors
AICPA, Compilation and Review Engagements
Financial Accounting Standards Board, Accounting Standards, Current Text
Florida Administrative Code, Chapter 61H1
Chapter 9

AICPA Professional Standards:

- Bylaws of the American Institute of Certified Public Accountants
- Statements on Standards for Tax Services

AICPA, Annual Update for Accountants and Auditors
AICPA, Compilation and Review Engagements
Florida Administrative Code, Chapter 61H1

Chapter 10

International Federation of Accountants Web Site www.ifac.org/Ethics/
XBRL software www.sec.gov/spotlight/xbrl/xbrlwebapp.shtml

AICPA CPA Horizons Report
http://www.aicpa.org/Research/CPAHorizons2025/Pages/CPAHorizons2025.aspx
Standards for Determining Independence in the Practice of Public Accountancy for CPAs Practicing Public Accountancy in the State of Florida

(Words that appear in bold (initially) are defined in the Definitions section at the end of this document.)

Section 101-1. Independence-General Provisions

Independence shall be considered to be impaired if:
(1) During the period of the professional engagement a covered licensee:
   (a) Had or was committed to acquire any direct or material indirect financial interest in the client.
   (b) Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client and
      1. The covered licensee had the authority to make (individually or with others) investment decisions for the trust or estate; or
      2. The trust or estate owned or was committed to acquire more than 10 percent of the client’s outstanding equity securities or other ownership interests; or
      3. The value of the trust’s or estate’s holdings in the client exceeded 10 percent of the total assets of the trust or estate.
   (c) Had a joint closely held investment that was material to the covered licensee.
   (d) Except as specifically permitted in Section 101-5 herein, had any loan to or from the client, any officer or director of the client, or any individual owning ten percent or more of the client’s outstanding equity securities or other ownership interests.
(2) During the period of the professional engagement, a firm, a partner or professional employee of the firm, his or her immediate family, or any group of such persons acting together owned more than five percent of a client’s outstanding equity securities or other ownership interests.
(3) During the period covered by the financial statements or during the period of the professional engagement, a partner or professional employee of the firm was simultaneously associated with the client as a/an...
(a) Director, officer, or employee, or in any capacity equivalent to that of a member of management;  
(b) Promoter, underwriter, or voting trustee; or  
(c) Trustee for any pension or profit-sharing trust of the client.

**Application of the Independence Rules to Covered Licensees Formerly Employed by a Client or Otherwise Associated With a Client**

An individual who was formerly (i) employed by a client or (ii) associated with a client as an officer, director, promoter, underwriter, voting trustee, or trustee for a pension or profit-sharing trust of the client would impair his or her firm’s independence if the individual:

(1) Participated on the **attest engagement team** or was an **individual in a position to influence the attest engagement** for the client when the **attest engagement** covers any period that includes his or her former employment or association with that client; or

(2) Was otherwise a covered licensee with respect to the client unless the individual first dissociates from the client by

   (a) Terminating any relationships with the client described in Subsection 101-1(1)(c);

   (b) Disposing of any direct or material indirect financial interest in the client;

   (c) Collecting or repaying any loans to or from the client, except for loans specifically permitted or grandfathered under Section 101-5;

   (d) Ceasing to participate in all employee benefit plans sponsored by the client, unless the client is legally required to allow the individual to participate in the plan (for example, COBRA) and the individual pays 100 percent of the cost of participation on a current basis;

   (e) Liquidating or transferring all vested benefits in the client’s defined benefit plans, defined contribution plans, deferred compensation plans, and other similar arrangements at the earliest date permitted under the plan. However, liquidation or transfer is not required if a penalty significant to the benefits is imposed upon liquidation or transfer.

**Application of the Independence Rules to a Covered Licensee’s Immediate Family**

Except as stated in the following paragraph, a covered licensee’s immediate family is subject to Rule 61H1-21.001 and these Standards.

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1 If a licensee participates in or receives benefits from a health and welfare plan (the “plan”) sponsored by a client and that licensee is a covered licensee then that covered licensee’s participation in a plan sponsored by a client would impair independence with respect to the client sponsor and the plan. However, if the covered licensee’s participation in the plan, or benefits received thereunder, arises as a result of the permitted employment of the covered licensee’s immediate family, independence would not be considered to be impaired provided that the plan is normally offered to all employees in equivalent employment positions.

2 A penalty includes an early withdrawal penalty levied under the tax law but excludes other income taxes that would be owed or market losses that may be incurred as a result of the liquidation or transfer.
The exceptions are that independence would not be considered to be impaired solely as a result of the following:
(1) An individual in a covered licensee’s immediate family was employed by the client in a position other than a key position.
(2) In connection with his or her employment, an individual in the immediate family of one of the following covered licensees participated in a retirement, savings, compensation, or similar plan that is a client, is sponsored by a client, or that invests in a client (provided such plan is normally offered to all employees in similar positions):
   (a) A partner or manager who provides ten or more hours of non-attest services to the client; or
   (b) Any partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement.
For purposes of determining materiality under this Rule the financial interests of the covered licensee and his or her immediate family should be aggregated.

Application of the Independence Rules to Close Relatives
Independence would be considered to be impaired if—
(1) An individual participating on the attest engagement team has a close relative who had
   (a) A key position with the client, or
   (b) A financial interest in the client that
      (i) Was material to the close relative and of which the individual has knowledge; or
      (ii) Enabled the close relative to exercise significant influence over the client.
(2) An individual in a position to influence the attest engagement or any partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement has a close relative who had
   (a) A key position with the client; or
   (b) A financial interest in the client that
      (i) Was material to the close relative and of which the individual or partner has knowledge; and
      (ii) Enabled the close relative to exercise significant influence over the client.

Other Considerations
It is impossible to enumerate all circumstances in which the appearance of independence might be questioned. Licensees should consider whether personal and business relationships between the licensee and the client or an individual associated with the client would lead a reasonable person aware of all the relevant facts to conclude that there is an unacceptable threat to the licensee’s and the firm’s independence.

Section 101-2. Employment or Association with Attest Clients
A firm’s independence will be considered to be impaired with respect to a client if a partner or professional employee leaves the firm and is subsequently employed by or associated with that client in a key position unless all of the following conditions are met: would impair independence with respect to the client sponsor and the plan. However, if the covered licensee’s participation in the plan, or benefits received there under, arises as a
result of the permitted employment of the covered licensee’s immediate family, independence would not be considered to be impaired provided that the plan is normally offered to all employees in equivalent employment positions.

2) A penalty includes an early withdrawal penalty levied under the tax law but excludes other income taxes that would be owed or market losses that may be incurred as a result of the liquidation or transfer.

1. Amounts due to the former partner or professional employee for his or her previous interest in the firm and for unfunded, vested retirement benefits are not material to the firm, and the underlying formula used to calculate the payments remains fixed during the payout period. Retirement benefits may be adjusted for inflation and interest may be paid on amounts due.

2. The former partner or professional employee is not in a position to influence the accounting firm’s operations or financial policies.

3. The former partner or professional employee does not participate in or appear to participate in, and is not associated with the firm, whether or not compensated for such participation or association, once employment or association with the client begins. An appearance of participation or association results from such actions as:
   • The individual provides consultation to the firm.
   • The firm provides the individual with an office and related amenities (for example, secretarial and telephone services).
   • The individual’s name is included in the firm’s office directory.
   • The individual’s name is included as a member of the firm in other membership lists of business, professional, or civic organizations, unless the individual is clearly designated as retired.

4. The ongoing attest engagement team considers the appropriateness or necessity of modifying the engagement procedures to adjust for the risk that, by virtue of the former partner or professional employee’s prior knowledge of the audit plan, audit effectiveness could be reduced.

5. The firm assesses whether existing attest engagement team members have the appropriate experience and stature to effectively deal with the former partner or professional employee and his or her work, when that person will have significant interaction with the attest engagement team.

6. The subsequent attest engagement is reviewed to determine whether the engagement team members maintained the appropriate level of skepticism when evaluating the representations and work of the former partner or professional employee, when the person joins the client in a key position within one year of disassociating from the firm and has significant interaction with the attest engagement team. The review should be performed by a professional with appropriate stature, expertise, and objectivity and should be tailored based on the position that the person assumed at the client, the position he or she held at the firm, the nature of the services he or she provided to the client, and other relevant facts and circumstances. Appropriate actions, as deemed necessary, should be taken based on the results of the review.

Responsible members within the firm should implement procedures for compliance with the preceding conditions when firm professionals are employed or associated with attest clients.
With respect to conditions 4, 5 and 6, the procedures adopted will depend on several factors, including whether the former partner or professional employee served as a member of the engagement team, the positions he or she held at the firm and has accepted at the client, the length of time that has elapsed since the professional left the firm, and the circumstances of his or her departure.

**Considering Employment or Association with the Client**

When a member of the attest engagement team or an individual in a position to influence the attest engagement intends to seek or discuss potential employment or association with an attest client, or is in receipt of a specific offer of employment from an attest client, independence will be impaired with respect to the client unless the person promptly reports such consideration or offer to an appropriate person in the firm, and removes himself or herself from the engagement until the employment offer is rejected or employment is no longer being sought. When a covered licensee becomes aware that a member of the attest engagement team or an individual in a position to influence the attest engagement is considering employment or association with a client, the covered licensee should notify an appropriate person in the firm.

The appropriate person should consider what additional procedures may be necessary to provide reasonable assurance that any work performed for the client by that person was performed with objectivity and integrity as an inadvertent and isolated failure to meet conditions 4, 5 and 6, would not impair independence provided that the required procedures are performed promptly upon discovery of the failure to do so, and all other provisions of Section 101-2 are met required under Rule 61H1-21.002. Additional procedures, such as re-performance of work already done, will depend on the nature of the engagement and individual involved.

**Section 101-3. Performance of Nonattest Services.**

Before a covered licensee or firm performs nonattest services for an attest client, the covered licensee shall determine that the requirements described in this section have been met. In cases where the requirements have not been met during the period of the professional engagement or the period covered by the financial statements, the covered licensee’s independence would be impaired.

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3 An inadvertent and isolated failure to meet conditions 4, 5, and 6, would not impair independence provided that the required procedures are performed promptly upon discovery of the failure to do so, and all other provisions of Section 101-2 are met.

4 A covered licensee who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the covered licensee or firm does not meet all of the conditions set out in this section when providing a nonattest service to that client (see Statement of Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*.)
Engagements Subject to Independence Rules or Certain Regulatory Bodies.
This section requires compliance with independence regulations of authoritative regulatory bodies (such as the Securities and Exchange Commission [SEC], the General Accounting Office [GAO], the Department of Labor [DOL], where a covered licensee performs nonattest services for a client and is required to be independent of the client under the regulations of the applicable regulatory body. Accordingly, failure to comply with the nonattest services provisions contained in the independence rules of the applicable regulatory body that are more restrictive than the provisions of this interpretation would constitute a violation of this section if so determined by the applicable regulatory body.

General Requirements for Performing Nonattest Services
(1) The covered licensee should not perform management functions or make management decisions for the attest client. However, the covered licensee may provide advice, research materials, and recommendations to assist the client’s management in performing its functions and making decisions.
(2) The client must agree to perform the following functions in connection with the engagement to perform nonattest services:
   (a) Make all management decisions and perform all management functions;
   (b) Designate a competent employee, preferable within senior management, to oversee the services;
   (c) Evaluate the adequacy and results of the services performed;
   (d) Accept responsibility for the results of the services; and
   (e) Establish and maintain internal controls, including monitoring ongoing activities.

The covered licensee should be satisfied that the client will be able to meet all of these criteria and make an informed judgment on the results of the member’s nonattest services. In assessing the competency of the client’s designated employee, the covered licensee should be satisfied that such individual understands the services to be performed sufficiently to oversee them. In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with the necessary competence to oversee the nonattest services provided, or is unwilling to perform such functions due to lack of time or desire), the covered licensee’s or firm’s provision of these services would impair independence.
(3) Before performing nonattest services, the covered licensee should establish and document in writing the licensee’s or firm’s understanding with the client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding the following:
   (a) Objective of the engagement
   (b) Services to be performed

\[\text{An isolated and inadvertent failure to prepare the required documentation would not impair independence, provided that the licensee did establish the understanding with the client, the licensee documents the understanding promptly upon discovery of the failure to do so, and all other provisions of the interpretation are met.}\]
(c) Client’s acceptance of its responsibilities
(d) Covered licensee’s or firm’s responsibilities
(e) Any limitations of the engagement

(4) A covered licensee who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the covered licensee or firm does not meet all of the conditions set out in this section when providing a nonattest service to that client (see Statement of Standards for Accounting and Review Services No. 1, *Compilation and Review of Financial Statements*).

(5) An isolated and inadvertent failure to prepare the required documentation would not impair independence, provided that the licensee did establish the understanding with the client, the licensee documents the understanding promptly upon discovery of the failure to do so, and all other provisions of the interpretation are met.

The documentation requirement does not apply to certain routine activities performed by the covered licensee such as providing advice and responding to the client’s technical questions as part of the normal client-covered licensee relationship.

**General Activities**
The following are some general activities that would impair a covered licensee’s or firm’s independence:

- Authorizing, executing, or consummating a transaction, otherwise exercising authority on behalf of a client, or having the authority to do so
- Preparing source documents\(^6\), in electronic or other form, evidencing the occurrence of a transaction
- Having custody of client assets
- Supervising client employees in the performance of their normal recurring activities
- Determining which recommendations of the covered licensee should be implemented
- Reporting to the board of directors on behalf of management
- Servicing as a client’s stock transfer or escrow agent, registrar, general counsel or its equivalent

**Specific Examples of Nonattest Services**
The examples in the following table identify the effect that performance of certain nonattest services for an attest client can have on a covered licensee’s or firm’s independence. These examples presume that the general requirements in the previous subsection “**General Requirements for Performing Nonattest Services**” have been met and are not intended to be all-inclusive of the types of nonattest services performed by covered licensee.

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\(^6\) Source documents are the documents upon which evidence of an accounting transaction are initially recorded. Source documents are often followed by the creation of many additional records and reports, which do not, however, qualify as initial recordings. Examples of source documents are purchase orders, payroll time cards, and customer orders.

Appendix C-7
## Impact on Independence of Performance of Nonattest Services

<table>
<thead>
<tr>
<th>Type of Nonattest Service</th>
<th>Independence would NOT be Impaired</th>
<th>Independence would be Impaired</th>
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</table>
| Bookkeeping              | • Record transactions for which management prepare financial statements  
                           • Post client-approved entries to a client’s trial balance.  
                           • Propose standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the client provided the client reviews the entries and the covered licensee is satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements. | • Determine or change journal entries, account codings or classifications for transactions, or other accounting records without obtaining client approval.  
                           • Authorize or approve transactions.  
                           • Prepare source documents.  
                           • Make changes to source documents without client approval. |
| Payroll and other disbursements | • Using payroll time records provided and approved by the client, generate unsigned checks, or process client’s payroll.  
                           • Transmit client-approved payroll or other disbursement information to a financial institution provided the client has authorized the member to make the transmission and has made arrangements for the financial institution to limit the corresponding individual payments as to amount and payee. In addition, once transmitted, the client must authorize the financial institution to process the information. | • Accept responsibility to authorize payment of client funds, electronically or otherwise, except as specifically provided for with respect to electronic payroll tax payments.  
                           • Accept responsibility to sign or cosign client checks, even if only in emergency situations.  
                           • Maintain a client’s bank account or otherwise have custody of a client’s funds or make credit or banking decisions for the client.  
                           • Sign payroll tax return on behalf of client management.  
                           • Approve vendor invoices for payment. |
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<tr>
<td>Payroll and other disbursements, cont.</td>
<td>• Make electronic payroll tax payments in accordance with U.S. Treasury Department or comparable guidelines provided the client has made arrangements for its financial institutions to limit such payments to a named payee.</td>
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| Benefit plan administration | • Communicate summary plan data to plan trustee  
• Advise client management regarding the application or impact of provisions of the plan documented.  
• Process transactions (e.g., investment/benefit elections or increase/decrease contributions to the plan; data entry; participant confirmations; and processing of distributions and loans) initiated by plan participants through the covered licensee’s or firm’s electronic medium such as an interactive voice response system or Internet connection or other media.  
• Prepare account valuations for plan participants using data collected through the covered licensee’s or firm’s electronic or other medium.  
• Prepare and transmit participant statements to plan participants based on data collected through the covered licensee’s or firm’s electronic or other medium. | • Make policy decisions on behalf of client management.  
• When dealing with plan participants, interpret the plan document on behalf of management without first obtaining management’s concurrence.  
• Make disbursements on behalf of the plan.  
• Have custody of assets of a plan.  
• Service a plan as a fiduciary as defined by ERISA. |
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| Investment—advisory or management         | • Recommend the allocation of funds that a client should invest in various asset classes, depending upon the client’s desired rate of return, risk tolerance, etc.,  
• Perform recordkeeping and reporting of client’s portfolio balances including providing a comparative analysis of the client’s investments to third-party benchmarks.  
• Review the manner in which a client’s portfolio is being managed by investment account managers, including determining whether the managers are (1) following the guidelines of the client’s investment policy statement; (2) meeting the client’s investment objectives; and (3) conforming to the client’s stated investment styles.  
• Transmit a client’s investment selection to a broker-dealer or equivalent provided the client has authorized the broker-dealer or equivalent to execute the transaction.                                                                                                                                                                                                 | • Make investment decisions on behalf of client management or otherwise have discretionary authority over a client's investments.  
• Execute a transaction to buy or sell a client's investment.  
• Have custody of client assets, such as taking temporary possession of securities purchased by a client.                                                                                                                                                                                                 |
| Corporate finance—consulting or advisory  | • Assist in developing corporate strategies.  
• Assist in identifying or introducing the client to possible sources of capital that meet the client's specifications or criteria.                                                                                                                                                                                                 | • Commit the client to the terms of a transaction or consummate a transaction on behalf of the client.  
• Act as a promoter, underwriter, broker-dealer, or guarantor of client securities, or distributor of private placement memoranda or offering documents.                                                                                                                                                                                                 |
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| Corporate finance-consulting or advisory, cont. | • Assist in analyzing the effects of proposed transactions including providing advice to a client during negotiations with potential buyers, sellers, or capital sources.  
• Assist in drafting an offering document or memorandum.  
• Participate in transaction negotiations in an advisory capacity.  
• Be named as a financial adviser in a client's private placement memoranda or offering documents. | • Maintain custody of client securities.  
• |
| Executive or employee search | • Recommend a position description or candidate specifications.  
• Solicit and perform screen of candidate and recommend qualified candidates to a client based on the client-approved criteria (e.g., required skills and experience.  
• Participate in employee hiring or compensation discussions in an advisory capacity. | • Commit the client to employee compensation or benefit arrangements  
• Hire or terminate client employees. |
| Business risk consulting | • Provide assistance in assessing the client’s business risks and control processes.  
• Recommend a plan for making improvements to a client’s control processes and assist in implementing these improvements. | • Make or approve business risk decisions.  
• Present business risk considerations to the Board or others on behalf of management. |
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| Information systems—design, installation or integration\(^7\) \(^8\) | - Install or integrate a client's financial information system that was not designed or developed by the covered licensee (e.g. an off-the-shelf accounting package)  
- Design, develop, install or integrate a client’s information system that is unrelated to the client’s financial statements or accounting records.  
- Assist in setting up the client’s chart of accounts and financial information system that is unrelated to the client’s financial statements or accounting records.  
- Provide training and instruction to client employees on an information and control system. | - Design or develop a client’s financial information system.  
- Make other than insignificant modifications to source code underlying a client's existing financial information system.  
- Supervise client personnel in the daily operation of a client’s information system.  
- Operate a client’s local area network (LAN) system. |

**Appraisal, Valuation, and Actuarial Services**

(1) Independence would be impaired if a covered licensee performs an appraisal, valuation, or actuarial service for an attest client where the results of the service, individually or in the aggregate, would be material to the financial statements and the appraisal, valuation, or actuarial service involves a significant degree of subjectivity.

(2) Valuations performed in connection with, for example, employee stock ownership plans, business combinations, or appraisals of assets or liabilities generally involve a significant degree of subjectivity. Accordingly, if these services produce results that are material to the financial statements, independence would be impaired.

(3) An actuarial valuation of a client's pension or post employment benefit liabilities generally produces reasonably consistent results because the valuation does not require a significant degree of subjectivity.

Therefore, such services would not impair independence. In additional, appraisal, valuation, and actuarial services performed for nonfinancial statement purposes would not

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\(^7\) Although this type of transaction may be considered by some to be similar to signing checks or disbursing funds, making electronic payroll tax payments under the specified criteria would not impair a covered licensee’s or firm’s independence.

\(^8\) When auditing plans subject to the Employee Retirement Income Security Act (ERISA), Department of Labor (DOL) regulations, which may be more restrictive, must be followed.
impair independence.\textsuperscript{9} However, in performing such services, all other requirements of this section should be met, including that all significant assumptions and matters of judgment are determined or approved by the client and the client is in a position to have an informed judgment on, and accepts responsibility for, the results of the service.

**Internal Audit Assistance Services**

(1) Internal audit services involve assisting the client in the performance of its internal audit activities, sometimes referred to as “internal audit outsourcing.” In evaluating whether independence would be impaired with respect to an attest client, the nature of the service needs to be considered.

(2) Assisting the client in performing financial and operational\textsuperscript{10} internal audit activities would impair independence unless the covered licensee takes appropriate steps to ensure that the client understands its responsibility for establishing and maintaining the internal control system\textsuperscript{11} and directing the internal audit function, including the management thereof. Accordingly, any outsourcing of the internal audit function to the covered licensee whereby the covered licensee in effect manages the internal audit activities of the client would impair independence.

(3) In addition, to the general requirements of this interpretation, the covered licensee should ensure the client management:
   -Designates a competent\textsuperscript{12} individual or individuals, preferable within senior management, to be responsible for the internal audit functions;

\textsuperscript{9} Examples of such services may include appraisal, valuation, and actuarial services performed for the tax planning or tax compliance, estate and gift taxation, and divorce proceedings.

\textsuperscript{10} For example, a covered licensee may assess whether performance is in compliance with management’s policies and procedures, to identify opportunities for improvement, and to develop recommendations for improvement or further action for management consideration and decision making.

\textsuperscript{11} As part of its responsibility to establish and maintain internal control, management monitors internal control to assess the quality of its performance over time. Monitoring can be accomplished through ongoing activities, separate evaluations, or a combination of both. Ongoing monitoring activities are the procedures designed to assess the quality of internal control performance over time and built into the normal recurring activities of an entity; they include regular management and supervisory activities, comparisons, reconciliations, and other routine actions. A licensee’s independence would not be impaired by the performance of separate evaluations of the effectiveness of a client’s internal control, including separate evaluations of the client’s ongoing monitoring activities. [Footnote added effective December 31, 2003, by the Professional Ethics Executive Committee.]

\textsuperscript{12} A competent individual would have an understanding of internal audit activities sufficient to oversee the services performed by the covered licensee responsibilities in connection with the engagement. Such information should provide the client’s governing body a basis for developing guidelines for management and the licensee to follow in carrying out these responsibilities and monitoring how well the respective responsibilities have been met.
- Determines the scope risk and frequency of internal audit activities, including those to be performed by the covered licensee providing internal audit assistance services;
- Evaluates the findings and results arising from the internal audit activities, including those performed by the covered licensee providing internal audit assistance services; and,
- Evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures by, among other things, obtaining reports from the licensee.

(4) The covered licensee should also be satisfied that the client’s board of directors, audit committee, or other governing body is informed about the covered licensee’s or firm’s and management’s respective roles and,

(5) The covered licensee is responsible for performing the internal audit procedures in accordance with the terms of the engagement and reporting thereon. The performance of such procedures should be directed, reviewed, and supervised by the covered licensee. The report should include information that allows the individual responsible for the internal audit function to evaluate the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures. This report may include recommendations for improvements in systems, processes, and procedures. The covered licensee may assist the individual responsible for the internal audit function in performing preliminary audit risk assessments, preparing audit plans, and recommending audit priorities. However, the covered licensee should not undertake any responsibilities that are required, as described above, to be performed by the individual responsible for the internal audit function.

(6) The following are examples of activities (in addition to those listed in the “General Activities” section of this interpretation) that, if performed as part of an internal audit assistance engagement, would impair independence:

(a) Performing ongoing monitoring activities or control activities (for example, reviewing loan originations as part of the client’s approval process or reviewing customer credit information as part of the customer’s sales authorization process) that affect the execution of transactions or ensure that transactions are properly executed, accounted for, or both, and performing routine activities in connection with the client’s operating or production processes that are equivalent to those of an ongoing compliance or quality control function

(b) Determining which, if any, recommendations for improving the internal control should be implemented

(c) Reporting to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function

(d) Approving or being responsible for the overall internal audit work plan including the determination of the internal audit risk and scope, project priorities, and frequency of performance of audit procedures

(e) Being connected with the client as an employee or in any capacity equivalent to a licensee of client management (for example, being listed as an employee in client directories or other client publications, permitting himself or herself to be referred to by title or description as supervising or being in charge of the client’s internal audit function, or using the client’s letterhead or internal correspondence forms in communications). The foregoing list is not intended to be all-inclusive.
(7) Services involving an extension of the procedures that are generally of the type considered to be extensions of the covered licensee’s or firm’s audit scope applied in the audit of the client's financial statements, such as confirming of accounts receivable and analyzing fluctuations in account balances, are not considered internal audit assistance services and would not impair independence even if the extent of such testing exceeds that required by generally accepted auditing standards. In addition, engagements performed under the attestation standards would not be considered internal audit assistance services and therefore would not impair independence.

**Transition**

Independence would not be impaired as a result of the more restrictive requirements of this Section, provided the provision of any such nonattest services are pursuant arrangements in existence on December 31, 2004, and are completed December 31, 2005, and the covered licensee was in compliance with the preexisting requirements of Rule 61H1-21.001.

**Section 101-4. Honorary Directorships and Trusteeships of Not-for-profit Organization**

Partners or professional employees of a firm (individual) may be asked to lend the prestige of their names to not-for-profit organizations that limit their activities to those of a charitable, religious, civic, or similar nature by being named as a director or a trustee. An individual who permits his or her name to be used in this manner would not be considered to impair independence under rule 61H1-21.001, provided his or her position is clearly honorary, and he or she cannot vote or otherwise participate in board or management functions. If the individual is named in letterheads and externally circulated materials, he or she must be identified as an honorary director or honorary trustee.

**Section 101-5. Permitted Loans**

This section describes the conditions a covered licensee (or his or her immediate family) must meet in order to have any loan to or from the client, any officer or director of the client, or any individual owning ten percent or more of the client’s outstanding equity securities or other ownership interests. Acceptable loans are termed "Grandfathered Loans" or "Other Permitted Loans."

**Grandfathered Loans**

Unsecured loans that are not material to the covered licensee’s net worth, home mortgages\(^\text{13}\), and other secured loans\(^\text{14}\) are grandfathered if:

\(^\text{13}\) The value of the collateral securing a home mortgage or other secured loan should equal or exceed the remaining balance of the grandfathered loan during the term of the loan. If the value of the collateral is less than the remaining balance of the grandfathered loan, the portion of the loan that exceeds the value of the collateral must not be material to the covered licensee’s net worth.

\(^\text{14}\) See Footnote 4.
(1) they were obtained from a **financial institution** under that institution’s **normal lending procedures, terms, and requirements**.
(2) after becoming a covered licensee they are kept current as to all terms at all times and those terms do not change in any manner not provided for in the original loan agreement,\(^\text{15}\) and
(3) they were:
   (a) obtained from the financial institution prior to its becoming a client requiring independence; or
   (b) obtained from a financial institution for which independence was not required and were later sold to a client for which independence is required; or
   (c) were obtained prior to April 1, 2003 and met the requirements of previous provisions of Rule 61H1-21.001; or
   (d) obtained after April 1, 2003 from a financial institution client requiring independence by a borrower prior to his or her becoming a covered licensee with respect to that client.

In determining when a loan was obtained, the date a loan commitment or line of credit is granted must be used, rather than the date a transaction closes or funds are obtained.

For purposes of applying the grandfathered loans provision when the covered licensee is a partner in a partnership: a loan to a limited partnership (or similar type of entity) or a general partnership would be ascribed to each covered licensee who is a partner in the partnership on the basis of their legal liability as a limited or general partner if: the covered licensee’s interest in the limited partnership, either individually or combined with the interest of one or more covered licensees, exceeds 50 percent of the total limited partnership interest; or the covered licensee, either individually or together with one or more covered licensees, can control the general partnership. Even if no amount of a partnership loan is ascribed to the covered licensee(s) identified above, independence is considered to be impaired if the partnership renegotiates the loan or enters into a new loan that is not one of the permitted loans described below.

**Other Permitted Loans**

This provision permits only the following new loans to be obtained from a financial institution client for which independence is required. These loans must be obtained under the institution’s normal lending procedures, terms, and requirements and must, at all times, be kept current as to all terms.

1. **Automobile loans and leases collateralized by the automobile.**
2. **Loans fully collateralized by the cash surrender value of an insurance policy.**
3. **Loans fully collateralized by cash deposits at the same financial institution (e.g., "passbook loans").**
4. **Credit cards and cash advances where the aggregate outstanding balance on the current statement is reduced to $10,000 or less by the payment due date.**

\(^{15}\) Changes in the terms of the loan include, but are not limited to, a new or extended maturity date, a new interest rate or formula, revised collateral, or revised or waived covenants.
Related prohibitions that may be more restrictive are prescribed by certain state and federal agencies having regulatory authority over such financial institutions. Broker-dealers, for example, are subject to regulation by the Securities and Exchange Commission.

Section 101-6. The Effect of Actual or Threatened Litigation on Independence

In some circumstances, independence may be considered to be impaired as a result of litigation or the expressed intention to commence litigation as discussed below.

Litigation Between Client and Licensee

The relationship between the management of the client and a covered licensee must be characterized by complete candor and full disclosure regarding all aspects of the client's business operations. In addition, there must be an absence of bias on the part of the covered licensee so that he or she can exercise professional judgment on the financial reporting decisions made by the management. When the present management of a client company commences, or expresses an intention to commence, legal action against a covered licensee, the covered licensee and the client's management may be placed in adversarial positions in which the management's willingness to make complete disclosures and the covered licensee’s objectivity may be affected by self-interest.

For the reasons outlined above, independence may be impaired whenever the covered licensee and the covered licensee's client or its management are in threatened or actual positions of material adverse interests by reason of threatened or actual litigation.

Because of the complexity and diversity of the situations of adverse interests which may arise, however, it is difficult to prescribe precise points at which independence may be impaired. The following criteria are offered as guidelines:

1. The commencement of litigation by the present management alleging deficiencies in audit work for the client would be considered to impair independence.
2. The commencement of litigation by the covered licensee against the present management alleging management fraud or deceit would be considered to impair independence.
3. An expressed intention by the present management to commence litigation against the covered licensee alleging deficiencies in audit work for the client would be considered to impair independence if the covered licensee concludes that it is probable that such a claim will be filed.
4. Litigation not related to performance of an attest engagement for the client (whether threatened or actual) for an amount not material to the covered licensee’s firm or to the client company would not generally be considered to affect the relationship in such a way as to impair independence. Such claims may arise, for example, out of disputes as to billings for services, results of tax or management services advice or similar matters.

Because of the complexities of litigation and the circumstances under which it may arise, it is not possible to prescribe meaningful criteria for measuring materiality; accordingly, the covered licensee should consider the nature of the controversy underlying the litigation and all other relevant factors in reaching a judgment.

See Footnote 7.
Litigation By Security Holders
A covered licensee may also become involved in litigation ("primary litigation") in which the covered licensee and the client or its management are defendants. Such litigation may arise, for example, when one or more stockholders bring a stockholders' derivative action or a so-called "class action" against the client or its management, its officers, directors, underwriters and covered licensees under the securities laws. Such primary litigation in itself would not alter fundamental relationships between the client or its management and the covered licensee and therefore would not be deemed to have an adverse impact on independence. These situations should be examined carefully, however, since the potential for adverse interests may exist if cross-claims are filed against the covered licensee alleging that the covered licensee is responsible for any deficiencies or if the covered licensee alleges fraud or deceit by the present management as a defense. In assessing the extent to which independence may be impaired under these conditions, the covered licensee should consider the following additional guidelines:

1. The existence of cross-claims filed by the client, its management, or any of its directors to protect a right to legal redress in the event of a future adverse decision in the primary litigation (or, in lieu of cross-claims, agreements to extend the statute of limitations) would not normally affect the relationship between client management and the covered licensee in such a way as to impair independence, unless there exists a significant risk that the cross-claim will result in a settlement or judgment in an amount material to the covered licensee’s firm or to the client.

2. The assertion of cross-claims against the covered licensee by underwriters would not generally impair independence if no such claims are asserted by the client or the present management.

3. If any of the persons who file cross-claims against the covered licensee are also officers or directors of other clients of the covered licensee, independence with respect to such other clients would not generally be considered to be impaired.

Other Third-Party Litigation
Another type of third-party litigation against the covered licensee may be commenced by a lending institution, other creditor, security holder, or insurance company who alleges reliance on financial statements of the client with which the covered licensee is associated as a basis for extending credit or insurance coverage to the client. In some instances, an insurance company may commence litigation (under subrogation rights) against the covered licensee in the name of the client to recover losses reimbursed to the client. These types of litigation would not normally affect independence with respect to a client who is either not the plaintiff or is only the nominal plaintiff, since the relationship between the covered licensee and client management would not be affected. They should be examined carefully, however, since the potential for adverse interests may exist if the covered licensee alleges, in his defense, fraud, or deceit by the present management.

18 See Footnote 7.
If the real party in interest in the litigation (e.g., the insurance company) is also a client of the covered licensee ("the plaintiff client"), independence with respect to the plaintiff client may be impaired if the litigation involves a significant risk of a settlement or judgment in an amount which would be material to the covered licensee’s firm or to the plaintiff client.

**Effects of Impairment of Independence**

If the covered licensee believes that the circumstances would lead a reasonable person having knowledge of the facts to conclude that the actual or intended litigation poses an unacceptable threat to independence, the covered licensee shall either (a) disengage himself or herself, or (b) disclaim an opinion because of lack of independence.

Such disengagement may take the form of resignation or cessation of any attest engagement then in progress pending resolution of the issue between the parties.

**Termination of Impairment**

The conditions giving rise to a lack of independence are generally eliminated when a final resolution is reached and the matters at issue no longer affect the relationship between the covered licensee and client. The covered licensee should carefully review the conditions of such resolution to determine that all impairments to the covered licensee’s objectivity have been removed.

**Section 101-7. RESERVED**

**Section 101-8. Effect on Independence of Financial Interests in Nonclients Having Investor or Investee**

**Relationships with a Covered Licensee's Client**

**Introduction**

Financial interests in nonclients that are related in various ways to a client may impair independence. Situations in which the nonclient investor is a partnership are covered in other rulings [See Appendix 3].

**The following definitions are to be used in only in Section 101-8** (all other definitions are contained at the end of the Standards).

The following specifically identified terms are used in Section 101-8 as indicated:

1. **Client.** The term client means the person or entity with whose financial statements a covered licensee is associated.
2. **Investor.** The term investor means (a) a parent, (b) a general partner, or (c) a natural person or corporation that has the ability to exercise significant influence.
3. **Investee.** The term investee means (a) a subsidiary or (b) an entity over which an investor has the ability to exercise significant influence.

---

19 See Footnote 7.
Interpretation

Where a nonclient investee is material to a client investor, any direct or material indirect financial interest of a covered licensee in the nonclient investee would be considered to impair independence with respect to the client investor. If the nonclient investee is immaterial to the client investor, a covered licensee’s material investment in the nonclient investee would cause an impairment of independence.

Where a client investee is material to nonclient investor, any direct or material indirect financial interest of a covered licensee in the nonclient investor would be considered to impair independence with respect to the client investee. If the client investee is immaterial to the nonclient investor, and if a covered licensee’s financial interest in the nonclient investor allows the covered licensee to exercise significant influence over the actions of the nonclient investor, independence would be considered to be impaired.

Other relationships, such as those involving brother-sister common control or client-nonclient joint ventures, may affect the appearance of independence. The covered licensee should make a reasonable inquiry to determine whether such relationships exist, and if they do, careful consideration should be given to whether the financial interests in question would lead a reasonable observer to conclude that the specified relationships pose an unacceptable threat to independence.

In general, in brother-sister common control situations, an immaterial financial interest of a covered licensee in the nonclient investee would not impair independence with respect to the client investee, provided the covered licensee could not exercise significant influence over the nonclient investor. However, if a covered licensee’s financial interest in a nonclient investee is material, the covered licensee could be influenced by the nonclient investor, thereby impairing independence with respect to the client investee. In like manner, in a joint venture situation, an immaterial financial interest of a covered licensee in the nonclient investor would not impair the independence of the covered licensee with respect to the client investor, provided that the covered licensee could not exercise significant influence over the nonclient investor.

If a covered licensee does not and could not reasonably be expected to have knowledge of the financial interests or relationship described in this Section, independence would not be considered to be impaired under this Section.

Section 101-9. RESERVED

Section 101-10. The Effect on Independence of Relationships with Entities Included in the Governmental Financial Statements

Except for a financial reporting entity’s general purpose financial statements, which is defined within the text of this interpretation, certain terminology used throughout the interpretation is specifically defined by the Governmental Accounting Standards Board.
For purposes of this Section, a financial reporting entity’s basic financial statements, issued in conformity with generally accepted accounting principles in the United States of America, include the government-wide financial statements (consisting of the entity’s governmental activities, business-type activities, and discretely presented component units), the fund financial statements (consisting of major funds, nonmajor governmental and enterprise funds, internal service funds, blended component units, and fiduciary funds) and other entities disclosed in the notes to the basic financial statements. Entities that should be disclosed in the notes to the basic financial statements include, but are not limited to, related organizations, joint ventures, jointly governed organizations, and component units of another government with characteristics of a joint venture or jointly governed organization.

**Auditor of Financial Reporting Entity**

A covered licensee issuing a report on the basic financial statements of the financial reporting entity must be independent of the financial reporting entity, as defined in the preceding paragraph of this Section. However, independence is not required with respect to any major or nonmajor fund, internal service fund, fiduciary fund, or component unit or other entities disclosed in the financial statements, where the primary auditor explicitly states reliance on other auditors reports thereon. In addition, independence is not required with respect to an entity disclosed in the notes to the basic financial statements, if the financial reporting entity is not financially accountable for the organization and the required disclosure does not include financial information. For example, a disclosure limited to the financial reporting entity’s ability to appoint the governing board members would not require a licensee to be independent of that organization.

However, the covered licensee and his or her immediate family shall not hold a key position with a major fund, nonmajor fund, internal service fund, fiduciary fund, or component unit of the financial reporting entity or other entity that should be disclosed in the notes to the basic financial statements.

**Auditor of a Major Fund, Nonmajor Fund, Internal Service Fund, Fiduciary Fund, or Component Unit of the Financial Reporting Entity or Other Entity that Should be Disclosed in the Notes to the Basic Financial Statements**

A covered licensee who is auditing the financial statements of a major fund, nonmajor fund, internal service fund, fiduciary fund, or component unit of the financial reporting entity or an entity that should be disclosed in the notes to the basic financial statements of the financial reporting entity, but is not auditing the primary government, must be independent with respect to those financial statements that the covered licensee is reporting upon. The covered licensee is not required to be independent of the primary government or other funds or component units of the reporting entity or entities that should be disclosed in the notes to the basic financial statements. However, the covered licensee and his or her immediate family should not hold a key position within the primary government. For purposes of this Section, a covered licensee and immediate family member would not be considered employed by the primary government if the exceptions provided for in the definition of a client are met.
Section 101-11. RESERVED

Section 101-12. Independence and Cooperative Arrangements with Clients

Independence will be considered to be impaired if, during the period of a professional engagement, a licensee or his or her firm had any cooperative arrangement with the client that was material to the licensee’s firm or to the client.

Cooperative Arrangement
A cooperative arrangement exists when a licensee’s firm and a client jointly participate in a business activity. The following are examples, which are not all inclusive, of cooperative arrangements:

1. Prime/subcontractor arrangements to provide services or products to a third party
2. Joint ventures to develop or market products or services
3. Arrangements to combine one or more services or products of the firm with one or more services or products of the client and market the package with references to both parties
4. Distribution or marketing arrangements under which the firm acts as a distributor or marketer of the client’s products or services, or the client acts as the distributor or marketer of the products or services of the firm. Nevertheless, joint participation with a client in a business activity does not ordinarily constitute a cooperative arrangement when all the following conditions are present:
   (a) The participation of the firm and the participation of the client are governed by separate agreements, arrangements, or understandings.
   (b) The firm assumes no responsibility for the activities or results of the client, and vice versa.
   (c) Neither party has the authority to act as the representative or agent of the other party.

In addition, the licensee’s firm should consider the requirements of section 473.319 and section 473.3205.

101-13 RESERVED.

101-14 RESERVED.

Definitions

.01 Attest engagement. An attest engagement is an engagement that requires independence as defined in AICPA Professional Standards.

.02 Attest engagement team. The attest engagement team consists of individuals participating in the attest engagement, including those who perform concurring and second partner reviews. The attest engagement team includes all employees and contractors retained by the firm who participate in the attest engagement, irrespective of their functional classification (for example, audit, tax, or management consulting services). The attest engagement team excludes specialists as discussed in SAS No. 73, Using the Work of a
Specialist [AU section 336], and individuals who perform only routine clerical functions, such as word processing and photocopying.

.03 Client. A client is any person or entity, other than the member’s employer, that engages a member or a member’s firm to perform professional services or a person or entity with respect to which professional services are performed. For purposes of this paragraph, the term “employer” does not include—
   a. Entities engaged in the practice of public accounting; or
   b. Federal, state, and local governments or component units thereof provided the member performing professional services with respect to those entities—
      i. Is directly elected by voters of the government or component unit thereof with respect to which professional services are performed; or
      ii. Is an individual who is (1) appointed by a legislative body and (2) subject to removal by a legislative body; or
      iii. Is appointed by someone other than the legislative body, so long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body.

.04 Close relative. A close relative is a parent, sibling, or nondependent child.

.05 Council. The Council of the American Institute of Certified Public Accountants.

.06 Covered member. A covered member is—
   a. An individual on the attest engagement team;
   b. An individual in a position to influence the attest engagement;
   c. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten hours of nonattest services to the client within any fiscal year and ending on the later of the date (i) the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis;
   d. A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
   e. The firm, including the firm’s employee benefit plans; or
   f. An entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles [GAAP] for consolidation purposes) by any of the individuals or entities described in (a) through (e) or by two or more such individuals or entities if they act together.

.08 Financial institution. A financial institution is considered to be an entity that, as part of its normal business operations, makes loans or extends credit to the general public. In addition, for automobile leases addressed under interpretation 101-5, Loans From Financial Institution Clients, an entity would be considered a financial institution if it leases automobiles to the general public.
.09 **Financial statements.** A presentation of financial data, including accompanying notes, if any, intended to communicate an entity’s economic resources and/or obligations at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.

Incidental financial data to support recommendations to a client or in documents for which the reporting is governed by Statements on Standards for Attestation Engagements and tax returns and supporting schedules do not, for this purpose, constitute financial statements. The statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.

.10 **Firm.** A firm is a form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the American Institute of Certified Public Accountants that is engaged in the practice of public accounting. Except for purposes of applying Rule 101: *Independence* (ET Section 101.01), the firm includes the individual partners thereof.

.11 **Holding out.** In general, any action initiated by a member that informs others of his or her status as a CPA or AICPA-accredited specialist constitutes holding out as a CPA. This would include, for example, any oral or written representation to another regarding CPA status, use of the CPA designation on business cards or letterhead, the display of a certificate evidencing a member’s CPA designation, or listing as a CPA in local telephone directories.

.12 **Immediate family.** Immediate family is a spouse, spousal equivalent, or dependent (whether or not related).

.13 **Individual in a position to influence the attest engagement.** An individual in a position to influence the attest engagement is one who—

a. Evaluates the performance or recommends the compensation of the attest engagement partner;

b. Directly supervises or manages the attest engagement partner, including all successively senior levels above that individual through the firm’s chief executive;

c. Consults with the attest engagement team regarding technical or industry-related issues specific to the attest engagement; or

d. Participates in or oversees, at all successively senior levels, quality control activities, including internal monitoring, with respect to the specific attest engagement.

.14 **Institute.** The American Institute of Certified Public Accountants.

.15 **Interpretations of rules of conduct.** Pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct.
.16 Joint closely held investment. A joint closely held investment is an investment in an entity or property by the member and the client (or the client's officers or directors, or any owner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property.

.17 Key position. A key position is a position in which an individual:
   a. Has primary responsibility for significant accounting functions that support material components of the financial statements;
   b. Has primary responsibility for the preparation of the financial statements; or
   c. Has the ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.
For purposes of attest engagements not involving a client’s financial statements, a key position is one in which an individual is primarily responsible for, or able to influence, the subject matter of the attest engagement, as described above.

.18 Loan. A loan is a financial transaction, the characteristics of which generally include, but are not limited to, an agreement that provides for repayment terms and a rate of interest. A loan includes, but is not limited to, a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment.

.19 Manager. A manager is a professional employee of the firm who has either of the following responsibilities:
   a. Continuing responsibility for the overall planning and supervision of engagements for specified clients.
   b. Authority to determine that an engagement is complete subject to final partner approval if required.

.20 Member. A member, associate member, or international associate of the American Institute of Certified Public Accountants.

.21 Normal Lending Procedures, Terms, and Requirements. "Normal lending procedures, terms, and requirements" relating to a covered member’s loan from a financial institution are defined as lending procedures, terms, and requirements that are reasonably comparable with those relating to loans of a similar character committed to other borrowers during the period in which the loan to the covered member is committed. Accordingly, in making such comparison and in evaluating whether a loan was made under "normal lending procedures, terms, and requirements," the covered member should consider all the circumstances under which the loan was granted, including
   1. The amount of the loan in relation to the value of the collateral pledged as security and the credit standing of the covered member.
   2. Repayment terms.
   3. Interest rate, including "points."
4. Closing costs.
5. General availability of such loans to the public.

Related prohibitions that may be more restrictive are prescribed by certain state and federal agencies having regulatory authority over such financial institutions. Broker-dealers, for example, are subject to regulation by the Securities and Exchange Commission.

.22 Office. An office is a reasonably distinct subgroup within a firm, whether constituted by formal organization or informal practice, where personnel who make up the subgroup generally serve the same group of clients or work on the same categories of matters. Substance should govern the office classification. For example, the expected regular personnel interactions and assigned reporting channels of an individual may well be more important than an individual’s physical location.

.23 Partner. A partner is a proprietor, shareholder, equity or non-equity partner or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned.

.24 Period of the professional engagement. The period of the professional engagement begins when a member either signs an initial engagement letter or other agreement to perform attest services or begins to perform an attest engagement for a client, whichever is earlier. The period lasts for the entire duration of the professional relationship (which could cover many periods) and ends with the formal or informal notification, either by the member or the client, of the termination of the professional relationship or by the issuance of a report, whichever is later. Accordingly, the period does not end with the issuance of a report and recommence with the beginning of the following year’s attest engagement.

.25 Practice of public accounting. The practice of public accounting consists of the performance for a client, by a member or a member’s firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Consulting Services, Statements of Governmental Accounting Standards, and Statements on Standards for Attestation Engagements.

However, a member or a member’s firm, while holding out as CPA(s), is not considered to be in the practice of public accounting if the member or the member’s firm does not perform, for any client, any of the professional services described in the preceding paragraph.

.26 Professional services. Professional services include all services performed by a member while holding out as a CPA.

.27 Significant influence. The term significant influence is as defined in Accounting Principles Board Opinion No. 18 [AC section 182] and its interpretations.
American Institute of CPAs (AICPA)
The American Institute of Certified Public Accountants is a national association for
the accounting industry where part of its mission is to provide accounting
professionals with uniform certification and licensing standards, establishing
professional standards, and enforcing current requirements.

Attest Engagement Team
(See Appendix C, Definitions, .02)

Board
Any board or commission, or other statutorily created entity to the extent such
entity is authorized to exercise regulatory or rulemaking functions, see Definitions,
455.01 FS.

Client
(See Appendix C, Definitions, .03)

Close Relative
(See Appendix C, Definitions, .04)

Covered member
(See Appendix C, Definitions, .06)

CPA Investigator
An individual under contract with the Division of Certified Public Accountants to
research complaints filed with DBPR against CPAs. The Division has
approximately 15 CPA Investigators on contract.

Division of Certified Public Accounting
A division within Florida’s Department of Business and Professional Regulation
(DBPR). The division is responsible for the licensing and regulation of over 31,000
active Certified Public Accountants (CPAs) and over 5,100 CPA firms (2008-09).

Engagement Team
All owners, employees, and contractors who participate on or influence the
engagement.
Ethics
The discipline dealing with what is good and bad and with moral duty and obligation; a set of moral principles or values; a theory or system of moral values; the principles of conduct governing an individual or a group; a guiding philosophy.

Ethics Resource Center (ERC)
Non profit organization devoted to the advancement of high ethical standards and practices in public and private institutions. The expertise of ERC also confirms and informs the public dialogue on ethics and ethical behavior. The researchers at ERC analyze current issues, emerging issues, and produce new ideas and benchmarks for the public trust.

Equity Owner
Any partner, shareholder, proprietor, or other equity owner of the firm.

Equity owners of the primary equity owner’s office
Owners who work in the same office as the primary equity owner.

Financial Accounting Standards Board (FASB)
The responsibility of the Financial Accounting Standards Board (FASB) is the development and promulgation of accounting standards that are used by both public and private companies to prepare financial statements. FASB is an independent, private sector US organization. FASB standards are recognized as authoritative by the Securities and Exchange Commission and are relied on by investors, creditors, auditors and others for credible, transparent and comparable financial information. The FASB works closely with the PCAOB to identify new areas for standards and to move accounting and financial reporting guidance that is presently provided in the auditing literature to the accounting literature.

Financial Statements
Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity’s financial position at a point in time and its results of operations for a period then ended.

Firm
Any entity allowed by the AICPA or permitted by law or regulation which is in public accounting; any entity that is engaged in the practice of public accounting. (Also see Appendix C, Definitions, .10)

Florida Board of Accountancy
Consists of nine members - seven CPAs and two consumers appointed by the Governor. The Board meets approximately ten times a year at various locations throughout the state. Meetings are open to the public.
Florida Institute of Certified Public Accountants (FICPA)
The FICPA, headquartered in Tallahassee, is a member-driven society representing the interests of Certified Public Accountants throughout Florida. The Institute has been working to advance the accounting profession in Florida for more than 100 years and with approximately 18,000 members.

Fraud
Willful misrepresentation by one person of a fact inflicting damage on another person.

Generally Accepted Accounting Principles (GAAP)
Conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The highest level of such principles is set by the Financial Accounting Standards Board (FASB).

Generally Accepted Accounting Standards (GAAS)
Standards set by the AICPA which concern the auditor’s professional qualities and judgment in the performance of his/her audit and in the actual report.

Holding Out
(See Appendix C, Definitions, .11)

Immediate Family
(See Appendix C, Definitions, .12)

Individual in a position to influence the attest engagement
(See Appendix C, Definitions, .13)

Internal Control
Process designed to provide reasonable assurance regarding achievement of various management objectives such as the reliability of financial reports.

IAASB
International Auditing and Attestation Standards Board

IESBA
International Ethics Standards Board for Accountants

IFAC
International Federation of Accountants; source for the Code of Ethics for Professional Accountants.

IFRS
International Financial Reporting Standards
Key Position
(See Appendix C, Definitions, .17)

Manager
(See Appendix C, Definitions, .19)

Materiality
Magnitude of an omission or misstatements of accounting information that, in the
light of surrounding circumstances, makes it probable that the judgment of a
reasonable person relying on the information would change or be influenced.

Member in Business
A member employed or engaged on a contractual or volunteer basis in an executive,
a staff, a governance, an advisory, or an administrative capacity in such areas as
industry, the public sector, education, the not-for-profit sector, or regulatory or
professional bodies. This does not include a member while engaged in the practice
of public accounting. ET section 92.22

National Association of State Boards of Accountancy (NASBA)
A forum for the nation’s state boards of accountancy, which administer the Uniform
CPA Examination, license certified public accountants, and regulate the practice of
public accountancy in the U.S.

Nonattest equity owner or manager
Any equity owner or manager providing ten (10) or more hours of non attest
services to the client in any fiscal year of the attest engagement.

Objectivity
Emphasizing or expressing the nature of reality as it is apart from personal
reflection or feelings; independence of mind.

Office
(See Appendix C, Definitions, .22)

Partner
(See Appendix C, Definitions, .23)

Practice of Public Accounting
(See Appendix C, Definitions, .25)

Probable Cause Panel
Established by DBPR. Reviews all complaints filed to determine if probable cause
or not, or need for further investigation. Reviews investigative reports to determine
if probable cause or not.
Professional Services
   (See Appendix C, Definitions, .26)

Professionals
   CPAs or anyone seeking that status

Public Company Accounting Oversight Board (PCAOB)
   A private sector, non-profit corporation, created by the Sarbanes-Oxley Act of
   2002, to oversee the auditors of public companies in order to protect the interest of
   investors and further the public interest in the preparation of informative, fair, and
   independent audit reports. The PCAOB sets auditing standards for SEC companies.
   The PCAOB sets auditing standards for SEC companies. The PCAOB works
   closely with FASB in review of auditing standards and emerging issues research.

Review
   Accounting service that provides some assurance as to the reliability of financial
   information. In a review, a CPA does not conduct an examination under GAAS.

Risk Management
   Process of identifying and monitoring business risks in a manner that offers a
   risk/return relationship that is acceptable to an entity’s operating philosophy.

Securities and Exchange Commission (SEC)
   The primary federal regulatory agency for the securities industry, whose
   responsibility is to promote full disclosure and to protect investors against
   fraudulent and manipulative practices in the securities markets.

Significant Influence
   (See Appendix C, Definitions, .27)

Situation Ethics
   A system of ethics by which acts are judged within their contexts instead of by
categorical principles.

Working Papers
   Records kept by the auditor of the procedures applied, the tests performed, the
   information obtained, and the pertinent conclusions reached in the course of the
   audit. Also, any records developed by a CPA during an audit.
None at this time
# Appendix F

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(MEMBER’S NAME), CPA, Completes course on (SUBJECT AREA)

(MEMBER’S CITY), (DATE), 2012 -- (MEMBER’S FULL NAME), CPA, of (FIRM NAME) in (CITY), completed a course, “(COURSE TITLE),” on (DATE). This continuing-education course covered the topic of (SUBJECT AREA).

(MEMBER’S LAST NAME) is a (POSITION TITLE) practicing in the area of (MEMBER’S AREA OF PRACTICE – TAX, AUDIT, ETC.) with the firm.

In addition to (MEMBER’S LAST NAME)’s professional responsibilities, HE/SHE is also active in (LIST ANY OTHER PROFESSIONAL/CIVIC/ VOLUNTEER/COMMUNITY ACTIVIES – OPTIONAL). HE/SHE is an active member of the Florida Institute of Certified Public Accountants, the professional association representing the interests of more than 18,400 CPAs with over 4,400 offices throughout Florida.

(MEMBER NAME) can be reached by telephone at (PHONE NUMBER), or via e-mail at (E-MAIL ADDRESS).

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