The AICPA Code of Professional Conduct

Jason Evans, CPA, CGMA
Senior Technical Manager, AICPA Professional Ethics

Professional Ethics Division: Our Role

- Establish independence and ethics standards for the CPA profession
  - AICPA Code of Professional Conduct
  - Non-authoritative guidance (e.g., FAQs)
- Enforcement - investigate potential violations of the Code
  - Bylaws require members comply with Code
  - Joint Ethics Enforcement Program
- Educate members on ethics standards
  - Ethics hotline
  - Presentations at conferences, etc.
AICPA PEEC

- AICPA Professional Ethics Executive Committee (PEEC)
  - Establishes independence & ethics standards for CPA profession
    - AICPA Code of Professional Conduct

PEEC Composition (20 members)
- 12 members public practice (Big 4, Large, SMP)
- 3 public members (non-CPAs/non-AICPA members)
- 4 members from state boards of accountancy
- 1 member in business

Revisions to AICPA Code require full due process
- Rule changes require vote by membership
- Interpretations of rules require exposure to membership
- All standard-setting discussions held in open meetings

Those Affected by the Code

- All members of the AICPA are required to comply with the Code in the performance of professional services

Member is a defined term in the Code
- A member, associate member, affiliate member, or international associate of the AICPA. When the term member is used in part 1 of the code, it means a member in public practice; when used in part 2 of the code, it means a member in business; and when used in part 3 of the code, it means all other members.

Professional services is a defined term in the Code
- Include all services requiring accountancy or related skills that are performed by a member for a client, an employer, or on a volunteer basis. These services include, but are not limited to accounting, audit and other attest services, tax, bookkeeping, management consulting, financial management, corporate governance, personal financial planning, business valuation, litigation support, educational, and those services for which standards are promulgated by bodies designated by Council.
Revised AICPA Code of Professional Conduct

Codification Project

Codification Project Objectives

- Intuitively organized
- Improve research capability
- Enhance clarity
- Retain the substance of existing standards
- Highlight nonauthoritative guidance
Easily Digestible

The revised AICPA Code has been reformatted to improve clarity.

Intuitively Organized

The revised AICPA Code is categorized by topic and, when necessary, provides subtopics and sections to allow for easy navigation.

Learn more at aicpa.org/newcode.

Something for Everyone

The revised AICPA Code is structured by line of business, so members in public practice receive relevant information for their area, while members in business receive guidance applicable for their situation.

Bonus Material

Links to non-authoritative guidance are embedded in the revised AICPA Code. For example, while searching for guidance on a particular topic, you may come across links to an FAQ page or a basis for conclusion paper that is related to that topic.

Learn more at aicpa.org/newcode.
Revised AICPA Code

Revised Code Structure

- Preface
  - Principles
  - Defined terms, Application of Code
  - New/revised, pending and deleted standards for past year
- Part 1: Members in public practice (includes independence)
- Part 2: Members in business
- Part 3: All Other Members

Other Key Revisions

Addition of Two New Conceptual Frameworks

- Effective December 15, 2015

New Numbering Format

- Mapping Documents Available

1.200 - Independence

1.250 – Participation in Employee Benefit Plan

1.250.010 – Plan is an Attest Client or Is Sponsored by an Attest Client

1.250.020 – Former Partners and Professional Employees Participation in a Firm Sponsored Plan
Online Code of Professional Conduct

- Online Platform
  - Basic and Advanced Search Capability
  - Pop-ups
  - Bookmarks
  - Record Notes
  - Hyperlinking

- Effective Dec. 15, 2014

For More Information: aicpa.org/newcode
Conceptual Framework

Addition of Two New Conceptual Frameworks (CFs)
- CF for members in public practice (for rules other than independence)
- CF for members in business
- Effective December 15, 2015
- Toolkit Under Development

When To Use The Conceptual Framework
- When the Code does not address the relationship or circumstance
- May not use to overcome an existing prohibition in the Code

Conceptual Framework - Threats

Threats - Relationships or circumstances that could compromise a member’s compliance with the rules.
- Self-review threat
- Advocacy threat
- Familiarity threat
- Undue influence threat
- Self-interest threat
- Adverse interest threat
- Management participation threat
  - Independence only
Conceptual Framework - Safeguards

**Safeguards** - Actions or other measures that may eliminate a threat or reduce a threat to an **acceptable level**
- Level at which a reasonable & informed third party would conclude that a member’s compliance with the rules is not compromised

Safeguards fall into three broad categories:
- Safeguards created by the profession, legislation, or regulation.
- Safeguards implemented by the client
- Safeguards implemented by the firm

**Steps of the Conceptual Framework**

1. **Step 1** Identify Threats
2. **Step 2** Evaluate Significance of Threats
   - Threats Identified
   - Threats Not Significant
3. **Step 3** Identify and Apply Safeguards
   - Existing
   - New
4. **Step 4** Evaluate Effectiveness of Safeguards
   - Are Threats at Acceptable Level?
5. **Step 5** Document Threats and Safeguards Applied

Stop
Popular Code Topic: Nonattest Services

Nonattest Services - General Requirements

- Ethics staff answers approximately 3,000 hotline inquires a year – approximately 11% of those inquiries pertain to nonattest services
- Section 1.295 of the Code (formerly 101-3)
- Contains the requirements for members to maintain independence when performing nonattest services for an attest client

www.aicpa.org/nonattestfaqs
Nonattest Services - General Requirements

All permitted services subject to general requirements

- May not assume management responsibilities
- Client agrees to certain conditions
  - Designate individual with skills, knowledge and/or experience to oversee nonattest service
  - Accept responsibility for nonattest service
- Establish and document in writing specific terms

Management Responsibilities

- Management responsibilities are addressed in 1.295.030 of the Code
- When a member is performing attest services, the member may not assume a management responsibility
- Some examples of management responsibilities in the Code include:
  - Setting policy or strategic direction for the client
  - Authorizing, executing or consummating transactions or exercising authority to do so on behalf of the client
  - Preparing source documents
  - Having custody of client assets
Attest or Nonattest Service?

- Following are nonattest services subject to general requirements
  - Financial Statement Preparation
  - Cash-to-accrual Conversions
  - Reconciliations
  - Advisory Services
  - Appraisal, Valuation and Actuarial Services
  - Benefit Plan Administration
  - Bookkeeping Services
  - Business Risk Consulting
  - Corporate Finance Consulting
  - Executive or Employee Recruiting
  - IT Services
  - Internal Audit
  - Tax Services

Cumulative Effect of Performing Multiple Nonattest Services

- Before Performing a New Nonattest Service...Evaluate
  - Are safeguards included in the general requirements adequate?
- If Threats Are Not at an Acceptable Level...
  - Apply additional safeguards to eliminate or reduce the threats to an acceptable level or
  - Do not perform the additional nonattest service.
- Effective 12/15/14
Popular Code Topic: Records Requests

Records Requests

- The request for records is a frequent complaint
- Records Request – 1.400.200
- Defines the type of record
  - Client provided records – records, including hard copy and electronic reproductions belonging to the client
  - Member-prepared records – records the member was not specifically engaged to prepare and are not available to the client (adjusting journal entries)
  - Member’s work products – deliverables as set forth in the engagement letter (tax return)
  - Working papers – all other items prepared solely for the engagement including items prepared by
    - The member such as audit programs
    - The client at the request of the member and reflecting testing or other work done by the member
Records Requests

Requests:

- Client provided records – member should return at client’s request
- Member prepared records & member work products - If not previously provided to the client, the member should:
  - Provide member prepared records related to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product;
  - Provide member work products except, may be withheld if:
    - Fees are due for the specific work product
    - Work product is incomplete
    - For purposes of complying with professional standards (outstanding audit issues)
    - Threatened or outstanding litigation exists

Working papers are member’s property and need not be returned

Member must follow more restrictive of AICPA Code and State Board rules

Summary & Questions