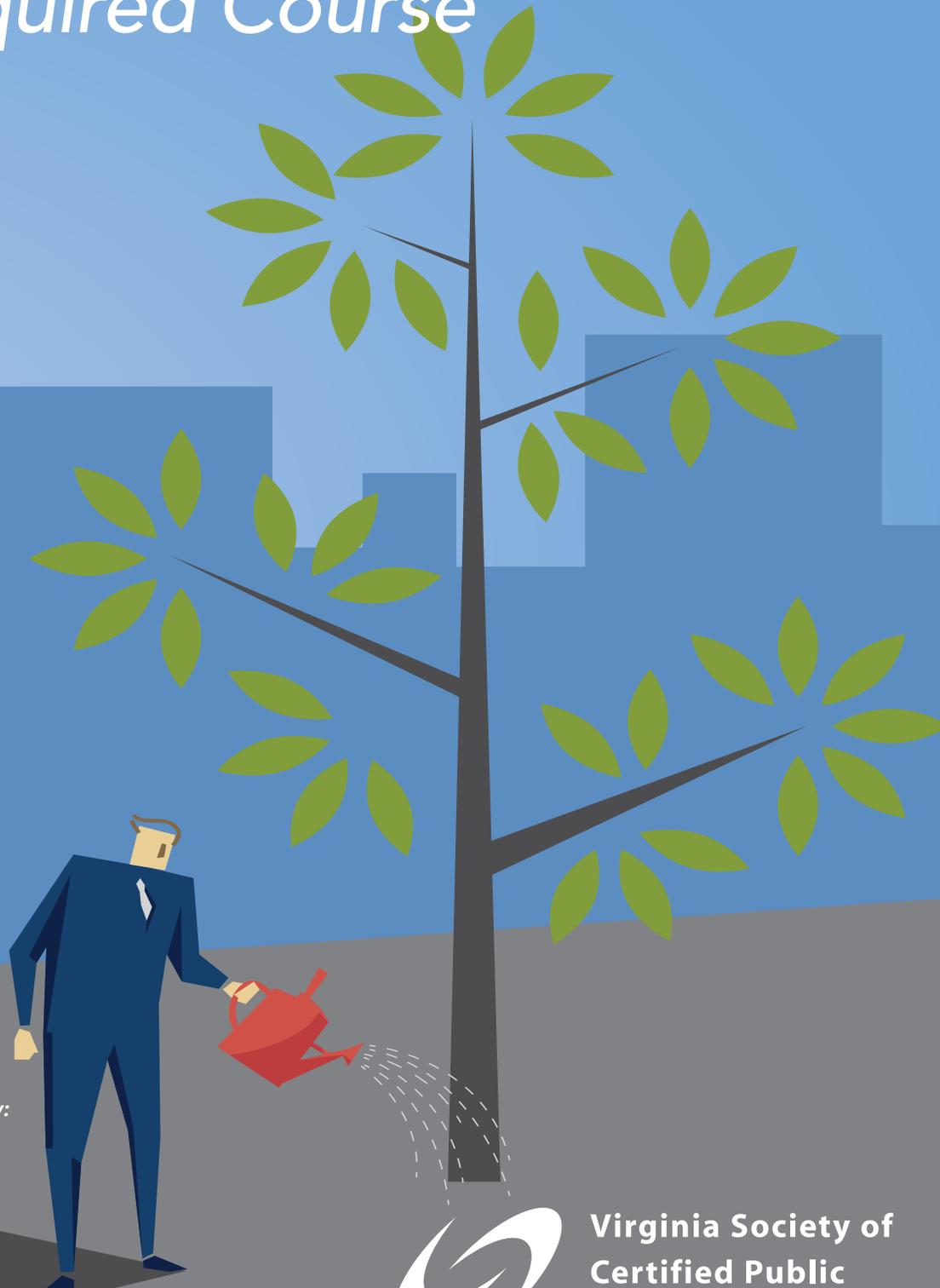


# Virginia CPA Ethics:

## *2015 Required Course*



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**Virginia Society of  
Certified Public  
Accountants**





**Virginia Society of  
Certified Public  
Accountants**

# Virginia CPA Ethics: *2015 Required Course*

## *Student Manual*

This training has been created to help you meet the Virginia Board of Accountancy's (VBOA) annual 2-hour (100-minute) CPE requirement for 2015. In 2003, the Virginia General Assembly passed a law requiring all CPAs in Virginia to take an annual Ethics CPE course. Each year, the VBOA provides an outline of topics to be included, which can be found at <http://tinyurl.com/2015VBOAEthicsOutline>. Developed using that outline as the course framework, this class accomplishes the following fundamental objectives:

- Outline regulatory developments from standard-setting bodies and provide guidance regarding the application of those laws, rules and regulations for Virginia CPAs
- Summarize the role and practical application of professional ethics among Virginia CPAs
- Demonstrate knowledge of the American Institute of CPAs (AICPA) Ethics Codification Project and the elements of the newly restructured Code of Professional Conduct

This class qualifies for 2 CPE hours (100 minutes) in Virginia. Additionally, it qualifies for 2 CPE hours of Ethics for CPAs licensed in other states:

- Maryland: Satisfies 2 hours
- North Carolina: Group study and self study versions satisfy 2 hours for CPAs licensed in Virginia and North Carolina who primarily work in Virginia
- Washington, D.C.: Satisfies 2 hours
- West Virginia: Satisfies 2 hours

Please refer to your state's regulations for more information.

Please note: This class was not designed to be an all-encompassing update. In addition, the information provided and scenarios presented are not intended to be official positions of the VBOA, the American Institute of CPAs (AICPA), the U.S. Internal Revenue Service (IRS), the International Ethics Standards Board for Accountants (IESBA) or any other standard-setting body. For specific advice or clarification, please research the applicable standards or seek advice from the appropriate governing/regulating organization.

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# Virginia-Specific Ethics Course 2015 Outline



- A. General Ethics — Required discussion and handouts.
  - AICPA Code of Professional Conduct
    - Recent Ethics Changes
  - AICPA Conceptual Framework
  - Ethics Research — Journal of Accountancy (June 2014)
  - How to cultivate an ethical environment
  - The right way to handle mistakes
  - Confidentiality (Need to Know)
  - Videos
    - Case Studies
    - Ethics Experts
- B. VBOA Updates — Required discussion and handouts.
  - Active — CPE Exempt Status for licensed CPAs
    - Examples — Approved/Not Approved
  - New Virginia-Specific Ethics Course Requirements
    - Board Policy No. 2, Sponsors Providing Continuing Professional Education (CPE)
    - Board Policy No. 4, Continuing Professional Education (CPE) Guidelines
    - Board Policy No. 8, Ethics Committee
  - New CPE Tracking System Tool available through NASBA
    - General Use
    - CPE Audit — Tracking System Tool is a requirement
- C. Enforcement Cases — Required discussion and handout.
- D. Hot Topics for 2015\*
  - (A) Public Accounting Firms — Properly Reporting Engagements for DOL/ERISA Audits for Peer Review
  - (B) Standard Changes/Updates
    - Circular 230
    - Presentation and Compilation Services (SSARS)
    - Private Company Council (PCC)

## For Virginia-Specific Ethics Course Providers/Instructors:

**Notes:** Providers/instructors must provide a copy of this outline to each participant. It is recommended that providers/instructors make cases and other materials available to participants in advance, e.g., by posting them on provider websites.

**Important:** Virginia-specific Ethics course providers/instructors should encourage participants to monitor the VBOA website for updates and information regarding the VBOA. Providers/instructors should also recommend that licensees register with the Virginia Town Hall to receive automated VBOA regulatory updates ([www.townhall.virginia.gov](http://www.townhall.virginia.gov)).

\* Virginia's Hot Topics for 2015 — The provider/instructor may use discretion as to topic selection from the provided list. Practical situations, potential solutions and examples must be included and illustrated with short scenarios or simulations. Course content (topic selections) should be tailored to best suit the audience (private and/or public practice).

# Knowledge Check



## Cultivation of Ethics

True or false? The act of publicly certifying adherence to a code of ethics is the least likely method of ensuring reduced opportunistic behavior by managers.

Who has the responsibility for the establishment and maintenance of adequate internal controls for an organization?

I \_\_\_\_\_  
M \_\_\_\_\_  
E \_\_\_\_\_  
S \_\_\_\_\_  
G \_\_\_\_\_

What are the four building blocks of SHRM's Ethical Culture model?

C \_\_\_\_\_  
F \_\_\_\_\_  
T \_\_\_\_\_  
E \_\_\_\_\_

## AICPA Code of Professional Conduct

The goals of the AICPA Ethics Codification Project were:

I \_\_\_\_\_  
E \_\_\_\_\_  
I \_\_\_\_\_

The steps of the Code of Professional Conduct's conceptual framework are:

I \_\_\_\_\_  
E \_\_\_\_\_  
I \_\_\_\_\_  
E \_\_\_\_\_

What would permit a CPA to disclose confidential information about a client?

T \_\_\_\_\_

## What's New From the VBOA

To qualify for Active — CPE Exempt status, a CPA must provide the following to the VBOA:

C \_\_\_\_\_  
E \_\_\_\_\_  
R \_\_\_\_\_  
J \_\_\_\_\_  
E \_\_\_\_\_

A CPA is required to use the tracking system to keep track of his or her CPE when:

S \_\_\_\_\_

# Knowledge Check



## Trending Topics

Firms that perform employee benefit plan audits must comply with the requirements set forth in the:

E \_\_\_\_\_

Circular 230 affects:

T \_\_\_\_\_

SSARS No. 21 is effective for:

F \_\_\_\_\_

The PCC was established for the following purposes:

W \_\_\_\_\_

S \_\_\_\_\_

I \_\_\_\_\_

# Chapter 1 — The Cultivation of Ethics



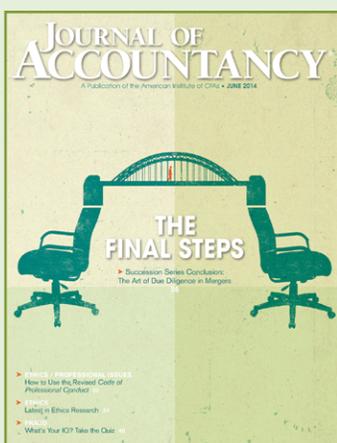
The accounting scandals at Enron, WorldCom, Tyco and other major companies brought the issue of business ethics to the forefront in the first years of the 21st century. While much has been made of the reforms of the Sarbanes-Oxley Act (including the course you're taking), taking the pulse of the ethical environment in American businesses is just as illuminating.

While it doesn't grab attention quite like Congress-mandated reforms, the concept of the ethical business culture and how it has evolved over the years is just as important. The following article, published in the June 2014 issue of the *Journal of Accountancy*, details several recent pieces of research on business ethics.

## Highlights of Ethics Research

By Cynthia Bolt-Lee, CPA, Yi-Jing Wu, CPA, and Aleksandra Zimmerman, CPA

From the *Journal of Accountancy*, June 2014



Corporate ethics and auditor ethical decision-making have garnered considerable attention in academic research following the corporate scandals of the early 2000s, the passage of the Sarbanes-Oxley Act (SOX) of 2002, and the financial crisis of

2008–2009. This article summarizes the findings and observations from recently published research in prominent accounting, auditing, and business academic journals.

### Corporate Ethics and Compliance Programs

What is the state of corporate ethics today? What is the future of corporate ethics programs? James Weber and David Wasieleski attempted to answer these questions in their article, "Corporate Ethics and Compliance Programs: A Report, Analysis and Critique," published in the *Journal of Business Ethics* in February 2013.

Weber and Wasieleski presented the results of a 2010 survey from members of the Ethics and Compliance Officer Association (ECO), a professional association for ethics and compliance managers, on the current state of corporate ethics programs. The authors compared the results of their 2010 survey to six prior corporate ethics studies to determine if, and how, corporate ethics programs have evolved over the past two-and-a-half decades. Unlike prior studies about the state of business ethics programs in the United States, which generally surveyed employees and corporate management, the authors surveyed individuals who are charged with creating, implementing, and monitoring ethics and compliance programs in businesses across the United States. The businesses ranged from 5,000 to 50,000 employees and from \$5 billion to \$50 billion in annual sales.

The authors found that, while in the 1980s and 1990s companies were primarily motivated to have an ethics and compliance program to show that they were socially responsible and to guide employees' behavior, today's companies are more motivated by "doing the right thing" and by legal compliance. The authors found that the strongest incentive for having a corporate ethics program has become pressure from laws such as the Foreign Corrupt Practices



# The Cultivation of Ethics

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Act, the Federal Sentencing Guidelines (FSG), and SOX. This incentive outweighs other factors, such as company leaders' values, employee encouragement, competitors, economic incentives, and pressures from the community and nonprofit groups.

Moreover, according to the survey, ethics training at employee orientations or through electronic training sessions is now common at 98 percent of large U.S. corporations. The number of U.S. businesses that have anonymous hotlines for reporting ethical questions and issues has increased from about half, according to a 1999 survey that captured this information, to 95 percent in 2010. The jump came primarily after the implementation of SOX and the FSG.

Corporate board members, as well as compliance officers of large U.S. businesses, have recently become a critical part of the process of establishing and maintaining ethics and compliance programs and, as a result, have taken on the primary responsibility in this area. This is demonstrated by the fact that about 60 percent of the organizations surveyed in the current study indicated that the board is involved in drafting the ethics code. The study also indicated that the ethics code applies not just to employees but also to senior management and the board of directors.

In addition, two innovations in ethics programs have been recently implemented: the use of ethics-based performance appraisals and ethics-based risk assessments. Specifically, close to three-quarters of respondents indicated that their organizations use ethical criteria in performance evaluations, promotion criteria, and calculation of employee bonuses or salaries and/or nonmonetary compensation. The latter involves periodically performing risk assessments to reduce criminal conduct,

detect fraud, meet legal requirements, and strengthen internal control systems.

Weber and Wasieleski noted that transparency, sustainability, social reporting, global corporate citizenship, and environmental performance reporting are the emerging trends when it comes to ethics and compliance programs at large U.S. businesses. They also concluded that business ethics will continue to be a reaction to the forces of the external environment, such as government regulations. The authors provided a resource checklist for ethics and compliance officers to use when evaluating the current state of their ethics and compliance programs.

## [Can a Code of Ethics Improve Manager Behavior and Investor Confidence?](#)

Codes of ethics have become commonplace in U.S. corporations, but do they curb manager opportunism and increase investor confidence in the corporation? Bruce Davidson and Douglas Stevens attempted to answer that question via a laboratory experiment.

"Can a Code of Ethics Improve Manager Behavior and Investor Confidence? An Experimental Study" was published in January 2013 in *The Accounting Review*. The authors predicted that managers' opportunistic behaviors should be curbed to the extent that the codes of ethics activate social norms. Social norms are activated by making behavioral rules set forth in the code of ethics more prominent (i.e., emphasizing manager behavior that considers the needs of shareholders above managers' self-interest). They are also activated by increasing managers' motivation to follow rules set forth in the code of ethics by making them believe that these rules are valid and reasonable.

In the authors' experiment, 124 graduate and undergraduate students acted as managers



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and investors in a computer-based simulation of an investment game, which captured information on the behavior of the managers and investors, based on the decisions and behaviors of the other party. The decision context and incentives faced by participants mirrored those encountered by managers and investors, thus results should generalize to real-world corporate settings.

The authors found that a code of ethics alone is not sufficient to reduce opportunistic behavior by a manager or to increase investor confidence. What is needed to accomplish both goals is to have managers publicly sign a statement that they will personally adhere to the code of ethics. The act of certifying increases managers' awareness of social norms in the code of ethics as well as investors' belief that managers and corporations will conform to these behavioral rules.

The findings could help corporations implement their codes of ethics more effectively. In an appendix to the article, the authors provided an example of an ethics code (made available by the Starbucks Corp.) certified by senior management and finance leaders. Readers can tailor this code of ethics with a certification requirement to their organizations to help achieve the potential increase in investor confidence suggested by results of this study.

## Internal and External Auditor Ethical Decision-Making

What causes auditors to make unethical decisions? Are these factors different across different types of auditors? Donald Arnold Sr., Jack Dorminey, A.A. Neidermeyer, and Presha Neidermeyer attempted to answer these questions by surveying internal auditors working for publicly traded U.S. businesses and external auditors at the Big Four public accounting firms

and smaller regional and local firms. "Internal and External Auditor Ethical Decision-Making," published in the *Managerial Auditing Journal* (Vol. 28 (2013), Issue 4), sheds light on the ethical decision-making processes of internal and external auditors. The work is one of the first studies to compare internal and external auditors and to look not only at Big Four auditors but also external auditors from smaller, regional firms.

While internal and external auditors share a similar set of audit principles and ethical standards, they differ significantly in terms of the structure and size of the organizations for which they work, their training, to whom they report, and the type of services they provide. These differences could translate into different ways auditors consider and respond to ethical concerns. The study examined how two situational factors — social consensus and magnitude of consequences — affect an auditor's ethical decision-making.

By statistically analyzing the survey responses, the research revealed that the magnitude of consequences to victims of the action in question does not influence the ethical decision-making of internal or external auditors differently. However, the authors found that the effect of social consensus (the degree of agreement that an act is right or wrong) on ethical decision-making differs among the various groups of auditors.

Specifically, social consensus explains in large part how auditors of Big Four firms intend to act when faced with an ethical dilemma. However, for small firm and internal auditors, this effect is not as strong. The authors suggested that the more diverse and political environments in which the larger firms operate make auditors of Big Four firms more cognizant of aligning their views with social norms. Thus, social consensus may be more critical among this group of auditors.



# The Cultivation of Ethics

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The study's findings showed that the auditors' ethical decision-making process is contingent on the situational context. Differences among internal, large-firm external, and small-firm external auditors on social consensus lead to differences in the ethical decision-making processes for these three types of auditors. Consequently, the authors urged the profession and policymakers to consider how these differences should be addressed in individual firm policies as well as in the ethical training that different groups of auditors should receive.

## Perception Gaps Between Accounting and Management Professors

Management's responsibility for establishing and maintaining internal controls is well-known in the accounting field. Although more than a decade has passed since the passage of SOX, numerous studies reveal that management continues to incorrectly assume that internal auditors hold this responsibility. This perception gap creates a challenge for corporate management, who may not understand the internal control environment or its responsibility for financial reporting controls.

Recent research shows that this perception gap exists in academia as well, uncovering a need to ensure that the non-accounting business major receives adequate training in this important aspect of corporate governance. Researchers Karen Miller, Thomas Proctor, and Benjamin Fulton surveyed 212 management and accounting professors from U.S. universities. The survey included research questions to examine the perception gap between accounting and management professors related to management's responsibility for internal controls, the instruction of SOX regulations, and curriculum-related issues such as who might be best qualified to teach non-accounting majors.

The authors found that 39 percent of management professors presumed that the internal auditors were responsible for establishing internal controls and 44 percent thought that internal auditors were responsible for maintenance of controls. Of accounting professors surveyed, 90 percent and 88 percent, respectively, were accurate in determining these responsibilities. This perception gap affects the curriculum of management classes at both the graduate and undergraduate level, potentially perpetuating the same misperception that occurs in the corporate environment.

While the professors acknowledged the importance of a student's understanding of internal controls, the greatest concern lies in the business graduate without an accounting degree. The survey revealed that most professors believed internal controls should be introduced in an undergraduate accounting class to ensure exposure to both accounting and non-accounting majors. However, the content-heavy introductory accounting classes often have little time for in-depth coverage.

Results also showed that management professors, in addition to misunderstanding management's responsibilities, thought that management courses would be more appropriate to cover internal controls, while at the same time recognizing that accounting professors are more qualified to teach the topic. Interestingly, accounting professors believed that these topics should remain in accounting classes and that non-accounting majors should consider enrolling in these courses as an elective. Both accounting and management professors felt that topics related to internal control should be taught at the graduate level and in the workplace as well as at the undergraduate level.



# The Cultivation of Ethics

Given the perception gap of management professors, and the lack of additional coursework in accounting, the non-accounting major could potentially perpetuate the misperception that occurs in the corporate environment.

To address this void, business curriculum must lead the way in ensuring the next generation of business managers understands not only the importance but also the responsibility for establishing, maintaining, and evaluating internal controls over financial reporting. The authors identified a need for curriculum revisions to ensure appropriate coverage of the basic principles of internal control, including stronger coordination between management and accounting faculty as well as continued training in the workplace.

Originally published as “Highlights of Ethics Research” by Cynthia Bolt-Lee, CPA, Yi-Jung Wu, CPA, and Aleksandra Zimmerman, CPA. © 2014, the AICPA, Durham, N.C. Used with permission. All rights reserved. 

## Discussion

1. What is the importance of board-level buy-in and responsibility in corporate ethics policies?
2. What are the effects of successful and unsuccessful ethics policies on investor confidence?
3. How can companies ensure their auditors (internal or external) are applying the appropriate ethical standards?
4. What role can accounting and business educators play in instilling ethical values in the next generation of CPAs?

## Cultivating an Ethical Environment

*“Corporate executives and business owners need to realize that there can be no compromise when it comes to ethics, and there are no easy shortcuts to success. Ethics needs to be carefully sown into the fabric of their companies.” — Vivek Wadhwa*

As the *Journal of Accountancy* article notes, employee ethics training is now nearly universal at large U.S. corporations. While consequences are a major part of enforcing ethics rules, the tone set by management is just as important, if not more so, in influencing employee behavior.

Just as a strong, unified corporate culture can inspire employees to fulfill a company’s mission, including an ethical component in that culture can be effective in ensuring employees act in an ethical manner. That includes treating employees equitably and fairly, from C-level management down to the lowest levels of the organization. In short, an employee who believes he or she is being treated fairly by his employer is likely to act ethically on behalf of that employer.

## Society of Human Resource Management Ethical Culture Model

The SHRM model asserts that an ethical culture rests upon four building blocks:

- **Compliance:** Compliance with rules and laws is the baseline, or minimum bar, in an ethical environment. You must have a solid foundation of compliance upon which to build the rest of your workplace.
- **Fairness:** The *Merriam-Webster Dictionary*

# The Cultivation of Ethics

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defines fairness as, “Lack of favoritism toward one side or another.” Honesty, compassion and respect for rules and laws are a few of the values embraced in an ethical environment. Duplicity, self-interest and disregard for rules and laws are a few of the hallmarks of an unethical environment.

- **Motive-based trust:** Motive-based trust is the level of trust that employees have in their co-workers and managers based on their observations of the ethical behavior of those co-workers and managers. Employees build motive-based trust by listening, admitting mistakes, and taking corrective actions.
- **Ethical working self-concept:** Ethical working self-concept is the level to which employees internalize the ethical values of the organization. When the work environment promotes a high level of ethical working self-concept, employees will act in accordance with the organization’s ethical values. Keep in mind that this building block cannot be established without the support of the other three blocks.

Take this building-block approach into consideration when working to cultivate an ethical environment in your workplace.

Originally published as “Shaping an Ethical Workplace Culture.” © 2013 the SHRM Foundation, Alexandria, Va. Used with permission. All rights reserved.

## The Right Way to Handle Mistakes

*“It is the highest form of self-respect to admit our errors and mistakes and make amends for them. To make a mistake is only an error in judgment, but to adhere to it when it is discovered shows infirmity of character.” — Dr. Dale Turner*

Everyone makes mistakes. The mistake might be unintentional, or it might be the result of a deliberate decision. How can we address these mistakes once they’ve been made?

- **Acknowledge the mistake.** Admit it. This can be hard to do, but it’s necessary in order to move forward.
- **Acknowledge the impact it had on others.** Listen to them, and take what they have to say seriously. Resist the urge to make them feel as if they’re making too big a deal of things.
- **Don’t make excuses.** Take responsibility for your actions. There may have been other circumstances that led to the mistake, but focusing on those instead of your own actions will just come across as making excuses.
- **Apologize.** And do it more than once if necessary. However, make sure the apology is sincere and not patronizing.
- **Rectify the mistake.** Do what you can to make things right. To the extent possible, repair any damage the mistake caused.
- **Learn from the mistake.** Reflect on what you will do in the future to make sure the mistake doesn’t happen again. If the mistake was unintentional, how can you be more aware of the consequences of your actions? If the mistake was the result of a deliberate decision, what can you do to make better choices that result in better outcomes?

### Sources

SHRM Foundation’s Effective Practice Guidelines Series: *Shaping an Ethical Workplace Culture*: <http://tinyurl.com/pxj8kzw>

Stemwedel, Janet. “The Ethics of Admitting You Messed Up.” *Scientific American*, Oct. 14, 2013: <http://tinyurl.com/qd2yuhy>



The AICPA Code of Professional Conduct holds a wealth of information about CPA ethics, but that information wasn't always easy to find. A major focus of the AICPA's Ethics Codification Product was to reorganize the rules so that information is presented in a more intuitive manner based on practice type.

Prior to the AICPA Ethics Codification Project, the Code of Professional Conduct was not topically organized and was difficult to navigate. The AICPA has now restructured the Code of Professional Conduct to improve the ease with which the code can be navigated and ensure that CPAs can find the information they're looking for in a more intuitive fashion. The more user-friendly Code has been split into four main parts: Preface, Part One — Members in Public Practice, Part Two — Members in Business and Part Three — Other Members. Each part contains topics applicable to each respective member segment.

Aside from the reorganization, another goal of the project was to increase awareness of non-authoritative guidance, which is included at the end of interpretations. In addition, the Code now uses standard style and drafting conventions to make it easier to read, understand and apply. The substance of the existing rules remains intact. The most substantive change to the Code is the incorporation of a conceptual framework approach, which emphasizes the assessment of threats and safeguards.

The new Code was adopted by the Professional Ethics Executive Committee on Jan. 28, 2014, and was effective as of Dec. 15, 2014. The Code is available online through the AICPA's website at <http://pub.aicpa.org/codeofconduct> and is

free to access. The online platform allows users to quickly navigate the Code and perform and save both basic and advanced searches. It also contains many personalization features, such as the ability to email links, create and name bookmarks and add and save notes. Definition pop-ups, hyperlinks to other relevant content and the ability to create a PDF version of the code that will be date stamped are some of the additional online enhancements.

Note that the AICPA's professional standards related to the Code have also been updated. References to the Code in the Statement on Standards for Consulting Services (SSCS) and Statement on Standards for Valuation Services (SSVS) have been updated to reflect the conforming changes.

### **Example — Confidential Client Information**

Maintaining confidentiality is another major component in cultivating an ethical environment. Rule 1.700.001 (formerly Rule 301) of the AICPA Code of Professional Conduct addresses the issue of Confidential Client Information:

*A member in public practice shall not disclose any confidential client information without the specific consent of the client.*

Rule 1.400.070 for Members in Public Practice and Rule 2.400.070 for Members in Business (formerly Rule 501) of the AICPA Code of Professional Conduct addresses the issue of Confidential Information Obtained from Employment or Volunteer Activities:

*A member should maintain confidentiality of his or her employer's or firm's (employer) confidential information and should not*

# Inside the New AICPA Code of Professional Conduct

*use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the member is working in a volunteer capacity). For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.*

In addition, you should keep personal information about employees, such as their financial, medical and salary details, confidential.

## Code Structure

### **Preface: Applicable to All Members**

- 0.100 Overview of the Code of Professional Conduct
- 0.200 Structure and Application of the AICPA Code
- 0.300 Principles of Professional Conduct
- 0.400 Definitions
- 0.500 Non-authoritative Guidance
- 0.600 New, Revised and Pending Interpretations and Other Guidance
- 0.700 Deleted Interpretations and Other Guidance

### **Part 1 — Members in Public Practice**

- 1.000 Introduction
- 1.100 Integrity and Objectivity
- 1.200 Independence
- 1.300 General Standards
- 1.310 Compliance With Standards
- 1.320 Accounting Principles
- 1.400 Acts Discreditable
- 1.500 Fees and Other Types of Remuneration
- 1.600 Advertising and Other Forms of Solicitation
- 1.700 Confidential Information
- 1.800 Form of Organization and Name

### **Part 2 — Members in Business**

- 2.000 Introduction
- 2.100 Integrity and Objectivity
- 2.300 General Standards
- 2.310 Compliance With Standards
- 2.320 Accounting Principles
- 2.400 Acts Discreditable

### **Part 3 — Other Members**

- 3.000 Introduction
- 3.400 Acts Discreditable

### **Appendices**

- Appendix A — Council Resolution Designating Bodies to Promulgate Technical Standards
- Appendix B — Council Resolution Concerning the Form of Organization and Name Rule
- Appendix C — Revision History Table
- Appendix D — Mapping Document



# Inside the New AICPA Code of Professional Conduct

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The first step is to identify threats. Potentially, ask yourself, “Does this relationship or circumstance create a threat to complying with the rules?” If so, the significance of the threat needs to be evaluated in the second step.

In the second step, evaluate threats. Ask yourself whether or not the threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party, who is aware of the relevant information, would be expected to conclude that the threat would not compromise compliance with the rules. Consider both qualitative and quantitative factors when evaluating the significance of a threat. If you conclude that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise compliance with the rules, then the threat is at an acceptable level and no further evaluation is required. If you conclude that the threat is not at an acceptable level, then you need to proceed to the third step.

The third step is to identify safeguards. Ask yourself what safeguards are in place or could be put in place. When identifying safeguards, remember that one safeguard might eliminate or reduce several threats. However, it might also be necessary to identify several safeguards to eliminate or reduce just one threat. After you have identified new and existing safeguards, proceed to the fourth step.

In the fourth step, evaluate safeguards. Ask yourself if the safeguards eliminate or reduce the threat to an acceptable level. If they do, no further action is required. If they do not, then providing the specific professional services would compromise your compliance with the rules, and you would need to determine whether to decline or discontinue the professional services or resign from the engagement.

It is important to note that the conceptual framework only applies when no guidance in the Code exists. It cannot be used to override existing requirements or prohibitions.

When the member applies safeguards to eliminate or reduce significant threats to an acceptable level, the member should document the identified threats and safeguards applied in the file. Failure to prepare this documentation would be considered a violation of the “Compliance with Standards Rule.”

## Conceptual Frameworks for Members in Public Practice and Members in Business

The conceptual frameworks are designed to help members analyze relationships and circumstances applicable to their line of work.

Step 1 of each framework is to identify threats. Many threats fall into one or more of seven broad categories: adverse interest, advocacy, familiarity, management participation, self-interest, self-review and undue influence. Each framework provides definitions and examples of these threats as applicable to members in public practice and members in business.

Definitions and selected examples are provided on the following page. You can refer to the Code for the full listing of examples.

Threats which are identified must be evaluated (Step 2), with relevant safeguards then identified (Step 3). Each framework provides categories and examples of those safeguards as applicable to members in public practice and members in business.

# Inside the New AICPA Code of Professional Conduct

	Members in Public Practice	Members in Business
Adverse interest threat	<p>The threat that a member will not act with objectivity because the member's interests are opposed to the client's interests.</p> <p><b>Example:</b> The client has expressed an intention to commence litigation against the member.</p>	<p>The threat that a member will not act with objectivity because the member's interests are opposed to the interests of the employing organization.</p> <p><b>Example:</b> A member has charged, or expressed an intention to charge, the employing organization with violations of law.</p>
Advocacy threat	<p>The threat that a member will promote a client's interests or position to the point that his or her objectivity or independence is compromised.</p> <p><b>Example:</b> A member provides forensic accounting services to a client in litigation or a dispute with third parties.</p>	<p>The threat that a member will promote an employing organization's interests or position to the point that his or her objectivity is compromised.</p> <p><b>Example:</b> Obtaining favorable financing or additional capital is dependent upon the information that the member includes in, or excludes from, a prospectus, an offering, a business plan, a financing application, or a regulatory filing.</p>
Familiarity threat	<p>The threat that, due to a long or close relationship with a client, a member will become too sympathetic to the client's interests or too accepting of the client's work or product.</p> <p><b>Example:</b> A member's immediate family or close relative is employed by the client.</p>	<p>The threat that, due to a long or close relationship with a person or an employing organization, a member will become too sympathetic to their interests or too accepting of the person's work or employing organization's product or service.</p> <p><b>Example:</b> A member uses an immediate family's or a close relative's company as a supplier to the employing organization.</p>
Management participation threat	<p>The threat that a member will take on the role of client management or otherwise assume management responsibilities, which may occur during an engagement to provide non-attest services.</p>	N/A
Self-interest threat	<p>The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, a client or persons associated with the client.</p> <p><b>Example:</b> The member has a financial interest in a client, and the outcome of a professional services engagement may affect the fair value of that financial interest.</p>	<p>The threat that a member could benefit, financially or otherwise, from an interest in, or relationship with, the employing organization or persons associated with the employing organization.</p> <p><b>Example:</b> A member's immediate family or close relative has a financial interest in the employing organization.</p>
Self-review threat	<p>The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the member's firm and that the member will rely on that service in forming a judgment as part of another service.</p> <p><b>Example:</b> The member relies on the work product of the member's firm.</p>	<p>The threat that a member will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the member or an individual in the employing organization and that the member will rely on that service in forming a judgment as part of another service.</p> <p><b>Example:</b> When performing an internal audit procedure, an internal auditor accepts work that he or she previously performed in a different position.</p>
Undue influence threat	<p>The threat that a member will subordinate his or her judgment to an individual associated with a client or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality or attempts to coerce or exercise excessive influence over the member.</p> <p><b>Example:</b> The firm is threatened with dismissal from a client engagement.</p>	<p>The threat that a member will subordinate his or her judgment to that of an individual associated with the employing organization or any relevant third party due to that individual's position, reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the member.</p> <p><b>Example:</b> A member is pressured to become associated with misleading information.</p>

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Categories and selected examples from the Code are provided below. Refer to the Code for additional examples.

## Safeguards: Members in Public Practice

Safeguards that may eliminate a threat or reduce it to an acceptable level for members in public practice fall into three broad categories:

### Safeguards Created by the Profession, Legislation or Regulation

#### Examples:

- Education and training requirements on independence and ethics rules
- Continuing education requirements on independence and ethics
- Professional standards and the threat of discipline

**Safeguards Implemented by the Client** (*Note: It is not possible to rely solely on safeguards implemented by the client to eliminate or reduce significant threats to an acceptable level*).

#### Examples:

- The client has personnel with suitable skill, knowledge or experience who make managerial decisions about the delivery of professional services and makes use of third-party resources for consultation as needed
- The tone at the top emphasizes the client's commitment to fair financial reporting and compliance with the applicable laws, rules, regulations and corporate governance policies
- Policies and procedures are in place to achieve fair financial reporting and compliance with the applicable laws, rules, regulations and corporate governance policies

**Safeguards Implemented by the Firm**, including policies and procedures to implement professional and regulatory requirements.

#### Examples:

- Firm leadership that stresses the importance of complying with the rules and the expectation that engagement teams will act in the public interest
- Policies and procedures that are designed to implement and monitor engagement quality control
- Documented policies regarding the identification of threats to compliance with the rules, the evaluation of the significance of those threats and the identification and application of safeguards that can eliminate identified threats or reduce them to an acceptable level

## Safeguards: Members in Business

Safeguards that may eliminate a threat or reduce it to an acceptable level for members in business fall into two broad categories:

### Safeguards Created by the Profession, Legislation or Regulation

#### Examples:

- Education and training requirements on ethics and professional responsibilities
- Continuing education requirements on ethics
- Professional standards and the threat of discipline

### Safeguards Implemented by the Employing Organization

#### Examples:

- A tone at the top emphasizing a commitment to fair financial reporting

# Inside the New AICPA Code of Professional Conduct

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and compliance with applicable laws, rules, regulations and corporate governance policies

- Policies and procedures addressing ethical conduct and compliance with laws, rules and regulations
- Audit committee charter, including independent audit committee members

## Independence Conceptual Framework

The Independence Conceptual Framework states:

*“It is impossible to enumerate all relationships or circumstances in which the appearance of independence might be questioned. Thus, in the absence of an independence interpretation that addresses a particular relationship or circumstance, a member should evaluate whether that relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to either the member’s or firm’s independence, or both, that is not at an acceptable level. When making that evaluation, a member should apply the conceptual framework approach as outlined in this interpretation to analyze independence matters.”*

*“The conceptual framework approach entails identifying threats and evaluating the threat that the member would not be independent or would be perceived by a reasonable and informed third party who is aware of the relevant information as not being independent. The member must eliminate or reduce that threat to*

*an acceptable level to conclude that the member is independent. Threats are at an acceptable level either because of the types of threats and their potential effect or because safeguards have eliminated or reduced the threat, so that a reasonable and informed third party who is aware of the relevant information would perceive that the member’s professional judgment is not compromised.”*

The framework provides definitions and examples of threats as applicable to independence. It also provides categories and examples of safeguards as applicable to independence.

In addition to mandating that licensees follow the AICPA Code of Professional Conduct, the Code of Virginia states, “Persons using the CPA title in Virginia and firms providing attest services or compilation services to persons or entities located in Virginia shall... Follow the standards, and the related interpretive guidance, as applicable under the circumstances, issued by the Comptroller General of the United States, the Federal Accounting Standards Advisory Board, the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Public Company Accounting Oversight Board, the U.S. Securities and Exchange Commission, comparable international standard-setting authorities or any successor standard-setting authorities.” In certain respects, some of the requirements issued by those standard-setters are substantially more restrictive than those of the AICPA.

## Conceptual Framework Case Study

Robert owns an auto supply store and has been using the services of Jay, CPA. However, Jay has recently passed away unexpectedly. Robert approached Evan, who is a partner

# Inside the New AICPA Code of Professional Conduct

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in a CPA firm and Robert's best friend since childhood, and asked if he can do the quarterly reviews that Robert needs to submit to his bank. Can Evan do the quarterly reviews?

The issue here is that Robert is Evan's close friend, and under the Code, the independence rules do not extend to friends. Therefore, there is no black-and-white answer. However, the conceptual framework can be applied to this fact pattern.

## Step One: Identify Threats

Since Robert is a close personal friend, Evan's firm identifies that the familiarity threat exists.

## Step Two: Evaluate Threats

Since the friendship has existed since childhood, and Evan and Robert vacation with each other's families and often spend holidays with each other, Evan's firm believes the familiarity threat is significant.

## Step Three: Identify Safeguards

Evan's firm needs to identify what safeguards could be applied to reduce the familiarity threat to an acceptable level. The firm decides to implement two safeguards. First, the firm decides to keep Evan off of the engagement. Second, since the firm is relatively small and Evan may interact with audit staff on other engagements, the firm also decides it will perform a second review of work on this engagement that is performed by staff who work with Evan on other engagements.

## Step Four: Evaluate Safeguards

The firm believes that once these safeguards are implemented, the familiarity threat will be reduced to an acceptable level so that they may accept the review engagement.

To be in compliance with the ethics rules, the firm documents the threat that it identified as being significant and what safeguards it

applied. If the firm forgot to prepare this documentation, but could demonstrate that safeguards were applied that eliminated or reduced significant threats to an acceptable level, then the member would be in violation of the Compliance with Standards rule not the Independence rule.

If Evan implemented the same safeguards, could he perform an annual review for his brother's used-car dealership?

No. In this situation, the conceptual framework is not used because a brother's relationship is directly addressed in the Code.

## Other Substantive Changes

In addition to incorporating the conceptual framework approach, several other substantive changes were also incorporated. Generally, the substantive changes were made either to elevate non-authoritative guidance into authoritative standards or to broaden existing guidance. These changes include:

- **Ethical conflicts:** How should you handle situations in which legally you should do one thing but ethically you should do something different? The non-authoritative guidance on ethical conflict resolution contained in the Guide for Complying with Rules 102-505 is now being used to provide authoritative guidance on the steps to take to best achieve compliance with the rules and laws.
- **Definition of "attest client":** Since members do not need to be independent of all clients, when redrafting the independence content, the PEEC decided the term "attest client," not "client," should be used. Accordingly, the PEEC developed a definition for the term "attest client" (AICPA, Professional Standards, ET section 0.400.03) and

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incorporated it where appropriate.

- **Definition of “loan”:** The definition of a loan was clarified to better align with the FASB Master Glossary definitions of debt and loan. Under the revised definition, loans continue to be considered as contractual obligations where the borrower expects to pay and the lender has the right to receive money on demand or on a fixed or determinable date regardless of whether the loan includes a stated or implied rate of return to the lender. However, this definition would exclude debt securities held by an investor since debt securities are covered by the “financial interests” definition.
- **Blind trust:** The extant Financial Relationships interpretation (ET section 101.17) provides the guidelines for determining when a trust and its underlying investments should be considered a financial interest. The interpretation then applied the guidelines to a blind trust example. When redrafting the Trust portion of the interpretation, the Committee decided it would be more effective if the interpretation only contained the guidelines and not the blind trust example and so moved the example to an FAQ that is referenced in a text box.
- **Expanded application:** Prior to the Ethics Codification Project, a number of ethics rulings appeared that provided guidance in a question-and-answer format on very specific fact patterns. When recasting this guidance (and some interpretations as well) and aligning it with the appropriate topic, on some occasions the guidance was broadened. For example, guidance on the use of the PFS designation was

broadened to apply to any AICPA-awarded designation. Another example would be false, misleading or deceptive acts in promoting or marketing professional services, previously applicable to only members in business but now drafted to apply to all members (AICPA, Code of Professional Conduct, interpretations 1.400.090 and 2.400.090)

## Non-Substantive Changes

Non-Authoritative Guidance text boxes have been included at the end of the related topic, sub-topic or section. For example:

*Appraisal, Valuations, and Actuarial Services for Nonfinancial Statement Purposes*

.06 Threats would be at an acceptable level, if a member provided appraisal, valuation, or actuarial services solely for nonfinancial statement purposes, such as appraisal, valuation and actuarial services performed for tax planning or tax compliance, estate and gift taxation and divorce proceedings. Accordingly, independence would not be impaired. [Prior reference: paragraph .05 of ET section 101]

Nonauthoritative answers to FAQs regarding appraisal, valuation, and actuarial services are available at <http://tinyurl.com/phdg5oz> (DOC).

### Sources

AICPA Ethics Codification Project:  
<http://tinyurl.com/6tmtaas>

AICPA Conceptual Framework:  
<http://tinyurl.com/m3z2cs5>

AICPA Ethics Codification PowerPoint, Jan. 24, 2014:  
<http://tinyurl.com/opgf3kj>

AICPA Ethics Codification Implementation Tools:

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<http://tinyurl.com/nheezfl>

Goria, Ellen. "Revised AICPA Code of Ethics...What's the Fuss?" Journal of Accountancy, February 2014:

<http://tinyurl.com/o8bw9u8>

Goria, Ellen. "User-Friendly AICPA Ethics Code on Horizon." Journal of Accountancy, April 17, 2013:

<http://tinyurl.com/ljp5ks4>

# Chapter 3 — What's New From the VBOA?



The VBOA added a new license status and made three policy updates, all regarding CPE requirements. One major change was the designation of the VSCPA as the sole provider for the Virginia-specific Ethics course, beginning with this year's course.

Another major change came with the introduction of the new CPE tracking system from the VBOA and NASBA, but the change that's inspired the most discussion is the new "Active — CPE Exempt" status. This section details who is eligible for that status, how to use the CPE tracking system and other changes to the way the VBOA deals with CPE courses.

## Active — CPE Exempt Status

In 2014, the VBOA made changes to its license statuses, changing terminology on one status to "Active — Renewal Fee Delinquent" and adding the "Active — CPE Exempt" status.

"Active — Renewal Fee Delinquent," previously called "Expired — Late Renewal," concerns the renewal status for licensees who did not renew their license by the due date. Individuals holding a CPA license have an additional 12 months after their license expiration date to renew the license. (Code of Virginia, §54.1-4413.2.B.) During that period, their licensee status would be Active — Renewal Fee Delinquent, but they would still be considered to hold a Virginia license, although late renewal fees still apply to any licensee who falls under this status. Licenses not renewed by the end of the grace period would be considered "Expired," and the licensee would need to apply for reinstatement.

The Active — CPE Exempt status went into effect July 1, 2014, and affects CPAs who wish

to maintain their license but are not providing services to an employer or the public and do not expect to provide such services for a period of time. Licensees who qualify for this status will be allowed to renew their licenses annually and pay the renewal fee, but will not have to fulfill CPE requirements.

The CPE exemption itself is not new, just the requirement to apply for the Active — CPE Exempt status in order to take advantage of this exemption. VBOA regulations have specifically allowed for a CPE exemption for certain licensees since at least 2001. A licensee must submit a formal application to the VBOA and provide their employment status, and if employed, his or her job description, résumé and employer information. The application can be found at <http://tinyurl.com/ltxxnkp>.

Licensees using this status who begin providing services to an employer or to the public would need to reactivate their "Active" status — making them no longer exempt from CPE — and fulfill CPE requirements before initiating services. Additionally, licensees selected for CPE audit must have applied and been approved for Active — CPE Exempt status in order to take advantage of the exemption. Otherwise, they will be considered deficient in CPE and subject to VBOA enforcement actions.

See page 24 for more information on how the VBOA determines Active — CPE Exempt status.

# What's New From the VBOA?

## Examples of Active — CPE Exempt

As of the publication of this course, the VBOA had processed more than 1,200 applications for the Active — CPE Exempt status. The examples below, while intended to be instructive, should not be considered as any sort of authoritative precedent. Each situation is judged entirely on its own merits, but the best advice is that any CPA considering this status should contact the VBOA directly for information related to his or her specific situation.

## Volunteer Treasurer

Many CPAs, even after their retirement, are called upon to serve in volunteer capacities as officers or board members for nonprofit organizations. These non-compensated services of such CPAs represent a valuable resource to the public. In 2012, the VBOA published a guide, "Providing Volunteer Services as a Virginia CPA," found at <http://tinyurl.com/mrqccv4>.

This publication notes the following:

*Services that result in giving assurance about the financial statements of a not-for-profit entity are the practice of public accounting and can only be provided by a firm, unless the assurance is given by an officer, employee, or member of the governing body of the entity about whom the financial information is presented.*

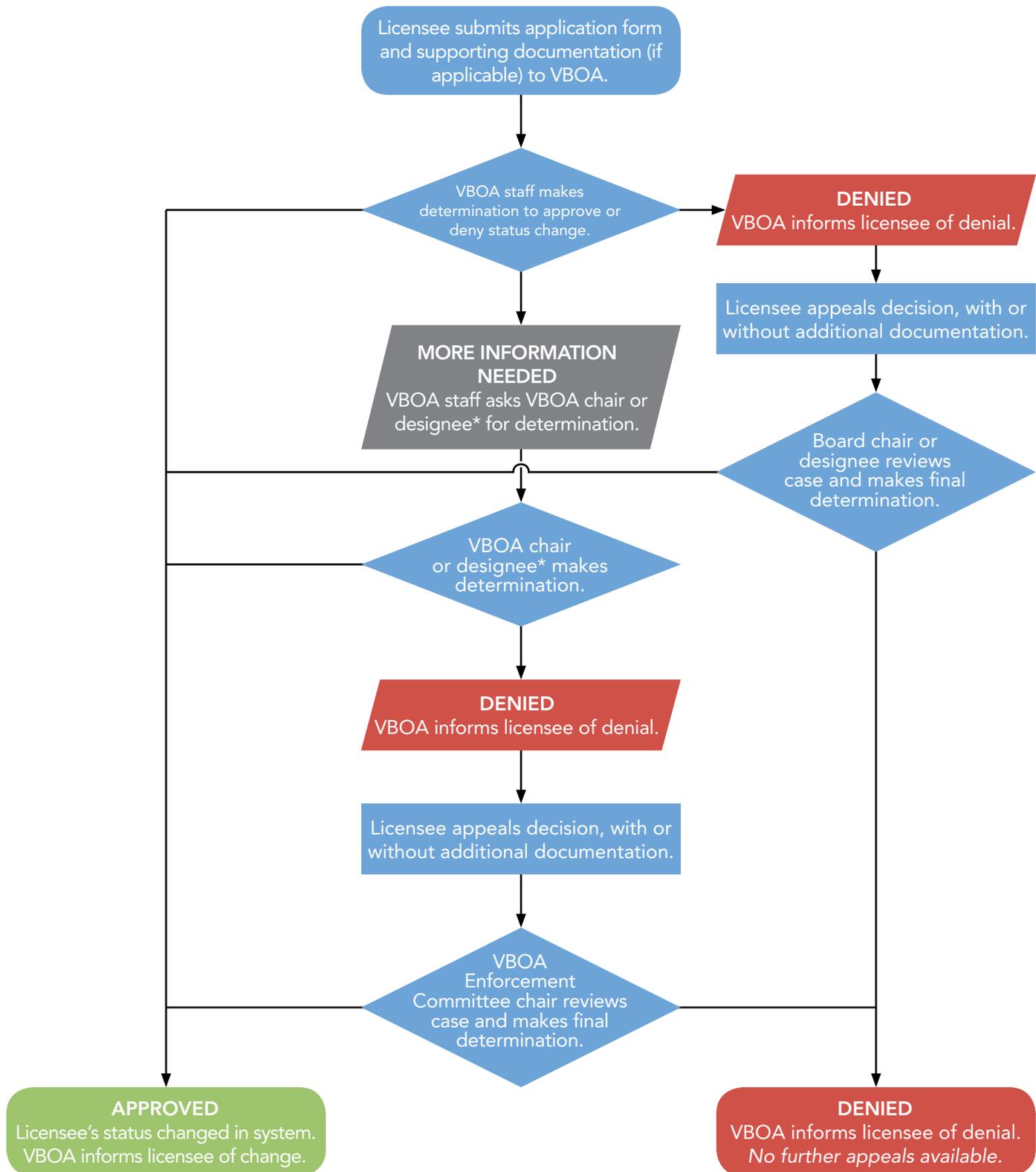
*A statement by a licensee who is the treasurer of a not-for-profit entity that the entity's financial statements present its financial results determined using accounting principles generally accepted in the United States of America would not be the practice of public accounting...*

A volunteer treasurer's work is explicitly excluded from the statutory definition of public accounting. The CPA, by virtue of being a volunteer, is not rendering services "to an employer," and as a result would be eligible for Active — CPE Exempt status, assuming the CPA was not employed otherwise or offering services to the public.

## Other Examples

CPE Exempt Job Titles	Non-CPE Exempt Job Titles
Missionary	Accountant
Not employed	Chief Financial Officer
Medical Doctor	Tax attorney
Teacher (non-accounting)	Director of Finance
Retired CPA	Budget analyst/manager
Stay-at-home parent	Accounting professor
President/Chief Executive Officer of large company	Comptroller/controller

# Active — CPE Exempt Determination Process



\* Excluding Enforcement Committee chair

# What's New From the VBOA?

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## VBOA Policy Changes for 2015

**VBOA Policy No. 2: Sponsors Providing Continuing Professional Education (CPE)**  
Effective Jan. 1, 2015, the VBOA updated its policy concerning sponsors providing CPE with regard to the annual Virginia-specific Ethics course. Beginning with the 2015 course, the VBOA designated the VSCPA as the provider of the Ethics course content and materials, which must be completed in accordance with the VBOA's approved annual course outline. The VBOA also specified that all instructors of the Ethics course must hold an active Virginia CPA license in good standing and that the course be instructor-led.

Further, any sponsor desiring to teach the Ethics course must fulfill the following requirements:

- Obtain the course content and materials from the VSCPA
- Be preapproved annually by VBOA staff, in writing, as a sponsor of the Ethics course
- Be listed on the VBOA website as a preapproved sponsor of the Ethics course
- Submit all participant comments to the VBOA within 60 days of receipt

Virginia CPAs will not be granted credit for completing a Virginia-specific Ethics course from a sponsor that is not approved in advance by the VBOA. Prior to taking a course from a sponsor other than the VSCPA, licensees should visit the VBOA website (<http://www.boa.virginia.gov>) to ensure that the CPE sponsor is properly approved to provide the Virginia-specific Ethics course. There is no preapproval process for other CPE courses.

Visit [www.vscpa.com/EthicsFAQ](http://www.vscpa.com/EthicsFAQ) for information on the VBOA's decision and the VSCPA's role in the Ethics course moving forward.

## **VBOA Policy No. 4: Continuing Professional Education (CPE) Guidelines**

A slightly revised Policy No. 4 has been issued with an effective date of Jan. 1, 2015. Most of the changes in the policy relate to the Virginia-specific Ethics course.

As noted previously, this policy specifically reminds the CPA that it is the licensee's responsibility, prior to taking an ethics course, to ensure that the sponsor providing the Virginia-specific Ethics course is listed on the Board's website as a preapproved sponsor. The prior policy merely reminded the licensee to ensure that the content of the course met the VBOA's approved course outline.

CPAs who are not satisfied with their course sponsor are encouraged to contact the VBOA. The policy also states that no CPE credit will be granted for courses provided by a non-approved sponsor. One policy change is that Policy No. 4 articulates that the 2-hour Virginia-specific Ethics course is "separate and distinct" from the one-time Ethics course from the AICPA which is required for initial licensure. While the AICPA's Ethics course was not previously allowed as an acceptable method of compliance with the VBOA's annual Ethics requirement, this point is now clearly stated in the amended policy.

There are no changes to:

- The 120-hour requirement on a three-year rolling basis, to include an annual 2-hour Virginia-specific Ethics course
- The 8 hours per year of attest/compilation related CPE for any person who can release or authorize release of attest or compilation reports
- The Documentation requirements for CPE

## **VBOA Policy No. 8: Ethics Committee**

On June 24, 2014, the VBOA adopted a new policy to provide guidelines to formally

# What's New From the VBOA?

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establish and maintain an Ethics Committee effective Jan. 1, 2015. The Committee has actually been in place for several years, but the policy documents its purpose, terms for members and certain restrictions on the appointment to the Committee, as follows:

- Developing for Board approval a proposed outline for the following year's Virginia-specific Ethics course
- Reviewing the previous year's Virginia-specific Ethics course content and material in order to provide the Board with comments and/or recommendations
- Reviewing comments received from participants regarding content and/or instruction related to the Virginia-specific Ethics course, forwarding any applicable recommendation to the Board
- Reviewing and providing recommendations to the Board regarding the pricing structure for the VSCPA's Virginia-specific Ethics course

Ethics Committee members are approved by the VBOA and cannot be current members of the VSCPA Board of Directors or current members of the VBOA. The Ethics Committee is made up of three or more members appointed for staggered three-year terms.

## Enforcement Cases

In order to fulfill its mission to protect the public, the VBOA has the authority under § 54.1-4413.4 of the Code of Virginia to impose penalties, specifically:

1. Revoking the privilege of using the CPA title in Virginia or providing attest services or compilation services to persons or entities located in Virginia;
2. Suspending or refusing to reinstate the privilege of using the CPA title in Virginia or providing attest services

or compilation services to persons or entities located in Virginia;

3. Reprimanding, censuring, or limiting the scope of practice of any person using the CPA title in Virginia or any firm providing attest services or compilation services to persons or entities located in Virginia;
4. Placing any person using the CPA title in Virginia or any firm providing attest services or compilation services to persons or entities located in Virginia on probation, with or without terms, conditions, and limitations;
5. Requiring a firm holding a Virginia license to have an accelerated peer review conducted as the Board may specify or to take other remedial actions;
6. Requiring a person holding a Virginia license to satisfactorily complete additional or specific continuing professional education as the Board may specify; and
7. Imposing a monetary penalty up to \$100,000 for each violation of the provisions of this chapter or regulations promulgated by the Board; any monetary penalty may be sued for and recovered in the name of the Commonwealth.

As detailed in item 7 above, the VBOA has the full authority of the Commonwealth — that is, the authority of the state's government — to sue and recover any penalties imposed.

The seven categories of penalties described above may be imposed for two broad categories of infractions, as further noted in § 54.1-4413.4 of the Code as quoted below:

- B. The Board may impose penalties on persons using the CPA title in Virginia or firms providing attest services or

# What's New From the VBOA?

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compilation services to persons or entities located in Virginia for:

1. Violation of the provisions of this chapter or regulations promulgated by the Board.
2. Fraud or deceit in obtaining, renewing, or applying for reinstatement or lifting the suspension of a Virginia license.
3. Revocation, suspension, or refusal to reinstate the license of another state for disciplinary reasons.
4. Revocation or suspension of the privilege of practicing before any state or federal agency or federal court of law.
5. Dishonesty, fraud, or gross negligence in providing services to an employer using the CPA title, in providing services to the public using the CPA title, or in providing attest services or compilation services.
6. Dishonesty, fraud, or gross negligence in preparing the person's or firm's own state or federal income tax return or financial statement.
7. Conviction of a felony, or of any crime involving moral turpitude, under the laws of the United States, of Virginia, or of any other state if the acts involved would have constituted a crime under the laws of Virginia.
8. Lack of the competence required to provide services to the public using the CPA title for persons and entities located in Virginia or to provide attest services and compilation services to persons and entities located in Virginia, as determined by the Board.

C. The Board may also impose penalties on:

1. A person who does not hold a Virginia license, or who does not meet the requirements to use the CPA title in Virginia under the substantial equivalency provisions of § 54.1-4411, and commits any of the acts prohibited by § 54.1-4414, or
2. An entity that does not meet the criteria prescribed by subdivision D 1 of § 54.1-4412.1 and commits any of the acts prohibited by § 54.1-4414.

Each year, as part of the Virginia-specific Ethics course, the VBOA provides examples of actual enforcement cases for the purpose of educating CPAs on particular issues that have been dealt with by the VBOA. These cases are not intended as any specific precedent — each case is judged entirely on its own merits. The cases included in this manual are summarized by VBOA staff, but additional information, if needed, may be obtained from the VBOA.

## Sources

Code of Virginia, Chapter 44:  
<http://tinyurl.com/6f9uc0x>

Virginia Board of Accountancy website:  
<http://www.boa.virginia.gov>

# What's New From the VBOA?

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CASE #1	FINAL ORDER § 54.1-4413.3 (3)
Summary of Violations	<p><b>IRS Circular 230 Subsection 10.28</b> <b>ET Section 501-7 of the AICPA Code of Professional Conduct</b> Violation of Standards of Conduct and Practice Acts Discreditable, Due Professional Care and Failure to Return Client Files</p>
Rationale	<p>The VBOA received a complaint indicating the Respondent was engaged to handle all bookkeeping, banking transactions, accounting and tax administration, to include the processing of all vendor and financial records, computation and payment on behalf of the practice of all payroll, payroll tax withholdings, business and payroll tax return payments, tax return preparation, and tax filings.</p> <p>The Respondent was responsible for making tax payments from monies paid to the Respondent by the client, including payment of estimated personal tax liabilities.</p> <p>Upon completion of the IFF and in consideration of any and all information submitted to the Board, the Board found that the Respondent failed to exercise due professional care by failing to file his client's personal and business payroll tax returns, failure to return client records upon many requests from his client and court orders, and failure to remit the clients personal and business payroll tax deposits to the IRS and the VA Department of Taxation.</p>
VBOA Action	<p>The VBOA ordered that the Respondent shall be subject to the following:</p> <ul style="list-style-type: none"><li>• Immediate revocation of the Respondents CPA License.</li><li>• Pay a monetary penalty of \$50,000 for failing to file his client's personal, business and payroll tax returns.</li><li>• Pay a monetary penalty of \$50,000 for failing to cooperate regarding the request to return the client's records made by the client and by court orders.</li><li>• Pay a monetary penalty of \$100,000 for failing to remit the client's personal and business payroll tax deposits to the Internal Revenue Service (IRS) and the Virginia Department of Taxation.</li></ul>
Date Closed	May 9, 2014

# What's New From the VBOA?

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## CASE #2 CONSENT ORDER § 54.1-111, § 54.1-4409.1 and § 54.1-4414

Summary of Violations Unlicensed Activity

### Rationale

The VBOA received a complaint from an anonymous source indicating the Respondent and his firm was offering to perform public accounting services and advertising specific staff members as CPA's without valid CPA licenses on his newly developed website.

Respondent stated there was no willful attempt to deceive or misrepresent the qualifications of the individuals named and that the firm did not promote the website in an effort to draw attention to it. They were not using it to attract new clients or communicate with any existing ones and that it was a very busy period of time for everyone concerned.

Upon consideration of any and all information, documentation and statements provided at the IFF, it was determined that the Respondent violated the Code of Virginia by offering to perform services restricted to licensed CPA's and CPA firms and by the unlicensed use of the CPA designation on the website. Respondent or Respondent's firm has never been licensed as a CPA or CPA firm.

### VBOA Action

The VBOA ordered that the Respondent shall be subject to the following:

- Immediate removal of all CPA signage, to include business cards, letterhead, email signatures or addresses, résumés, company bio's, newspapers, internet ads, websites, all social media to include but not limited to LinkedIn, Facebook, and any and all software with the CPA designation on it until he has been granted a CPA license by the Virginia Board of Accountancy.
- Pay a monetary penalty of \$1,000 for the unlicensed use of the CPA designation and the offering to perform services restricted to licensed CPA's and CPA firms on his website without a valid individual CPA, or firm CPA license in Virginia.
- Immediate cease and desist from using the language of CPA or offering to provide services restricted to licensed CPA's or CPA firms on his website until the Respondent and his firm have been granted a CPA license by the Board.
- Reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter.

Date Closed May 27, 2014

# What's New From the VBOA?

CASE #3	CONSENT ORDER § 54.1-4413.3 (6)
Summary of Violations	Violation of GAGAS by not having sufficient CPE, by improper client acceptance due to personal and firm licensure issues with N.C. BOA and various auditor reporting errors
Rationale	<p>The VBOA received information from the N.C. BOA regarding a Virginia CPA that audited financial statements for a firm located in Raleigh, N.C. while employed by an unlicensed N.C. accounting firm without a valid N.C. CPA individual or firm license.</p> <p>The Respondent was informed that he could not use his VA CPA title in N.C. if he is employed at a non-CPA firm, in that N.C. is a title state which means that any CPA living and/or working in N.C. must obtain an N.C. CPA certificate if the CPA wants to use or reference the CPA title in any manner.</p> <p>Upon consideration of any and all information provided at the IFF, it was determined that the Respondent violated section <b>§ 54.1-4413.3 (6)</b> of the <u>Code of Virginia</u> in that he violated GAGAS by not having sufficient CPE, by his improper client acceptance due to personal and firm licensure issues with the N.C. Board of Accountancy and various auditor reporting errors.</p>
VBOA Action	<p>The VBOA ordered that the Respondent shall be subject to the following:</p> <ul style="list-style-type: none"><li>• Be reprimanded for not complying with governmental auditing requirements in accordance with Generally Accepted Governmental Auditing Standards (GAGAS), also known as the Yellow Book.</li><li>• Be reprimanded for not complying with N.C. state license requirements regarding performing an audit without a valid N.C. CPA individual or firm license.</li><li>• Provide the Board with a 1,000 word essay on client acceptance and governmental auditor requirements in accordance with the Yellow Book.</li><li>• Reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter.</li><li>• Understand that failure to complete all terms and conditions of this Order shall result in the automatic suspension of his CPA license.</li></ul>
Date Closed	May 27, 2014

# What's New From the VBOA?

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## CASE #4 FINAL ORDER § 54.1-4413.3 (1) (2) (3) and (7)

Summary of Violations Acts Discreditable

**Rationale**

The VBOA received two complaints alleging misappropriation of funds, depositing executor and trustee fees from several estates and trusts into the Respondent's personal bank account rather than depositing the fees into the operating account of his firms, and by personally preparing a will for a client and naming himself as the executor.

The Respondent admitted to borrowing money from several clients which is strictly against the firm's policy.

The Respondent paid off all loans from clients except for one client who demanded \$22,000 in late fees of which his firm paid.

Admitted that he failed to report assets of the estates to the Commissioner of Accounts; Admitted to misappropriating funds from an Estate trust in front of witnesses.

Deposited executor and trustee fees from several estates and trusts into his personal bank account rather than depositing the fees into the operating account of his firm.

**VBOA Action**

The VBOA ordered that the Respondent shall be subject to the following:

- Immediate revocation of the Respondent's CPA License.
- Pay a monetary penalty of \$25,000 for performing a professional service for a client by attempting to waive penalties for one client to the detriment of another, creating a conflict of interest.
- Pay a monetary penalty of \$100,000 for the misappropriation of funds from the beneficiaries of the Estate/Related Trusts.
- Pay a monetary penalty of \$50,000 for the misappropriation of funds from his firm.
- Pay a monetary penalty of \$25,000 for practicing law without a proper license by personally preparing a will for his client and naming himself as the executor and beneficiary.

**Date Closed** March 20, 2014

# What's New From the VBOA?

## CASE #5 CONSENT ORDER § 54.1-111, § 54.1-4409.1 and § 54.1-4414

### Summary of Violations

Unlicensed Activity

### Rationale

The VBOA received an application for reinstatement of an expired CPA license from the Respondent stating on the application that he provided tax services during the time his CPA license was expired by signing Power of Attorney forms and tax returns as a CPA.

The Respondent stated that he seriously wants to correct this deficiency and continue to assist people with their tax preparation and bookkeeping and payroll needs with the CPA credential. The Respondent stated that he will continue to provide pro-bono services as Treasurer of several not-for-profit civic groups and that he does not offer nor conduct any audits or attest function services.

The Respondent indicated on the signed and notarized Cease and Desist Agreement that he has signed three 2848 Power of Attorney forms and 249 tax returns as a CPA during the time his CPA license had been expired. In addition, he listed the following forms that he used the CPA designation on during the time his license was expired: IRS 1040, 1041, 1065, 1120 and 1120S.

### VBOA Action

The VBOA ordered that the Respondent shall be subject to the following:

- Not practice as a CPA in the Commonwealth until the VBOA has granted reinstatement of his CPA license.
- Immediately remove all CPA signage, to include business cards, letterhead, email signatures or addresses, résumés, company bio's, newspapers, internet ads, all social media to include but not limited to LinkedIn, Facebook, and any and all software with the CPA designation on it until he has been granted reinstatement of his CPA license.
- Be reprimanded for not being cognizant of the rules and regulations regarding the use of the CPA title in Virginia.
- Pay a monetary penalty of \$4,000 for the unlicensed use of the CPA designation during the time his CPA license had been expired.
- Reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter.
- Understand that completion of all terms and conditions of this Order are required prior to the consideration of his application for the reinstatement of his expired CPA license.

### Date Closed

June 24, 2014

# What's New From the VBOA?

## CASE #6 CONSENT ORDER Board Regulation 18VAC5-22-90

Summary of Violations CPE Deficiency

### Rationale

The Respondent was sent a CPE audit selection notice for the reporting period of 2011, 2012 and 2013. The Respondent stated in his response to the audit that he was deficient and that when he was initially licensed he was told that doing academic teaching would satisfy his annual CPE requirements and that the CPE regulations changed in 2010 and that he was not made sufficiently aware of the changes.

The Respondent was provided a notice of deficiency in a Consent Order indicating the VBOA CPE requirements were not met and referenced a specific sanction relevant to the deficiency of 90 CPE for the three year reporting period.

The Respondent stated that by obtaining contracts to teach Accounting courses, he thought he was fulfilling a requirement only to find out he was not.

Upon receipt of the CPE deficient Consent Order, the Respondent contacted the VBOA and requested an IFF Hearing. Upon conclusion of the IFF it was determined that the Respondent would be offered a revised Consent Order.

### VBOA Action

The VBOA ordered that the Respondent shall be subject to the following:

- Pay a monetary penalty of \$1,000 for the deficiency of 90 CPE, including the Virginia-specific Ethics Course, for calendar years 2011, 2012 and 2013.
- Submit the deficient 90 CPE hours to satisfy the 2011, 2012 and 2013 reporting period deficiency by December 31, 2014. The deficient hours submitted do not count towards the current or future year requirements.
- Submit verification of CPE compliance for the three calendar years of 2014, 2015 and 2016 by submitting CPE certificates of completion, including the Virginia-specific annual Ethics Course, by December 31st of each of the three calendar years.
- Understand that failure to meet any terms and conditions of the Order will result in the automatic suspension of the CPA license until such time that the terms and conditions have been met.

Date Closed June 24, 2014

# What's New From the VBOA?

## CASE #7

## CONSENT ORDER § 54.1-4413.4 (B) Subsection 6 & 7

### Summary of Violations

Suspended from practicing before the IRS and failed to file his taxes

### Rationale

The VBOA received a self-reported felony conviction and disciplinary action notice via email from the Respondent stating that he was convicted of a felony in the US District Court in Alexandria, Virginia for not reporting part of his personal income for 2001, 2002 and 2003 to the IRS. As a result of the felony conviction, the Respondent was suspended from practicing before the IRS.

The Respondent's explanation indicated that during 2001, 2002, and 2003, while he was on disability income from his former employer, he performed tax services for clients and the income from the services was not reported on his tax returns for 2001, 2002 and 2003.

The Respondent violated **§ 54.1-4413.4 (B) Subsection 6 & 7** of the Code of Virginia, by failing to report additional income on his 2001, 2002 and 2003 personal tax returns from services he provided to his clients during the time he collected disability income and was therefore in violation of United States Code 26 U.S. C. § 7206 (1), making and subscribing false tax returns.

### VBOA Action

The VBOA ordered that the Respondent shall be subject to the following:

- Be reprimanded for failing to correctly file his personal Federal and State taxes for the tax reporting years of 2001, 2002 and 2003 and for being suspended from practice before the IRS.
- Prior to providing services as a CPA, the Respondent must complete and provide certificates of completion of 120 CPE credits or contact the Board to work out a CPE schedule.
- Reimburse the VBOA for the reasonable cost of \$500 for the investigation of this matter.

### Date Closed

Nov. 6, 2013

# What's New From the VBOA?

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## The VBOA's New CPE Tracking System

If you find yourself subject to a CPE audit from the VBOA, you'll be using a new system to provide documentation. Beginning Nov. 1, 2014, the VBOA, in cooperation with NASBA, began offering a CPE tracking system for all active Virginia CPAs. This system is available for licensees' use at no charge and allows licensees to keep track of and store all of their CPE records in one location.

The VBOA is moving to a targeted CPE audit rate of 5 percent, up from 3 percent. Beginning in 2015, any licensee selected for a CPE audit will be required to use this system to submit his or her CPE records and documentation to the VBOA. However, licensees may use this system for their convenience for annual tracking of their CPE records.

Use of this tracking system does not reflect a final determination of CPE compliance. The VBOA has the final authority on the acceptance of individual courses and documentation for CPE credit. The VBOA will not use this data unless a licensee is selected for a CPE audit. The VBOA's database used to select licensees for audit is separate from the tracking system and the systems do not communicate with each other.

While CPE records and documentation can be entered and stored within the system, attaching documentation (Certificates of Completion, etc.) at the same time as CPE credit entry is not a requirement. Licensees may save their CPE information and upload documentation at a later time.

A user account has already been created in the tracking system for all Virginia CPAs. A licensee

will need his or her Virginia CPA license number and CPE Tracking System password to log in. Initial passwords were provided to licensees through email or a letter. A password change is required upon initial login.

For licensees taking VSCPA courses, any coursework completed through the VSCPA over the last four years, in which the VSCPA issued the certificate of attendance, will be transferred to the new system. The VSCPA's annual Ethics course will be recorded in the system regardless of course format (live, online, etc.). Licensees may manually enter data on coursework completed through other providers at any time.

For questions or assistance, contact VBOA CPE Coordinator Christine Rappe at (804) 367-1568 or at [christine.rappe@boa.virginia.gov](mailto:christine.rappe@boa.virginia.gov).

## FSBA Legislation Takes Effect

Legislation passed during the 2014 Virginia General Assembly session instituting a procedural change to the Facilitated State Board Access (FSBA) system went into effect July 1, 2014.

As of that date, CPA firms can no longer "opt out" of the FSBA system. Previously, firms could elect not to allow the VBOA to access their peer review records through the system, although the VBOA could access those records via request.

The VBOA can now access all peer review documents through the FSBA system.

As always, the VBOA has taken the pulse of the profession and identified specific topics that, while they don't fit in the other sections of the course, are important to CPAs in various sectors of the profession. Check the following chart to see if any of the following topics apply to your practice:

- Out-of-state registration requirements for firms that perform attest engagements
- IRS Circular 230, what's changed and who it affects
- SSARS No. 21, dealing with accounting and review services
- Recent activity from the Private Company Council

## Attest Engagements and Out-of-State Registration Requirements

The AICPA's State Regulation and Legislation Team is urging CPA firms to review their registration compliance procedures to ensure they are in compliance with out-of-state registration requirements when performing attest engagements.

This recommendation was released in light of recent activity by some state boards of accountancy to ensure out-of-state firms operating in their states have met registration requirements, as well as increased focus by regulators on CPA firms performing employee benefit plan (EBP) audits. The AICPA Peer Review team has been working with state society peer review administrators to address situations where peer reviews of firms did not properly include an EBP audit, based on the AICPA's peer review database and a list of EBP

auditors provided by the U.S. Department of Labor (DOL).

Some state boards of accountancy are also comparing firm information from their licensee databases against a list of auditors who performed EBP audits in their state. The DOL provided NASBA with a list of firms that performed EBP audits in 2012 as part of its initiative to ensure that firms performing such audits are in compliance with Employee Retirement Income Security Act (ERISA) requirements.

Most state accountancy statutes require CPA firms to register when performing an attest engagement for a client in a state which is not the CPA firm's home state. Many states, including Virginia, have CPA mobility laws that do not require out-of-state firms to register or pay fees when performing attest engagements in those states. More information is available at [www.cpamobility.org](http://www.cpamobility.org).

Some state boards of accountancy have examined the DOL audit information and compared it to licensed firms in their state, with some communicating with CPA firms which appear to not be appropriately licensed. The VBOA plans to undertake a comprehensive audit of the information provided by the DOL, along with its own list of licensed CPAs and CPA firms.

As of the publication of this manual, the VBOA has not determined how it will proceed with individuals or firms that are not in compliance. However, firms that have violated VBOA statutes or regulations will be referred to the board's Enforcement Committee.

# Trending Topics in the CPA Profession

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CPA firms which find themselves in noncompliance are urged to work quickly with state boards to address any lapses and to undertake a proactive review of their registrations in all states in which they perform attest services.

For more information, contact AICPA Vice President for State Regulation and Legislation Mat Young at [myoung@aicpa.org](mailto:myoung@aicpa.org).

## Changes to Circular 230

Circular 230 is the IRS publication containing the statute and regulations specifying the tax professional's obligations and duties when practicing before the IRS. It addresses exactly who administers the contents of Circular 230, who is considered a tax practitioner for purposes of Circular 230 and what is considered practicing before the IRS. It is divided into a number of subparts:

- Rules governing the authority to practice
- Duties and restrictions relating to practice before the IRS
- Sanctions for violations of the regulations
- Rules applicable to disciplinary proceedings
- General provisions

Title 31, Section 330 of the United States Code grants the Treasury Department the authority to regulate agents representing claimants before the Department. Prior to 1921, the Department issued the regulations concerning these activities in a number of circulars. These were consolidated in 1921, and Treasury Department Circular 230 was born. Its official title at the time was "Laws and Regulations Governing the Recognition of Attorneys and Agents and Other Persons Representing Claimants Before the Treasury Department."

Title 31, through IRS Circular 230, seeks to ensure that tax professionals possess the requisite character, reputation, qualifications and competency to provide valuable service to clients in presenting their cases to the IRS. The Treasury Department declared the existing Circular 230 rules had become onerous for tax professionals and sometimes misleading for clients (which included the overuse of disclaimers), decided changes were necessary and published proposed regulations on Sept. 17, 2012. Most of these changes were adopted, including sections which were revised, updated and in some cases eliminated as well as changes in terminology.

## What Does "Practicing Before the IRS" Mean?

Practicing before the IRS entails all matters connected with presentations to the IRS, or any of its officers or employees, relating to a taxpayer's rights, privileges or liabilities under laws or regulations administered by the IRS. These presentations include, but are not limited to:

- Preparing documents
- Filing documents
- Corresponding and communicating with the IRS
- Rendering oral or written advice with respect to any entity, transaction, plan or arrangement
- Rendering oral or written advice with respect to any plan or arrangement having a potential for tax avoidance or evasion
- Representing a client at conferences, hearings and meetings

Those who "practice before the IRS" and consequently are governed by Circular 230 are required to be familiar with it and its requirements.

# Trending Topics in the CPA Profession

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Several new court rulings created a significant “crack in the ice.” The District of Columbia Circuit Court of Appeals upheld a district court opinion that preparing tax returns is not practicing before the IRS and, thus, the IRS does not have authority to regulate. (*Loving v. IRS*, 742 F.3d 1013 (D.C. Cir 2014)). The implications of this ruling are far-reaching as seen in a subsequent ruling. In *Ridgely v. Lew*, 114 A.F.T.R 2nd 2014-5249 (D.C. Dist. Col.), the court followed the reasoning of the *Loving* case and ruled the IRS prohibition of contingent fees for ordinary refund claims is invalid. The scope of this situation is seen in the IRS Return Preparer Office’s (RPO) release of the number of paid tax return preparers. Unenrolled and unlicensed tax return preparers number 403,008 and comprise 57 percent of the total. The remaining 308,548 tax return preparers have professional credentials (256,669 attorneys and CPAs and 51,879 enrolled agents).

## Who Is Affected by Circular 230?

Circular 230 regulations define who is subject to the regulations within it as follows:

- State-licensed attorneys authorized and in good standing with their state licensing authority who interact with tax administration at any level and in any capacity
- State-licensed CPAs authorized and in good standing with their state licensing authority who interact with tax administration at any level and in any capacity
- Persons enrolled to practice before the IRS, including;
  - o Enrolled Agents
  - o Enrolled Retirement Plan Agents
  - o Enrolled Actuaries
- Persons providing appraisals used in

connection with tax matters (e.g. charitable contributions, estate and gift assets, fair value for sales gain, etc.)

- Unlicensed individuals who represent taxpayers before the examination, customer service or the IRS’s Taxpayer Advocate Service in connection with returns they prepared and signed
- Licensed and unlicensed individuals who give written advice with respect to any entity, transaction plan or arrangement, or other plan or arrangement, which is of a type the IRS determines as having a potential for tax avoidance or evasion. For this purpose, “written advice” includes all forms of written material, including the content of an email, given in connection with any law or regulation administered by the IRS.
- Any person submitting a power of attorney in connection with limited representation or special authorization to represent before the IRS with respect to a specific matter before the Agency

## Who Administers Circular 230?

The Office of Professional Responsibility (OPR) executes the IRS’s strategy of enhancing enforcement of the tax law by ensuring tax professionals adhere to tax practice standards and follow the law. OPR, as the governing body responsible for interpreting and applying Circular 230, has the exclusive responsibility for practitioner conduct and discipline, including instituting disciplinary proceedings and pursuing sanctions. It is important to note this extends to all individuals who are “practicing before the IRS.” The OPR is organized into three major segments:

- The Office of the Director provides primary supervisory responsibility for OPR and is

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the final decision-maker on all disciplinary recommendations

- The Legal Analysis Branch (LAB) interprets and applies the standards of practice for tax professionals and conducts the analysis, investigation and disciplinary process involving alleged practitioner misconduct
- The Operations and Management (O&M) manages OPR's administrative, communications, budgetary and personnel functions

## When Are the Changes Effective?

The new Circular 230 rules went into effect June 12, 2014.

## What Sections Were Changed and What Were the Changes?

### Section 10.1 Offices

The change in this section involved a wording change to clarify that the Office of Professional Responsibility has exclusive responsibility for matters related to practitioner discipline, including disciplinary proceedings and sanctions.

### Section 10.22 Diligence as to Accuracy

This section was amended to read "...except as provided in §§ 10.34 and 10.37, a practitioner will be presumed to have exercised due diligence for purposes of this section if the practitioner relies on the work product of another person and the practitioner used reasonable care in engaging, supervising, training and evaluating the person, taking proper account of the nature of the relationship between the practitioner and the person." This represents an expansion of the existing responsibility of the tax practitioner and provides limitations when relying upon the work of others. Since CPAs are already covered by

extensive due diligence requirements, we will not devote a lot of time to analyzing this section.

### Section 10.31 Negotiation of Taxpayer Checks

This section provides that "a practitioner may not endorse or otherwise negotiate any check (including directing or accepting payment by any means, electronic or otherwise, into an account owned or controlled by the practitioner or any firm or other entity with whom the practitioner is associated) issued to a client by the government in respect of a Federal tax liability." This clarifies that the prohibition applies to today's electronic environment.

### Section 10.35 (OLD Circular 230) Covered Opinions

The previous section 10.35 on covered opinions was eliminated and a new section 10.37 addressing a reason-based standard for written advice was added. The section number 10.35 was reused for a new topic.

### Section 10.35 (NEW Circular 230 effective June 12, 2014) Competence

This new section provides "a practitioner must possess the necessary competence to engage in practice before the IRS. Competent practice requires the appropriate level of knowledge, skill, thoroughness and preparation necessary for the matter for which the practitioner is engaged. A practitioner may become competent for the matter for which the practitioner has been engaged through various methods, such as consulting with experts in the relevant area or studying the relevant law."

This is the addition of a specific section with an explicit requirement that each practitioner be competent. Since CPAs are already covered by extensive competency requirements, we will not devote a lot of time to analyzing this section.

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## Section 10.36 Procedures to Ensure Compliance

This section reads:

*Any individual subject to the provisions of this part who has (or individuals who have or share) principal authority and responsibility for overseeing a firm's practice governed by this part, including the provision of advice concerning Federal tax matters and preparation of tax returns, claims for refund, or other documents for submission to the Internal Revenue Service, must take reasonable steps to ensure that the firm has adequate procedures in effect for all members, associates, and employees for purposes of complying with subparts A, B, and C of this part, as applicable. In the absence of a person or persons identified by the firm as having the principal authority and responsibility described in this paragraph, the Internal Revenue Service may identify one or more individuals subject to the provisions of this part responsible for compliance with the requirements of this section.*

*(b) Any such individual who has (or such individuals who have or share) principal authority as described in paragraph (a) of this section will be subject to discipline for failing to comply with the requirements of this section if—*

*(1) The individual through willfulness, recklessness, or gross incompetence does not take reasonable steps to ensure that the firm has adequate procedures to comply with this part, as applicable, and one or more individuals who are members of, associated with, or employed by, the firm are, or have, engaged in a pattern or practice, in connection with their*

*practice with the firm, of failing to comply with this part, as applicable;*

*(2) The individual through willfulness, recklessness, or gross incompetence does not take reasonable steps to ensure that firm procedures in effect are properly followed, and one or more individuals who are members of, associated with, or employed by, the firm are, or have, engaged in a pattern or practice, in connection with their practice with the firm, of failing to comply with this part, as applicable; or*

*(3) The individual knows or should know that one or more individuals who are members of, associated with, or employed by, the firm are, or have, engaged in a pattern or practice, in connection with their practice with the firm, that does not comply with this part, as applicable, and the individual, through willfulness, recklessness, or gross incompetence fails to take prompt action to correct the noncompliance.*

This represents an extensive change to the superseded section with major implications by imposing rigorous oversight responsibilities on the individuals who have "principal authority and responsibility for overseeing a firm's practice." This oversight responsibility requires the managers to ensure not only the establishment of procedures to ensure compliance, but also that those procedures are followed. Some commentators have interpreted this procedures requirement to imply procedures must be written even for sole proprietors.

An analysis of this section illustrates several other elements of significant concern and

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potential liability. Under 10.36 (a), if no person in the firm has principal authority and responsibility, the IRS may identify one or more individuals responsible for compliance. Under Section 10.36, the IRS imposes a standard of “knows or should know” on firm management so that it is responsible and cannot ignore when a practitioner is not compliant with their personal income tax obligations.

## Section 10.37 (NEW Circular 230 effective June 12, 2014) Requirements for Written Advice

One of the most discussed sections of the new changes addresses 10.37 with its requirements for written advice. This section replaces the old section 10.35 and eliminates the Circular 230 disclaimer most practitioners automatically inserted at the bottom of every email. The new rules do not prohibit statements describing any reasonable and accurate limitations of the advice given. The intent of the IRS is to apply one standard for all written tax advice so the practitioner must base all written advice on reasonable factual and legal assumptions, exercise reasonable reliance and consider relevant facts the practitioner knows or should know. It is important to realize this reasonable assumptions and reliance standard extends to informal advice.

In order to apply this section, the practitioner must understand what defines a “federal tax matter,” what constitutes “reasonable reliance”, understand the section’s requirements for written advice and follow the section’s “standard of review”. With respect to reasonable reliance, this section imposes a due diligence requirement to investigate and evaluate the integrity, competency and independence (freedom from conflicts of interest) of anyone whose advice is relied upon. When conflicts of interest exist, the IRS does allow the use of waivers which comply with Circular 230 Section 10.29.

With respect to the standard of review, compliance with this section applies a reasonable practitioner standard, considering all facts and circumstances, including, but not limited to, the scope of the engagement and the type and specificity of the advice sought by the client. With the scope of engagement specifically referenced in the section, it illustrates the importance of having a written engagement letter that details the type and specificity of the advice sought by the client and agreed upon. It is important to note the IRS considers the use of the advice to place emphasis on the standard given to the additional risk under selected circumstances. Several areas in the following are formatted in bold to bring particular attention to specific elements in the section.

This section reads:

### § 10.37 Requirements for written advice.

#### (a) Requirements.

(1) A practitioner may give written advice (including by means of electronic communication) concerning one or more Federal tax matters subject to the requirements in paragraph (a)(2) of this section. Government submissions on matters of general policy are not considered written advice on a Federal tax matter for purposes of this section. Continuing education presentations provided to an audience solely for the purpose of enhancing practitioners’ professional knowledge on Federal tax matters are not considered written advice on a Federal tax matter for purposes of this section. The preceding sentence does not apply to presentations marketing or promoting transactions.

(2) The practitioner must—

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- (i) *Base the written advice on reasonable factual and legal assumptions (including assumptions as to future events);*
  - (ii) *Reasonably consider all relevant facts and circumstances that the practitioner knows or reasonably should know;*
  - (iii) *Use reasonable efforts to identify and ascertain the facts relevant to written advice on each Federal tax matter;*
  - (iv) *Not rely upon representations, statements, findings, or agreements (including projections, financial forecasts, or appraisals) of the taxpayer or any other person if reliance on them would be unreasonable;*
  - (v) *Relate applicable law and authorities to facts; and*
  - (vi) *Not, in evaluating a Federal tax matter, take into account the possibility that a tax return will not be audited or that a matter will not be raised on audit.*
- (3) *Reliance on representations, statements, findings, or agreements is unreasonable if the practitioner knows or reasonably should know that one or more representations or assumptions on which any representation is based are incorrect, incomplete, or inconsistent.*
- (b) *Reliance on advice of others. A practitioner may only rely on the advice of another person if the advice was reasonable and the reliance is in good faith considering all the facts and circumstances. Reliance is not reasonable when—*
- (1) *The practitioner knows or reasonably should know that the opinion of the other person should not be relied on;*
  - (2) *The practitioner knows or reasonably should know that the other person is not competent or lacks the necessary qualifications to provide the advice; or*
  - (3) *The practitioner knows or reasonably should know that the other person has a conflict of interest in violation of the rules described in this part.*
- (c) *Standard of review.*
- (1) *In evaluating whether a practitioner giving written advice concerning one or more Federal tax matters complied with the requirements of this section, the Commissioner, or delegate, will apply a reasonable practitioner standard, considering all facts and circumstances, including, but not limited to, the scope of the engagement and the type and specificity of the advice sought by the client.*
  - (2) *In the case of an opinion the practitioner knows or has reason to know will be used or referred to by a person other than the practitioner (or a person who is a member of, associated with, or employed by the practitioner's firm) in promoting, marketing, or recommending to one or more taxpayers a partnership or other entity, investment plan or arrangement a significant purpose of which is the avoidance or evasion of any tax imposed by the Internal Revenue Code, the Commissioner, or delegate, will apply a reasonable practitioner standard, considering*

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*all facts and circumstances, with emphasis given to the additional risk caused by the practitioner's lack of knowledge of the taxpayer's particular circumstances, when determining whether a practitioner has failed to comply with this section.*

(d) *Federal tax matter. A Federal tax matter, as used in this section, is any matter concerning the application or interpretation of—*

(1) *A revenue provision as defined in section 6110(i)(1)(B) of the Internal Revenue Code;*

(2) *Any provision of law impacting a person's obligations under the internal revenue laws and regulations, including but not limited to the person's liability to pay tax or obligation to file returns; or*

(3) *Any other law or regulation administered by the Internal Revenue Service.*

(e) *Effective/applicability date. This section is applicable to written advice rendered after June 12, 2014.*

## Section 10.81 Petition for Reinstatement

This section reads:

(a) *In general. A practitioner disbarred or suspended under §10.60, or suspended under §10.82, or a disqualified appraiser may petition for reinstatement before the Internal Revenue Service after the expiration of 5 years following such disbarment, suspension, or disqualification (or immediately following the expiration of the suspension or disqualification period, if shorter than 5 years). Reinstatement will not be granted unless the Internal Revenue Service is satisfied that the petitioner is not likely*

*to engage thereafter in conduct contrary to the regulations in this part, and that granting such reinstatement would not be contrary to the public interest.*

The change to this section was to make the section consistent by applying the same five-year time period to both disbarred and suspended practitioners. (Before this change, suspensions were effective until lifted by the IRS, an Administrative Law Judge, or the Secretary.)

## Section 10.82 Expedited Suspension

Section 10.82 is a lengthy, rewritten section that details when the IRS can use expedited suspension procedures. The changes to this section expanded the categories of violations to include failure to comply with personal filing requirements. This noncompliance is considered to demonstrate a pattern of willful and disreputable conduct when exhibited over several periods as the following explains:

- (5) *Has demonstrated a pattern of willful disreputable conduct by—*
- (i) *Failing to make an annual Federal tax return, in violation of the Federal tax laws, during 4 of the 5 tax years immediately preceding the institution of a proceeding under paragraph (c) of this section and remains noncompliant with any of the practitioner's Federal tax filing obligations at the time the notice of suspension is issued under paragraph (f) of this section; or*
  - (ii) *Failing to make a return required more frequently than annually, in violation of the Federal tax laws, during 5 of the 7 tax periods immediately preceding the institution of a proceeding under paragraph (c) of this section and*

# Trending Topics in the CPA Profession

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*remains noncompliant with any of the practitioner's Federal tax filing obligations at the time the notice of suspension is issued under paragraph (f) of this section.*

## Sources

Hawkins, Karen. "Circular 230 Overview: Key Provisions and Responsibilities for Tax Professionals." June 2014:  
<http://tinyurl.com/prdys8k>

Hawkins, Karen. "What Every Tax Return Preparer Needs to Know: Key Circular 230 Provisions" (PDF):  
<http://tinyurl.com/osvzx6f>

"Guidance Regarding Professional Obligations under Treasury Circular No 230" (PDF):  
<http://tinyurl.com/knwnw8x>

IRS Internal Revenue Bulletin No. 2012-40. Oct. 1, 2012:  
<http://tinyurl.com/oaq9gfm>

IRS Circular 230: <http://tinyurl.com/2o3s26>

# Trending Topics in the CPA Profession

## Follow-up on the Oct. 23, 2013 “Proposed Statements on Standards for Accounting and Review Services”

The 2014 VSCPA Ethics course covered the Exposure Draft preceding the release of SSARS 21. So, as a follow-up and transition from the information presented in the 2014 course, it helps to compare the exposure draft to the finalized standards.

In a comparison of the new Standard SSARS 21 with Exposure Draft from Oct. 23, 2013, there are two major differences:

- Omission of a separate Section 50 for Association with Financial Statements
- SSARS 21 includes more than just Sections 70 and 80 from the Exposure Draft

As a refresher to last year’s exposure draft, the following table compares and contrasts the attributes of the SSARS 21 Sections 70 and 80:

	Compilation	Preparation
When does the standard apply?	When an accountant is engaged to perform a compilation	When an accountant is engaged to prepare financial statements
Is an engagement letter required?	Yes	Yes
Is the accountant required to determine if he or she is independent of the client?	Yes	No
If the accountant is not independent, is that fact required to be disclosed?	Yes	N/A
Does the engagement require a report?	Yes	No <sup>1</sup>
May the financial statements go to users outside of management?	Yes	Yes
May the financial statements omit notes?	Yes	Yes

<sup>1</sup> When an accountant is engaged to prepare financial statements, the accountant is required to include an adequate statement on each page of the financial statements indicating that no CPA provides any assurance on the financial statements. If the accountant is unable to include an adequate statement on each page of the financial statements, the accountant is required to issue a disclaimer on the financial statements. Additional disclosures may be required.

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## Background and Context

A little background information is useful and appropriate in understanding this topic. SSARS 21 results from a recognition and admission that the existing Standards for Accounting and Review Services standards (AR Sections) were lengthy, complex and difficult to read and understand. The Auditing Standards Board (ASB) previously acknowledged similar concerns and initiated their own clarity projects. Historically, many practitioners only read parts of the standards as opposed to their entirety due to these issues.

The finalized SSARS 21 standards result from the AICPA's Accounting and Review Services Committee (ARSC) efforts to clarify and revise the standards for reviews, compilations and engagements to prepare financial statements. In reviewing and recognizing the needs of the audience in the accounting community, the small practitioner was particularly targeted. One of the overriding goals is to ensure financial statements cannot be misleading to users.

Previous accounting standards had evolved with different formats and drafting guidelines contributing to the existing problems. ARSC desired compatible formatting and drafting guidelines with the ASB project. Accordingly, SSARS 21 follows the same format as auditing standards. ARSC efforts to shorten and ease the application of the standards are illustrated in the resulting successful conciseness of the sections. Section 70, Preparation of Financial Statements is only 22 requirement paragraphs and 19 application paragraphs. Section 80 is only 38 requirement paragraphs and 43 application paragraphs.

## SSARS 21 Overview

Within the Standards for Accounting and Review Services, the scope of SSARS 21 is so

extensive it is easier to initially disclose what is not affected. AR Section 120, Compilation of Pro Forma Financial Information (which is only about four pages long) is NOT superseded by SSARS 21. A release for public comment of a draft exposure of AR Section 120 in the clarified format is expected in 2015. SSARS 21 supersedes all other existing AR sections for reviews, compilations and engagements to prepare financial statements.

The new standards of SSARS 21 consist of four separate sections. These sections are codified as AR-C to denote them from the superseded sections.

- AR Section 60, General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services
- AR Section 70, Preparation of Financial Statements
- AR Section 80, Compilation Engagements.
- AR Section 90, Review of Financial Statements

A key to understanding and successfully applying SSARS 21 is to understand the importance and role the engagement (and engagement letter) itself has. SSARS 21 is engagement-driven, and the basis for application of many aspects of SSARS 21 are applied or determined at the engagement level. As such, any engagement letter needs to be very specific as to exactly what the accountant is engaged to do. It is strongly suggested the accountant meet with the client annually to discuss specifically the exact services offered and to prepare a new engagement letter each year. Both the client and the accountant (or accounting firm) must sign the engagement letter. A separate engagement letter for each type of service provided by the accountant is not required. However, while the engagement letter can include all services provided by the

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accountant during the year, ensure that all required elements for each type of engaged service are included.

In discussions about SSARS 21 application, the effective date is one of the issues, which seems to initiate many questions and confusion at this time.

## Effective Date

Officially, SSARS 21 is effective for financial statements for periods on or after Dec. 15, 2015.

It is important to recognize early implementation is permitted. One aspect of particular importance is the implementation can be on a client-by-client basis within the firm. Early adoption does not have to be firm-wide. However, it may be easier for some firms' quality-control processes to only monitor one set of standards.

The effective date is based ONLY upon the financial statement date regardless of whether an entity is on a fiscal or calendar year. For example, if the date on the balance sheet in the financial statements is Dec. 10, 2015, then application of SSARS 21 is not required. If the date on the balance sheet in the financial statements is Dec. 20, 2015, then application of SSARS 21 is required.

## AR Section 60: General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services

SSARS 21 general principles must be followed regardless of whether the engagement is a preparation, compilation or review.

Section 60 includes requirements and guidance on:

- Ethical requirements
- Professional judgment
- Conduct of the engagement in accordance with SSARS
- Engagement-level quality control
- Acceptance and continuance of client relationships and engagements

A few reminders are appropriate with respect to AR Section 60. Professional judgment is always required. The accountant should know his or her clients' businesses and their respective industries for acceptance and continuation. And when applying the new SSARS, remember that guides and publications are not authoritative. SSARS 21 is the authoritative standard.

## AR Section 70: Preparation of Financial Statements

This standard applies when an accountant in public practice is engaged by management to prepare financial statements. It applies to both financial statements with and without disclosures. The statement does not apply to the following:

- Preparation of financial statements when engaged to perform audit, review or compilation with respect to financial statements
- Preparation of tax returns or other data prepared solely for submission to taxing authorities
- Personal financial statements prepared for inclusion in written financial plans prepared by the CPA
- In conjunction with business valuation services
- When the accountant is engaged to merely assist in preparing financial statements
- Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings

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A word of caution is in order with respect to the above. When there is a question as to applicability, error on the side of applying Section 70.

The preparation engagement is clarified as a nonattest service and does not require independence. In addition, the accountant is not required to verify accuracy or completeness of the information provided or otherwise gather evidence to express an opinion or a conclusion or otherwise report on the financial statements. A report is not required even if the financial statements are expected to be used by a third party. The current consensus is that preparation engagements are not within the scope of peer reviews.

Remember one of the overriding goals is to ensure that financial statements cannot be misleading to users. Do not prepare any financial statements which mislead users! Section 70 has a major emphasis on disclosures. Disclosure of no assurance is mandatory. Disclosures are also required when:

- The financial statements omit substantially all disclosures
- The financial statements contain a known framework departure
- A special purpose financial reporting framework is used to prepare the financial statements

A legend is required on each page of the financial statements that no assurance is provided.

- Legend must ensure users that the accountant is providing no assurance with respect to the financial statements
- Software vendors are expected to include the capability in their software
- If management refuses or cannot include the legend, the accountant can issue a

disclaimer report, perform a compilation engagement or resign.

- o If a disclaimer is issued, it should make clear no assurance is provided on the financial statements
- o If a compilation engagement is substituted, it must comply with Section 80 of SSARS 21

If a disclaimer is issued, it should precede the financial statement pages. Here is a sample disclaimer:

The accompanying financial statements of XYZ Company as of and for the year ended Dec. 31, 20XX, were not subjected to an audit, review or compilation engagement by me (us) and, accordingly, I (we) do not express an opinion, a conclusion, nor provide any assurance on them.

[Signature of accounting firm or accountant, as appropriate]

[Accountant's city and state]

[Date]

If the financial statements are prepared in accordance with a special purpose financial reporting framework (formerly known as OCBOA), the accountant is required to include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statements.

The disclosure requirements of AR Section 70 cover and eliminate the old "Management Use Only" and "See Accountants Report" financial statements.

## AR Section 80: Compilation Engagements

This standard applies when an accountant is engaged to perform a compilation engagement. The standard may also be

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applied as necessary in the circumstances to other than the compilation of historical or prospective financial information. Those familiar with SSARS No. 19 will recognize striking similarities.

Some elements of AR Section 80 are:

- Retains the independence requirements from the SSARS 19
- Can be applied to financial statements with and without disclosures
- Report is always required

A compilation engagement is not an assurance engagement. Accordingly, a compilation engagement does not require the accountant to verify the accuracy or completeness of the information provided by management or otherwise gather evidence to express an opinion or a conclusion on the financial statements.

The accountant's objective in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this standard without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework.

The following is a sample Accountant's Compilation Report:

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of Dec. 31, 20X1 and 20XX and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United

States of America. I (We) have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. I (we) did not audit or review the financial statements nor was (were) I (we) required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I (we) do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Additional paragraphs are required in the compilation report when:

- Financial Statements are prepared in accordance with a special purpose financial reporting framework (formerly known as OCBOA)
- Disclosures are omitted
- Lack of independence
- Known departure from the applicable financial reporting framework
- Supplementary information accompanies financial statements and the accountants compilation report thereon

## AR Section 90 Review Engagements

This standard applies when an accountant is engaged to perform a review engagement. The standard may also be applied as necessary in the circumstances of limited assurance engagements to other than the review of historical or prospective financial statement information.

Items other than historical or prospective financial information include:

- Specified elements, accounts or items of a financial statement

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- Supplementary Information
- Required Supplementary Information
- Financial information included in a tax return

Those familiar with SSARS No. 19 will recognize striking similarities.

Headings are required on the accountant's review report. Also, the report is required to name the city and state of the issuing office. It is allowable to include the city and state information in the letterhead.

## International Convergence

Section 80, Compilation Engagements, is not fully harmonized with the International Standard on Related Services (ISRS) 4410 Engagements to Compile Financial Statements due to some underlying premises such as differences in the requirement to determine independence.

Section 90, Review Engagements, Interim Engagements, was based upon the clarified AU-C Section 930, Interim Financial Information (AICPA, Professional Standards). The clarified AU-C Section 930 has no substantive differences with the International Standard on Review Engagements (ISRE) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

Section 90 is not fully compatible with ISRE 2400 (Revised) Engagements to Review Historical Financial Statements, as the ARSC chose to converge with American auditing literature guidance.

## Sources

AICPA. "Understanding the SSARS 21 Clarification and Revision." Nov. 17, 2014: <http://tinyurl.com/lv8qgum>

## Private Company Council (PCC)

The Private Company Council was established in May 2012 by the Financial Accounting Foundation. The FAF's desire in establishing the PCC was to improve the financial reporting in the private company sector. The PCC's website (<http://www.fasb.org/pcc>) is found within the FASB's overall website. On its website, the PCC states its two principal responsibilities as follows:

- The PCC and FASB, working jointly, will mutually agree on a set of criteria to decide whether and when alternatives within U.S. GAAP are warranted for private companies. Based on those criteria, the PCC will review and propose alternatives within U.S. GAAP to address the needs of users of private company financial statements.
- The PCC also serves as the primary advisory body to FASB on the appropriate treatment for private companies for items under active consideration on FASB's technical agenda.

Once the PCC reaches a final consensus on a matter, the decision is brought to FASB for endorsement. As of October 2014, several decisions and projects were in different stages of progress:

## PCC Issue No. 13-01A, "Accounting for Identifiable Intangible Assets in a Business Combination"

During its September 2014 meeting, the PCC reached final consensus to exempt private companies from separately recognizing and measuring non-competition agreements and customer-related intangible assets. This reporting and measurement exemption would apply to those non-competition agreements

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and customer-related intangible assets that would be deemed as “not capable of being sold or licensed independently in a business combination.” The decision was forwarded to FASB, which will consider the matter in the near future.

## Recent PCC Activity

### Definitions of a Nonpublic Entity, a Public Entity and a Publicly Traded Company

At its April 2014 meeting, the PCC listed among its pending issues a review of the existing definitions that impact private-company accounting. For instance, the PCC cited the fact that currently, the Codification includes no less than five definitions of a nonpublic entity, three definitions of a public entity and two definitions of a publicly traded company. It was noted that at least 17 differences existed in GAAP between public entities and nonpublic entities. Of these differences, several will be eliminated in the near future, owing to the fact that these differences are related to effective dates of new or amended disclosures requirements.

When FASB issued Accounting Standards Update No. 2013-12, Definition of a Public Business Entity: An Addition to the Master Glossary, the issue of whether to amend the existing definitions of a public entity was deferred to a future date. At its January 2014 meeting, FASB determined that these differences in definitions could be addressed by the PCC.

Currently, the staff of the PCC is exploring the option of amending the existing definitions within the Codification of a public entity by simply replacing the definitions the new definition of a public business entity as outlined in Accounting Standards Update No.

2013-12, Definition of a Public Business Entity: An Addition to the Master Glossary.

FASB Update 2013-12 outlines a single definition of the term “public business entity,” which will be the definition utilized by FASB in all future financial accounting and reporting guidance. Both not-for-profit entities and employee benefit plans are specifically excluded from the definition of a “business entity.”

The definition of PBE in the ASU differs from several definitions currently found in the Codification. These were summarized as follows:

1. *An entity that is required by the SEC to file or furnish financial statements with the SEC, or does file or furnish financial statements with the SEC, is considered a public business entity. Some of the existing definitions of public entity in the Accounting Standards Codification do not include this criterion to define public entity.*
2. *A consolidated subsidiary of a public company is not considered a public business entity for purposes of its standalone financial statements other than those included in an SEC filing by its parent or by other registrants or those that are issuers and are required to file or furnish financial statements with the SEC. Some of the existing definitions of public entity in the Accounting Standards Codification consider a consolidated subsidiary of a public company to be public.*
3. *A business entity that has securities that are not subject to contractual restrictions on transfer and that is by law, contract, or regulation required to prepare financial statements (including footnotes) in accordance with U.S.*

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*GAAP and make them publicly available on a periodic basis is considered a public business entity. The existing definitions of public entity in the Accounting Standards Codification do not include this criterion and do not consider an entity to be public unless it meets one of the other criteria included in the definition (for example, if it has debt or equity securities that trade either on a stock exchange or an over-the counter market).*

Source: Accounting Standards Update No. 2013-12, Definition of a Public Business Entity: An Addition to the Master Glossary, Financial Accounting Standards Board, 2013.

## Sources

Financial Accounting Standards Board. "Accounting Standards Update No. 2013-12." December 2013: <http://tinyurl.com/ntyry36>

Financial Accounting Standards Board. "Issue Summary No. 1, Supplement No. 6." Sept. 5, 2014: <http://tinyurl.com/kpgjjxn>

Private Company Council. "Agenda Report: April 29, 2014 Agenda Decisions." April 29, 2014: <http://tinyurl.com/pgdvvuo>

Private Company Council. "Media Meeting Recap." Sept. 16, 2014: <http://tinyurl.com/ljg83pu>

Private Company Council. "Overview of Decisions Reached on PCC Issue No. 13-01A, "Accounting for Identifiable Intangible Assets in a Business Combination." Sept. 16, 2014: <http://tinyurl.com/px7xmd>

# Chapter 5 — Conclusion



While ethics policies and safeguards are now ubiquitous in corporate America, the onus of those policies remains on the individual. Living an ethical life is essential to the CPA profession's reputation as trusted advisors to U.S. taxpayers and businesses. Witness how the scandals of the early 2000s hurt the profession's reputation and the way professional ethics and best practices have evolved as a result. Ethical standards are constantly changing, and taking this course every year and staying up-to-date on the latest trends is the best way to ensure you don't run into problems. Behaving in the manner of an ethical standard-bearer is the best way to maintain a sterling professional reputation while upholding the rigorous standards of the CPA profession at large.

Now that you have gotten your ethics update for 2015, it's time to put those concepts into practice in your professional life. Here are a few next steps:

- ✓ Review the Knowledge Check on page 4.
- ✓ Please complete the class evaluations that will be sent to you via email. We appreciate any and all feedback you can provide. Your feedback helps us make improvements to this course.
- ✓ Check the status of your CPA license (and firm license, if applicable) at the VBOA website.
- ✓ Make a note of the AICPA's Ethics hotline, (888) 777-7077, in case you have any pressing ethics questions.
- ✓ If you haven't done so yet, explore the VBOA's CPE tracker and enter your CPE information in the system.
- ✓ Visit the website for the revised AICPA Code of Professional Conduct (<http://tinyurl.com/pjck8g2>) and familiarize yourself with the standards.
- ✓ Review the hot topics discussed in this course and obtain further education on the topics relevant to your practice.

Visit [vscpa.com/EthicsResources](http://vscpa.com/EthicsResources) for the most up-to-date information on topics discussed in this course, as well as other resources to help you in your day-to-day decision-making. The VSCPA is proud to provide the highest-quality Ethics course for all Virginia CPAs. Thanks for learning with us!



## Resources

As a licensed CPA, you are regulated by the state(s) in which you are licensed, among other bodies, depending on the nature of your work or your organization's work. The VBOA incorporates by reference (per § 54.1-4413.3) and sets forth that persons and firms using the CPA title in Virginia shall follow the standards and any interpretive guidance issued by the organizations listed in this section.

### Code of Virginia:

Title 54.1 Professions and Occupations;  
Chapter 44 — Public Accountants  
<http://tinyurl.com/6f9ucox>

### AICPA Code of Professional Conduct (current codification):

In standard form: <http://tinyurl.com/nh6bqkv>  
In topical (indexed) form:  
<http://tinyurl.com/pjck8g2>

### AICPA Code of Professional Conduct (previous codification):

In standard form: <http://tinyurl.com/2cyfzcv>  
In topical (indexed) form:  
<http://tinyurl.com/4p64my2>

### Virginia Board of Accountancy (VBOA)

[boa.virginia.gov](http://boa.virginia.gov)  
Email: [boa@boa.virginia.gov](mailto:boa@boa.virginia.gov)  
CPA Licensing Services & General Information:  
(804) 367-8505  
CPA Examination Services: (804) 367-1111

### VBOA Regulations

<http://tinyurl.com/kvrlcq4>

### Virginia Society of CPAs

[vscpa.com](http://vscpa.com)  
(804) 270-5344  
CPE Hotline: (800) 341-8189

### VSCPA Ethics Resource Center

[vscpa.com/EthicsResources](http://vscpa.com/EthicsResources)

No matter when you choose to fulfill your Ethics requirement, you can always get the most up-to-date information about issues presented in the course at the VSCPA's Ethics Resource Center. While the information contained in this manual — including URLs, email addresses and phone numbers — is accurate as of the time the manual was printed, the VSCPA will be updating this page throughout the year.

### American Institute of CPAs (AICPA)

[aicpa.org](http://aicpa.org)

AICPA hotline: (888) 777-7077

The AICPA Ethics Hotline provides non-authoritative guidance to members on questions related to ethics, including independence. The Ethics Hotline is open from 9 a.m. – 5 p.m. EST on weekdays. A staff member can be reached via email at [ethics@aicpa.org](mailto:ethics@aicpa.org) or via phone at (888) 777-7077, option 6, followed by option 1.

### AICPA Technical Hotline

<http://tinyurl.com/3drwcr5>  
(877) 242-7212

### U.S. Comptroller General

<http://www.gao.gov/cghome/index.html>

### Financial Accounting Foundation (FAF)

[accountingfoundation.org](http://accountingfoundation.org)

### Federal Accounting Standards Advisory Board (FASAB)

[fasab.gov](http://fasab.gov)  
(202) 512-7350

### Financial Accounting Standards Board (FASB)

[fasb.org](http://fasb.org)  
(203) 847-0700  
Codification: <http://asc.fasb.org/>

# Resources, Glossary and Acronyms

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## U.S. Government Accountability Office (GAO)

[gao.gov](http://gao.gov)

(202) 512-3000

## Government Accounting Standards Board (GASB)

[gasb.org](http://gasb.org)

(203) 847-0700

## U.S. Internal Revenue Service (IRS)

[irs.gov](http://irs.gov)

(866) 255-0654

## International Accounting Standards Board (IASB)

[ifrs.org](http://ifrs.org)

+44 (0)20 7246 6410

## Public Company Accounting Oversight Board (PCAOB)

[pcaobus.org](http://pcaobus.org)

(202) 207-9100

Independence and Ethics Rules and Standards (including AICPA Code of Professional Conduct references):

<http://tinyurl.com/cxwr417>

## U.S. Securities and Exchange Commission (SEC)

[sec.gov](http://sec.gov)

(888) 732-6585

## Glossary of Terms

Unless otherwise noted, the following definitions are from the Code of Virginia § 54.1-4400. Definitions.

**Assurance** means any form of expressed or implied opinion or conclusion about the conformity of a financial statement with any recognition, measurement, presentation or disclosure principles for financial statements.

**Attest services** means audit, review or other attest services for which standards have been established by the Public Company

Accounting Oversight Board (PCAOB), by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of CPAs (AICPA), or by any successor standard-setting authorities.

**Compilation services** means compiling financial statements in accordance with standards established by the AICPA or by any successor standard-setting authorities.

**Financial statement** means a presentation of *historical or prospective* information about one or more persons or entities.

**Financial reporting framework (FRF)** are the standards used to measure, recognize, present and disclose all material items within an entity's financial statements. Examples include U.S. Generally Accepted Accounting Principles (GAAP), International Financial Reporting Standards (IFRS) and special purpose frameworks.

**Financial Reporting Framework for Small-and-Medium-sized Entities (FRF-SME)** is a principles-based special purpose framework for preparing financial statements of privately held small- to medium-sized entities. It was developed under the guidance of the AICPA FRF for SMEs task force and is therefore non-authoritative.

**Licensee** means a person or firm holding a Virginia license or the license of another state. However, for purposes of this document, *licensee* only refers to a person holding a Virginia license or the license of another state.

**Mobility** means a practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her place of business without obtaining another license.

Source: [www.cpamobility.org](http://www.cpamobility.org)

# Resources, Glossary and Acronyms

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**Owner-managed entities** are closely held companies run by the individuals who own a controlling ownership interest; a stark contrast to public companies, which by definition have an obvious separation between ownership and the management. *Source: AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*

**Peer review** means a review of a firm's attest services and compilation services conducted in accordance with the monitoring program.

**Practice of public accounting** means the giving of an assurance other than (i) by the person or persons about whom the financial information is presented or (ii) by one or more owners, officers, employees or members of the governing body of the entity or entities about whom the financial information is presented.

**Providing services to the public using the CPA title** means providing services that are subject to the guidance of the standard-setting authorities listed in the standards of conduct and practice in subdivisions 5 and 6 of § 54.1-4413.3.

*§ 54.1-4413.3. Standards of conduct and practice. (5 and 6 only listed below.)*

*5. Follow the technical standards, and the related interpretive guidance, issued by committees and boards of the American Institute of Certified Public Accountants that are designated by the Council of the American Institute of Certified Public Accountants to promulgate technical standards, or that are issued by any successor standard-setting authorities.*

*6. Follow the standards, and the related interpretive guidance, as applicable under the circumstances, issued by the Comptroller General of the United States,*

*the Federal Accounting Standards Advisory Board, the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Public Company Accounting Oversight Board, the U. S. Securities and Exchange Commission, comparable international standard-setting authorities, or any successor standard-setting authorities.*

**Providing services to an employer using the CPA title** means providing to an entity services that require the substantial use of accounting, financial, tax or other skills that are relevant, as determined by the Board.

**Small- and medium-sized entities (SME).** There is no standard definition in the United States or under the AICPA. *Source: AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*

**Special purpose framework** is a financial reporting framework for use in those situations where GAAP may not be required. Examples include tax and modified cash bases. The former term, OCBOA, was replaced with this term under SAS No. 122 section 800, effective Dec. 15, 2012. *Source: AICPA's Financial Reporting Framework for Small- and Medium-sized Entities FAQ*

**Substantial equivalency** means that the education, CPA exam and experience requirements contained in the statutes and administrative rules of another jurisdiction are comparable to, or exceed, the education, CPA exam and experience requirements contained in Chapter 44 of Title 54.1 of the Code of Virginia and the Board of Accountancy Regulations. (18VAC5-22)

**Using the CPA title in Virginia** means using "CPA," "Certified Public Accountant" or

# Resources, Glossary and Acronyms

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“public accountant” (i) in any form or manner of verbal communication to persons or entities located in Virginia or (ii) in any form or manner of written communication to persons or entities located in Virginia, including but not limited to the use in any abbreviation, acronym, phrase or title that appears in business cards, the CPA wall certificate, Internet postings, letterhead, reports, signs, tax returns or any other document or device.

## Common Acronyms and Abbreviations

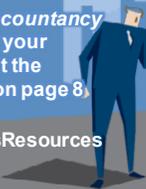
- AICPA — American Institute of CPAs
- ASU — Accounting Standards Update
- CPA — Certified Public Accountant
- CPE – Continuing Professional Education
- ET — Ethics (topical index of the AICPA Professional Code of Conduct)
- FAF — Financial Accounting Foundation
- FASB — Financial Accounting Standards Board
- FRF — Financial reporting framework
- GAO — U.S. Government Accountability Office
- IESBA — International Ethics Standards Board for Accountants
- IFAC — International Federation of Accountants
- IQAB — International Qualification Appraisal Board
- IQEX – International Qualification Examination
- IRC — U.S. Internal Revenue Code
- IRS — U.S. Internal Revenue Service
- GAAP — Generally Accepted Accounting Principles
- GAAS — Generally Accepted Auditing Standards
- GAGAS — Generally Accepted Government Auditing Standards
- NASBA — National Association of State Boards of Accountancy
- PCAOB — Public Company Accounting Oversight Board
- PCC — Private Company Council
- PEEC — AICPA Professional Ethics Executive Committee
- PIOB — Public Interest Oversight Board
- PTIN — Preparer Tax Identification Number
- SHRM — Society for Human Resource Management
- SME — Small- and medium-sized entities
- SPF — Special purpose framework (previously Other Comprehensive Basis of Accounting)
- SSAE — Statements on Standards for Attestation Engagements
- SSARS — Statements on Standards for Accounting and Review Services
- SQCS — Statement on Quality Control Standards
- SSTS — Statements on Standards for Tax Services
- VAC — Virginia Administrative Code (“Regulations”)
- VBOA — Virginia Board of Accountancy (“the Board”)
- VSCPA — Virginia Society of CPAs



## Virginia CPA Ethics 2015 Required Course

This is the only course content available authorized by the VBOA to fulfill your Virginia-specific Ethics requirement. While you're waiting to get started, you can:

- ▶ Read the *Journal of Accountancy* article on pages 4–8 of your manual and think about the discussion questions on page 8.
- ▶ Visit [vscpa.com/EthicsResources](http://vscpa.com/EthicsResources)



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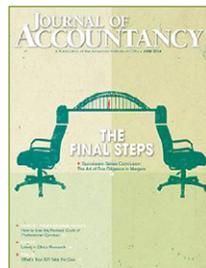
Virginia Society of Certified Public Accountants

## The Cultivation of Ethics

- ▶ What has happened in your world of ethics?
- ▶ What has happened in the economy regarding ethics?
- ▶ Ethics is a constantly changing field. How has it changed?



## Highlights of Ethics Research



- ▶ The **strongest incentive** for having an ethics program is pressure from current laws.
- ▶ Having a code of ethics alone is **not enough**. Managers should **publicly sign** a statement that they will personally adhere to the code of ethics.

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## Highlights of Ethics Research

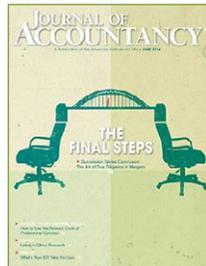


- ▶ The effect of **social consensus** on ethical decision-making differs among various groups of auditors.
- ▶ Management continues to **incorrectly assume** that internal auditors hold the responsibility for establishing and maintaining internal controls. This perception gap exists in academia as well.

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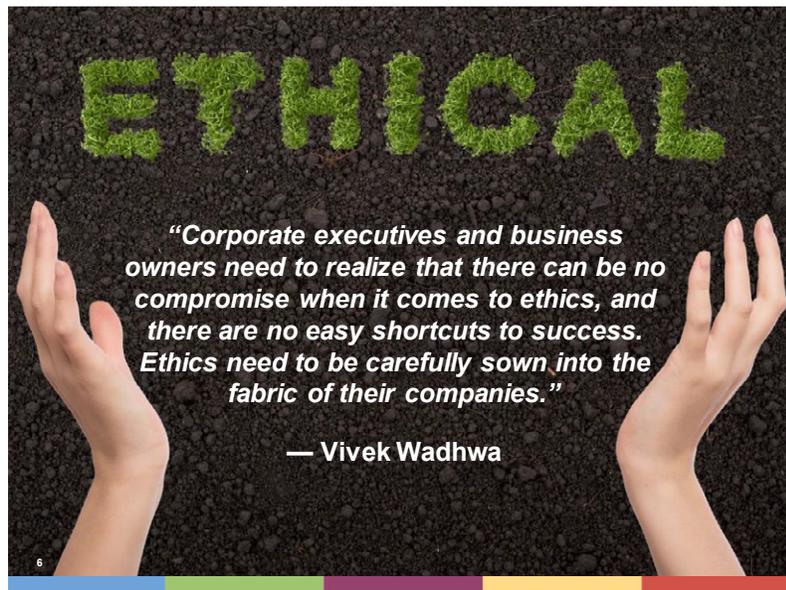
## Highlights of Ethics Research



- ▶ What is the importance of board-level buy-in for corporate ethics policies?
- ▶ How do successful and unsuccessful ethics policies affect investor confidence?
- ▶ How can companies ensure their auditors are applying the appropriate ethical standards?
- ▶ How can educators instill ethical values in the next generation of CPAs?

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## How to Cultivate an Ethical Environment

The Society for Human Resource Management puts forth four building blocks of ethical culture:

- ▶ Compliance
- ▶ Fairness
- ▶ Motive-based trust
- ▶ Ethical working self-concept

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**ETHICAL**

*"It is the highest form of self-respect to admit our errors and mistakes and make amends for them. To make a mistake is only an error in judgment, but to adhere to it when it is discovered shows infirmity of character."*

— Dr. Dale E. Turner

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## The Right Way to Handle Mistakes

- ▶ Acknowledge the mistake
- ▶ Acknowledge the impact it had on others
- ▶ Don't make excuses
- ▶ Apologize
- ▶ Rectify the mistake
- ▶ Learn from the mistake

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## The Right Way to Handle Mistakes



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## The Right Way to Handle Mistakes



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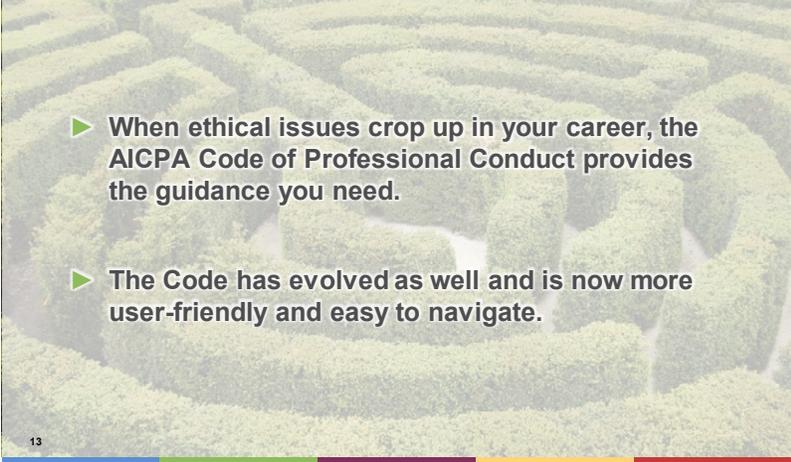


## The Right Way to Handle Mistakes

- ▶ Do the auditors have an obligation to tell Jane that Joe lost his CPA license?
- ▶ Does it matter that Jane didn't do her due diligence during the hiring process?

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## Where Can You Turn?

- 
- ▶ When ethical issues crop up in your career, the AICPA Code of Professional Conduct provides the guidance you need.
  - ▶ The Code has evolved as well and is now more user-friendly and easy to navigate.

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## AICPA Ethics Codification Project

### The restructured Code:

- ▶ Is more user-friendly
- ▶ Contains 4 main parts:
  - ▶ Preface
  - ▶ Members in Public Practice
  - ▶ Members in Business
  - ▶ Other Members



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## AICPA Ethics Codification Project

- ▶ The substance of the ethics standards remains the same.
- ▶ The most substantive change is the incorporation of a conceptual framework approach.

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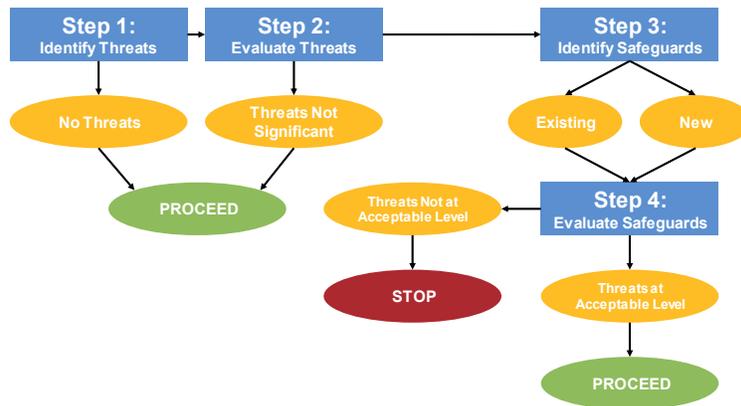
## Confidential Client Information

- ▶ Rule 1.700.001 of the AICPA Code of Professional Conduct prohibits a member in public practice from “disclos[ing] any confidential client information without the specific consent of the client.”
- ▶ Rules 1.400.070 and 2.400.070 of the AICPA Code of Professional Conduct state: “A member should maintain confidentiality of his or her employer’s or firm’s (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship (for example, discussions with the employer’s vendors, customers, or lenders).”
- ▶ There are no substantive changes.



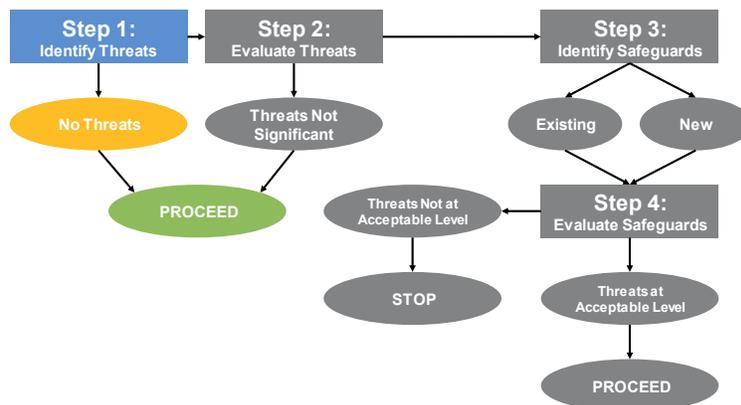
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## Steps of the Conceptual Framework



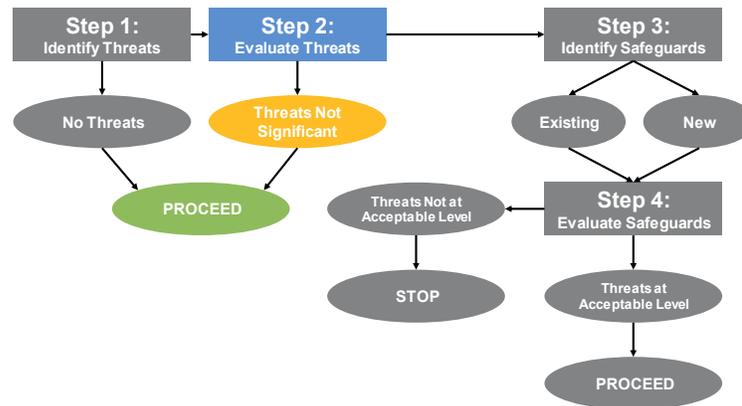
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## Steps of the Conceptual Framework



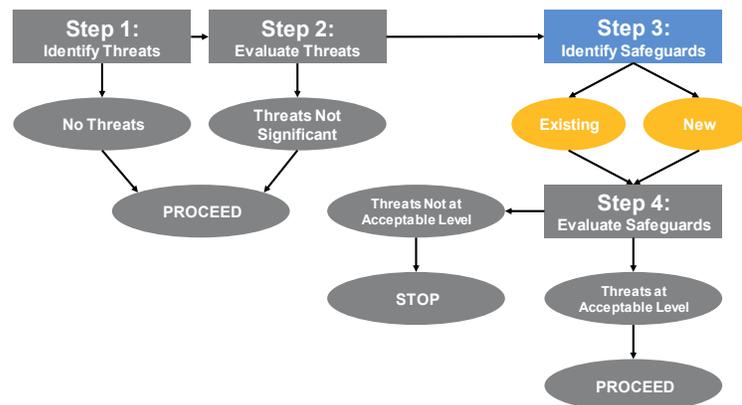
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## Steps of the Conceptual Framework



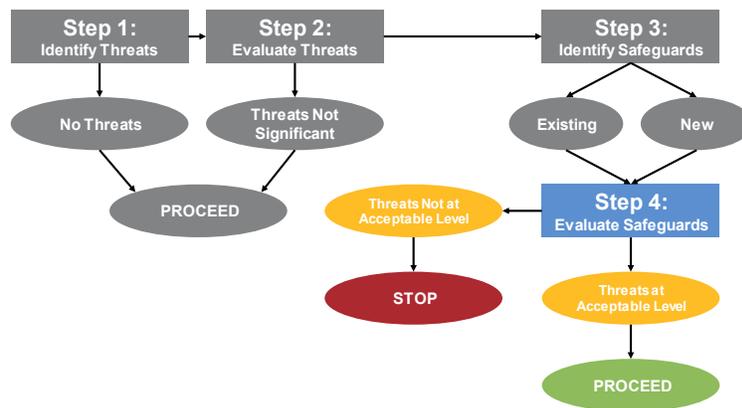
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## Steps of the Conceptual Framework



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## Steps of the Conceptual Framework



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## Inside the Framework

- ▶ The conceptual framework only applies when no specific guidance in the Code exists. It cannot be used to override existing requirements or prohibitions.
- ▶ When the member applies safeguards to eliminate or reduce significant threats to an acceptable level, the member should document the identified threats and safeguards applied. Failure to prepare this documentation would be considered a violation of the “Compliance with Standards Rule.”

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## Specific Conceptual Frameworks

- ▶ The Code provides conceptual frameworks for members in public practice and members in business that are designed to help members analyze relationships and circumstances applicable to their line of work.
- ▶ Step 1 of each framework is to identify threats. Each framework provides definitions and examples of these threats as applicable to members in public practice and members in business.

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## Identifying Threats

Type of threat	CPAs in Public Practice	CPAs in Business
Adverse interest	Opposed to client's interest	Opposed to organization's interest
Advocacy	Promoting client's interest	Promoting organization's interest
Familiarity	Becoming too sympathetic to client's interest	Becoming too sympathetic to organization's interest
Management participation	Taking on the role of client's management	N/A
Self-interest	Benefiting from client	Benefiting from organization
Self-review	Poor judgment due to bias from previous relationship with client	Poor judgment due to bias from previous relationship with organization
Undue influence	Submitting to client pressure	Submitting to pressure from another individual from organization

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## Safeguards

Each framework provides categories and examples of safeguards as applicable to members in public practice and members in business.

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## Members in Public Practice

Safeguards fall into **three** broad categories:

- ▶ Created by the profession, legislation or regulation
- ▶ Implemented by the firm
- ▶ Implemented by the client (it is not possible to rely solely on safeguards implemented by the client to eliminate or reduce significant threats to an acceptable level)

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## Members in Business

Safeguards fall into **two** broad categories:

- ▶ Created by the profession, legislation or regulation
- ▶ Implemented by the employing organization

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## Independence Conceptual Framework



Ellen Goria, CPA, CGMA  
Senior Manager  
Independence & Special Projects,  
Professional Ethics Division  
American Institute of CPAs



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## Independence Conceptual Framework



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## Conceptual Framework Case Study

- ▶ Identify threats
- ▶ Evaluate threats
- ▶ Identify safeguards
- ▶ Evaluate safeguards

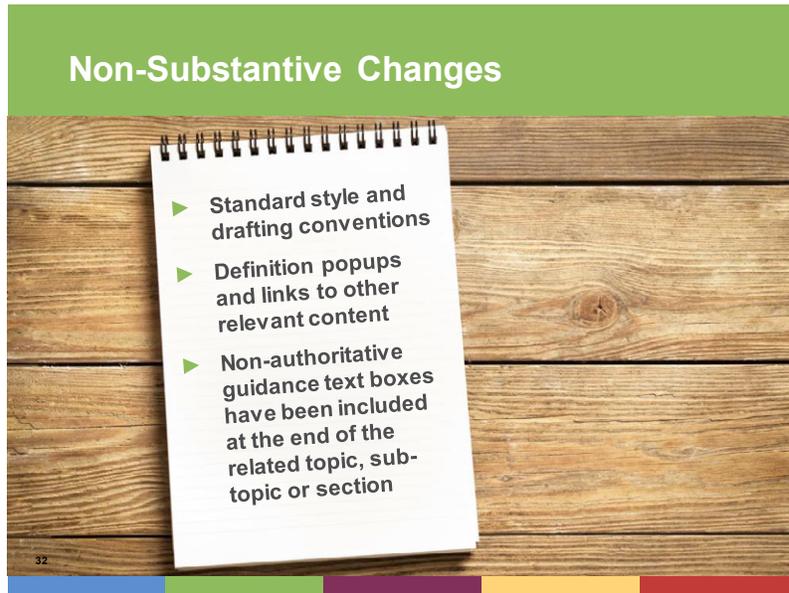
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## Other Substantive Changes

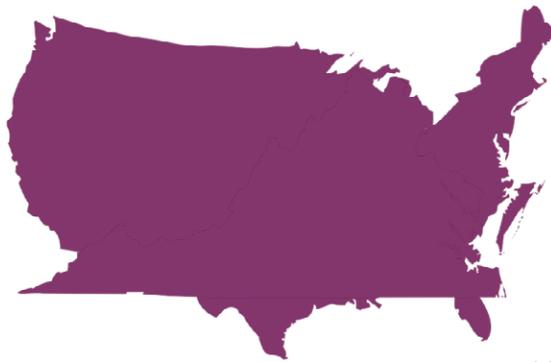
- ▶ Ethical conflicts
- ▶ Definition of attest client
- ▶ Definition of a loan
- ▶ Blind trust
- ▶ Expanded application



## Non-Substantive Changes

- 
- A spiral-bound notebook with a white cover is placed on a wooden surface. The notebook is open to a page with a list of non-substantive changes.
- ▶ Standard style and drafting conventions
  - ▶ Definition popups and links to other relevant content
  - ▶ Non-authoritative guidance text boxes have been included at the end of the related topic, sub-topic or section

## What's New From the VBOA?



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## Active – CPE Exempt Status

- ▶ Effective July 1, 2014
- ▶ Now requires **formal application** to the VBOA
- ▶ Application includes:
  - ▶ Employment status
  - ▶ Job description and resume (if employed)
  - ▶ Information about employer (if employed)
- ▶ **Attainment of status means no CPE required, but if your circumstances change, you must be CPE compliant before offering services**

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## Examples of CPE Exempt Status

- ▶ **Probably exempt:**
  - ▶ Unemployed
  - ▶ Employed in extremely different position, i.e., dancer, surgeon, musician, artist
  - ▶ Volunteer Treasurer at nonprofit
- ▶ **Probably NOT exempt:**
  - ▶ Accountant
  - ▶ Controller
  - ▶ Director of Finance

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## VBOA Policy Changes for 2015

### New Policies effective Jan. 1, 2015:

- ▶ **Policy No. 2: Sponsors Providing Continuing Professional Education (CPE)**
- ▶ **Policy No. 4: Continuing Professional Education (CPE) Guidelines**
- ▶ **Policy No. 8: Ethics Committee**

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## Policy No. 2: CPE Sponsors

- ▶ The VSCPA was designated as the provider of the Ethics course content and materials
- ▶ All Ethics instructors must hold an active Virginia CPA license in good standing

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## Policy No. 2: CPE Sponsors

- ▶ Ethics course providers must be pre-approved by the VBOA
- ▶ CPAs will not receive credit for Ethics CPE from a non-approved provider

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## Policy No. 4: CPE Guidelines

- ▶ **You are responsible** for ensuring that an Ethics CPE provider is pre-approved. If your provider is not, you won't get credit.
- ▶ You are encouraged to provide comments on content or instructors to the VBOA.
- ▶ The annual Ethics requirement is "separate and distinct" from the one-time AICPA Ethics course required for initial licensure.



## Policy No. 8: Ethics Committee

- ▶ Ethics Committee members are appointed by VBOA and serve staggered 3-year terms.
- ▶ The committee develops the Ethics course outline and provides VBOA recommendations based on review of:
  - ▶ Prior Ethics courses
  - ▶ Ethics course participant comments
  - ▶ Pricing structure for content/material



## Enforcement Cases

- ▶ In order to fulfill its mission to protect the public, the VBOA has the authority under the Code of Virginia to impose penalties.
- ▶ What areas does the VBOA have jurisdiction over?

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## Enforcement Cases

- ▶ Adverse interest
- ▶ Advocacy
- ▶ Familiarity
- ▶ Management participation
- ▶ Self-interest
- ▶ Self-review
- ▶ Undue influence

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## CPE Tracking System

- ▶ Licensees are required to use the tracking system when they are audited by the VBOA.
- ▶ Licensees may use the tracking system as their primary means of tracking CPE.
- ▶ The VBOA will not use this data unless the CPA is selected for an audit.
- ▶ The VBOA is the owner of the tracking system and in control of access to it. The VSCPA and its instructors cannot help you access it.

CPEID	Course Title	Hours	Start Date	End Date
135-481	CPA License Exam - Financial Accounting - Challenge 1	1.5	08/20/12	08/20/12
135-481	Ethics 2012 - Year License Renewal	1.5	08/20/12	08/20/12
135-411	Accounting & Reporting Practices of Nonprofit Organizations	1.5	08/20/12	08/20/12
135-487	Getting the Most from Your CPA (Multiple Parts)	1.5	08/20/12	08/20/12
135-388	Using the CPA as a Business Tool (Multiple Parts)	1.5	08/20/12	08/20/12
134-133	4th Ann. of VSCPA Technology Conference	1.5	08/20/12	08/20/12
140-100	VSCPA License Renewal Conference - Year One Session	1.5	08/20/12	08/20/12
140-133	3rd Annual Technology Conference	1.5	08/20/12	08/20/12
145-433	Ethics 2011 - Year License Renewal	1.5	08/20/12	08/20/12
144-100	Midyear Conference	1.5	08/20/12	08/20/12
135-481	13 Accounts & Financial Reporting Writing & Study '13-14 Case Study	1.5	08/20/12	08/20/12
133-148	Building, Forecasting & Business Analysis	1.5	08/20/12	08/20/12



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## Hot Topics



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## Out-of-State Registration Requirements



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## Out-of-State Registration Requirements



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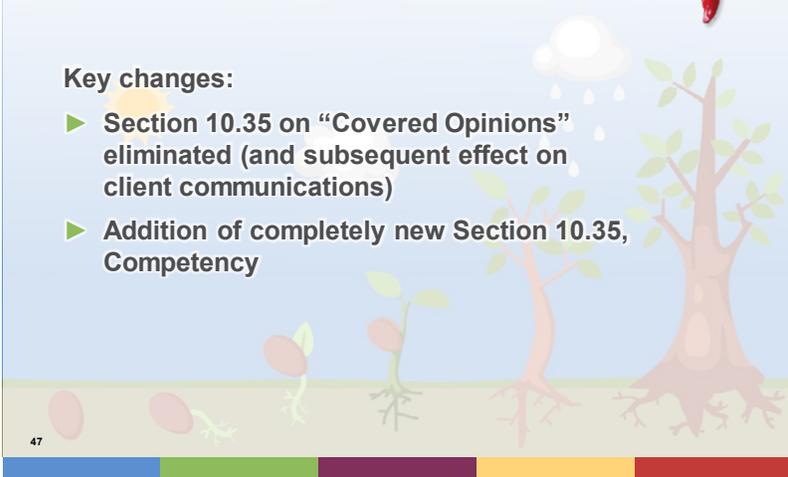
## Circular 230



**Key changes:**

- ▶ Section 10.35 on “Covered Opinions” eliminated (and subsequent effect on client communications)
- ▶ Addition of completely new Section 10.35, Competency

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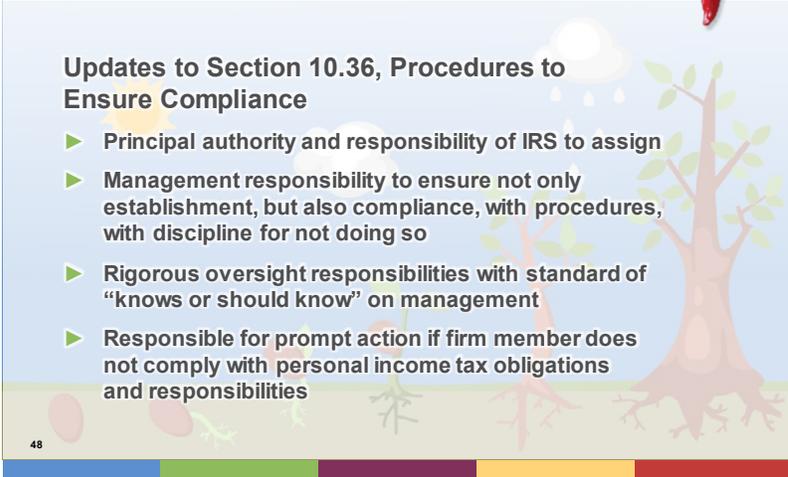
## Circular 230



**Updates to Section 10.36, Procedures to Ensure Compliance**

- ▶ Principal authority and responsibility of IRS to assign
- ▶ Management responsibility to ensure not only establishment, but also compliance, with procedures, with discipline for not doing so
- ▶ Rigorous oversight responsibilities with standard of “knows or should know” on management
- ▶ Responsible for prompt action if firm member does not comply with personal income tax obligations and responsibilities

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## Circular 230



### Section 10.37, Requirements for Written Advice (replaces Section 10.35)

- ▶ Intent of applying one standard for all written tax advice
- ▶ Applies to informal as well as formal advice
- ▶ Applies to Federal tax matters as defined in the Section

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## Circular 230



### Section 10.37, Requirements for Written Advice (replaces Section 10.35)

- ▶ Know what constitutes “reasonable reliance” and the related due diligence requirements, including conflicts of interest
- ▶ Follow what is considered the “standard of review”
- ▶ Understand the significance of the engagement by defining the type and specificity of the advice sought by the client

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## SSARS No. 21



- ▶ **Major implications** on firms doing preparation, compilation and review engagements
- ▶ Existing standards were lengthy, complex, difficult to read and understand
- ▶ Effective: Financial Statements on or after Dec. 15, 2015 (Early implementation permitted)
- ▶ Major implications for engagement letters, as application is **engagement-driven**

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## SSARS No. 21



- ▶ ARSC efforts to clarify the standards for preparation of financial statements, compilation engagements, review engagements
- ▶ Considers both ASB and international standards on auditing guidance
- ▶ **Does not supersede** AR Section 120, Compilation of Pro Forma Financial Information
- ▶ **Not fully harmonized** with international standards

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## SSARS No. 21



Contains four sections:

- ▶ AR Section 60, General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services
- ▶ AR Section 70, Preparation of Financial Statements
- ▶ AR Section 80, Compilation Engagements
- ▶ AR Section 90, Review Engagements

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## Private Company Council



- ▶ Established in May 2012 by FASB to:
  - ▶ Work jointly with FASB for **alternatives to U.S. GAAP** for private companies
  - ▶ PCC is the advisory body for FASB on private company issues
  - ▶ PCC decisions are forwarded to FASB for action (endorsement)

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## Final PCC Decision: Issue 13-01A



- ▶ Accounting for Identifiable Intangible Assets in a Business Combination — decision agreed to at September 2014 meeting, forwarded to FASB
- ▶ Exempts private companies from separately recognizing and measuring certain non-competition agreements and customer-related intangible assets.

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## On the PCC Agenda



### Definitions of Nonpublic Entity, Public Entity, and Publicly Traded Company

- ▶ Currently, multiple definitions of these terms exist, leading to potential conflicts and concerns
- ▶ At least 17 reporting/disclosure differences exist in U.S. GAAP between public entities and nonpublic entities
- ▶ FASB had previously deferred any amendment to existing definitions and has allowed PCC to undertake the project

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## Conclusion



**YOU**  
are part of the future  
cultivation of ethics!

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## Conclusion

### Next steps:

- ✓ Complete evaluations that will be emailed to you
- ✓ Check the status of your CPA license (and firm license, if applicable) at the VBOA website
- ✓ Enter your CPE information in the VBOA's tracking system
- ✓ Explore the revised AICPA Code of Professional Conduct
- ✓ Visit [vscpa.com/EthicsResources](http://vscpa.com/EthicsResources) for updates



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## Policy #1: Trust Account

*Effective: Sept. 18, 2012*

The Trust Account shall provide a supplemental source of funds to the Board on a timely basis for (1) its use in the study, research, investigation or adjudication of matters involving possible violations of the provisions of Virginia accountancy statutes or Board regulations or (2) any other purpose that the Board determines germane to its statutory purposes.

It shall be the policy of the Board to maintain funds equal to approximately three months of the operating budget. Funds exceeding this amount shall be transferred to the Trust Account on at least a quarterly basis, to include a final fund transfer by June 30 of each fiscal year (if necessary).

Annually, the Board shall evaluate the balance of the Trust Account to determine if a fee adjustment is necessary. The annual evaluation shall consider the Board's needs as it relates to the purpose of the Trust Account, and on the national climate and experiences of other boards of accountancy.

## Policy #2: Sponsors Providing Continuing Professional Education (CPE)

*Effective: Jan. 1, 2015*

### Virginia-Specific Ethics Course CPE

The Virginia Board of Accountancy (Board) requires that all licensees providing services to the public or to an employer complete on an annual basis a Virginia-Specific Ethics Course that complies with Board Regulation 18VAC5-

22-90 and Board Policy #4 (CPE Guidelines). The required annual ethics course must be completed no later than January 31 of each year to meet the previous calendar-year requirement. Therefore, no sponsor should provide the annual ethics course later than January 31 for the previous calendar year.

The Board has approved the Virginia Society of CPAs (VSCPA) as the only provider of the Virginia-Specific Ethics Course content/material. The ethics course content/material must follow an annual outline approved by the Board.

The Board has also approved that all instructors of the Virginia-Specific Ethics Course must hold an active Virginia CPA license which is in good standing.

Sponsors desiring to provide the Virginia-Specific Ethics Course must:

- Obtain the course contents/materials from the VSCPA
- Be pre-approved annually by Board staff, in writing, as a provider of this course
- Be listed on the Board's website as a pre-approved provider of this course
- Submit all participant comments to the Board within 60 days of receipt

Sponsors will be required to demonstrate their compliance with the Board's policy on content/material and instructor requirements prior to approval. Sponsors not pre-approved annually by Board staff will not be recognized by the Board as an acceptable Virginia-Specific Ethics Course provider. Licensees will not be granted CPE credit for completing a Virginia-Specific Ethics Course from a non-approved sponsor.

# VBOA Policies

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## Sponsors Providing CPE (excluding the Virginia-Specific Ethics Course)

Currently, the Board does not maintain agreements with sponsors, pre-qualify sponsors or individual courses, or require a licensee to obtain CPE from specific sponsors (excluding the Virginia-Specific Ethics Course). However, sponsors are encouraged to comply with the Statement on Standards for CPE Programs issued jointly by the AICPA and National Association of State Boards of Accountancy (NASBA).

The Board generally accepts relevant and qualifying CPE from the following sponsors:

- National Registry of CPE Sponsors in affiliation with the National Association of State Boards of Accountancy (NASBA)
- Quality Assurance Service in affiliation with NASBA
- Accredited college or university offering semester or quarter-hour credits
- Employer of a CPA
- Federal, state or local government
- State CPA society
- American Institute of CPAs (AICPA)

The Board may accept CPE credit from other sponsors. However, CPE obtained from sponsors not listed above may be subject to further examination and additional documentation requirements.

At a minimum, sponsors must provide licensees a certificate of completion or other form of documentation that includes the sponsor's name, participant's name, course/content name, date taken and CPE hours earned.

## Policy #3: Substantially Equivalent Jurisdictions

**Effective: Sept. 18, 2012**

Under Section 23 of the Uniform Accountancy Act (UAA), a licensed CPA in good standing from a jurisdiction with CPA licensing requirements that are substantially equivalent to those outlined in the UAA (degree with 150 hours, minimum one year experience and successful completion of the Uniform CPA Examination) may be granted a privilege to practice in another jurisdiction that is not the CPAs principal place of business.

The National Qualification Appraisal Service (NQAS) of the National Association of State Boards of Accountancy (NASBA) has reviewed the CPA licensure requirements of Virginia and has determined that Virginia is substantially equivalent to the licensure requirements of the UAA.

The Board accepts the jurisdictions approved by NASBA as substantially equivalent (for the purposes of licensure and/or mobility), with the following exceptions:

- If the jurisdiction is listed as substantially equivalent with one asterisk, the jurisdiction is deemed substantially equivalent only if the licensee holds an active CPA license/permit with that jurisdiction.
- If the jurisdiction is listed as substantially equivalent with two asterisks, the jurisdiction is not deemed substantially equivalent.

# VBOA Policies

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## Policy #4: Continuing Professional Education (CPE) Guidelines

*Effective: Jan. 1, 2015*

Specific CPE requirements of the Board are listed in the authority sections named above. This policy details the guidelines approved by the Board for administering the CPE requirements.

### General Guidelines

Board Regulation 18VAC5-22-90 requires licensees who are not currently performing any services and who resume providing services to the public or to an employer to first obtain at least 120 hours of CPE prior to providing those services. The 120 hours must include a two-hour Virginia-Specific Ethics Course (an annual requirement — see below).

The Board recognizes that 50 minutes of CPE participation equals one hour of CPE credit. One semester hour of credit for courses at an accredited college or university constitutes 15 hours of CPE and one quarter-hour of credit constitutes 10 hours of CPE.

CPE requirements may be adjusted depending on when a Virginia CPA begins or ceases to provide services to the public or to an employer in accordance with Board Regulation 18VAC5-22-90. Specific questions may be addressed by contacting the VBOA.

### Virginia-Specific Ethics Course

The VBOA requires that all licensees providing services to the public or to an employer complete on an annual basis a Virginia-Specific Ethics Course that complies with Board Regulation 18VAC5-22-90. The two-hour Virginia-specific ethics course is a separate and distinct annual requirement from the one-time American Institute of Certified Public Accountants (AICPA) ethics course needed for initial licensure.

Virginia licensees must complete the required annual ethics course no later than January 31 of each year to meet the previous calendar-year requirement. Therefore, no sponsor should provide the annual ethics course later than January 31 for the previous calendar year.

It is the licensee's responsibility to ensure that sponsors providing the Virginia-Specific Ethics Course are listed on the Board's website as a pre-approved provider of this course. Licensees must also ensure that sponsors provide a certificate of completion or some other form of documentation that includes the sponsor's name, participant's name, date taken and CPE hours earned.

If the licensee is not satisfied with the content of the course or the instructor, the licensee is encouraged to contact the VBOA. Licensees will not be granted CPE credit for completing a Virginia-Specific Ethics Course from a non-approved sponsor.

### Qualifying CPE (excluding the Virginia-Specific Ethics Course)

It is the intent of the VBOA that all CPE (1) meet the requirements of Board Regulations 18VAC5-22-90 and 18VAC5-22-140; (2) provide course content pertinent to the profession; and (3) assist the licensee in becoming a better accounting professional. The VBOA accepts CPE obtained through a variety of forums, providing that the licensee is able to demonstrate that learning objectives were met.

A variety of continuing professional education is acceptable, including:

- Attending a Seminar or Educational Conference. Instructors must have up-to-date knowledge of the subject matter and use appropriate teaching materials. Attendance should be monitored in a manner that can be verified by the VBOA.

# VBOA Policies

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- Earning Course Credit at an Accredited College or University.
- Completing a Self-Study Course. Licensee must be able to demonstrate that learning objectives were met.
- Making a Presentation. The licensee may present at a professional seminar, educational conference or classroom setting, provided that up-to-date knowledge of the subject matter is demonstrated and appropriate teaching materials are used.
- Producing Written Materials. The topic must be relevant to providing services to the public or an employer using the CPA title. The material is formally reviewed by an independent party and must be published in a book, magazine or similar publication used by individuals who provide services to the public using the CPA title or to an employer using the CPA title.
- Additional Board approved CPE. The Board has approved CPE credit for passing specific exams (in the year passed), without a certificate of completion indicating CPE hours earned, not to exceed a total of 60 hours over a 3-year rolling period. The listing of approved exams can be found on the Board's website under "Qualifying CPE."

The Board will determine on a case-by-case basis the acceptability of other forms of CPE.

The VBOA has restrictions on the CPE hours a licensee may regard as valid:

- Repeat presentations may not be counted as additional CEP.
- During each 3-year period, a maximum of 30 hours for preparing and making presentations is allowable.
- One semester-hour of credit for courses at an accredited college or university constitutes 15 hours of CPE and one

quarter-hour of credit constitutes 10 hours of CPE.

The Board has also approved that Continuing Education (CE), Continuing Education Units (CEU), Continuing Legal Education (CLE), Continuing Medical Education (CME), Quality Assurance Service (QAS) and semester and quarter-hour credits are acceptable as CPE credits.

The VBOA does not currently require licensees to obtain CPE from specific or approved sponsors (excluding the Virginia-Specific Ethics Course).

For a complete summary of CPE accepted by the VBOA, see Board Regulation 18VAC5-22-90F.

## Retention Requirements for CPE Documentation

Licensees must retain CPE documentation for the three calendar-years preceding the current calendar-year.

## CPE Violations

As a result of a CPE Compliance Review, the VBOA may find that a licensee has violated the CPE requirements during the reporting period. In such cases enforcement action will be taken and the licensee will generally be offered a consent agreement and be subject to disciplinary action.

A licensee may also determine on their own (outside of the CPE Compliance Review Program) that they are deficient CPE for a specific reporting period. The licensee should notify the VBOA immediately when it is determined that a CPE deficiency has occurred.

In accordance with Board Regulation 18VAC5-22-90H, depending on the facts and circumstances, the VBOA may waive all or part of the CPE requirement for one or

# VBOA Policies

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more calendar-years or grant additional time for complying with the CPE requirement, provided that the waiver or deferral is in the public interest. However, requests for a waiver or a deferral must generally be received in advance of the deadline for CPE completion. It is the policy of the VBOA that such waivers or deferrals be considered only in situations resulting from extreme medical hardship or active military deployment. Requests for a waiver or deferral made under this section will be considered on a case-by-case basis. Such approvals are rare.

## **Policy #5: Publication of Board Disciplinary Action**

***Effective: May 27, 2014***

It is the policy of the Board to publish the information of licensees against whom the Board has taken a disciplinary action resulting in suspensions and revocations, and for other professional violations.

The Board publishes information of licensees found to be deficient in CPE credit-hours in the event of a previous CPE deficiency or previous professional violation.

The Board also publishes information of exam applicants and unlicensed individuals and firms against whom the Board has taken a disciplinary action.

This policy is subject to change without notice.

## **Policy #6: CPA and International Qualification Examinations**

***Effective: June 30, 2013***

The Board approves the following aspects of the CPA Examination and International Qualification Examination:

1. Recognition of the Uniform CPA Examination (Exam) developed by the American Institute of CPAs (AICPA) as the only examination acceptable for CPA licensure in Virginia
2. Recognition of the International Qualification Examination (IQEX) developed by the International Qualification Appraisal Board (IQAB), a joint body of the AICPA and NASBA, as the only international examination acceptable (for those who qualify) for CPA licensure in Virginia
3. Recognition of the AICPA's psychometrically developed standard-setting procedure for determining a uniform grade on each section of the Exam and IQEX
4. Recognition of a minimum passing score of 75 on each section of the Exam and IQEX
5. Recognition of the examination score as official for each section of the Exam and the IQEX as determined by the AICPA and transmitted to NASBA
6. Recognition of the candidate misconduct guidelines relative to the Exam and the IQEX as defined in the Candidate Bulletin and the IQEX Candidate Bulletin produced by the AICPA, NASBA and Prometric

In fulfilling its mission to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of CPAs and CPA firms, the Board shall ensure that Exam applicants demonstrate competence and integrity (§ 54.1-4403). Per Board Regulation 18VAC5-22-80.C.4., the Board may postpone scheduled CPA examinations, the release of grades, or the issuance of licenses for any other reasonable circumstances. Therefore, it shall be the policy of the Board to review an Exam applicant's record for applicants that have taken combined sections of the Exam more than 40 times. Based on

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facts and circumstances (to include but not limited to the number of sections passed, number of current Exam section credits and scores), such applicants at the discretion of the Executive Director and prior to being approved to sit for additional sections of the Exam, will be required to come before an Informal Fact Finding (IFF) Hearing of the Board to present evidence of their intent to pass the Exam. The full Board will determine if the applicant will be permitted to continue sitting for the Exam.

## Policy #7: Peer Review Oversight Committee

*Effective: May 27, 2014*

- (I) The Virginia Board of Accountancy (VBOA) shall establish and maintain the Peer Review Oversight Committee (PROC) for the purpose of:
  - (A) Monitoring sponsoring organizations (defined as administering organizations set up to carry out peer reviews in conformity with AICPA Peer Review standards) to provide reasonable assurance that peer reviews are conducted and reported in accordance with Standards for Performing and Reporting on Peer Reviews (the Standards) promulgated by the AICPA Peer Review Board
  - (B) Reviewing the policies and procedures of sponsoring organization applicants as to their conformity with the peer review standards
  - (C) Reporting to the VBOA on the conclusions and recommendations reached as a result of performing the functions in paragraphs (A) and (B) of this subsection
- (II) Information concerning a specific firm or reviewer obtained by the PROC during oversight activities shall be considered confidential and the firm's or reviewer's identity shall not be reported to the VBOA. Reports submitted to the VBOA will not contain information concerning specific firms or reviewers. Members of the PROC will be required to execute a confidentiality statement for the sponsoring organization which they review.
- (III) Effective July 1, 2010, the PROC shall consist of one or more members, approved by the VBOA, who are active licensed Virginia CPAs. No member of the PROC shall be current members of the VBOA or one of its committees, The VSCPAs Board of Directors, Peer Review or Professional Ethics Committee, or the AICPA Peer Review Board or the Professional Ethics Executive Committee (including subcommittees). The members should have extensive experience in accounting and auditing and currently or recently be in the practice of public accountancy at the partner level (or an otherwise appropriate level as determined by the VBOA), and shall be members of the VSCPA and the AICPA. The member's current or former firm must have received a report with a rating of pass from its last peer review. PROC members shall be in good standing with all governing bodies including Boards of Accountancy. The PROC member will be reimbursed for travel expenses in accordance with state travel guidelines.
- (IV) PROC Member Terms: Members shall generally serve a term of three (3) years, with an option requiring approval by the VBOA for a second three-year term. Terms may be modified to ensure continuity and rotation of PROC members. The VBOA

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reserves the right to terminate and/or modify member terms as necessary.

- (V) The PROC shall make an annual recommendation to the VBOA as to the qualifications of an approved sponsoring organization to continue as an approved sponsoring organization on the basis of the results of the following procedures:
1. Where the sponsoring organization is the AICPA, state CPA societies other than Virginia fully involved in the administering AICPA Peer Review Programs, or the PCAOB, PROC shall review the published reports of those entities or successors, to determine that there is an acceptable level of oversight.
  2. With respect to the VSCPA's Peer Review Committee (PRC), the PROC shall perform the following functions:
    - (1) A member of the PROC shall attend selected meetings of the PRC. Certain PRC meetings may be conducted via telephone. In those instances, the PROC member may join the conference call.
    - (2) During such visits, the PROC member shall:
      - (i) Meet with the PRC during the committee's consideration of peer review documents
      - (ii) Evaluate the VSCPA's procedures for administering the peer review program
      - (iii) Examine, on the basis of a random selection, a number of reviews accepted by the PRC to include, at a minimum, a review of the report on the peer review, the firm's response to the matters discussed, the PRC's letter of acceptance outlining any additional corrective or monitoring procedures, and the required technical documentation maintained by the PRC on the selected reviews
- (iv) Expand the examination of peer review documents if significant deficiencies, problems or inconsistencies are encountered during the analysis of the materials
- (VI) In the evaluation of policies and procedures of the VSCPA, the PROC shall:
- (A) Examine the policies as drafted by the VSCPA to determine that they provide reasonable assurance of conforming with the standards for peer reviews
  - (B) Evaluate the procedures enacted by the VSCPA to determine that:
    - (1) Assigned reviewers are appropriately qualified to perform the review for the specific firm.
    - (2) Reviewers are using appropriate materials.
    - (3) The PRC has provided for consulting with the reviewers on problems arising during the review and that specified occurrences requiring consultation are outlined.
    - (4) The PRC has provided for the assessment of the results of the review.
    - (5) The PRC has provided for an independent report acceptance body that considers and accepts the reports of the review and requires corrective action by firms with significant deficiencies.
    - (6) The VSCPA has a bi-annual oversight visit and subsequent report issued by the AICPA Peer Review Board Oversight Task Force.

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(VII) Annually the PROC shall provide the VBOA with a report on the continued reliance on sponsoring organizations' peer reviews. The PROC report shall provide reasonable assurance that peer reviews are being conducted and reported on consistently and in accordance with the Standards for Performing and Reporting on Peer Reviews (the Standards) promulgated by the AICPA Peer Review Board. A summary of oversight visits shall be included with the annual report.

## **Policy #8: Ethics Committee**

**Effective: Jan. 1, 2015**

(I) The Virginia Board of Accountancy (Board) shall establish and maintain the Ethics Committee for the purpose of:

- (A) Working with the Board member liaison and Board staff to develop a proposed outline for the following years Virginia-Specific Ethics Course, for presentation to the Board
- (B) Reviewing the previous years Virginia-Specific Ethics Course content/material developed by the Virginia Society of CPAs (VSCPA) and making comments and/or recommendations for Board consideration
- (C) Reviewing summary comments from Virginia-Specific Ethics Course participants regarding content/material and/or instruction and making comments and/or recommendations for Board consideration
- (D) Reviewing the pricing structure for the VSCPA's Virginia-Specific Ethics Course (members and non-members) content/material, and making comments and/or recommendations for Board consideration.

(II) The Ethics Committee shall consist of three or more members, approved by the Board, who are active licensed Virginia CPAs. No member of the Ethics Committee shall be current members of the Board or the VSCPA's Board of Directors. Ethics Committee members shall be in good standing with all governing bodies including Boards of Accountancy. The Ethics Committee member will be reimbursed for travel expenses in accordance with state travel guidelines.

(III) Ethics Committee Member Terms: Members shall generally serve a term of three (3) years, with an option requiring approval by the Board for a second three-year term. Terms may be modified to ensure continuity and rotation of Ethics Committee members. The Board reserves the right to terminate and/or modify member terms as necessary.

(IV) The Ethics Committee shall meet at least annually to develop and make a recommendation to the Board for a proposed outline for the following years Virginia-Specific Ethics Course.

(V) The Board shall provide the VSCPA the approved Virginia-Specific Ethics Course outline for the following years course generally after the October Board meeting, annually.

## **Policy #9: Active — CPE Exempt status procedure for approval/denial/appeal**

**Effective: Oct. 7, 2014**

Active — CPE Exempt status is defined as a Virginia licensee that is currently and actively licensed as a CPA and may use the CPA title. However, the individual is not currently providing

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services to the public (providing services that are subject to the guidance of the standard-setting authorities listed in the standards of conduct and practice in subdivisions 5 and 6 of § 54.1-4413.3) or to an employer (providing to an entity services that require the substantial use of accounting, financial, tax, or other skills that are relevant, as determined by the Board (and therefore is NOT required to meet the Board's CPE requirements).

Virginia CPAs must proactively apply for this status by submitting a Change of License Request Form (Active to Active — CPE Exempt) to the VBOA. Virginia CPAs not approved for this status are required to maintain CPE in accordance with Board statutes and regulations and will not be exempt from CPE requirements if audited.

Procedure for approval/denial/appeal of Active — CPE Exempt status:

1. Application form must be submitted to the VBOA.
2. Upon receipt of form and supporting documentation (if applicable), Director of Operations or Executive Director (staff) makes determination (approve or deny status change).
3. If approved by staff, status is changed in system. Licensee is informed of change.
4. If denied by staff, licensee is informed of denial.
5. As part of the staff approval process, staff may have questions regarding a specific type of experience presented on an application that could affect the determination of the Active — CPE Exempt status. In such cases, staff may ask the Board Chair or designee (excluding the Enforcement Committee Chair) for determination.
  - a. If approved by a Board member, status is changed in system. Licensee is informed of change.
  - b. If denied by a Board member, licensee is informed of denial.
6. Following initial denial of the Active — CPE Exempt status, (#4 or #5b above), an applicant may appeal the decision (with or without additional documentation presented by the applicant to assist the Board in making a determination).
7. If an appeal is made after the request is denied by staff (#4), the Board Chair or other designee will make the final determination of status.
  - a. If approved by Board Chair or designee, status is changed in system. Licensee is informed of change.
  - b. If denied by Board Chair or designee, licensee is informed of denial and that no further appeals are available.



## 1. Controller Scenario

Jane used to be a manager at an audit firm and is now a vice president for one of the firm's clients. Jane needs to hire a controller at her company and decides to go to her former coworkers at the CPA firm for advice, but she doesn't get much help. She lists the position in the newspaper, noting that a CPA license is a requirement.

Joe works in industry as a controller. Joe is hired after stating in his application that he is a CPA. Later on, the partners at the CPA firm hear that Jane hired Joe as her controller. They know that Joe lost his CPA license while working at a competing audit firm. They look up his license status and confirm that he was suspended for three years.

Do the auditors have an obligation to tell Jane about this? Does it matter that Jane didn't do her due diligence?

## 2. Independence

It is impossible to enumerate all relationships or circumstances in which the appearance of independence might be questioned. Thus, in the absence of an independence interpretation that addresses a particular relationship or circumstance, a member should evaluate whether the relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to either the member's or firm's independence, or both, that is not at an acceptable level. When making that evaluation, a member should apply the conceptual framework approach, as outlined in this interpretation, to analyze independence matters.

## 3. Out-of-State Registration Requirements

The AICPA peer review program recently completed a project in which it compared the names of over 4,900 firms whose audits of retirement plans had been filed with the Department of Labor to our own records. The purpose of our project was to determine whether the firms were complying with peer review requirements; namely, were they enrolled in peer review when required to do so or, if enrolled, had properly reported to their peer reviewer and state society that they were performing EBP audits.

The results were disappointing, to say the least, indicating 21 percent of the firms were not properly complying. This is inexcusable, and led to the Peer Review Board changing its rules such that firms that fail to properly report engagements may be dropped from our program, the responsible individual referred to ethics for possible enforcement action and the applicable state board of accountancy notified of the actions taken. Clearly, not a pleasant prospect.

In addition, when we began notifying state boards of accountancy of firms that were not properly complying with peer review rules, many state boards began using the same database to ascertain whether firms were properly licensed in their states. As your course book indicates, most state accountancy statutes require CPA firms to register when performing an attest engagement for a client in a state which is not the CPA firm's home state.

Your materials also point out that many states, including Virginia, have CPA mobility laws that do not require out-of-state firms to register or

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pay fees when performing attest engagements in those states. So, if you are doing work for a client outside of Virginia, be sure you know the rules of that state, using [www.cpamobility.org](http://www.cpamobility.org) as a starting point. Bottom line: Failure to follow either peer review or state board rules can have dire consequences.

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