



Ethics and Professional Conduct for Texas CPAs

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Course # 4150625, Version 1903, 4 CPE Credits

your self-study.
your way.

Course CPE Information

Course Expiration Date

Per AICPA and NASBA Standards (S9-06), QAS Self-Study courses must include an expiration date that is *no longer than one year from the date of purchase or enrollment*.

Field of Study

Texas Ethics (approved for the state of Texas only—not a NASBA field of study). Some state boards may count credits under different categories—check with your state board for more information.

Course Level

Overview.

Prerequisites

There are no prerequisites.

Advance Preparation

None.

Course Description

Ethics and Professional Conduct for Texas CPAs is designed to meet the four-hour ethics CPE requirement for Texas CPAs. The course overviews ethical judgment and the ethical standards of the profession, noting ethical core foundations of the CPA profession. The materials provide illustrative examples of real-life ethical dilemmas and include preventative measures to avoid ethical violations. Case studies of ethical lapses aid in applying the spirit and intent of the Texas State Board of Public Accountancy Rules of Professional Conduct.

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Instructional Design

This Self-Study course is designed to lead you through a learning process using instructional methods that will help you achieve the stated learning objectives. You will be provided with course objectives and presented with comprehensive information and facts demonstrated in exhibits and/or case studies. Review questions will allow you to check your understanding of the material, and a qualified assessment will test your mastery of the course.

Please familiarize yourself with the following instructional features to ensure your success in achieving the learning objectives.

Course CPE Information

The preceding section, “Course CPE Information,” details important information regarding CPE. If you skipped over that section, please go back and review the information now to ensure you are prepared to complete this course successfully.

Table of Contents

The table of contents allows you to quickly navigate to specific sections of the course.

Learning Objectives and Content

Learning objectives clearly define the knowledge, skills, or abilities you will gain by completing the course. Throughout the course content, you will find various instructional methods to help you achieve the learning objectives, such as examples, case studies, charts, diagrams, and explanations. Please pay special attention to these instructional methods, as they will help you achieve the stated learning objectives.

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

Review Question Answers and Rationales

Review question answer choices are accompanied by unique, logical reasoning (rationales) as to why an answer is correct or incorrect. Evaluative feedback to incorrect responses and reinforcement feedback to correct responses are both provided.

Glossary

The glossary defines key terms. Please review the definition of any words you are not familiar with.

Index

The index allows you to quickly locate key terms or concepts as you progress through the instructional material.

Qualified Assessment

Qualified assessments measure (1) the extent to which the learning objectives have been met and (2) that you have gained the knowledge, skills, or abilities clearly defined by the learning objectives for each section of the course. Unless otherwise noted, you are required to earn a minimum score of 70% to pass a course. If you do not pass on your first attempt, please review the learning objectives, instructional materials, and review questions and answers before attempting to retake the qualified assessment to ensure all learning objectives have been successfully completed.

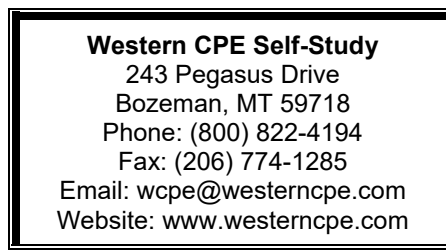
Answer Sheet

Feel free to fill the Answer Sheet out as you go over the course. To enter your answers online, follow these steps:

1. Go to www.westerncpe.com.
2. Log in with your username and password.
3. At the top right side of your screen, hover over “My Account” and click “My CPE.”
4. Click on the big orange button that says “View All Courses.”
5. Click on the appropriate course title.
6. Click on the blue wording that says “Qualified Assessment.”
7. Click on “Attempt assessment now.”

Evaluation

Upon successful completion of your online assessment, we ask that you complete an online course evaluation. Your feedback is a vital component in our future course development.



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Table of Contents

Course CPE Information	i
Instructional Design.....	ii
Table of Contents	iv
Ethics and Professional Conduct for Texas CPAs.....	1
Learning Objectives.....	1
Ethics Background.....	1
Morals	1
What is Ethics?.....	2
The Relationship of Morals and Ethics	2
Alcohol.....	2
Nike.....	3
Summary	3
Illustrative Examples of Ethics.....	4
Professional Ethics.....	5
Legal vs. Ethical	5
Why Should We Study Professional Ethics?.....	5
Accounting Ethics	6
Ethical Core Foundations for CPAs	7
Independence	7
Integrity.....	7
Objectivity.....	7
Other Ethical Foundations of the CPA Profession	8
Public Interest	8
Due Care	8
Review Questions.....	9
Ethical Reasoning.....	10
Example Thought Process.....	10
Example Thought Process.....	11
Ethical Dilemmas	14
Preventative Measures to Avoid Ethical Violations.....	15
Case Studies of Notable Ethical Lapses	16
Bernard Madoff Investment Securities' Auditor.....	17
Ethical Lapses of Friehling	19
Phar-Mor.....	19
Ethical Lapses of Coopers & Lybrand	20
Enron.....	20
Ethical Lapses of Andersen.....	21
Questions for Consideration.....	21
Case Studies of Other Ethical Lapses.....	22
The Travel Expense Department.....	22
Ethical Lapses of the Travel Expense Department Manager	22
Question for Consideration	22

The Company with Excess Reserves	23
Questions for Consideration.....	23
Analysis of the Case.....	23
The Company with Undisclosed/Unrecorded Contingencies.....	23
Questions for Consideration.....	24
Analysis of the Case.....	24
The IRS Audit.....	24
Questions for Consideration.....	24
Analysis of the Case.....	24
Question	25
Motivations of Ethical Lapses	25
Questions for Consideration.....	26
Review Questions.....	27
The Texas State Board of Public Accountancy Rules of Professional Conduct	28
General Provisions.....	28
501.51—Preamble and General Principles	28
501.52—Definitions.....	28
501.53—Applicability of Rules of Professional Conduct.....	28
Professional Standards.....	29
501.60—Auditing Standards.....	29
501.61—Accounting Principles	29
501.62—Other Professional Standards	29
501.63—Reporting Standards.....	30
Responsibilities to Clients	30
501.70—Independence.....	30
AICPA Independence Rules	30
501.71—Receipt of Commission, Compensation or Other Benefit.....	31
501.72—Contingency Fees	31
501.73 – Integrity and Objectivity	31
501.74—Competence.....	31
501.75—Confidential Client Communication	32
501.76—Records and Work Papers	32
501.77—Acting through Others.....	34
501.78—Withdrawal or Resignation.....	34
Review Questions.....	35
Responsibilities to the Public	36
501.80—Practice of Public Accountancy	36
501.81—Firm License Requirements	36
501.82—Advertising.....	36
501.83—Firm Names.....	36
501.85—Complaint Notice	36
Responsibilities to the Board/Profession.....	37
501.90—Discreditable Acts	37
501.91—Reportable Events	37
501.93—Responses.....	38
501.94—Mandatory Continuing Professional Education.....	38
Chapter 523 – Continuing Professional Education	38
Accountants Confidential Assistance Network	39
Review Questions.....	40

Review Question Answers and Rationales.....	41
Glossary	45
Index.....	46
Qualified Assessment	48
Answer Sheet	52
Course Evaluation.....	53

Ethics and Professional Conduct for Texas CPAs

Learning Objectives

Upon successful completion of this course, you will be able to:

- Recognize the definitions of morals and ethics, noting the differences between each and the role ethics play in society and professional groups
- Note the ethical core foundations for CPAs, threats to these values, and preventative measures to avoid ethical violations
- Use ethical reasoning to identify violations in professional dilemmas using the core values of the profession
- Recognize the ethical standards contained in the AICPA Code of Professional Conduct and Texas State Board of Public Accountancy Rules of Professional Conduct

Ethics Background

Morals

Many use ethics and morals as synonyms. However, they are not the same thing. Morals are values that help an individual distinguish between what is right and what is wrong. Individual moral values can be influenced by family, education, religion, friends and acquaintances, and a host of other factors. In the United States, there are several moral values that are shared by most people. These include:

- Stealing is morally wrong.
- Murder is morally wrong.

Most people view these moral values as being absolute. However, when certain facts and circumstances are introduced, a person's moral view may change. Is stealing food to feed your starving child morally wrong? Is killing a person who was engaged in the act of killing your spouse morally wrong? Is the death penalty morally wrong?

Honesty is a moral principle that many would assert is good. However, does everyone live by this principle? How many people have justified telling a "little white lie" to save someone's feelings? How many people, in business dealings, have omitted certain facts regarding the transaction hoping that the other party wouldn't discover them? How many people have lied to get out of a traffic ticket?

What about theft? Is it stealing when you receive your restaurant bill and pay the total, but don't point out that there are items missing on the bill?

In selling a product or service, is it misleading to tout all the benefits but none of the drawbacks?

Because the distinction of what is right and what is wrong is seldom an absolute distinction and differs among individuals based on their background and other factors nations, societies, and even professions have adopted specific rules of conduct to address certain situations.

What is Ethics?

Ethics are a framework of values established by society or a group. Generally speaking, it is a standard or a set of values created by a society, government or ruling body upon which one can compare against to determine if a person is acting properly or not. Ethical standards or values can change over time as society changes and they can also differ between nationalities. However, they represent a standard that is not necessarily dependent on the individual's viewpoint. Ethical standards are designed to promote a behavior that can generate a sense of trust and fairness.

The Relationship of Morals and Ethics

Honesty and integrity are accepted ethical standards of society and most professions. However, some people take the moral view that honesty and integrity are not always required. As an example, when selling a used car some people may take the view that not disclosing defects in the automobile isn't wrong. If the buyer doesn't discover it in his/her due diligence, it's the buyer's problem. Is this considered ethical behavior? No, it is not.

Since there can be a difference between individual moral views and ethical rules, the table below illustrates some common situations that highlight the difference between ethical values and individual moral values.

Activity	Example Moral View	Society's Ethical View
You were given too much change from a purchase.	It's not my problem if the cashier can't count. I'm keeping the change.	I agreed to a price when I purchased the product. I should return the excess change given as it was the result of an error.
Someone drops a \$5 bill on the sidewalk and continues walking.	Finders keepers!	You should return the \$5 bill to its rightful owner, if possible.
I've got a ton of cash income that won't be reported to the IRS.	No way that's going on my tax return. The IRS gets more than enough of my hard earned money.	All income should be reported to the IRS.

In the above activities, the example individual's moral decision does not conform to society's ethical standard. Without ethics, there would be no reasonable standard of good behavior. There are also moral views that have a higher standard than the prevailing ethical views and can influence prevailing ethics. History provides several examples, two of which are addressed below.

Alcohol

Is the business of alcohol production moral? There are many who, based on religious or other values, would argue that it is not. Their arguments range from the damage to families to the damage inflicted by drunk drivers. Their individual moral views condemn the consumption and production of alcohol.

Is the business of alcohol production ethical? It depends on the time period. During prohibition in the United States, individual moral views influenced society and the production of alcohol was considered to be an unethical practice. The social framework of values stated that this was unacceptable.

However, after prohibition and to the current day, the production of alcohol is not considered by society as a whole to be unethical behavior. These businesses are considered vital employers in our communities and no longer condemned.

Nike

Milton Friedman said the duty of business is “to make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom.” During the 1980s and 1990s, Nike was an admired company whose products and market share continued to grow. Its brand was well known due to extensive advertising and endorsements by professional athletes.

However, during the 1990s, it was also discovered that factories contracted by Nike in Cambodia and Pakistan used child labor in the production of its products. Included in the allegations were that the factories contracted by Nike in Cambodia had children working 7 days a week for up to 16 hours a day.

These were not Nike’s factories, they were contract manufacturers. Also, the ethical customs of these countries did not discourage child labor. In many cases, the labor of children was necessary to ensure that families did not starve. Nike did not violate any laws.

There was a great deal of criticism levied against Nike in the United States as the prevailing moral view is that child labor is wrong, even if it occurs in a different country with different ethical standards. The protests caused Nike to evaluate the working conditions in its contract manufacturers and take steps to curb these practices.

Nike conformed to Friedman’s assertion that it should make as much money as possible within the law and accepted rules. Prevalent moral views caused Nike to adopt higher ethical standards than those required by law and the accepted rules.

Summary

Morality is based on personal beliefs and may or may not reflect the core values of a society. Morals govern an individual’s perception of right and wrong. Ethics, on the other hand, is dependent on the core values of society and constitute a set of rules. These rules are generally consistent, but may vary over time as societal values change and can be influenced by individual moral values. Moral views do not always represent ethical views. Some do not consider lying to be an immoral act, especially if it accomplishes a desired goal. However, most ethical views consider lying to be unethical.

<p>Important point: Ethics are rules of conduct that apply to a particular group. It defines the right thing to do in the context of the group. Members of the group may have a different moral view, but are held to the ethical views of the group nonetheless. However, if enough members share the same moral view, the rules of conduct may change, resulting in a different ethical code.</p>
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Illustrative Examples of Ethics

You want to purchase a new car and trade in your old car. The old car has a bad transmission, but only slips occasionally. When the auto dealership from which you are buying the new car appraises your vehicle for its trade-in value, the transmission does not slip resulting in a higher trade-in value. Do you disclose the defect in the transmission?

Our society values integrity and honesty. One question to ask is “how will this be viewed when the transmission defect is discovered?” From the auto dealership’s point of view, your actions would not be considered to be ethical as you were not forthcoming about the defect. As honesty and integrity represent ethical values and not disclosing the defect would violate these values, the ethical approach would be to disclose the defect in the transmission.

Your daughter backed your car into the side of your brick house. There is no damage to your house; however, one tail light is broken. Two weeks later, a car rear ends you as you are coming home from work. There is only damage to the bumper resulting from the accident. When the insurance claim is filed, what should you claim as damages from the accident?

Once again, society values integrity and honesty. It would be very easy to claim that the entire amount of the damage was due to the accident. However, this would not conform to the values of honesty and integrity. The ethical course of action is to only claim the damage to the bumper as damages resulting from the accident.

In these examples, there are a couple of easy tests that can be performed to determine what is ethical by social standards.

The Publicity Standard—The publicity standard asks whether the action would be considered ethical if it was published and everyone knew about it. Using the automobile with the bad transmission as an example, would you be comfortable not disclosing the defect if you thought that your lack of disclosure would be on the front page of tomorrow’s newspaper? You likely wouldn’t be. It would result in a negative public perception of your honesty and integrity and damage your reputation in the community. Using this test, non-disclosure of the defective transmission is not ethical.

The Person Looking Over Your Shoulder Standard—This standard asks whether the action would be considered ethical if someone else were with you and looking over your shoulder to evaluate your conduct. In the example of the car with a broken tail light, if your insurance agent was with you when your daughter backed the car into the house and damaged the tail light, would you still consider claiming that the broken tail light was a result of the car that rear ended you? This is also not likely. In this case, your insurance agent may question your honesty and integrity. Using this test, claiming the broken tail light is the result of the rear end collision is not ethical.

Basically, these standards ask whether the conduct would be considered ethical if someone or everyone knew of your actions?

Case study: You receive a survey in the mail with a check to “Bearer” for \$50 as an honorarium for filling out the survey. You did not request the survey and have never been associated with the firm conducting the survey.

What is your moral view regarding the \$50 check? Do you cash it and not fill out the survey? Do you only cash it if you fill out the survey?

What is the ethical thing to do with the \$50 check? Does this view change using the “Publicity Standard”? Does it change using the “Person Looking Over Your Shoulder Standard”?

Professional Ethics

Professionals are regarded as being able to make decisions and judgments that the general public cannot because they do not possess the training and qualifications necessary to do so.

Professional Ethics are rules and responsibilities in a professional setting. Many professions have ethical rules of conduct. The Hippocratic Oath is probably the most well-known professional value. Quite simply, the medical profession promises to uphold certain ethical values such as all acts should be in the best interest of the patient. Attorneys are governed by a code of professional conduct which dictates rules of ethics and is generally enforced by a state governing body. The American Bar Association Model Rules of Professional Conduct has been adopted by many state legislatures or judicial systems. Professional engineers also generally have a code of professional conduct. The specific rules will depend on the specific engineering profession. What the medical, legal, and engineering professions have in common is that each has created a framework of values and rules that guide the way that profession makes decisions and acts.

Important point: Not all professions have the same ethical requirements. For a medical doctor, an essential to the ethical canon is to do no harm. An attorney has an ethical obligation to be an advocate for his/her client. These do not necessarily relate to a CPA. However, these ethical requirements have been established as being important to the particular group to which they relate.

Legal vs. Ethical

If something is legal, must it also be ethical? In professional ethics, there is generally a standard of conduct that is higher than that required by the law. Using the example of Nike, it was required by society to conform to a higher standard in its contract manufacturers even though its practices were completely legal.

Important point: Remember that ethics is about what is right or wrong based on written or unwritten rules of conduct. Laws are about what is legal or illegal.

Why Should We Study Professional Ethics?

The study of ethics permits the professional to understand the values and rules of conduct established by the group of professionals to which he/she belongs. It also permits the professional to compare his/her moral views to the required ethical rules. When you understand the values of the group, you can use these values to resolve ethical conflicts.

Legal and moral views do not always conform to ethical requirements. If the CPA did not understand the ethical requirements of the profession, he/she would be unaware of these requirements and may unwittingly have an ethics violation. Even though this may not have violated the CPAs moral view of what is wrong and did not violate the legal view of what is wrong, it is still an ethical violation.

Having an understanding of the professional values embodied by the rules helps in ethical decision making. Rules cannot encompass every situation that may arise. In a dilemma, it is important to have a good understanding of the ethical values, principles, and rules to make the right decision.

Important point: Without a good grasp of ethical obligations, values and principles, you run a high risk of an ethical violation.

Accounting Ethics

Accounting professionals have their own specific additional framework of values and rules as it relates to their profession. The Texas State Board of Public Accountancy (TSBPA) has Rules of Professional Conduct that are applicable to all Texas CPAs. The rules of the TSBPA are to "...establish and maintain high standards of competence and integrity in the practice of public accountancy and to ensure that the conduct and competitive practices of licensees serve the purposes of the Act and the best interest of the public." (Rule 501.51(a))

As a result of accounting scandals such as Enron and Phar-Mor, the CPA profession has responded with an emphasis on ethics education. Ethics training is now used at the college level for those studying to be a CPA. This emphasis on ethics education actually stems from the Greek philosopher Aristotle who said, "Excellence is an art won by training and habituation. We do not act rightly because we have virtue or excellence, but we rather have those because we have acted rightly. We are what we repeatedly do. Excellence, then, is not an act but a habit."

Therefore, reinforcement of ethics through education develops ethical habits.

The TSBPA has integrated ethics education requirements into their rules. For prospective CPAs at the college level, to take the CPA exam "the board requires that 3 passing semester hours be earned as a result of taking a course in ethics. The course must be taken at a recognized educational institution and should provide students with a framework of ethical reasoning, professional values, and attitudes for exercising professional skepticism and other behavior that is in the best interest of the public and profession. The ethics program should provide a foundation for ethical reasoning and include the core values of integrity, objectivity, and independence taught by an instructor who has not been disciplined by the board for a violation of the board's rules of professional conduct unless waived by the board."¹

For CPAs, there is also a continuing professional education requirement of a four-hour course in ethics that must be taken every two years. The requirements of the course are:

- (1) the course shall be designed to teach CPAs to achieve and maintain the highest standards of ethical conduct through ethical reasoning and the core values of the profession: integrity, objectivity, and independence, as ethical principles in addition to rules of conduct;
- (2) the course shall address ethical considerations and the application of the board's Rules of Professional Conduct to all aspects of the professional accounting work whether performed by CPAs in client practice or CPAs who are not in client practice; and

¹ Board Rule 511.58 (c)

- (3) the course shall convey the spirit and intent of the board's Rules of Professional Conduct in the licensee's performance of accounting services, and not mere technical compliance.²

Ethical Core Foundations for CPAs

TSBPA Rule 501.70 requires compliance with the AICPA Independence rule. This and other rules are covered in more detail in the Texas Rules of Professional Conduct sections, below.

Independence

A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council.³

The AICPA independence rules broadly state that a CPA must be independent of a client in both fact and appearance during the course of a professional attest engagement. Both actual and apparent conflicts of interest must be avoided so that there is no question that an objective examination of the financial statements has been performed and that they may be relied upon. Independence is required for Audit engagements and Review engagements. A lack of independence must be disclosed on the Compilation report related to a Compilation engagement. Independence is required only of Texas CPAs in the practice of public accountancy. All other ethical foundations relate to all CPAs.

Integrity

Integrity refers to the CPA's adherence to an ethical code which requires the CPA to be honest and not subordinate his judgment to personal gain.

TSBPA rule 501.73 states, "a person in the performance of professional accounting services or professional accounting work shall maintain integrity and objectivity, shall be free of conflicts of interest and shall not knowingly misrepresent facts nor subordinate his or her judgment to others."

Integrity can be thought of as the little angel on your shoulder that tells you what is right.

Objectivity

Objectivity refers to being unbiased and not influenced by personal prejudices. A CPA must maintain an impartial attitude in the performance of professional responsibilities. To be objective, you must be free of conflicts of interest. Texas rule 501.73(b) states "A conflict of interest may occur if a person performs a professional accounting service or professional accounting work for a client or employer and the person has a relationship with another person, entity, product, or service that could, in the person's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the person's objectivity."

Both integrity and objectivity require that the CPA not subordinate his or her judgment to others.

² Board Rule 523.131

³ AICPA Code of Professional Conduct

Other Ethical Foundations of the CPA Profession

Public Interest

CPAs in the practice of public accountancy and in industry have a responsibility to serve the public interest. CPAs must act in a manner that best serves the public, clients, and employers. This duty to the public is summarized by Texas rule 501.51(b) which states “The services usually and customarily performed by those in the public, industry, or government practice of accountancy involve a high degree of skill, education, trust, and experience which are professional in scope and nature. The use of professional designations carries an implication of possession of the competence associated with a profession. The public, in general, and the business community, in particular, rely on this professional competence by placing confidence in reports and other services of accountants. The public's reliance, in turn, imposes obligations on persons utilizing professional designations to their clients, employers and to the public in general. These obligations include maintaining independence in fact and in appearance, while in the client practice of public accountancy, continuously improving professional skills, observing GAAP and GAAS, when required, promoting sound and informative financial reporting, holding the affairs of clients and employers in confidence, upholding the standards of the public accountancy profession, and maintaining high standards of personal and professional conduct in all matters.”

Due Care

A CPA must exercise due care in fulfilling his or her professional responsibilities. Due care means that the CPA has the requisite knowledge to fulfill the requirements of the service to be provided. It also means that the CPA will fulfill the engagement or employment duties ensuring that technical standards and other requirements of the accounting profession are upheld. In Texas, the concept of due care is mandated by TSBPA rule 501.74 which states, “A person shall not undertake any engagement for the performance of professional accounting services or professional accounting work which he cannot reasonably expect to complete with due professional competence, including compliance, where applicable, with §501.60 of this chapter (relating to Auditing Standards), §501.61 of this chapter (relating to Accounting Principles), and §501.62 of this chapter (relating to Other Professional Standards).”

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

1. What is the difference between morals and ethics?
 - a. They are the same thing.
 - b. While different concepts, they will always result in the same answer as to whether a particular act is good or bad.
 - c. Morals represent individual values that help people decide what is right and wrong. Ethics are a framework of values established by society or a group.
 - d. Morals are a set of rules established by society.

2. Which of the following is true regarding the Texas State Board of Public Accountancy independence rules?
 - a. Texas has its own specific rules that differ from the AICPA rules.
 - b. Texas rules state that a CPA shall conform in fact and appearance to the independence standards established by the AICPA and the board, and, where applicable, the SEC and the PCAOB.
 - c. Texas CPAs who are not members of the AICPA do not need to comply with the AICPA independence rules.
 - d. The Texas independence rules apply to all Texas CPAs, not just those in the practice of public accountancy.

3. Which of the following describes objectivity?
 - a. Being unbiased, not influenced by personal prejudices and free of conflicts of interest.
 - b. Professionally biased.
 - c. Subordinating his/her judgment to others.

Ethical Reasoning

Professional codes of conduct cannot address every specific circumstance that may compromise compliance with the rules. Accordingly, it is necessary to apply ethical judgment in these cases.

To evaluate ethical issues, consider the foundations of ethics, above, and apply three reasoning standards along with these ethical foundations. These reasoning standards are:

Publicity—A foundation of the CPAs responsibility is to serve the public interest. Consideration of the public’s perception of an ethical issue should be considered as part of the ethical reasoning process. The “Publicity Standard” asks whether the action would be considered ethical if it was published and everyone knew about it.

Person Looking Over Your Shoulder—This standard asks whether the action would be considered ethical if someone else were with you and looking over your shoulder to evaluate your conduct. Assume that this person is a reasonable and informed third party.

Consultation with your CPA peers—Peers should also be aware of the ethical requirements of the profession and add their reasoning to the other proposed reasoning standards. We will apply these standards to the case studies outlined below.

Case study: You are the Controller of a manufacturer. The President is close to budgeted sales for the year and is intent on meeting his goal. At 12/31, he is very close but it does not appear as if sales will meet the budgeted goal. The President decides to fill purchase orders that call for shipment in the first week of January. Product is placed on a tractor trailer and moved away from the loading dock to an empty area of the parking lot. The tractor trailer filled with product sits in the parking lot until a truck picks it up on Jan. 4. These are counted as sales for the year and the President meets his budgeted goal. These sales are not material to revenue. What should you do?

Example Thought Process

This is an ethical issue faced by many CPAs in business. Operational executives want to meet their commitments from a standpoint of pride or one of meeting compensation goals. The CPA is faced with the determination of what is the ethical thing to do.

Periodicity is a concept that all CPAs must live with. Basically, all transactions must be recorded in the proper accounting period. In this case, sales were recorded in one accounting period, but the actual shipment occurred in a subsequent accounting period.

Objectivity indicates that you must be free from conflicts of interest. This would include the influence of the President. The CPA must make this decision without any prejudice.

Integrity requires adherence to the standards of the profession. In this case, the profession requires that sales be booked in the proper period. The question is whether the mechanical act of loading a truck and parking it in a parking lot constitutes a sale.

Due care requires that appropriate technical standards are upheld. The goods are not on their way to a customer and it would be difficult to argue that the revenue recognition process is complete. Once again, does the mechanical act of loading a truck and parking it in a parking lot constitute a sale?

Using the “Publicity Standard,” how would this look under the headline “Local Company Inflates Sales.” It does not create an impression of integrity nor honesty. As Controller, you have responsibility for the integrity of the reported amounts. If the headline read “Controller Overstates Sales,” does it sound any better? How does this action serve the public interest?

The “Person Looking Over Your Shoulder Standard” is also not met. If a reasonable and informed third party was with you and questioned whether this was acceptable, could you justify booking sales when the product was sitting in the parking lot? It would be quite difficult to explain given the requirements for revenue recognition.

If you consulted another CPA, their question may be to ask if this particular situation is covered in any specific ethical guidance. If you answer no, the next question may be whether it’s material. You also answer no. However, if the CPA asks the question that presents the ethical quandary, “Is it right?”, your likely answer is also no. Ethics deals with right or wrong rather than material or immaterial.

Based on the analysis, above, the ethical path is to refuse to book these sales in the wrong period. The ethical foundations of integrity, objectivity and due care call for this action. This may cause some issues with the President and may even jeopardize your job. It is, however, the proper ethical path.

Case study: Your friend has approached you to prepare his personal and business tax return. Throughout this year, he has told you of the success that he has had in his business, a restaurant that caters to the lunch crowd in the business district of town. Based on your discussions with him, you know that it’s a predominantly cash business. When you review the business records, you note that the business has recorded a loss. Further review shows credit card sales being reported, but very few cash sales. You also note that your friend’s reported personal income seems quite low relative to his lifestyle. You’re just preparing the tax returns, yet you inquire of your friend as to whether the amounts are correct. He says that “they are the numbers that I want to report”. Should you accept your friend as a client?

Example Thought Process

This presents a difficult issue. When you accept a tax client, your responsibility does not extend to auditing the information provided to you. However, do you have an ethical responsibility when you know, or have reason to suspect, the information is incorrect?

Objectivity requires that you be free of any conflicts of interest and personal prejudices. It is important to evaluate this situation from the standpoint of a potential client, rather than helping a friend.

Integrity requires that you use your best judgment in evaluating this situation. A new client would be nice, but is it the right thing to do?

Is the public interest served by being associated with someone who may be understating taxable income?

Using the “Publicity Standard,” the local newspaper headline may read “CPA Helps Friend Defraud Government.” Not a headline that connotes professional integrity. Even if you did nothing legally wrong, there is a strong possibility that the public would hold you guilty by association if your friend was indeed intentionally underreporting income.

The “Person Looking Over Your Shoulder Standard” would likely tell you that something just doesn’t add up. Extravagant lifestyle, tales of business success, and a rather vague answer when asked about the numbers is not persuasive evidence of a business loss and lower than expected personal income. A reasonable and informed third party would be likely to suspect that something was amiss.

Consultation with other CPAs also indicates that something smells fishy to them as well. They may quote the AICPA Statement on Standards for Tax Services 3-2 (Texas CPAs must comply with this Statement under rule 501.62) which states “In preparing or signing a return, a member may in good faith rely, without verification, on information furnished by the taxpayer or by third parties. **However, a member should not ignore the implications of information furnished and should make reasonable inquiries if the information furnished appears to be incorrect, incomplete, or inconsistent either on its face or on the basis of other facts known to the member.** Further, a member should refer to the taxpayer’s returns for one or more prior years whenever feasible.” Additionally, they may quote Section 10.34 (d) of Treasury Department Circular 230 which states “The practitioner may not, however, ignore the implications of information furnished to, or actually known by, the practitioner, and must make reasonable inquiries if the information as furnished appears to be incorrect, inconsistent with an important fact or another factual assumption, or incomplete.”

Sometimes being ethical entails avoiding that which is potentially unethical. This case has a possibility, but not a certainty, of association with someone shirking his responsibility to pay tax. To preserve your professional integrity and not have it challenged (even if the challenge is unfounded), you should ask your friend to find another tax professional.

The next case study is a real example where we will evaluate the ethical implications in hindsight.

Case study: Fair Finance, an Ohio finance company, was purchased by Tim Durham and James Cochran in 2002. Fair financed its receivable portfolio with interest bearing investment certificates issued to residents of Ohio under an Ohio program that permitted these securities as long as the issuer reported financial information and qualified with the Ohio Division of Securities. Rick D. Snow, CPA was hired as Chief Financial Officer. According to a federal indictment, Durham and Cochran were using the proceeds of the investment certificates, approximately \$200 million, to fund their lavish lifestyle as well as other failing business ventures. The \$200 million was lent to Durham and Cochran by Fair Finance. The indictment also states that “Durham, Cochran and Snow falsely represented, in registration documents and offering circulars submitted to the Ohio Division of Securities and in offering circulars distributed to investors, that the loans on Fair’s books and assets that could support Fair’s sale of investment certificates when they knew in reality that the loans were worthless or grossly overvalued, producing little or no cash proceeds, supported by insufficient or nonexistent collateral to assure repayment and in part advances, salaries and lines of credit for Durham and Cochran’s personal expenses”. In 2005, a CPA firm warned Durham, Cochran and Snow about loans for personal use and to failing businesses. It informed them that the loans had insufficient collateral and were impaired. The resolution of the matter was to fire the CPA firm and provide unaudited information to the Ohio Division of Securities. While Snow never took part in the scheme to fund his lifestyle with investor money nor was it asserted that he took any investor money, other than his salary, Snow was indicted along with Durham and Cochran. Durham was sentenced to 50 years in prison, Cochran was sentenced to 25 years in prison and Snow was sentenced to 10 years in prison.

What ethical foundations should Rick Snow have considered?

Integrity—Requires the CPA to adhere to an ethical code rather than simply reflect transactions on financial reports.

Objectivity—Requires the CPA to be objective and unbiased. Mr. Snow was apparently influenced by Durham and Cochran to overstate asset values on public documents.

Public interest—Residents of Ohio invested and lost approximately \$200 million relying on incorrect financial statements prepared by Mr. Snow. This act definitely did not serve the public interest.

Due care—Requires the CPA to ensure that technical standards and other requirements of the profession are upheld. By allowing gross over-valuation of assets, Mr. Snow failed in this ethical duty.

What was the ethical course of action for Rick Snow?

He was responsible for Fair’s financial records and reporting financial information to the Ohio Division of Securities. He was likely aware of the use of funds by Durham and Cochran and that the information provided did not properly inform investors that the likelihood of repayment was dismal to non-existent. He should have refused to sign off on the information or resigned.

When the CPA firm provided its warning in 2005, Snow was provided with the “CPA Consultation Standard” as well as the “Person Looking Over Your Shoulder Standard” who happened to be an objective, reasonable and informed third party. Once again, he should have refused to sign off on the information or resigned.

The Publicity Standard, in hindsight, was met. Publications all over the United States have carried this story. Snow’s lawyer said that “Snow has a reputation as an honorable and competent person.” Unfortunately, by not paying attention to ethics, a reputation that took a lifetime to create has been destroyed and he has been sentenced to serve 10 years in prison.

Important point: Not all ethical conduct can be covered by rules. It is important to be able to discern right from wrong using societal, professional and other values and principles.

Case Study: You are a CPA in the practice of public accountancy. Your largest audit client has not had a good year. Prior to any year-end adjustments, the client is profitable, but very close to violating a profit based bank loan covenant. The historic formula that has been used to calculate Allowance for Bad Debts indicates an additional amount of Bad Debt Expense is required and this adjustment would cause your client to violate the bank loan covenant. The client has asked you if it can book less than the amount required by the calculation in order to pass the bank loan covenant but still receive an unqualified audit opinion. The amount is material to the financial statements and other tests confirm the amount of the adjustment.

What would you do?

What would you do if the amount was not material to the financial statements?

Case study discussion: If the amount of the adjustment is material to the financial statements, the answer is fairly straightforward. Professional standards require you to ensure that any valuation

allowances are adequate before issuance of an unqualified audit opinion. The “Person Looking Over Your Shoulder Standard” in this case would be the opinion of the potential peer reviewer or quality reviewer. The “Publicity Standard” would be the possible ramifications of a lawsuit from the bank if it was determined that a material adjustment was not booked that led to passing a loan covenant rather than violating it.

What if the unadjusted amount was not material? Would you still mandate that your largest client violate a loan covenant?

Integrity and objectivity require that this decision be made by only considering the ethical code and not being influenced by the fact that this is your largest client. You cannot subordinate your judgment to personal gain.

The public interest that would be served in this case is the bank. The CPA must act in a manner that best serves the user of the financial report and information.

Due care requires that you consider that technical standards of the profession in making your determination.

Using the “Publicity Standard,” public perception may or may not find a breach of ethics. If the client ultimately defaulted on the loan, it would not look good to the bank or the public that you permitted the client to meet this loan covenant with an unqualified audit opinion, even though the adjustment not made was immaterial to the financial statements. This standard yields an inconclusive result.

The “Person Looking Over Your Shoulder Standard” may not feel good about this. A reasonable and informed third party may ask what would happen if the client does ultimately default. What is your real and perceived role?

Consultation with other CPAs would be very useful in this circumstance. The real question continues to be what is the right thing to do? Even though materiality is an accepted concept, does the use of materiality in this case impair objectivity? If you have an impartial, unbiased calculation that yields a quantifiable result, should that be overridden by materiality? The objective course of action would be to use the calculated result, record the entire adjustment and force a loan covenant violation.

By doing this, the foundations of integrity and objectivity are maintained. The answer is based on unbiased information.

Ethical Dilemmas

Many of the instances above represent ethical dilemmas. An ethical dilemma occurs when the appropriate course of action is not followed due to internal or external pressures. In the examples, above, the pressures may have been possible loss of job, a desire to please a superior or a feeling of obligation to someone else.

Three tests were proposed to help in evaluating the ethical course of action. These tests are the *Publicity test*, the *Person Looking Over Your Shoulder test* and *Consultation with Other CPAs test*. The last two assume that the point of view is a reasonable and informed third party.

However, after applying these tests, what happens if the dilemma is still not resolved? One possible course of action is to obtain advice from the AICPA Professional Ethics Division. A telephone and email hotline has been established to educate and promote understanding of ethical standards and to respond to specific inquiries regarding the AICPA Code of Professional Conduct. The email address is ethics@aicpa.org and the telephone number is 888-777-7077.

The Texas Society of CPAs also has a system in place for ethics inquiries. On the Texas Society of CPAs website, select *Advocacy* from the left side of the home page. On the Advocacy page, select *Ethics* from the menu on the left, then select *Ethics Inquiries*". The telephone numbers of Professional Ethics Committee members as well as their chapter and specialty are listed as a resource for basic ethics issues.

Another possible alternative is to consult with legal counsel. It would be important to consult with legal counsel that has a good understanding of the ethical obligations of the CPA profession.

If these alternatives still do not resolve the ethical dilemma, it may be appropriate to withdraw from the engagement team or specific assignment, or to resign altogether from the client, firm, or organization.

Preventative Measures to Avoid Ethical Violations

Within the AICPA Code of Professional Conduct, there is now a conceptual framework that assists the CPA in evaluating threats in ethical issues and identifying possible safeguards to these threats. The standard for compliance is "...a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that compliance with the rules is not compromised."

The conceptual framework provides CPA members with a methodology to identify and mitigate ethical issues not covered by specific rules and interpretations. This is characterized as the threats and safeguards approach. This approach is intended to identify and evaluate threats to compliance with ethical standards and then provide safeguards to ensure that the threat(s) are reduced to an acceptable level. An acceptable level is that which an informed and reasonable third party would conclude that compliance with the rules is not compromised.

Threats for a member in public practice fall into the following categories:

- **Adverse interest threat.** The threat that a member will not be objective because the member's interests are in opposition to the interests of a client or employer.
- **Advocacy threat.** The threat that a member will promote a client or employer's position or opinion to the point that his or her objectivity is compromised.
- **Familiarity threat.** The threat that because of a long or close relationship with a client or employer, a member will become too sympathetic to their interests or too accepting of their work.
- **Management participation threat.** The threat that a member will perform the role of client management or assume client management responsibilities.
- **Self-interest threat.** The threat that a member could benefit from an interest in or a relationship with a client or persons associated with the client.

- **Self-review threat.** The threat that a member will not appropriately evaluate the results of a service performed by the member, or by an individual in the member's firm or employing organization, that the member will rely upon in forming a judgment as part of providing another service.
- **Undue influence threat.** The threat that a member will subordinate his or her judgment to that of an individual associated with a client or other relevant third party because of the individual's (1) reputation or expertise, (2) aggressive or dominant personality, or (3) attempts to coerce or exercise excessive influence over the member.⁴

Safeguards are presented in three categories: Those created by the profession or related legislation or regulation, those implemented by a client and those implemented by a firm. To be effective, safeguards should either eliminate the threat or reduce it to an acceptable level.

Safeguards must be evaluated to ensure that they are effective. This evaluation is dependent on each specific situation. A particular safeguard is not always effective in every circumstance.

Important point: This methodology is only used in instances not specifically covered by rules and interpretations. It provides a conceptual framework to evaluate compliance in those situations where there is no applicable rule or interpretation.

The safeguards suggested to mitigate these threats include:

For CPAs in the practice of public accountancy:

- Concurring partner review
- Peer review
- Regulatory reviews
- Leadership that stresses the importance of ethical behavior
- Policies and procedures governing ethics
- Open door policy that encourages reporting of ethical issues

For CPAs in industry:

- Strong internal controls
- Leadership that stresses the importance of ethical behavior
- Policies and procedures governing ethics
- Open door policy that encourages reporting of ethical issues

While identifying threats and applying the appropriate safeguards do not guarantee ethical compliance, this process is important to ensure that an environment that stresses ethics and its importance is created.

Case Studies of Notable Ethical Lapses

It is sometimes easier to learn from the mistakes of others. The following represent ethical lapses by CPAs over the years.

⁴ AICPA Code of Professional Conduct

Bernard Madoff Investment Securities' Auditor

Bernard Madoff Investment Securities, LLC. was the source of the largest financial fraud in U.S. history. Madoff perpetrated a simple Ponzi scheme whereby older investors were paid with newer investor funds, thus providing the impression of actual investment returns. The extent of the losses related to Madoff's Ponzi scheme have been estimated at \$50 - \$65 billion.

Many are astounded to hear that Bernard Madoff Investment Securities, LLC. was audited by a CPA.

Friehling & Horowitz CPAs P.C. was started in or around 1988 by partners David Friehling and Jerome Horowitz. Horowitz had an existing relationship with Bernard Madoff and Friehling is his son-in-law. In 1991, Horowitz retired and Friehling was the sole shareholder of the firm. From 1991 through 2008, Friehling & Horowitz CPA's audited the financial statements of Bernard Madoff Investment Securities LLC.

The firm operated out of a small 13 x 18 foot office in Rockland County, New York. The office has been described in news reports as a "storefront" location. Rockland County is approximately 30 miles north of Manhattan. From 1991 through 2008, Friehling was the only active CPA in the firm. The only other employee was a secretary.

According to press reports, Friehling was rarely seen at his office. A nearby worker noted that a casually dressed man who drove a Lexus would appear periodically at the office for about 10-15 minutes and then leave.

Friehling was a past president of the Rockland County chapter of the New York State Society of Certified Public Accountants. He was also a board member of the Jewish Community Center in Rockland County.

Friehling & Horowitz was paid \$186,000 per year for audit work along with other services for Madoff and Madoff family members. The audit work related to an annual report which was required by the SEC for all registered broker-dealers. This annual report was to be accompanied by an independent auditor's report addressing the presentation of the financial statements as well as any inadequacies in the internal control environment.

Bernard Madoff Investment Securities, LLC. used a Ponzi scheme or an arrangement that promises a high rate of return, but uses new investor funds to make payments to older investors who may want to redeem all or part of their investment. False statements were sent to investors that indicated consistent, high returns on the original investment. It is estimated that approximately \$17 billion was invested in the scheme and investors thought that this original investment had grown to an aggregate market value of \$50 billion to \$65 billion.

Madoff accomplished this scheme by recording fictitious trades. Statements were generated to customers by Madoff that gave the appearance that the customer's money was actually being invested in securities. In reality, investor funds were being pooled into one bank account which was then used to pay other investors who wanted their money.

Madoff's reputation was an important element in the perpetuation of this fraud. Bernard Madoff Investment Securities was founded in 1960 and was a prominent Wall Street firm. He helped to

develop what would become the NASDAQ. He was active in the National Association of Securities Dealers (NASD) and served as its Chairman and also on its Board of Governors.

The Madoff Ponzi Scheme collapsed when investor demand for funds exceeded new funds acquired. This happened in December 10, 2008 when Madoff gathered his sons in his office and told them that “clients had requested approximately \$7 billion in redemptions.” This timeframe was the onset of an economic recession which likely caused the high level of requested redemptions. He later admitted to his sons that “it’s all just one big lie” and that it was “basically, a giant Ponzi scheme.” Madoffs’ sons, Andrew and Mark, told their attorney who notified federal officials.

It has been estimated that Madoff’s fraud impacted over 15,000 investors who range from business executives to celebrities to not-for-profit organizations.

It is important to note that one investor was David Friehling, the auditor of Bernard Madoff Investment Securities, LLC. Both he and family members had accounts there amounting to approximately \$14 million. The SEC asserted in its case against Friehling that \$5.5 million had been withdrawn from these accounts since 2000. Friehling took steps to conceal his investment, naming the account in his wife’s name, then changing the name to the “Friehling Investment Fund.”

Madoff was arrested and posted \$10 million bail in December 11, 2008. He was placed under 24-hour house arrest with security guards assigned to watch his Manhattan apartment building. On March 12, 2009, Madoff plead guilty to all charges. His bail was revoked and he was remanded to the Metropolitan Correctional Center in New York City. On June 29, 2009, Madoff was ordered to forfeit \$170 million in assets and sentenced to 150 years in prison. His wife, Ruth, in a settlement with prosecutors, forfeited her claim to \$85 million in assets. She was left with \$2.5 million.

Friehling was charged in a complaint by the SEC on March 18, 2009. According to the SEC Complaint, “...Friehling and F&H did not perform anything remotely resembling an audit of BMIS and, critically, did not perform procedures to confirm that the securities BMIS purportedly held on behalf of its customers even existed. Instead, Friehling merely pretended to conduct minimal audit procedures of certain accounts to make it seem like he was conducting an audit, and even then failed to document his purported findings and conclusions as required under GAAS. If properly stated, those financial statements, along with BMIS' related disclosures regarding reserve requirements, would have shown that BMIS owed tens of billions of dollars in additional liabilities to its customers and thus was insolvent. Similarly, Friehling did not conduct any audit procedures with respect to BMIS' internal controls, and he knew or recklessly disregarded that he had absolutely no basis to represent that BMIS had adequate internal controls.”⁵

Annually since 1994, Friehling falsely told the AICPA that he did not conduct audits. AICPA members that do conduct audits are required to submit to periodic peer review, which includes a review of audit work papers. Friehling did not disclose his audit engagement with BMIS because

⁵ *Securities and Exchange Commission v. David G. Friehling, Friehling & Horowitz, CPA's P.C.*

he knew that a peer review would likely reveal that he had not conducted a GAAS audit, which, in turn, might lead to further scrutiny of Friehling and BMIS.

Friehling plead guilty to securities fraud, aiding and abetting investment advisor fraud and filing false audit reports with the SEC. He faced a maximum penalty of 108 years in prison. However, his sentence was one year of home detention and another year of supervised release due to his cooperation, remorse, and questions as to whether he was complicit in the scheme or simply failed to do his job.

Ethical Lapses of Friehling

Independence—Friehling was clearly not independent of BMIS. He and his family had a \$14 million account. Friehling must have known of the issue as he changed the name on the account twice. He also provided bookkeeping services, including the preparation of financial statements, another violation of the independence rules.

Integrity and Objectivity—According to the SEC complaint, “Friehling and F&H did not perform anything remotely resembling an audit of BMIS...” His “sham” audit along with his attest opinion and his opinion on internal controls represents a misrepresentation of facts and a subordination of his judgment.

Friehling also misled the AICPA by stating that he did not perform audits. Acknowledging this would have subjected him to peer review, which would have exposed his “sham” audit procedures. The state of New York did not mandate peer review during the time period of Friehling’s audits of BMIS.

Public interest—As the investor losses from the Madoff Ponzi scheme have been estimated at \$50 - \$65 billion, Friehling’s actions definitely did not serve the public interest.

Due care—Friehling was a CPA and was past president of the Rockland County Chapter of the New York State Society of Certified Public Accountants. Aside from this information, it is unknown whether he had the requisite skill to perform the BMIS audit.

Friehling did not plan the audit, assess materiality or audit risk, assess the internal control environment, obtain and analyze sufficient audit evidence, or obtain a sufficient basis for expressing an opinion on the financial statements of BMIS.

Phar-Mor

Phar-Mor was a chain of discount drug stores. By 1992, the chain had grown to over 300 stores. An accounting fraud was perpetrated by Michael Monus, its CEO and Patrick Finn, its CFO, to hide losses from operations and move approximately \$10 million from Phar-Mor to the World Basketball League, which had been founded by Monus.

Monus and Finn kept two sets of books. One for the auditors, banks and vendors and one which reflected the reality of a money losing operation. Losses from operations were hidden by overstating inventory. This was done through the use of fake journal entries which increased inventory values and decreased cost of sales and over-counted and double counted merchandise during physical inventories. They also issued fake invoices for merchandise purchases and failed

to accrue liabilities to vendors. This deception had two effects; first, it hid the losses that were being sustained by the company. Secondly, it inflated inventory values, allowing the company to borrow more money from banks to cover losses from operations as well as fund the World Basketball League.

Audit procedures performed by Coopers & Lybrand were inadequate to detect the fraud. They observed the physical inventory in only four stores and informed Phar-Mor of the four stores that they would examine months before the physical inventory. As a result, Phar-Mor ensured that the four stores examined had no inventory issues while the remaining stores had inflated inventory.

Phar-Mor filed for bankruptcy protection. Monus was convicted and sentenced to 11 years in prison, after his appeal. Finn, who did not personally profit from the scheme, was convicted and sentenced to 33 months in prison. In 1996, a jury decided that Coopers & Lybrand committed fraud by falsely representing that they had performed GAAP audits when they had failed to do so. This determination resulted in over \$300 million in civil judgments.

Ethical Lapses of Coopers & Lybrand

Integrity and objectivity—It appears that Coopers & Lybrand subordinated their judgment in the performance of inventory and other audit procedures. For a chain of this size, an inventory of only four stores would appear to be inadequate. However, telling the client which four stores would be observed months in advance clearly violates the core ethical foundations of integrity and objectivity.

Public interest—Coopers & Lybrand did not act in the best interest of the public.

Due care—Coopers & Lybrand did not uphold the technical standards of the profession in the performance of their work.

Enron

Enron took advantage of its own business complexities and the use of complex accounting techniques to obfuscate their financial performance. Enron was a global energy company but also had businesses engaged in commodities trading as well as broadband communications. The complex accounting fraud was perpetrated by Kenneth Lay, CEO, Jeffrey Skilling, COO, and Andrew Fastow, CFO.

One of the complexities introduced was the use of mark to market accounting. Enron had many long-term contracts that provided a revenue flow. Rather than report the actual revenues received and the actual expenses associated with the arrangement in an accounting period, income was estimated using the present value of future cash flows. This accelerated income into the period in which the contract was signed. Enron expanded the use of this technique into other areas of the business so that they could show continued rising revenues and profits.

Another complexity introduced was the use of Special Purpose Entities (SPEs). An SPE is generally a separate entity whose ownership is unrelated that purchases an asset and arranges its own financing or uses its own equity to consummate the purchase. As an example, if Company A wanted to reduce its leverage, it could sell its headquarters building to SPE A. SPE A would have independent investors who would either obtain financing or use their capital to buy the

building. Company A would then lease back the building from SPE A. The effect of the transaction would be to reduce the debt of Company A. This would be a legitimate SPE transaction.

Enron used the SPEs to purposefully keep debt off their books. It was not an unrelated transaction because Enron guaranteed the debt of the SPE and the SPEs were formed by officers of Enron. By 2001, Enron had hundreds of SPE's to hide its debt.

While it's difficult to explain such a complex accounting fraud in a couple of paragraphs, the acceleration of revenue and the misuse of SPEs were the two primary fraudulent accounting practices at Enron. Enron aggressively used GAAP to its advantage and exploited any weaknesses.

Arthur Andersen served as Enron's auditor during this period. The revelation of the Enron fraud and the appearance of Andersen's inadequate audit role ultimately caused the failure of Arthur Andersen. Andersen succumbed to pressure from Enron to overlook accounting irregularities. When news of the SEC investigation of Enron was made public, Andersen personnel shredded several tons of audit supporting documents and deleted E mails and computer files. It was later determined that Arthur Andersen did not fulfill its professional responsibilities in connection with the audits of Enron's financial statements.

Ethical Lapses of Andersen

Integrity and objectivity—Andersen personnel were not unbiased in their professional services to Enron. They overlooked accounting irregularities and subordinated their judgment to keep a client. This ethical lapse is evident as Andersen personnel shredded key evidence once the fraud was discovered.

Public interest—Shareholders, vendors, business partners and employees of Enron suffered large losses as a result of this fraud. Andersen's work did not serve the public interest.

Due care—Andersen personnel did not comply with auditing and accounting technical standards in their work at Enron. They were charged by the TSBPA with violations of 501.61 – Accounting Principles, 501.62 - Other Professional Standards and 501.74 – Competence.

Questions for Consideration

- Do you think that Andersen and Coopers & Lybrand personnel realized that there was an ethical dilemma?
- Do you think that Friehling thought he was acting unethically or did he just trust Madoff too much?
- Do you think that Andersen and Coopers & Lybrand personnel as well as Friehling anticipated the consequences to their actions?
- Have you been faced with similar circumstances (loss of a large client, desire to please an authority figure, desire to cover up mistakes)?
- Does an understanding of past ethical issues assist in identifying current ethical issues that you may face?

Case Studies of Other Ethical Lapses

The Travel Expense Department

A large multi-national company with approximately 20,000 employees had a great deal of employee travel expense, much of it international. The company encouraged its employees who traveled to obtain an advance so that personal funds would not be used. An employee with a scheduled trip would fill out a travel voucher to request funds for travel and have it approved by the appropriate manager.

When travel was complete, the employee would fill out an expense report. Any funds that were not used for approved travel purposes would be remitted to the company. Since there was no requirement that reimbursement be in the form of a check, many employees simply attached cash to the expense report to reimburse the company for the unused portion of the travel advance.

The manager of the travel expense department was a young college graduate being groomed for further management positions. This department was one stop of many throughout the company to provide a breadth of experience to the young man. His tenure in this position was to be no more than 1-2 years and the next position was certain to be an increase in both responsibility and salary.

The travel expense department manager had been taking advantage of an internal control weakness during his tenure in the job. Since many employees were remitting the excess travel advance in the form of cash, he was simply changing reported expenses on the expense report to be higher than originally reported and taking most, if not all, of the cash. Over the course of a year, it was estimated that he had taken close to \$100,000.

The behavior is clearly unethical. Stealing is wrong. This represented both a theft as well as intentional misrepresentation of financial entries as he was intentionally overstating travel expense.

How was he caught? Did morals and ethics collide and he turned himself in? Not quite.

It was only when internal audit notified him that his department was next to be audited as part of their usual and customary rotation that he confessed. Were it not for his fear of being caught, he would not have confessed.

Ethical Lapses of the Travel Expense Department Manager

This person did not have much integrity or objectivity. The only motivation in this instance was personal gain. While a confession is better than being caught, the confession was due to the fear of being caught rather than an ethical epiphany.

Stronger internal controls would have reinforced ethical behavior in this case and would have been a safeguard against this theft.

Question for Consideration

- How important were weak internal controls to this ethical lapse?

The Company with Excess Reserves

A private company was having a great year. It was so good, that management was worried that next year may be perceived as bad by comparison. A large bank line would be up for renewal at the end of the following year and the perception that the company was not performing as well could jeopardize the renewal of the bank line.

When the CFO brought up this concern, the President and company founder asked if anything could be done to “shift” some profits from one year to the next. After some thought, the CFO indicated that the company had a number of reserve accounts that had some element of judgment to them. One of these was the Allowance for Bad Debts, another was a reserve for product liability, while another was a product warranty reserve.

The CFO explained that the CPAs who audited the books generally audited for understatement of these reserves. Overstatement, as long as it was not too great, would likely not be a large concern. By added some extra to these reserve accounts, then reversing it in the subsequent year, the goal of shifting profits from one year to the next would be accomplished.

Questions for Consideration

- What would you have done?
- What’s the line between conservatism and lack of integrity?
- Is it okay if you can justify it to your auditors?
- What is your responsibility to your auditors?

Analysis of the Case

Many aspects of financial statement preparation involve the use of judgment. CPAs must use their best professional judgment in establishing reserves and valuation allowances. In this case, there is no evidence that the CFO is establishing higher reserves from an objective evaluation of facts and circumstances and employing conservatism. Rather, the CFO is consciously plotting to reduce income in the current year so that the subsequent year will look better.

This is not ethical behavior. While it may succeed, it violates the core principals of integrity and objectivity both in the reported amounts as well as representations made to the company’s auditors.

Any of the proposed standards for evaluating ethical dilemmas (Publicity, Person Looking Over Shoulder, and Consultation with other CPAs) would not justify this behavior. The CFO has succumbed to the Advocacy/Self Interest Threat.

The Company with Undisclosed/Unrecorded Contingencies

A company was wrapping up the year-end financial statements and was barely passing certain bank loan covenants. The operations executive announces to the President and the CFO that they just discovered a flaw in an assembly process that impacted the last month of shipments from the prior year. He anticipates that at least 20% of this product will be returned as defective. The 20% is material to the financial statements as well as the company’s ability to meet its loan covenants.

The President asks the operations executive whether anyone else has been informed. The President is told that no one else knows except for a few people on the engineering staff and one line supervisor.

The President tells the operations executive to make sure that the engineers and supervisor keep their mouth shut and to not tell anyone else. He then asks the CFO, “You didn’t hear that, right?”

The CFO says that as far as he is concerned, the prior year is finished and any defective product will have to be handled in the current year as a charge to the warranty reserve.

Questions for Consideration

- Is this an ethical organization?
- What is the CFO’s obligation in this case?
- What would you do?

Analysis of the Case

This is not an ethical organization. Both the President and CFO are conspiring to cover-up a product warranty issue. The proposed standards for evaluating ethical dilemmas (Publicity, Person Looking Over Shoulder, and Consultation with other CPAs) would likely indicate that this is not ethical behavior.

In this instance, it appears that the CFO has fallen under the Undue Influence of the President and has also succumbed to the Advocacy/Self Interest Threat.

The IRS Audit

A private company has been audited by the IRS. At the conclusion of the audit, the IRS states that an accounting method used is impermissible and mandates the use of another, permissible method. However, in calculating the use of the permissible method, a mistake is made by the IRS examiner and, rather than the new method resulting in an increase in taxable income over the audit period, it results in a decrease in taxable income causing the IRS to accept the returns under examination as filed. The permissible method must be used on go-forward basis.

The CFO knows that the IRS examiner made an error as well as the impact of that error.

Questions for Consideration

- Does the CFO have an ethical responsibility to point out the error to the IRS examiner?
- Does the CFO’s responsibility to the employer organization take precedence over circumstances such as this one?

Analysis of the Case

No one wants or likes an IRS audit. You have also managed to beat the system this time. However, the question remains as to whether you have an ethical responsibility to point out the error to the examiner.

The IRS is an entity with whom many CPAs prepare and file financial information. It is a user of CPA prepared data. However, the two applicable technical standards are AICPA Statement of

Standards for Tax Services and Circular 230. Both these focus on the tax practitioner in the preparation of information to be submitted to the IRS. Neither imposes an obligation to point out an error made by an IRS examiner. Therefore, this instance is not addressed by the standards of the CPA profession.

Using the “Publicity Standard” does not result in a definitive answer either. The public is unlikely to hold a CPA responsible for an error made by the IRS, especially when the CPA has not been engaged to examine the work of the IRS.

The “Person Looking Over Your Shoulder Standard” will nag at the ethical CPA. Pointing out the error is the right thing to do. You may also approach the practical aspect that future implementation of the permissible accounting method will be difficult when using an erroneous starting point. Also, if the differences are all timing differences, will the IRS errors simply cause an overstatement of taxable income in the future?

“Consultation with other CPAs” will point out the practical aspects noted above.

This particular example presents a challenging ethical dilemma. It would be easy to argue that you did not notice the error made by the IRS examiner. You may also have to contend with the shareholders and other executives of the private company who want to “beat” the IRS. It would be easy to simply accept the findings of the IRS examiner and continue with business.

However, an argument can be made by the “Person Looking Over Your Shoulder” that the proper and ethical thing to do is to point out the error. This will not be a popular decision. However, it is an ethical decision and represents upholding the highest values of the profession.

Question

- What is your conclusion after evaluating this case?

Motivations of Ethical Lapses

To promote ethical conduct, it is important to understand the motivations behind unethical conduct. There are many motives that spur unethical conduct. A few are presented below to help the CPA to understand and ethically react to these motivations.

Greed—Personal financial gain is a strong motive. This could be in the form of a client retention bonus, a new client bonus, another type of bonus, or other compensation arrangement that is meant to be ethically achieved. It could also be in the form of financial gain that is fraudulently achieved by fraud or deception. Greed can overshadow ethics if the CPA is not careful.

Self-interest—This can include a promotion, maintaining your position in a firm or company, meeting budget commitments, keeping a client, or even personal pride. It, too, is a strong motive.

Undue influence—The core foundation of objectivity requires a CPA to be unbiased and free of conflicts of interest. However, undue influence can occur when a superior in an organization wants you to engage in an unethical practice or face loss of your employment. It can also occur when a client or employer has a well-known reputation that influences your desire to please them and this becomes superior to your integrity and objectivity.

Familiarity—Once again, this deals with objectivity. You may become so familiar with a client that you advocate their position. You are not free of bias.

By understanding these motivations/threats, you can prepare yourself to respond ethically.

Questions for Consideration

Which of these motivations apply to:

- Madoff and Friehling?
- Phar-Mor and Coopers & Lybrand?
- Enron and Andersen?
- The travel expense department manager?
- The CFO of the company with excess reserves?
- The CFO of the company with undisclosed/unrecorded contingencies?
- The CFO of the company being audited by the IRS?

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

4. Which of the following best describes the undue influence threat?
 - a. Perform an unethical act or lose your job.
 - b. Promoting a client or employers position to the point that objectivity is compromised.
 - c. A long or close relationship causes a CPA to become too sympathetic to the client or employer's interests.
 - d. The CPAs interest are in opposition to the client or employer.

5. Which of the following are appropriate ethical safeguards for a CPA in industry?
 - a. Weak internal controls.
 - b. Open door policy that encourages the reporting of ethical issues.
 - c. Leadership that states goals must be achieved at any cost. The ends justify the means.
 - d. Peer review.

6. Which of the following rules of professional conduct were Andersen personnel charged by the TSBPA with violating in the Enron case?
 - a. 501.70 – Independence.
 - b. 501.74 – Competence and 501.61 Accounting Principles.
 - c. 501.94 – Continuing Professional Education.

The Texas State Board of Public Accountancy Rules of Professional Conduct

The Texas State Board of Public Accountancy (TSBPA) Rules of Professional Conduct are contained in five sections: General Provisions, Professional Standards, Responsibilities to Clients, Responsibilities to the Public, and Responsibilities to the Board/Profession.

The focus will be on recent changes (since 2011) to the Rules of Professional Conduct. Changes to make corrections in spelling or to change a term, reference, or acronym may not be addressed. Any substantive changes as well as important items to highlight are noted below.

Read the rules in detail. They are found at Title 22 Part 22, Chapter 501 of the Texas Administrative Code and may be accessed at www.tsbpa.state.tx.us and clicking Board Rules on the left side of the page.

General Provisions

501.51—Preamble and General Principles

This section was amended in 2011. The amendment makes it clear that CPAs not only have an obligation of professional responsibility to their clients when in private practice but to their employers when in industry practice. Another amendment in 2016 deletes the word “insure” and replaces it with “ensure” and moves the word “adequately” to precede the word “serving” in subsection (c).

501.52—Definitions

This section was amended in 2015 to clarify that preparation engagements are professional accounting services and provide an exemption from peer review for those firms that only perform preparation engagements or issue compilations for management use only. It also clarifies that the list of professional accounting services is not all inclusive. In 2016, an amendment revises the definition of Good Standing in paragraph (13) to include compliance with Peer Review.

501.53—Applicability of Rules of Professional Conduct

Important point: Independence follows the AICPA Rule in the Code of Professional Conduct and is only required for CPAs in the practice of public accountancy.

CPAs not in in practice of public accountancy are required to follow the following rules:

- 501.73 Integrity and Objectivity
- 501.74 Competence
- 501.77 Acting through Others
- 501.78 Withdrawal or Resignation
- 501.90 Discreditable Acts
- 501.91 Reportable Events
- 501.92 Frivolous Complaints
- 501.93 Responses
- 501.94 Mandatory Continuing Education Reporting

Professional Standards

501.60—Auditing Standards

Important point: A CPA can only audit or give the impression of an audit if the CPA complies with GAAS.

In 2016, this rule was reformatted to recognize several sources of GAAS. The following are considered to be sources of GAAS:

- (1) SAS issued by the AICPA;
- (2) auditing standards included in Standards for Audit of Government Organizations, Programs, Activities and Functions issued by the U.S. GAO;
- (3) auditing and related professional practice standards to be used by registered public accounting firms issued by the PCAOB; as well as,
- (4) other pronouncements having similar generally recognized authority.

501.61—Accounting Principles

This rule was changed in 2012. The amendment will add the phrase "whether or not" to clarify that the rule applies to all persons providing accounting services in Texas, including those persons providing services under the practice privilege.

Important point: If the report asserts that financial statements are presented in conformity with GAAP, there can be no material departure from GAAP unless some unusual circumstance would make GAAP financial statements misleading. If there is a departure from GAAP, the report must disclose the departure and the reasons why GAAP would be misleading.

501.62—Other Professional Standards

This rule was amended in 2014 to include Statements on Standards for Financial Planning Services (SSFPS) and Statements on Standards for Valuation Services (SSVS). In 2016, subsection (2) was amended to add additional professional standards which must be followed in the performance of accounting services.

Important point: Texas CPAs must conform to:

- (1) AICPA issued standards, including but not limited to:
 - (A) Statements on Standards on Consulting Services (SSCS);
 - (B) Statements on Standards for Accounting and Review Services (SSARS);
 - (C) Statements on Standards for Attestation Engagements (SSAE);
 - (D) Statements on Standards for Tax Services (SSTS);
 - (E) Statements on Standards for Financial Planning Services (SSFPS); or
 - (F) Statements on Standards for Valuation Services (SSVS).
- (2) pronouncements by other professional entities having similar national or international authority recognized by the board including but not limited to the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB).

Case study—A CPA audits the financial statements of an entity and issues an unqualified audit report. Peer review notes that the CPA failed to (a) Document all procedures performed and conclusions reached, (b) Obtain a representation letter, (c) Obtain adequate evidence, (d) Perform alternative procedures with respect to accounts receivable confirmations mailed with no reply, (e) Gain an understanding of internal controls in planning the audit, and (f) Document the reasons for not recording certain valuation allowances.

Did the CPA comply with Professional Standards 501.60-501.63?

Did the CPA comply with Professional Standards if he/she only failed to obtain a representation letter?

Case study discussion: The answers to all these questions lie in 501.60. The CPA did not comply with GAAS. All of these steps are required.

501.63—Reporting Standards

Important point: (a) A licensee in the client practice of public accountancy must comply with SSARS or another similar standard of national or international accountancy organization recognized by the board when transmitting a client's financial statements to the client or a third party.

Responsibilities to Clients

501.70—Independence

Important point: This rule relates only to CPAs in the practice of public accountancy.

AICPA Independence Rules

Important point: The rules provide that independence must be in fact. There must be no bias on the part of the professional in rendering an attest opinion. If a CPA had a material financial interest in an entity, the ability to render an objective opinion would be impaired. Having a close relative with a material financial interest in an entity may not impair the CPA's independence in fact. However, there would be an appearance of impairment to the outside public. A reasonable person, with knowledge of the situation, could conclude that the professional in an attest engagement would not be capable of rendering an objective judgment.

Important point: If a CPA performs services that are construed to be management functions, independence in an attest engagement is impaired. These functions include supervision, check signing, approval, decision making, etc. However, if a CPAs involvement is advisory in nature, independence is not impaired. Advisory functions would include helping to interpret financial statements, attending board meetings, assisting in obtaining bank relationships, etc.

A CPA that has an unsecured loan that is not material to his/her net worth, a mortgage loan or other secured loans from a client financial institution client is "grandfathered" if three conditions are met. (1) The loan must have been made under normal lending procedures, terms and requirements. (2) The loan is kept current at all times and the terms have not been altered. (3) The loan was obtained PRIOR to the financial institution becoming a client.

There are also other specifically permitted loans. The most common of these are automobile loans and leases collateralized by the automobile where the loan or lease was obtained under the institution's normal lending procedures, terms and requirements and is kept current at all times.

Case study: A CPA firm was engaged to audit the financial statements of a financial institution. A partner in the firm spent approximately 11 hours in connection with the audit and approximately 329 hours in connection with non-audit services. During the audit engagement period, the particular partner purchased a home and sought a mortgage loan through a broker. The broker selected the financial institution that was audited by the partner's firm to provide the mortgage loan. This was done during a period that was audited by the firm.

Is the CPA partner independent?

Case study discussion: In order for the CPA partner to be independent, the mortgage loan must have been obtained prior to the financial institution becoming a client.

501.71—Receipt of Commission, Compensation or Other Benefit

Important point: If a client requires independence under 501.70, a CPA may not receive a commission or referral fees for a product or service to be supplied to the client. If a client does not require independence under 501.70, commissions, referral fees, or other compensation must be disclosed to the client in writing at the time of the recommendation, referral or sale.

501.72—Contingency Fees

Important point: Contingent fees are those that are dependent upon and determined by a certain result. CPAs may not accept contingent fees related to clients for which independence is required under 501.70. A CPA may not charge a contingent fee for tax return preparation or amendment of a tax return for inadvertent omissions of data. In tax matters, a contingent fee is permitted when the issue at hand is subject to interpretation by a governmental agency or court. A CPA may not charge a contingent fee for testifying as an accounting expert.

Case study: A CPA firm with a tax client, who is also an attest client, enters into a contingent fee arrangement to protest a property valuation for local property taxes.

Is this an acceptable contingent fee arrangement?

Case study discussion: 501.72 prohibits contingent fee arrangements for attest clients. However, fees are not considered contingent if, in tax matters, they are determined based on the findings of governmental agencies acting in a regulatory capacity. This is an acceptable contingent fee arrangement.

501.73 – Integrity and Objectivity

Important point: With regard to a tax position, a CPA may take a position in favor of the client as long as the CPA complies with the standards of Circular 230 and AICPA SSTs. If there is a possible conflict of interest yet the CPA does not believe that objectivity is compromised, disclosure and consent from the client, employer or other parties is required. Impairments of independence cannot be eliminated by disclosure and consent.

501.74—Competence

Important point: A CPA shall not undertake any engagement for professional services which cannot be expected to be completed with competence and compliance with auditing standards (if applicable), accounting principles and other professional standards.

Case study: A CPA undertook an engagement to audit an employee benefit plan. The CPA was unfamiliar with this type of work. As a result, financial reports were misstated and required audit procedures were not performed.

Which TSBPA Professional Conduct Rules did the CPA violate?

Case study discussion: It appears that the CPA violated 501.60 – Auditing Standards, 501.61 – Accounting Principles, and 501.74 – Competence.

501.75—Confidential Client Communication

This rule was changed in 2013. The amendment will clarify that a CPA may provide client communications to the executors and administrators of the estate of a deceased person as the authorized representative of the client and to the successor entity of a predecessor entity when the predecessor entity ceases to exist and no one exists to give permission on behalf of the predecessor entity. It also clarifies that if a client shares his communications between him and his CPA with the public, those communications are no longer considered confidential communications.

In 2016, an amendment recognizes Peer Review communications and the review of financials related to the prospective purchase, sale or merger of a CPA firm will not be subject to confidentiality.

In 2017, an amendment requires the CPA to take measures to maintain the confidentiality of client records and to notify the client of a loss or loss of control over client records.

Important point: In the practice of public accountancy, client information is to be kept confidential unless the client has given permission for its release. However, information may be released under the requirements of federal law or regulation, standards of the public accounting profession, or pursuant to a court order, court investigation, professional organization investigation, or in the course of peer reviews.

Case study: During the course of an audit, you discover that your client is engaged in illegal acts.

What should you do?

Case study discussion: The existence of illegal acts should be reported to the highest level of management at the client. If it is not rectified, the CPA should withdraw using 501.78 as a guide. The CPA would not want to compromise his/her integrity by being associated with illegal acts. Unless disclosure of the illegal acts is required under federal law or a subpoena or summons, client information is to be kept confidential.

501.76—Records and Work Papers

This section was changed in 2011. The amendment clarified the definition of records and work papers and the standards by which CPAs should maintain them and make them easier to understand. In 2016, an amendment clarifies what constitutes Records and Work Papers along with other minor revisions. In 2018, an amendment makes it clear that if a licensee has records in a format that their client requests then the licensee should make those records available to the client. A licensee is not required to provide the client with proprietary information or intellectual property unless the licensee has reached an agreement in writing at the outset of the engagement to provide that information.

Revised 501.76

(a) Records.

(1) A person shall return original client records to a client or former client within a reasonable time (promptly, not to exceed 10 business days) after the client or former client has made a request for those records. Original client records are those records provided to the person by the client or former client in order for the person to provide professional accounting services to the client or former client. Original client records also include those documents obtained by the person on behalf of the client or former client in order for the person to provide professional accounting services to the client or former client and do not include the electronic and hard copies of internal work papers. The person shall provide these records to the client or former client, regardless of the status of the client's or former client's account and cannot charge a fee to provide such records. Such records shall be returned to the client or former client in the same format, to the extent possible, that they were provided to the person by the client or former client. The person may make copies of such records and retain those copies.

(2) Unless the person and the client have agreed in writing to the contrary:

(A) A person's work papers, to the extent that such work papers include records which would ordinarily constitute part of the client's or former client's books and records and are not otherwise available to the client or former client, shall also be furnished to the client within a reasonable time (promptly, not to exceed 20 business days) after the client has made a request for those records. The person can charge a reasonable fee for providing such work papers.

(B) Such work papers shall be in a format that the client or former client can reasonably expect to use for the purpose of accessing such work papers. The person is not required to convert records that are not in electronic format to electronic format or to convert electronic records into a different type of electronic format. However, if the client requests records in a specific format, and the records are available in such format within the person's custody and control, the client's request shall be honored.

(C) The person is not required to provide the client with proprietary formulas.

(D) The person is not required to provide the client with other formulas (unless the formulas support the client's accounting or other records) or the person was engaged to provide such formulas as part of a completed work product.

(3) Work papers which constitute client records include, but are not limited to:

(A) documents in lieu of books of original entry such as listings and distributions of cash receipts or cash disbursements;

(B) documents in lieu of general ledger or subsidiary ledgers, such as accounts receivable, job cost and equipment ledgers, or similar depreciation records;

(C) all adjusting and closing journal entries and supporting details when the supporting details are not fully set forth in the explanation of the journal entry; and

(D) consolidating or combining journal entries and documents and supporting detail in arriving at final figures incorporated in an end product such as financial statements or tax returns.

(b) Work papers. Work papers, regardless of format, are those documents developed by the person incident to the performance of his engagement which do not constitute records that must be returned to the client in accordance with subsection (a) of this section. Work papers developed by a person during the course of a professional engagement as a basis for, and in support of, an accounting, audit, consulting, tax, or other professional report prepared by the person for a client, shall be and remain the property of the person who developed the work papers. (c) For a reasonable charge, a person shall furnish to his client or former client, upon request from his client made within a reasonable time after original issuance of the document in question:

(1) a copy of the client's tax return; or

(2) a copy of any report or other document previously issued by the person to or for such client or former client provided that furnishing such reports to or for a client or former client would not cause the person to be in violation of the portions of §501.60 of this chapter (relating to Auditing Standards) concerning subsequent events.

(d) This rule imposes no obligation on the person who provides services to a business entity to provide documents to anyone involved with the entity except the authorized representative of the entity.

(e) Documentation or work documents required by professional standards for attest services shall be maintained in paper or electronic format by a person for a period of not less than five years from the date of any report issued in connection with the attest service, unless otherwise required by another regulatory body. Failure to maintain such documentation or work papers constitutes a violation of this section and may be deemed an admission that they do not comply with professional standards.

(f) Interpretive Comment: It is recommended that a person obtain a receipt or other written documentation of the delivery of records to a client.

(g) Interpretive Comment: For the purposes of this rule, client records include:

(1) backup or working files of commercially available software along with any passwords needed to access such files; or

(2) client files from commercially available tax return preparation software including any passwords needed to access such files.

501.77—Acting through Others

Important point: As a CPA, you are responsible for the ethical actions of your non-CPA owners and employees.

501.78—Withdrawal or Resignation

Important point: If a CPA cannot comply with the rules of professional conduct, the CPA should withdraw from the engagement or resign his/her employment. It is suggested that any withdrawal or resignation be in writing.
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Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

7. With which Rules of Professional Conduct must CPAs in industry comply?
 - a. All of them.
 - b. None of them.
 - c. Some of them including 501.73 – Integrity and Objectivity, 501.74 – Competence, 501.90 – Discreditable Acts and 501.94 – Mandatory Continuing Education Reporting.
 - d. All of them except 501.74 – Competence.

8. When is a contingent fee acceptable for an audit client?
 - a. This is prohibited under 501.72.
 - b. Tax return preparation is prohibited under 501.72(b).
 - c. When the CPA is a testifying expert is prohibited under 501.72(c).
 - d. When, in a tax matter, the results are based on the findings of governmental agencies acting in a judicial or regulatory capacity is permitted.

9. Which of the following rules do **NOT** apply if proper disclosure is made and the consent of the client is obtained?
 - a. Independence issues cannot be eliminated by disclosure and consent.
 - b. 501.73(b) – Integrity and Objectivity. If there is a possible conflict of interest for which the CPA does not believe that objectivity is compromised, disclosure and consent from the client is required.
 - c. Compliance with 501.74 – Competence always applies.
 - d. Compliance with 501.77 – Acting through Others always applies.

Responsibilities to the Public

501.80—Practice of Public Accountancy

Important point: The practice of public accountancy requires a license from the TSBPA. Until this license is obtained or there is qualification under a practice privilege, the designation CPA or other related designations may not be used.

501.81—Firm License Requirements

Important point: A firm may not provide attest services or use the title CPA or any related titles unless the firm holds a license issued by the TSBPA or qualifies under a practice privilege. If a CPA is associated with an unlicensed entity, any advertisement or written promotional statement that refers to the CPA designation must include the disclaimer “This firm is not a CPA firm.”

501.82—Advertising

Important point: CPA advertising shall not be false, fraudulent, misleading or deceptive in any statements or claims.

Case study: You want to use the social networking site LinkedIn as a form of advertising. You wish to “connect” to your existing clients as well as “connect” with potential new clients. Is using LinkedIn, as described above, acceptable?

Case study discussion: The use of LinkedIn and connecting to clients may identify them as your client. The identity of a client is not necessarily confidential information. So, having a client on LinkedIn does not violate any confidentiality rules as long as no confidential client information is disclosed in the site. Regarding advertising, you must be aware of rule 501.82(c) that states, “It is a violation of these rules for a person to persist in contacting a prospective client when the prospective client has made known to the person, or the person should have known the prospective client's desire not to be contacted by the person.” This prohibition also applies to social networking sites such as LinkedIn.

501.83—Firm Names

In 2018, an amendment clarifies that an LLC or similar business entity may use company in its firm name and makes it clear that a sole proprietorship may not use the term company unless the sole proprietorship has more than one CPA involved in the firm.

Important point: Firm names may not contain words, abbreviations, or other language that is misleading or confusing to the public as to the ownership of the firm. This prohibition includes the name of a non-owner of the firm, the name of a non-CPA, or including the designations of “and company”, “associates”, or “group” unless there are at least two licensed CPAs in the firm. A sole proprietor firm name generally must contain the surname of the licensed sole proprietor. However, if a partner survives the death of all other partners, that partner may continue to practice under the partnership name for up to two years after becoming a sole proprietor. The firm name on the license, business cards and letterhead should be the same.

501.85—Complaint Notice

This rule was changed in 2011. The amendment replaces the listed telephone number with the telephone number to the Enforcement Division and deletes the word “firm” and replaces it with

"person" to clarify that a complaint is not limited to a firm but can be made against a firm and an individual.

Responsibilities to the Board/Profession

501.90—Discreditable Acts

This rule was changed in 2013. The amendment clarifies that it is not a discreditable act to disclose client communications pursuant to a congressional or grand jury subpoena or pursuant to applicable federal laws. This rule was further amended in 2014 to include additional state, federal and other regulatory bodies to the list of agencies whose disciplinary action against a licensee would be considered a discreditable act. In 2018, an amendment clarifies that if a state or federal court determines that a licensee has violated state or federal laws, or state and federal regulations, such as laws against sexual harassment or under the Deceptive Trade Practices Act, the Board could consider the violation to be a discreditable act and subject the licensee to disciplinary action by the Board. The amended addition is:

(8) a final finding of conduct by state or federal courts of competent jurisdiction, agencies, boards, local governments or commissions for violations of state or federal laws or rules or findings of unethical conduct by licensees that engage in activities regulated by entities including but not limited to: the Public Company Accounting Oversight Board, Internal Revenue Service, U.S. Securities and Exchange Commission, U.S. Department of Labor, U.S. General Accounting Office, U.S. Housing and Urban Development, Texas State Auditor, Texas State Treasurer, Texas Securities Board, Texas Department of Insurance, and the Texas Secretary of State

Important point: Discreditable acts include a crime of moral turpitude. Any crime involving alcohol abuse or controlled substances is a crime of moral turpitude.

501.91—Reportable Events

This rule was changed in 2011. The amendment adds the phrase "or certificate holder" after the term "licensee," replaces accounting terms with the acronyms that have been defined in §501.55 and correct a reference to a rule. In 2016, an amendment adds the requirement that a licensee notify the Board of any voluntary consent decree or any limitation on a professional license from any state or federal regulatory agency such as an insurance license or a securities license, resulting from an un-appealable adverse finding.

Important point: A CPA has 30 days to report these events to the TSBPA.

Case study: You had a little too much to drink and you were cited and convicted for driving under the influence of alcohol.

Do you report it to the TSBPA?

Case study discussion: The board has taken the position that any crime of moral turpitude directly relates to the CPA profession. The board has also found in 519.70 that any misdemeanor involving intoxication under the influence of alcohol constitutes moral turpitude. Accordingly, this should be reported to the board. The conviction would also fall under 501.90 – Discreditable Acts.

501.93—Responses

An amendment in 2016 clarifies what constitutes a substantive response for a licensee to the Board. The full text of 501.93 (a) is reflected below:

(a) A person shall substantively respond in writing, within 30 days, to any communication from the board requesting a response. It is not a substantive response for a person to simply reply that they do not intend to respond or provide the records or documents requested. The time to respond shall commence on the date the communication was mailed, delivered to a courier or delivery service, faxed or e-mailed to the last address, facsimile number, or e-mail address furnished to the board by the applicant or person.

An amendment in 2018 makes it clear that licensees have a responsibility to provide information they have access to which the Board believes is important to the investigation.

501.94—Mandatory Continuing Professional Education

Important point: A CPA licensee shall complete at least 120 hours of CPE in each three-year period, and a minimum of 20 hours in each one-year period.

Chapter 523 – Continuing Professional Education

In 2017, nano learning and blended learning were added as acceptable learning programs. Nano learning programs are designed to use computer media and teach participants a subject area in 10-minute time frames without using a real-time instructor. Nano learning is typically focused on a single learning objective and is not paper based. Only 50% of the credits required may be in nano courses.

Blended learning uses multiple learning formats. These may include group live, group internet based, self-study or nano. Course offerings must indicate when a blended learning approach is utilized.

In 2018, the rule was revised to use the term “military service member” to be consistent with other rules. Also in 2018, 523.102 was amended to incorporate the most recent changes to the Statement of Standards for Continuing Professional Education Programs published jointly by the AICPA and NASBA. The changes were in the definitions of technical and non-technical courses and the use of CPE credit versus credit hour.

Case study: John Smith CPA, has just gone into business as a CPA firm. Smith is licensed with the TSBPA as a CPA. His sole experience as a CPA has been the preparation of individual tax returns. Smith thinks that there are more business opportunities to provide audit services to the public. He wants to name his firm Audit Experts, LLC and do extensive advertising on the radio touting his specialty in providing financial statement audits and guaranteeing a clean opinion.
What are the applicable ethical standards under the TSBPA Rules of Professional Conduct that Smith should consider?

Case study discussion: There are several requirements under the rules of professional conduct that Smith should consider or that Smith’s actions will definitely violate.

First, it is not disclosed whether Smith intends to register with the TSBPA as a CPA firm. 501.81 states that a firm may not provide nor offer to provide attest services unless the firm holds a firm license issued by the board.

Smith should consider whether he complies with the competence requirements of 501.74. His sole experience is in the preparation of individual tax returns. He likely does not have adequate competence to comply with auditing standards (501.60), accounting principles (501.61) or other professional standards (501.62).

The name of the firm, Audit Experts, LLC, must not be misleading under the requirements of 501.83 which states that it would be misleading if it states or implies the quality of services offered or special expertise. This name would be considered misleading.

While an LLC is not prohibited under 501.84, it must be registered with the Texas Secretary of State as an LLC as the requirement is that it must be a legally recognized business entity.

Regarding the plan for radio advertising, 501.82 prohibits the use of any communication having a reference to a person's professional services that contains a false, misleading or deceptive statement or claim. A claim that creates false or unjustified expectations of favorable results is a false, misleading or deceptive claim (guarantee a clean opinion). A claim that is self-laudatory and not based on verifiable facts is also a false, misleading or deceptive claim (specialty in financial statement audits).

Accountants Confidential Assistance Network

The Accountants Confidential Assistance Network (ACAN) is a group of CPA volunteers dedicated to helping Texas CPAs, CPA candidates, and accounting students who may have a problem with alcohol, substance abuse, depression, stress or other mental health issues. It is authorized and supported by the TSBPA and administered by the Texas Society of CPAs. All information provided to ACAN is strictly confidential and there is no reporting to the TSBPA.

The focus of ACAN is to inform Texas CPAs, candidates, and accounting students about alcohol, substance abuse and mental health issues as well as encourage these individuals to seek help and support them in their recovery. It provides peer assistance and is also a resource for referrals to AA, counselors, hospitals, and recovery centers. The network is statewide and intended to be an alternative to TSBPA disciplinary sanctions.

ACAN volunteer mentors receive annual training. They may be contacted by an individual for help or a person in need may be referred to them by a firm, family member, or the TSBPA.

ACAN may be reached by calling (866) 766-ACAN. More information may be found at the Texas Society of Certified Public Accountants website at www.tscpa.org. Once there, select "Advocacy" on the left side of the home page. On the Advocacy page, select "Accountants Confidential Assistance Network" from the menu on the left side of the page.

Review Questions

The review questions accompanying this course are designed to assist you in achieving the course learning objectives. The review section is not graded; do not submit it in place of your qualified assessment. While completing the review questions, it may be helpful to study any unfamiliar terms in the glossary in addition to course content. After completing the review questions, proceed to the review question answers and rationales.

10. Which of the following records may be retained by a CPA in public practice in the event of an unpaid bill?
 - a. Original client records.
 - b. Work papers that constitute part of client's books and records.
 - c. Copies of any report issued to the client.
 - d. Work papers incident to the performance of the engagement that do not constitute client records.

11. A firm needs a license from the TSBPA if it:
 - a. A partnership that happens to be comprised of CPAs but does not provide professional accounting services, does not use the title "CPA" in the firm name and does not use the title "CPA" in any advertising, promotional material, business cards or letterhead does not require a license from the TSBPA.
 - b. A firm that provides professional accounting services, which would include attest services, is required to be licensed by the TSBPA.
 - c. In the event that a CPA is associated with an unlicensed entity and that entity does not otherwise require a license, if the CPAs credentials are used in advertisements or written promotional literature for the unlicensed firm, it must only include the disclaimer "this firm is not a CPA firm."

12. When may a firm name include the designation "and company"?
 - a. If there is at least 1 employed licensee involved in the practice.
 - b. If there are at least 2 employed licensees involved in the practice.
 - c. If there are independent licensed contractors consulting for the company.

Review Question Answers and Rationales

Review question answer choices are accompanied by unique, logical reasoning (rationales) as to why an answer is correct or incorrect. Evaluative feedback to incorrect responses and reinforcement feedback to correct responses are both provided.

1. What is the difference between morals and ethics?
 - a. They are the same thing. Incorrect. Morals are individual values of what is right and wrong. Ethics are established by a society or group to tell members what is right and wrong.
 - b. While different concepts, they will always result in the same answer as to whether a particular act is good or bad. Incorrect. Individual moral views may differ significantly from ethical views. Use the examples of lying to get out of a traffic ticket or not pointing out that a restaurant bill is understated.
 - c. **Morals represent individual values that help people decide what is right and wrong. Ethics are a framework of values established by society or a group. Correct. Morals represent individual values that help people decide what is right and wrong. Ethics are a framework of values established by society or a group.**
 - d. Morals are a set of rules established by society. Incorrect. Ethics are a set of rules established by society.

2. Which of the following is true regarding the Texas State Board of Public Accountancy independence rules?
 - a. Texas has its own specific rules that differ from the AICPA rules. Incorrect. Texas rules require conformity with the AICPA independence rules and, where applicable, the SEC and PCAOB. The board may also establish additional independence rules.
 - b. **Texas rules state that a CPA shall conform in fact and appearance to the independence standards established by the AICPA and the board, and, where applicable, the SEC, and the PCAOB. Correct. Texas rules state that a CPA shall conform in fact and appearance to the independence standards established by the AICPA and the board, and, where applicable, the SEC and the PCAOB.**
 - c. Texas CPAs who are not members of the AICPA do not need to comply with the AICPA independence rules. Incorrect. Texas CPAs who are not members of the AICPA must comply with the AICPA independence rules.
 - d. The Texas independence rules apply to all Texas CPAs, not just those in the practice of public accountancy. Incorrect. The Texas independence rules apply to those CPAs in the practice of public accountancy.

3. Which of the following describes objectivity?
- a. **Being unbiased, not influenced by personal prejudices and free of conflicts of interest. Correct. Being unbiased, not influenced by personal prejudices and free of conflicts of interest describes objectivity.**
 - b. Professionally biased. Incorrect. Being objective means being free of any bias.
 - c. Subordinating his/her judgment to others. Incorrect. To be objective is to always use your own judgment and not subordinate your judgment to others.
4. Which of the following best describes the undue influence threat?
- a. **Perform an unethical act or lose your job. Correct. Perform an unethical act or lose your job represents an undue influence of another over a CPA.**
 - b. Promoting a client or employers position to the point that objectivity is compromised. Incorrect. Promoting a client or employers position to the point that objectivity is compromised is more descriptive of the advocacy threat.
 - c. A long or close relationship causes a CPA to become too sympathetic to the client or employer's interests. Incorrect. A long or close relationship that causes a CPA to become too sympathetic to the client or employer's interest is more descriptive of the familiarity threat.
 - d. The CPAs interest are in opposition to the client or employer. Incorrect. The CPAs interests are in opposition to the client or employer is more descriptive of the adverse interest threat.
5. Which of the following are appropriate ethical safeguards for a CPA in industry?
- a. Weak internal controls. Incorrect. Strong internal controls is an ethical safeguard.
 - b. **Open door policy that encourages the reporting of ethical issues. Correct. Open door policy that encourages the reporting of ethical issues represents an important ethical safeguard.**
 - c. Leadership that states goals must be achieved at any cost. The ends justify the means. Incorrect. Leadership that stresses the importance of ethical behavior is an ethical safeguard.
 - d. Peer review. Incorrect. Peer review would only apply to CPAs in the practice of public accountancy.
6. Which of the following rules of professional conduct were Andersen personnel charged by the TSBPA with violating in the Enron case?
- a. 501.70 – Independence. Incorrect. Andersen was not charged with violating 501.70 – Independence
 - b. **501.74 – Competence and 501.61 Accounting Principles. Correct. Andersen personnel were charged with violating 501.74 – Competence and 501.61 Accounting Principles.**
 - c. 501.94 – Continuing Professional Education. Incorrect. Andersen personnel were not charged with violating 501.94 – Continuing Professional Education.

7. With which Rules of Professional Conduct must CPAs in industry comply?
- a. All of them. Incorrect. CPAs in industry must comply with some of the rules but not all of them. The list of rules with which CPAs in industry must comply is found in 501.53
 - b. None of them. Incorrect. While CPAs in industry do not need to comply with all of the rules, they must comply with some of the rules. The list is found in 501.53
 - c. **Some of them including 501.73 – Integrity and Objectivity, 501.74 – Competence, 501.90 – Discreditable Acts and 501.94 – Mandatory Continuing Education Reporting. Correct. CPAs in industry must comply with some of them including 501.73 – Integrity and Objectivity, 501.74 – Competence, 501.90 – Discreditable Acts and 501.94 – Mandatory Continuing Education Reporting.**
 - d. All of them except 501.74 – Competence. Incorrect. 501.74 – CPAs in industry must only comply with some of the rules, not all of them. Additionally, 501.74 - Competence is found in the list of rules in 501.53 with which CPAs in industry must comply.
8. When is a contingent fee acceptable for an audit client?
- a. This is prohibited under 501.72. Incorrect. This is prohibited under 501.72.
 - b. Tax return preparation is prohibited under 501.72(b). Incorrect. Tax return preparation is prohibited under 501.72(b).
 - c. When the CPA is a testifying expert is prohibited under 501.72(c). Incorrect. When the CPA is a testifying expert is prohibited under 501.72(c).
 - d. **When, in a tax matter, the results are based on the findings of governmental agencies acting in a judicial or regulatory capacity is permitted. Correct. When, in a tax matter, the results are based on the findings of governmental agencies acting in a judicial or regulatory capacity is permitted.**
9. Which of the following rules do **NOT** apply if proper disclosure is made and the consent of the client is obtained?
- a. Independence issues cannot be eliminated by disclosure and consent. Incorrect. Independence issues cannot be eliminated by disclosure and consent.
 - b. **501.73(b) – Integrity and Objectivity. If there is a possible conflict of interest for which the CPA does not believe that objectivity is compromised, disclosure and consent from the client is required. Correct. 501.73(b) – Integrity and Objectivity. If there is a possible conflict of interest for which the CPA does not believe that objectivity is compromised, disclosure and consent from the client is required.**
 - c. Compliance with 501.74 – Competence always applies. Incorrect. Compliance with 501.74 – Competence always applies.
 - d. Compliance with 501.77 – Acting through Others always applies. Incorrect. Compliance with 501.77 – Acting through Others always applies.

10. Which of the following records may be retained by a CPA in public practice in the event of an unpaid bill?
- a. Original client records. Incorrect. Original client records may not be retained under 501.76.
 - b. Work papers that constitute part of client's books and records. Incorrect. Work papers that constitute part of client's books and records may not be retained under 501.76
 - c. Copies of any report issued to the client. Incorrect. Copies of any report issued to the client may not be retained under 501.76.
 - d. **Work papers incident to the performance of the engagement that do not constitute client records. Correct. Work papers incident to the performance of the engagement that do not constitute client records are the property of the CPA and do not need to be returned.**
11. A firm needs a license from the TSBPA if it:
- a. A partnership that happens to be comprised of CPAs but does not provide professional accounting services, does not use the title "CPA" in the firm name and does not use the title "CPA" in any advertising, promotional material, business cards or letterhead does not require a license from the TSBPA. Incorrect. A partnership that happens to be comprised of CPAs but does not provide professional accounting services, does not use the title "CPA" in the firm name and does not use the title "CPA" in any advertising, promotional material, business cards or letterhead does not require a license from the TSBPA.
 - b. **A firm that provides professional accounting services, which would include attest services, is required to be licensed by the TSBPA. Correct. A firm that provides professional accounting services, which would include attest services, is required to be licensed by the TSBPA.**
 - c. In the event that a CPA is associated with an unlicensed entity and that entity does not otherwise require a license, if the CPAs credentials are used in advertisements or written promotional literature for the unlicensed firm, it must only include the disclaimer "this firm is not a CPA firm." Incorrect. In the event that a CPA is associated with an unlicensed entity and that entity does not otherwise require a license, if the CPAs credentials are used in advertisements or written promotional literature for the unlicensed firm, it must only include the disclaimer "this firm is not a CPA firm."
12. When may a firm name include the designation "and company"?
- a. There must be at least 1 employed licensee involved in the practice. Incorrect. There must be at least 2 employed licensees involved in the practice.
 - b. **If there are at least 2 employed licensees involved in the practice. Correct. A firm name may include the designation "and company" if there are at least 2 employed licensees involved in the practice.**
 - c. If there are independent licensed contractors consulting for the company. Incorrect. Independent contractors do not count as employees.

Glossary

This is a glossary of key terms with definitions. Please review any terms with which you are not familiar.

Conflict of interest: A relationship with another person, entity, product, or service that could be viewed as impairing the person's objectivity.

Competence: Professional knowledge of and compliance with auditing standards (if applicable), accounting principles, and other professional standards.

Due care: The requisite knowledge to fulfill the requirements of the service to be provided.

Ethics: A framework of values and rules established by society or a group.

Independence: The avoidance of actual and apparent conflicts of interest. Independence is required in the practice of public accountancy.

Integrity: The CPAs adherence to an ethical code that requires honesty and to not subordinate his or her judgment to others.

Morals: Individual values that help a person distinguish right from wrong.

Objectivity: Being unbiased, impartial, and free of conflicts of interest.

Practice of Public Accountancy: Preparing or reporting on a financial statement or report that is to be used by an investor, the management of an organization, a third party, or a financial institution, unless the report is prepared for internal use only; or preparing a tax return that is filed with a taxing authority.

Reportable Event: Events that must be reported to the TSBPA within 30 days that the licensee has knowledge of such events.

Index

A

Accountants Confidential Assistance Network.....39
 Accountants Confidential Assistance Network
 (ACAN).....39
 Accounting Principles 8, 21, 27, 29, 32, 42, 49, 50
 Acting through Others 28, 34, 35, 43
 Adverse interest threat.....15
 Advertising.....36
 Advocacy threat.....15
 AICPA Independence Rules.....30
 Alcohol.....2
 Andersen.....21, 26, 27, 42
 Auditing Standards 8, 29, 32, 34

B

Bernard Madoff 17, 18

C

Circular 230.....12
 Code of Professional Conduct7
 Commission 18, 31, 37
 Competence 21, 27, 28, 31, 32, 35, 42, 43, 45, 49, 50
 Complaint Notice36
 conflict of interest7, 31
 Consultation with your CPA peers10
 Contingency Fees.....31
 contingent fee31
 Coopers & Lybrand 20, 21, 26

D

Discreditable Acts 28, 35, 37, 43
 due care8, 11

E

Enron 6, 20, 21, 26, 27, 42
 Ethical Reasoning10
 Ethics 1, 2, 3, 4, 5, 9, 11, 15, 41, 45

F

Familiarity threat15
 Firm License Requirements36
 Firm Names.....36

G

Greed25

H

Honesty.....2, 4, 11, 45

I

independence 7, 8, 9, 30, 31, 41
 integrity 2, 4, 6, 7, 11, 12, 14, 20, 25, 32

L

Legal vs. Ethical5

M

Management participation threat.....15
 moral 1, 2, 3, 5, 37, 41
 morals1

N

Nike.....3, 5

O

objectivity ..7, 9, 11, 14, 15, 20, 21, 25, 26, 27, 31, 42,
 45
 Other Professional Standards 8, 21, 29, 49

P

Person Looking Over Your Shoulder Standard4, 5, 11,
 12, 13, 14, 25
 Phar-Mor 6, 19, 20, 26
 practice of public accountancy... 6, 7, 8, 9, 13, 16, 28,
 30, 32, 36, 41, 42, 45
 practitioner.....12
 Professional ethics.....5, 48
 Public Interest.....8
 Publicity 4, 5, 10, 11, 13, 14, 23, 24, 25
 Publicity Standard..... 4, 5, 10, 11, 13, 14, 25

R

Records and Work Papers.....32
 Reportable Events28, 37
 Reporting Standards.....29, 30
 Resignation28, 34
 Responses28, 38
 Rules of conduct 1, 3, 5, 6

S

Safeguards16
 Self-review threat16
 subordinate his or her judgment..... 7, 16, 45

T

Texas State Board of Public Accountancy (TSBPA) ...6,
 7, 8, 21, 27, 28, 32, 36, 37, 38, 39, 40, 42, 44, 45,
 49, 50, 51

U

Undue influence threat16

W

Withdrawal28, 34

Qualified Assessment

Ethics and Professional Conduct for Texas CPAs

Course # 4150625, Version 1903

Publication/Revision Date:

March 2019

Course Expiration Date

Per AICPA and NASBA Standards (S9-06), QAS Self-Study courses must include an expiration date that is *no longer than one year from the date of purchase or enrollment*.

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1. Which of the following best describes ethics?
 - a. Rules of conduct that apply to a particular group.
 - b. Values that govern an individual's perception of right and wrong.
 - c. Rules of conduct that are consistent across all groups, professions and nationalities.
 - d. Ethics are dependent on an individual's viewpoint.

2. Which of the following statements are true regarding professional ethics?
 - a. If the action is legal, it is also ethical.
 - b. Not all professions have the same ethical requirements.
 - c. Professional ethics generally hold professionals to the same or lower ethical standard of the general public.
 - d. Professional ethics will always coincide with individual moral views.

3. In Texas, independence is required:
 - a. For all CPAs.
 - b. For all CPAs who are members of the AICPA.
 - c. For CPAs registered in the state of Texas.
 - d. For CPAs in the practice of public accountancy.

4. The president of a company offers the controller a bonus if he alters payment due dates to make all accounts receivable appear current when most are really delinquent. Which ethical standards under the Texas Rules of Professional Conduct did the controller violate?
 - a. Integrity and Objectivity.
 - b. Independence.
 - c. Acting through others.
 - d. Reportable events.

5. A CPA performs attest work for a client where his brother is CFO. Which of the following best describes this situation?
 - a. Acting through others.
 - b. Practice of public accountancy.
 - c. Conflict of interest.
 - d. Reportable events.

6. TSBPA rule 501.74 – Competence requires that the CPA:
 - a. Not accept any engagement that he/she cannot reasonable expect to complete with due professional competence.
 - b. Comply with TSBPA rule 501.61 – Accounting Principles.
 - c. Comply with TSBPA rule 501.62 – Other Professional Standards.
 - d. All of the above.

7. For CPAs in industry, which of the following are ethical safeguards?
 - a. Concurring partner review.
 - b. Peer review.
 - c. Regulatory reviews.
 - d. Strong internal controls.

8. A CPA performs an audit of financial statements and asserts that the financial statements are presented in conformity with GAAP. Under which circumstances can there be a material departure from GAAP?
 - a. There can never be a material departure from GAAP.
 - b. If unusual circumstances make GAAP financial statements misleading and the financial statements disclose the departure from GAAP and the reasons why GAAP would be misleading.
 - c. If the financial statements disclose the departure from GAAP.
 - d. If the financial statements disclose the departure from GAAP and contain a reconciliation of the financial statements as reported to financial statements presented in conformity with GAAP.

9. Texas CPAs in the practice of public accountancy can only audit or give the impression of an audit if the CPA complies with:
 - a. GAAS.
 - b. SSTs.
 - c. NPRC.
 - d. NASBA.

10. A CPA who performs audit work would impair his/her independence by:
 - a. Attending board meetings.
 - b. Helping to interpret financial statements.
 - c. Supervising client personnel, approving disbursements, and signing checks.
 - d. Introducing a client to a bank loan officer.

11. A CPA codes deposits and disbursements for reporting in the general ledger and creates journal entries without the approval of his audit client. Which professional standard did the CPA violate?
 - a. Competence.
 - b. Acting through others.
 - c. Independence.
 - d. Accounting Principles.

12. A CPA receives a commission for the sale of software to a client. Is the commission permissible?
 - a. A commission is never permissible.
 - b. Commissions are only permissible if related to the sale of an accounting practice.
 - c. It is permissible if the CPA does not require independence under TSBPA rule 501.70 and the commission is disclosed to the client in writing at the time of the sale.
 - d. A commission is always permissible.

13. When may a CPA charge a contingent fee?
 - a. For the preparation of a tax return.
 - b. For audit work.
 - c. For a tax case that will be decided by a tax court.
 - d. For testimony as an accounting expert.

14. If there is a possible conflict of interest but the CPA does not believe that objectivity is compromised, the CPA must:
 - a. Withdraw from the engagement or employment.
 - b. Disclose the relationship to the client or employer.
 - c. Disclose the relationship and obtain the consent of the client or employer.
 - d. Only disclose the relationship if the work to be performed is an audit.

15. When may a CPA release client confidential information?
 - a. With permission from the client.
 - b. At the CPA's discretion.
 - c. If requested by a successor firm.
 - d. If requested by an attorney.

16. Original client records must be returned to the client:
 - a. Promptly, not to exceed 30 business days.
 - b. Promptly, not to exceed 10 business days.
 - c. Whenever practical.
 - d. Only if the CPA has been paid for his/her work.

17. A CPA has been required by his employer to perform acts considered unethical under the TSBPA rules of professional conduct. The CPA must:
 - a. Resign from the employment assignment.
 - b. Report his resignation to the board of directors.
 - c. Publicly disclose confidential information about his employer.
 - d. Resign from the employment assignment in writing and submit a copy of the resignation letter to the board of directors.

18. You wish to contact existing clients using an email campaign. Your intention is to send a weekly email to existing clients informing them of services that you offer. You must:
 - a. Retain a copy of the emails for at least 36 months from the date last distributed.
 - b. Retain a copy of the list of parties to whom the email was distributed.
 - c. Comply with TSBPA rule 501.82.
 - d. Not use email.

19. You are the only surviving partner of a CPA partnership. You:
 - a. Must immediately change the name of the firm.
 - b. May continue to practice under the partnership name for up to two years after becoming a sole proprietor.
 - c. Must immediately change the name of the firm to contain only your licensed surname.
 - d. May continue to practice under the partnership name indefinitely.

20. You were convicted of driving under the influence of alcohol. You should:
 - a. Report it to the TSBPA within 30 days.
 - b. Report it to the TSBPA prior to license renewal.
 - c. Not report it to the TSBPA as only felony convictions should be reported.
 - d. Wait until you are contacted by the TSBPA.



Answer Sheet
Ethics and Professional Conduct for Texas CPAs
Course # 4150625, Version 1903
4 CPE Credits

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| 3. ____ | 7. ____ | 11. ____ | 15. ____ | 19. ____ |
| 4. ____ | 8. ____ | 12. ____ | 16. ____ | 20. ____ |



Course Evaluation
Ethics and Professional Conduct for Texas CPAs
Course # 4150625, Version 1903

Thank you for taking the time to fill out this course and customer experience evaluation. Your responses help us to build better courses and maintain the highest levels of service. If you have comments not covered by this evaluation, or need immediate assistance, please contact us at 800.822.4194 or wcpe@westerncpe.com.

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1. Please answer the following related to the content of the course:

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The course materials were accurate, relevant, and contributed to the achievement of the learning objectives.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The stated prerequisites were appropriate and sufficient.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Based on 50 minutes per credit hour, the time to take this course accurately reflects the credit hours assigned to it.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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2. Were there any questions you felt were confusing or had incorrect answers listed? If so, please give the question number and a brief description of the issue:

3. Please provide any additional comments specific to the educational content or author of this course:

4. Do you have ideas for future course topics? If so, please list them along with any known subject matter experts we might contact to develop the course:

--

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Live Webcast	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Resort Conference or Seminar	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. Please use the box below to provide any additional comments related to your educational experience with Western CPE.

8. If you are willing to provide a quote about this course, or Western CPE in general, that we may use in our promotional materials, please state it below. Be sure to include your name, title, city, and state.