

# Talking Ethics With ChatMLB

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# Let's Talk Ethics and the AICPA Code of Professional Conduct

# The Professional CPA Creed (how many knew we had one?)

As a professional CPA, I willingly accept my responsibility (1) to serve the public interest; (2) to maintain and broaden public confidence by performing all my responsibilities with integrity; (3) to maintain my objectivity and be free of conflicts of interest, and to discharge all my responsibilities with due care.

# Topics To Cover

- Understanding the Code of Professional Conduct
- Independence Rules for CPAs Including Non-Attest Services
- Recent Interpretations and proposals
- Other Guidance, Tools and Aids

# PWR CPA LLP — Fraud Risk Failures & Repeated Reporting Violations

REGULATOR

**PCAOB**

DATE

**July 11, 2025**

LOCATION

**Houston, TX**

FINE

**\$60,000**

## KEY VIOLATIONS

- 1 Failed to perform adequate fraud risk assessment procedures during audit of Ainos, Inc. (FY 2022), undermining investor protection.
- 2 Failed to timely file 9 required Form APs disclosing key audit participants to the public.
- 3 Failed to submit a required Form 3 after adding a partner who had been barred by the SEC from practicing as an accountant.
- 4 Repeated non-compliance with PCAOB reporting requirements across four additional issuer audits.

# Fruci & Associates II / Jennifer Crofoot — Audit Evidence & Quality Control Failures

REGULATOR

**PCAOB**

DATE

**Dec 18, 2025**

LOCATION

**Spokane, WA**

FINE

**\$50,000**

## KEY VIOLATIONS

- 1 Jennifer Crofoot, as engagement partner, violated PCAOB rules and standards in audits of four separate public companies.
- 2 Failed to obtain sufficient appropriate audit evidence to support audit opinions issued to investors.
- 3 Fruci & Associates II had systemic quality control deficiencies that enabled these audit failures across multiple engagements.
- 4 Crofoot was barred for 3 years from associating with any PCAOB-registered firm.

# Goldman & Company CPAs — Audit Documentation Violations

REGULATOR

**PCAOB**

DATE

**July 11, 2025**

LOCATION

**Marietta, GA**

FINE

**\$25,000**

## KEY VIOLATIONS

- 1 Violated AS 1215 (Audit Documentation) by failing to timely assemble a complete and final set of audit documentation.
- 2 The violation related to the audit of a broker-dealer, a regulated entity requiring heightened documentation standards.
- 3 Failure to maintain proper documentation undermines the ability to review, inspect, and verify the quality of audit work.
- 4 Part of a broader PCAOB crackdown on documentation and transparency failures across registered firms.

# Jeffery Q. Johnson, CPA (BKD LLP) — Independence Violation

REGULATOR

**SEC**

DATE

**Jan 17, 2025**

FIRM

**BKD, LLP**

TYPE

**Cease & Desist**

## KEY VIOLATIONS

- 1 As engagement partner at BKD, LLP, Johnson both prepared AND audited financial statements for the same two private fund clients in FY 2019.
- 2 This dual role violates SEC independence standards under the Custody Rule, which requires an independent PCAOB-registered auditor.
- 3 The conflict arose during Custody Rule audits — a high-stakes area where independence is critical to investor protection.
- 4 SEC brought settled administrative and cease-and-desist proceedings against Johnson individually.

# Key Themes & Takeaways

## Auditor Independence

Independence violations remain the most consequential ethical breach. CPAs must never occupy both the preparation and audit roles for the same client in the same period in the public sector. In the private sector, while you can do both roles, independence consideration is critical.

## Fraud Risk Assessment

Failure to adequately evaluate fraud risks during audit planning directly endangers investors. PCAOB standards demand robust procedures regardless of client size.

## Documentation & Reporting

Timely, complete audit documentation and regulatory filings (Form AP, Form 3) are non-negotiable. Repeated non-compliance compounds penalties significantly.

# SEC / PCAOB Regulatory Focus

## 2025 Leadership Remarks & Priorities

### Key Theme

SEC Chair Atkins called for the profession to get "back to basics" — emphasizing integrity, objectivity, and professional skepticism above all else.

## 2025 REGULATORY LEADERSHIP REMARKS

SEC

### SEC Chair Atkins

- ▶ Theme for the profession: Get **"back to basics"** — prioritize fundamentals over complexity
- ▶ Focus on integrity and objectivity, and exercising **professional skepticism**

SEC

### Kurt Hohl — SEC Chief Accountant

- ▶ Independence is under increasing pressure due to AI technological and ethical complexities
- ▶ Exploring whether updates to the independence framework are necessary as AI becomes more embedded in financial reporting and audit processes
- ▶ Closely monitoring structural changes in audit firms — especially private equity (PE) involvement — which presents opportunities but introduces risks to audit quality and independence

PCAOB

### Acting Director Ryan — PCAOB Division of Enforcement

#### PCAOB will prioritize:

- ▶ Significant audit failures reflecting lack of due professional care & professional skepticism
- ▶ Serious independence violations · Interference with PCAOB processes & ethical breaches · Material QC failures

# SEC / PCAOB Enforcement

2025 Actions  
At a Glance

# 39

Total enforcement actions  
against auditors in 2025

↓ 34%

vs. 2022–2024 period

## 2025 ENFORCEMENT ACTION BREAKDOWN

### PCAOB Actions — 37 Total

65%

Quality Control Violations

↑ Up from 39% in 2022–2024

62%

Auditing Standards Violations

↓ Down from 66% in 2022–2024

48%

Audit Documentation & Due Professional Care

Subset of auditing standard violations

8%

Ethics / Independence Violations

↓ Down from 19% in 2022–2024

### SEC Actions — 2 Total

100%

Involved independence violations (Reg S-X)

#### CASE DETAILS

##### Case 1

#### Self-Review Threat

Respondent audited financial statements that he had previously prepared — a direct independence violation under Reg S-X.

##### Case 2

#### Financial Interest (Spousal)

Respondent's wife held investments in the audit client (a fund) — creating an indirect financial interest that impaired independence.

# The AICPA Code of Professional Conduct

# Why Do We Have a Code?

- Promote and maintain high standards of practice.
- AICPA and state CPA societies have codes of conduct.
- Helps preserve the reputation of the profession and protect the public's interest.
- State accountancy boards issue licenses to practice public accounting.

# Applicability

Members of the AICPA agree to comply with the code as a condition of membership, but the code applies to many non-AICPA members, too. Most state accountancy boards adopt the code or parts of the code under their laws or regulations, making the AICPA rules applicable to the CPAs who practice public accounting in those states and territories. In addition, professionals — whether they are AICPA members or not — must comply with the code's independence rules when they perform audit or other attestation services for clients under AICPA professional standards.

# Code Structure in Detail

- Preface provides an overview, the principles, structure and application of the code, definitions, and revisions
- Part 1 contains rules and interpretations for members in public practice
- Part 2 contains rules and interpretations for members in business
- Part 3 contains rules and interpretation for all other members
- Appendixes include AICPA council resolutions, a revision history table, and a mapping document
- The code is further divided into topical areas:
  - Topic (for example, “Integrity and Objectivity”)
  - Subtopic (for example, “Preparing and Reporting Information”)
  - Section (for example, “Subordination of Judgment”)

# Part 0 - Preface

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 Nonauthoritative Guidance

0.600 New, Revised, and Pending Interpretations and Other Guidance

0.700 Deleted Interpretations and Other Guidance

# Code Principles

## 0.300 Principles of Professional Conduct

0.300.010 Preamble

0.300.020 Responsibilities

0.300.030 The Public Interest

0.300.040 Integrity

0.300.050 Objectivity and Independence

0.300.060 Due Care

0.300.070 Scope and Nature of Services

# Terminology

- Defined terms
  - Found in “Definitions” [ET section 0.400])
  - Shown in italics throughout the code
  - When not shown in italics, the definition in 0.400 should not be applied
- *Member*
  - Includes members, associate members, affiliate members, and international associates of the AICPA
  - Shall not knowingly permit a person they can control to carry out acts that violate the rules on the member’s behalf
  - May be held responsible for the acts of all persons associated with them in public practice whom they can control
- Drafting conventions terminology
  - *Consider* means you are required to think about several matters.
  - *Evaluate* means you should assess and weigh the significance of a matter.
  - *Determine* means you should form a conclusion and make a decision on a matter.

# 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

# Part 1 — Members in Public Practice (Continued)

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 Forms 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

# Role of Professional Judgment and Critical Thinking

- Not always bright line
- Apply professional judgment
- Think critically
- Appearance of independence
- Conflict of interest
- Conceptual framework
- Big picture approach
- Consider stakeholders
- Others' views

# How do you Analyze Matters?

1. Recognize the ethical issue.
2. Gather critical facts – What, how, who, when, where, why?
3. Identify the stakeholders.
4. Consider your alternatives.
5. What is the effect on the stakeholders?
6. Consider your comfort level.
7. Rules, regulations, & laws.
8. Make a decision.
9. Document your efforts.
10. Evaluate the outcome.

# Independence Rules for CPAs

# Is My Firm Independent?

Before beginning any attest engagement, every firm must answer four foundational questions and maintain ongoing monitoring systems.

## AICPA Code Reference

ET § 1.210 Independence  
ET § 1.220 Conceptual Framework

*Must maintain systems to monitor independence and evaluate every new relationship or service.*

01

## Who is the attest client?

Private company, public issuer, or benefit plan?

02

## What attest services are being performed?

Audit, review, compilation, agreed-upon procedures?

03

## What independence rules apply?

AICPA, PCAOB, SEC, DOL, GAGAS, or other standards?

04

## Evaluate all relationships & services

For the client and all affiliates in scope

### EVALUATE RELATIONSHIPS & SERVICES FOR CLIENT AND ALL AFFILIATES

1

## Financial

Direct & indirect investments, loans

2

## Employment

Board & trustee relationships

3

## Non-Attest Services

Bookkeeping, tax, consulting

4

## Business Relationships

Joint ventures, vendor ties

# Overview of Independence rules

- Independence is the cornerstone of public accounting.
- Understanding independence is important for all members. Includes independence of mind and independence in appearance.
- Definitions are not absolutes. All threats are required to be reduced to an acceptable level.

# Which Services Require Independence?

- Attest engagements for attest clients
- Attest services
  - Financial statement audits
  - Financial statement reviews
  - Examination, agreed-upon procedures, and review services
  - Financial statement compilations (although independence is not required for these engagements)

# Definitions

- Attest client — A person or entity with respect to which a member performs an attest engagement.
- Attest engagement — An engagement that requires *independence*, as set forth in the AICPA Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARSs), and Statements on Standards for Attestation Engagements (SSAEs).

# Definitions (Continued)

- Attest engagement team — Those individuals participating in the *attest engagement*, including those who perform concurring and engagement quality reviews. The attest engagement team includes all employees and contractors retained by the *firm* who participate in the *attest engagement*, regardless of their functional classification (for example, audit, tax, or management consulting services).

# Introduction to the conceptual framework approach —

## Key terms

- **Acceptable level:** A level at which a reasonable and informed third party who is aware of the relevant information would be expected to conclude that a member's compliance with the rules is not compromised.
- **Safeguards:** Actions or other measures that may eliminate a threat or reduce a threat to an acceptable level.
- **Threats:** Relationships or circumstances that could compromise a member's compliance with the rules.

# Steps to Apply the Approach – Identify Threats to Independence (Step 1)

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

# Evaluate the Significance and Apply Safeguards (steps 2 & 3)

- Not all threats are the same.
- Determine if a threat is acceptable.
- Consider both qualitative and quantitative factors.
- Conclude and communicate.
- Apply safeguards, if required.

# The AICPA Conceptual Framework at a Glance

Under ET § 1.220, when no specific independence rule addresses a situation, members must apply the conceptual framework — a three-step process to determine whether independence is impaired.

1

## Identify Threats

Recognize circumstances that could impair — or appear to impair — the member's independence. The Code identifies seven threat categories.

2

## Evaluate Significance

Assess whether identified threats are at an acceptable level — i.e., would a reasonable and informed third party conclude independence is not impaired?

3

## Apply Safeguards

If threats are not at an acceptable level, apply safeguards that eliminate them or reduce them to an acceptable level — or decline/withdraw from the engagement.

# The Scenario

## Scenario

Sarah Chen, CPA, is a partner at a regional public accounting firm. Her firm has been asked to perform the annual audit (an attest engagement) for Ridgeline Manufacturing, LLC — a mid-sized company. During the engagement acceptance process, Sarah discovers the following facts that must be evaluated under the AICPA conceptual framework before the engagement can be accepted.

### Fact A • Family Relationship

Sarah's brother is the CFO of Ridgeline Manufacturing and has direct authority over the financial statements.

### Fact B • Prior Non-Attest Service

Sarah's firm provided bookkeeping services to Ridgeline for the prior fiscal year (the period under audit).

### Fact C • Financial Interest

Sarah owns \$2,500 in Ridgeline bonds, purchased three years ago, representing less than 0.1% of total debt outstanding.

### Fact D • Fee Dependency

The engagement fee will represent approximately 8% of the firm's total annual revenue for this fiscal year.

Each fact is evaluated independently through the three-step conceptual framework on the following slides.

## 1

# Step 1: Identify Threats to Independence

Sarah maps each fact to a threat category defined in the AICPA Code. The Code recognizes seven threat types; four are implicated here.

**Fact A****Familiarity Threat**

ET § 1.220.010.07(d)

**HIGH**

A close relationship with the client's key management (her brother, the CFO) may cause Sarah to be too sympathetic to the client's interests or too accepting of their work.

**Fact B****Self-Review Threat**

ET § 1.220.010.07(b)

**HIGH**

The firm auditing financial statements it helped prepare (bookkeeping services) means members could be auditing their own prior work, reducing objectivity.

**Fact C****Self-Interest Threat**

ET § 1.220.010.07(a)

**MODERATE**

A direct financial interest in the attest client (bond ownership) could cause the member to act in a way that favors her own financial position.

**Fact D****Self-Interest Threat (Fee Dependency)**

ET § 1.220.010.07(a)

**MODERATE**

Significant fee dependency on a single client may lead the member to be reluctant to issue an adverse or qualified opinion for fear of losing the engagement.

# 2

## Step 2: Evaluate the Significance of Each Threat

*"Reasonable & Informed Third Party" Standard: Would a reasonable and informed third party, weighing all facts and circumstances, conclude that the threat is at an acceptable level such that independence is not impaired? (ET § 1.220.010.03)*

### Fact A

#### Familiarity Threat — Brother as CFO

The CFO has direct responsibility over the financial statements being audited. This is an immediate family member in a key management position — a per se impairment under ET § 1.270. No safeguard can reduce this threat to an acceptable level.

▶ NOT ACCEPTABLE

### Fact B

#### Self-Review Threat — Prior Bookkeeping

Auditing records the firm prepared creates an unacceptable self-review threat. The firm would be auditing its own prior work. Per ET § 1.295, performing bookkeeping for an attest client generally impairs independence. Safeguards are very limited.

▶ NOT ACCEPTABLE

### Fact C

#### Self-Interest Threat — Bond Ownership

The bond holding is indirect (small fraction of total debt) and was not acquired in anticipation of the engagement. A reasonable third party would likely find this immaterial given the de minimis ownership percentage — but it still warrants disclosure and monitoring.

▶ ACCEPTABLE w/ SAFEGUARD

### Fact D

#### Self-Interest Threat — Fee Dependency

8% of firm revenue from one client is below the 15% threshold that triggers automatic impairment concerns. However, it is elevated enough to warrant attention. A reasonable third party might question objectivity if no additional oversight is in place.

▶ ACCEPTABLE w/ SAFEGUARD

# 3

## Step 3: Apply Safeguards or Withdraw

### — FACTS A & B — Independence IMPAIRED

#### Fact A — Immediate Family / CFO

Under ET § 1.270, a covered member may not have an immediate family member in a key management position. No safeguard exists. Sarah must recuse herself as the engagement partner or the firm cannot accept the engagement unless her brother resigns or transfers out of financial reporting oversight.

#### Fact B — Prior Bookkeeping Services

The self-review threat from auditing records the firm prepared is not reducible to an acceptable level. Per ET § 1.295, the firm must either (a) not have performed the bookkeeping, or (b) decline this audit. If the client arranges for another party to assume responsibility for those records, the threat may be resolved for future periods.

### ✓ FACTS C & D — Acceptable with Safeguards

#### Fact C — Bond Ownership Safeguards

Sarah discloses the bond holding to the firm's ethics partner. The firm documents that the interest is immaterial (< 0.1% of outstanding debt). Sarah implements a monitoring plan and agrees to divest if the holding becomes more than de minimis. Documented in the independence compliance file.

#### Fact D — Fee Dependency Safeguards

Because the fee is below 15% but still elevated, the firm assigns an independent engagement quality reviewer (EQR) who has no relationship with Ridgeline. The EQR reviews the audit conclusions before the report is issued, providing an objective check on Sarah's judgments.

# Conclusion & Decision

Fact	Threat Type	Acceptable?	Resolution
A — Brother is CFO	Familiarity	<b>NO — Per Se Impairment</b>	Decline engagement OR brother must remove himself from financial oversight
B — Prior Bookkeeping	Self-Review	<b>NO — Independence Impaired</b>	Cannot audit records firm prepared; decline or restructure for future periods
C — Bond Ownership	Self-Interest	<b>YES — with Safeguard</b>	Disclose, document immateriality, monitor and divest if material
D — Fee Dependency (8%)	Self-Interest	<b>YES — with Safeguard</b>	Assign independent EQR; document in quality control files

**Final Outcome:** Sarah's firm cannot accept the Ridgeline engagement as currently structured. Facts A and B create per se or irreparable impairments. The engagement may only proceed after both conditions are resolved.

# Which Independence Rules Apply?

- AICPA — All AICPA members and others performing audits under generally accepted auditing standards (GAAS) or other attest services
- State Accountancy Boards — All licensees (including via mobility rules) practicing under a state board's jurisdiction
- SEC and PCAOB
  - Public companies filing reports with the SEC
  - SEC registered broker-dealers, hedge funds, investment advisers

# Which Independence Rules Apply? (Continued)

- CFTC — Audits of futures commission merchants comply with independence requirements applicable to non-issuer broker-dealer audits
- GAO — Attest services under government auditing standards
- DOL — Audits of employee benefit plans subject to ERISA

# Which Independence Rules Apply? (Continued)

- FDIC or other banking agencies — Policy statements on independence including internal audit, SOX, and indemnification
- NAIC — Model Audit Rule incorporates several aspects of the SEC's independence requirements
- IESBA – Global code that serves as the foundation for member body codes throughout the world
- EC — Audit and independence rules for European Union

# When Is Independence Required?

- Independence in fact and appearance
  - Period of the professional engagement
  - Period covered by the financial statements
- **Financial Interests** — Independence required during the *professional engagement*.
- **Nonattest services, business, and employment relationships** — Independence required during the *professional engagement* and *period covered by financial statements*.

# What If Independence Is Breached?

- Breach of an independence interpretation — Guidance on steps to take if member identifies breach of independence rule (ET section 1.298.010)
  - Address consequences
  - Exercise professional judgment
  - Reasonable and informed person

# Conceptual Framework For Independence

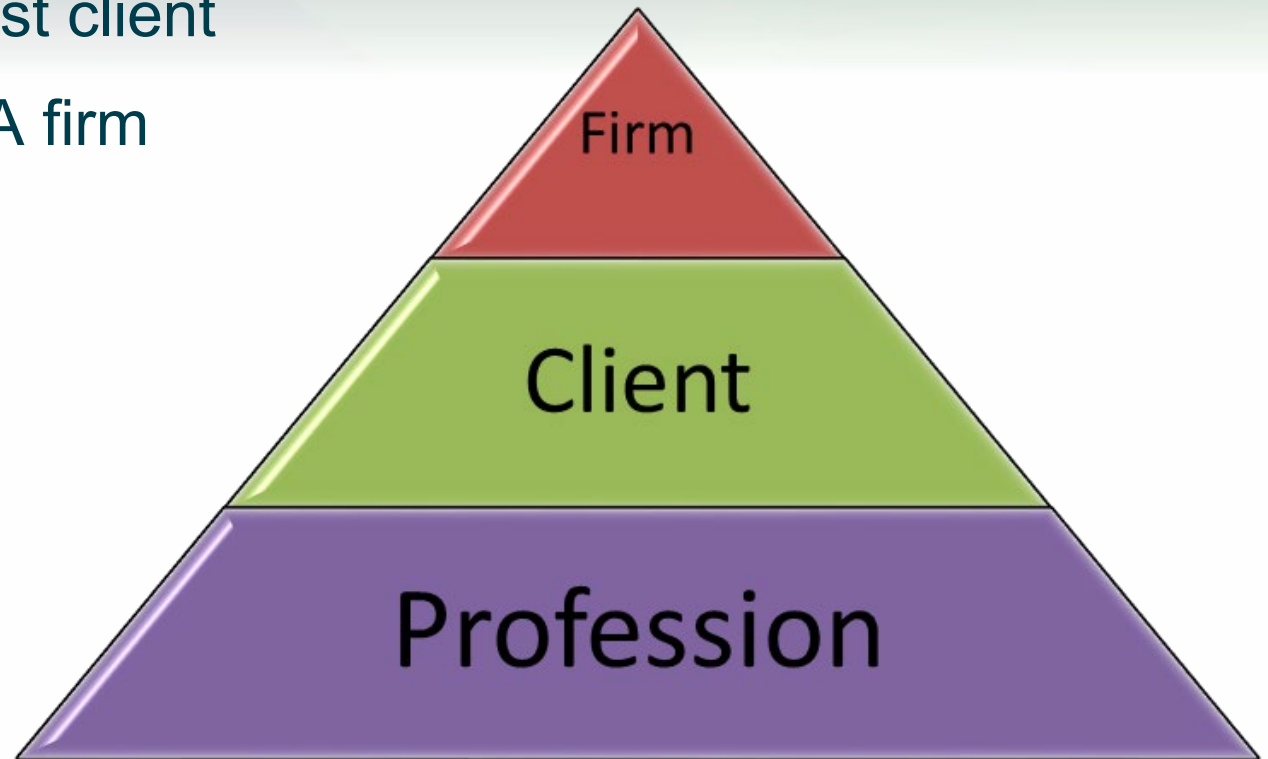
- Threats and safeguards approach used for independence for many years.
- Identify threats
  - Are threats significant?
  - If significant, could safeguards reduce or eliminate?
  - Threats must be at “acceptable level” or independence is impaired.
- If a rule applies, do not apply conceptual framework, which is intended to address situations where no rule exists.

# Conceptual Framework for Independence

- Key terms:
  - Acceptable level
  - Safeguards
  - Threats
  - Impaired — In connection with *independence*, to effectively extinguish *independence*  
When a *member's independence* is *impaired*, the *member* is not independent.

# Primary Safeguards

- Safeguards created by the profession, legislation, or regulation
- Safeguards implemented by the attest client
- Safeguards implemented by the CPA firm



# Effectiveness of Safeguards

- The facts and circumstances specific to a particular situation;
- The proper identification of threats;
- Whether the safeguard is suitably designed to meet its objectives;
- The party or parties that will be subject to the safeguard;
- How the safeguard is applied;
- The consistency with which the safeguard is applied; and
- Who applies the safeguard.

# Affiliates of Financial Attest Client

- Members must be independent of attest clients and certain affiliates of financial statement attest clients.
- Affiliate
  - Defined by the code
  - Include entities related to the client that involve control or significant influence
    - Control relationships (per FASB; generally over 50%)
    - Significant influence relationships (per FASB; generally 20%–50%)
    - Employee benefit plans (control or significant influence)

# Affiliates of Financial Attest Client – Two Exceptions

- Nonattest service provided to affiliate does not result in significant threats to independence at attest client
- Covered member's subsequent employment with affiliate that does not result in a key position with attest client

**Note:** Interpretation does not apply to state or local governmental bodies, which are covered under a separate interpretation in the code.

# Nonattest Services

- Advisory services (**be careful here**)
- Appraisal, valuation, or actuarial services
- Benefit plan administration services
- Bookkeeping, payroll, and other disbursement services
- Business risk consulting services
- Corporate finance consulting services
- Executive or employee recruiting services

# Nonattest Services (Continued)

- Forensic accounting services
- Hosting services
- Information systems design, installation, or integration services
- Internal audit services
- Investment advisory or management services
- Tax services

# General Requirement 1 — Establish Understanding with Client

Independent CPA responsibilities	The client's responsibilities
<p>Establish and document in writing the understanding with the client regarding:</p> <ul style="list-style-type: none"><li>• Objectives of the engagement,</li><li>• Services to be performed,</li><li>• Member's responsibilities,</li><li>• Client's acceptance of responsibilities, and</li><li>• Any limitations of the engagement.</li></ul>	<ul style="list-style-type: none"><li>• Accepting responsibility for the services,</li><li>• Designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience to oversee the service,</li><li>• Evaluating the adequacy and results of the services performed, and</li><li>• Making management decisions and assuming all management responsibilities.</li></ul>

# Client Oversight

## Skill, Knowledge & Experience

### AICPA Code Reference

ET § 1.295.040  
Non-Attest Services —  
General Requirements

### WHY IT MATTERS

When a CPA performs non-attest services, the client must designate a qualified individual to oversee the work. Without sufficient SKE, independence may be impaired.

## THE THREE PILLARS OF CLIENT OVERSIGHT

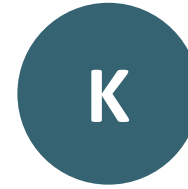


S

### SKILL

#### Technical Competence to Evaluate the Work

- ▶ Review and assess accuracy of CPA deliverables
- ▶ Understand the discipline (tax, reporting, payroll)
- ▶ Recognize errors or inappropriate recommendations
- ▶ Approve or reject work product before reliance



K

### KNOWLEDGE

#### Business & Industry Awareness

- ▶ Know the entity's industry and financial structure
- ▶ Understand how CPA services affect company books
- ▶ Aware of laws and regulations governing the service
- ▶ Know how outputs interface with internal controls



E

### EXPERIENCE

#### Practical Background to Exercise Judgment

- ▶ Hands-on experience with the type of service
- ▶ History of informed decisions in the subject area
- ▶ Exposure sufficient to spot anomalies or errors
- ▶ Accountability for financial results or compliance

*If no qualified individual with sufficient SKE is available, the member should consider whether performing the service would impair independence. (ET § 1.295.040.04)*

# General Requirement 2

- Management responsibilities involve leading and directing an entity.
- Examples:
  - Setting policy or strategic direction
  - Directing or accepting responsibility for actions of employees
  - Authorizing, executing, or consummating transactions
  - Preparing source documents
  - Having custody of an attest client's assets
  - Deciding which recommendation of the member to implement
  - Reporting to those charged with governance on behalf of management

# General Requirement 3

- Engagement letter or another type of document, before performing nonattest services
- Failure to document does not affect independence but would be considered a compliance issue
- **Practice note:** Routine activities such as providing advice, guidance or responding to questions as part of the normal client relationship are not considered to be nonattest services.

# Evaluation

**What if identified threats are so significant that no safeguards will eliminate the threat or reduce it to an acceptable level?**

## **Options:**

- Decline to perform
- Discontinue professional services
- Terminate relationship
- Dispose of interests

# General Impairments of Independence

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client or having the authority to do so;
- Preparing source documents, in electronic or other form;
- Having custody of client assets;
- Supervising client employees in their normal recurring activities;
- Determining which recommendations should be implemented;
- Reporting to the board of directors on behalf of management;
- Serving as a client's stock transfer or escrow agent, registrar, general counsel or its equivalent; and
- Establishing, maintaining, or monitoring internal controls.

# Primary Threats to Independence

- **Self-review threat** – Members reviewing as part of an attest engagement evidence that results from their own, or their firm's, nonattest work such as, preparing source documents used to generate the client's financial statements.
- **Advocacy threat** – Actions promoting an attest client's interests or position.
- **Adverse interest threat** – Actions or interests between the member and the client that are in opposition, such as, commencing, or the expressed intention to commence, litigation by either the client or the member against the other.
- **Familiarity threat** – Members having a close or longstanding relationship with an attest client or knowing individuals or entities (including by reputation) who performed nonattest services for the client.
- **Undue influence threat** - Attempts by an attest client's management or other interested parties to coerce the member or exercise excessive influence over the member.
- **Financial self-interest threat** - Potential benefit to a member from a financial interest in, or from some other financial relationship with, an attest client.
- **Management participation threat** - Taking on the role of client management or otherwise performing management functions on behalf of an attest client. Performing multiple non-attest services falls into this threat.

# Monitoring Independence

## Best Practices

A robust independence monitoring program requires proactive policies, continuous training, timely tracking, and formal accountability at every level of the firm.

### Key Principle

Independence cannot be an afterthought. Every firm must designate a senior-level partner accountable for policies, compliance, and consultation on independence matters.

## 11 BEST PRACTICES FOR INDEPENDENCE COMPLIANCE

### 1 Written Policies

Independence policies documented and available to all firm professionals

### 2 Independence Training

Required training upon hire and periodically throughout employment

### 3 Restricted Entity Database

Maintain a current listing of all attest clients and affiliates; update timely and confirm corporate tree with clients

### 4 Conflict Checking

Formal process to check conflicts for all new clients and new services before engagement acceptance

### 5 Senior Partner Oversight

Designated senior-level partner responsible for independence policies, compliance, and consultations

### 6 Annual Independence Audits

Formal annual independence review of all partners and managers firm-wide

### 7 Independence Confirmations

Written confirmations by all professionals at time of hire and annually thereafter

### 8 Self-Reporting Process

Professionals required to self-report any independence violations promptly upon discovery

### 9 Consultation & Sanctions

Formal documented consultation process for independence questions; formal sanctioning process for confirmed violations

# Excerpts from the Code as a reminder

# Principles of Professional Conduct (ET sec. 0.300)

- Responsibilities. In carrying out your professional responsibilities, you should exercise sensitive professional and moral judgment.
- The public interest. You should act in a way that will serve the public interest, honor the public trust, and demonstrate your commitment to professionalism.
- Integrity. To maintain and broaden public confidence, you should perform all professional responsibilities with the highest sense of integrity.
- Objectivity and independence. You should maintain objectivity and be free of conflicts of interest in discharging your professional duties. If you work for a public accounting firm that provides audit and other attestation services, you should be independent in fact and appearance.
- Due care. You should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of your ability. When performing audits or other attest services, due care requires CPAs to exercise professional skepticism.
- Scope and nature of services. As a member in public practice, you should observe the principles of the Code of Professional Conduct in determining the scope and nature of services to be performed.

# Interpretations and Other Guidance (ET sec. 0.100.020)

Interpretations of the rules of conduct are adopted after exposure to the membership, state societies, state boards, and other interested parties. The interpretations of the rules of conduct, “Definitions” (0.400), “Application of the AICPA Code” (0.200.020), and “Citations” (0.200.030), provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. A member who departs from the interpretations shall have the burden of justifying such departure in any disciplinary hearing.

## 2.110 Conflicts of Interest

A *member* may be faced with a conflict of interest when undertaking a *professional service*. In determining whether a *professional service*, relationship, or matter would result in a conflict of interest, a *member* should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the "Integrity and Objectivity Rule".

## 2.300 General Standards Rule

A *member* shall comply with the following standards and with any *interpretations* thereof by bodies designated by *Council*.

- a. *Professional Competence*. Undertake only those *professional services* that the *member* or the *member's firm* can reasonably expect to be completed with professional competence.
- b. *Due Professional Care*. Exercise due professional care in the performance of *professional services*.
- c. *Planning and Supervision*. Adequately plan and supervise the performance of *professional services*.
- d. *Sufficient Relevant Data*. Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any *professional services* performed.

# Compliance with the Standards

An AICPA member who performs audit, review, management consulting, tax, or other professional services shall comply with standards created by bodies that the AICPA Council has designated as “official” standard setters. Appendix A of the code provides a list of those standard-setting bodies, which includes, among others, the following:

- Financial Accounting Standards Board
- Governmental Accounting Standards Board
- Public Company Accounting Oversight Board
- Accounting and Review Services Committee
- Tax Executive Committee
- Auditing Standards Board

## 2.400 Acts Discreditable

*A member shall not commit an act discreditable to the profession.*

In the absence of an interpretation of the “Acts Discreditable Rule” [2.400.001] that addresses a particular relationship or circumstance, a member should apply the “Conceptual Framework for Members in Business”

# Everyone's Favorite: Acts Discreditable to the Profession

PEEC has issued several interpretations on this rule; some examples are shown in the following table:

Examples of acts discreditable to the profession	Description of act discreditable to the profession
Discrimination and harassment	Being found guilty of violating any antidiscrimination laws
Government regulations	Failure to follow standards and procedures or other requirements in governmental or regulatory audits or attest services
Preparation of financial statements	<ul style="list-style-type: none"><li>• Through negligence, making or permitting others to make materially false or misleading entries in the financial statements or accounting records</li><li>• Failure to correct an entity's financial statements that are materially false and misleading when the member has the authority to record an entry</li><li>• Signing (or permitting or directing another to sign) a document containing materially false and misleading information</li></ul>
Timely filing of tax returns	Failure to timely file personal tax returns or those of the firm, or failure to remit payroll or other taxes in a timely manner
Disclosure of employer's confidential information (including volunteer positions)	Failure to maintain the confidentiality of an employer's or firm's (employer) confidential information; you should not use or disclose any confidential employer information obtained as a result of an employment relationship; for example, discussions with your employer's vendors, customers, or lenders

# Confidential Client Information

Confidential client information is any information obtained from the client that is not available to the public. Information available to the public includes, but is not limited to, the following information:

- In a book, periodical, newspaper, or similar publication
- In a client document released by the client to the public or that has otherwise become a matter of public knowledge
- On publicly accessible websites, databases, online discussion forums, or other electronic media by which members of the public can access the information
- Released or disclosed by the client or other third parties in media interviews, speeches, testimony in a public forum, presentations made at seminars or trade association meetings, panel discussions, earnings press release calls, investor calls, analyst sessions, investor conference presentations, or a similar public forum
- Maintained by, or filed with, regulatory or governmental bodies available to the public
- Obtained from other public sources

Unless the particular client information is available to the public, such information should be considered confidential client information.

# Confidential Client Information: Disclosures

There are a few exceptions to the “Confidential Client Information Rule” (ET sec. 1.700.001), as described in the following table.

Confidential client information may be disclosed without client permission only in certain circumstances, as outlined by the code. The following are a few examples:

<b>Comply with standards</b>	<b>To comply with the requirements of other professional standards, for example, audit, review, or tax standards. (Your requirement to comply with these other standards always takes precedence over your responsibilities to maintain client confidentiality.)</b>
Comply with laws	To comply with a law or regulation
Subpoena or summons	To comply with a validly issued or enforceable subpoena or summons
Ethics investigation	To initiate a complaint with or respond to inquiries made in connection with an investigation or disciplinary proceeding by the AICPA, a CPA society, board of accountancy, or another professional or regulatory body.
Firm sale or merger	To sell your accounting practice to another firm or merge with another firm if you take appropriate precautions.

# Recent Interpretations & Proposals

# AICPA — New and Revised

- Revised Interpretation Related to Section 529 Plans (ET section 1.240.070)
- Revised Interpretation Related to Recruiting (ET section 1.295.135)
- New Definition and Revised Interpretations Related to Simultaneous Employment (ET section .0400.49 and 1.275.005)
- Conforming Changes Related to Quality Management
- Clarifying Revisions for Engagements Subject to the Statements on Standards for Attestation Engagements.

# Revised interpretation related to 529 plans

Key points in the interpretation include:

- Either prepaid tuition plans or savings plans create a direct financial interest in the plan for the account owner.
- Independence is impaired if an account owner is a covered member and the plan is an attest client.
- A self-interest threat may exist if the account owner is a covered member and the underlying investment in their Section 529 savings plan is an attest client.
- Threats would not be at an acceptable level and independence would be impaired unless safeguards are applied if the underlying investment is material.

# Revised Executive or Employee Recruiting Interpretation

Services a member may perform under the revised interpretation

- a. Recommend or advise on a position description or candidate specifications
- b. Advise on the general terms of employment, remuneration, or related benefits
- c. Search for candidates for non-key positions using the attest client's criteria
- d. Review candidate resumes provided by the attest client
- e. Interview candidates and advise on a candidate's competence based on the client's criteria
- f. Recommend to the attest client more than one candidate for any position for consideration based on the attest client's criteria, including providing analysis of how each candidate meets the attest client's criteria.

# Revised Executive or Employee Recruiting Interpretation (continued)

Services a member is prohibited from performing under the revised interpretation

- a. Hire or terminate the attest client's employees
- b. Advise on the specific terms of employment, renumeration, or related benefits of a particular candidate for a key position
- c. Search for or seek out candidates for key positions
- d. Undertake reference checks of prospective candidates for a key position
- e. Recommend to the attest client only one candidate for consideration for a key position (as opposed to recommending a slate of candidates)
- f. Rank candidates for a key position, whether or not using the attest client's criteria
- g. Negotiate with the candidate on behalf of the attest client
- h. Commit the attest client to employee compensation or benefit arrangements

# Revised “Simultaneous Employment or Association with an Attest Client” Interpretation

- Replaces the current “Simultaneous Employment or Association With an Attest Client” interpretation (ET sec. 1.275.005)
- Expands guidance related to the scope and application of independence rules as they relate to simultaneous employment
- Notes that *the familiarity, management participation, advocacy, self-interest, or self-review* threats to independence would not be at an acceptable level and could not be reduced when
  - a. a covered member is simultaneously employed or associated with the attest client;  
or
  - b. a partner or professional employee who is not a covered member is simultaneously employed or associated in a key position with the attest client.
- Includes guidance related to independent contractors
- Clarifies exceptions in which threats are at an acceptable level

# Simultaneous Employment – New Definition

***Simultaneously employed or associated.*** When a *partner* or professional employee of the *member's firm* serves as a member of *those charged with governance* or as an employee of an *attest client* during the *period of the professional engagement*. This includes contractual or volunteer positions at the *attest client*.

# Changes to Quality Management

- Conforming changes that reflect the terminology corresponding with the new quality management standards
- Affect multiple definitions and interpretations
- Many revisions involve replacing the term ***quality control*** with ***quality management***

# Clarifying Revisions for Engagements Subject to the SSAEs

***Period covered by the attest report.*** The point in time or period of time to which the subject matter of the *attest engagement* relates. The period covered by the attest report can vary depending on the scope of the *attest engagement*.

Examples of the period covered by the attest report may include the following:

- a. Examples of engagements performed in accordance with Statements on Auditing Standards or Statements on Standards for Accounting and Review Services
  - i. The fiscal- or calendar-year period covered by an audit or review report on a complete set of financial statements, such as “as of and for the year ended December 31, 20X0”
  - ii. The single day covered by an audit or review report on a balance sheet such as “as of December 31, 20X0”

# Clarifying Revisions for Engagements Subject to the SSAEs (continued)

- b. Examples of engagements performed in accordance with Statements on Standards for Attestation Engagements
- i. The six-month period covered by an examination report on the controls at a service organization, such as “for the six-month period ending September 30, 20X0”
  - ii. The fiscal- or calendar-year period covered by an examination or review report on greenhouse gas emissions information, such as “for the year ended December 31, 20X0”
  - iii. The single day covered by an examination report on the suitability of the design of controls implemented within a cybersecurity risk management program, such as “as of November 30, 20X0”
  - iv. The fiscal- or calendar-year period covered by a report on applying agreed-upon procedures on prospective financial information, such as “as of and for the year ended December 31, 20X0”

# Other Revisions Related to Engagements Subject to the SSAEs

- “Conceptual Framework for Independence” (ET sec. 1.210.010)
- “Use of a Nonindependent CPA Firm on an Engagement” (ET sec. 1.220.030)
- “Firm Mergers and Acquisitions” (ET sec. 1.220.040)
- “Plan Is an Attest Client or Is Sponsored by an Attest Client” (ET sec. 1.250.010)
- “Immediate Family Member Is Employed by the Attest Client” (ET sec. 1.270.020)
- “Immediate Family Member Participation in an Employee Benefit Plan That Is an Attest Client or Is Sponsored by an Attest Client (Other Than Certain Share-Based Arrangements or Nonqualified Deferred Compensation Plans)” (ET sec. 1.270.030)
- “Close Relatives” (ET sec. 1.270.100)
- “Honorary Director or Trustee of a Not-for-Profit Organization” (ET sec. 1.275.010)
- “Individual in a Campaign Treasurer or Similar Financial Position” (ET sec. 1.275.025)
- “Member of Federated Fund-Raising Organization” (ET sec. 1.275.030)
- “Member of Organization That Receives Funds From Fund-Raising Organization” (ET sec. 1.275.035)
- “Subsequent Employment or Association With an Attest Client” (ET sec. 1.279.020)
- “Actual or Threatened Litigation” (ET sec. 1.290.010)
- “Scope and Applicability of Nonattest Services” (ET sec. 1.295.010)
- Management Responsibilities (ET sec. 1.295.030)
- Documentation Requirements When Providing Nonattest Services (ET sec. 1.295.050)
- Breach of an Independence Interpretation (ET sec. 1.298.010)

# Recent Professional Ethics Executive Committee Proposals

- **Tax Services** – Harmonizes with the IESBA code and addresses threats to independence.
- **Alternative Practice Structures** – Responds to the increase in private equity investments in accounting firms and includes several changes to various interpretations.
- **Engagement Team and Group Audits** – Clarifies alignment with other AICPA standards and revises the definition of *attest engagement team*.

# Proposed Revisions Related to Alternative Practice Structures

- PEEC has recently proposed revisions to the code related to alternative practice structures, including the following changes to independence requirements:
  - A new version of the “Alternative Practice Structures” interpretation (ET sec. 1.220.020) of the “Independence Rule” (ET sec. 1.200.001) to replace the current interpretation.
  - Revisions to the “Conceptual Framework for Independence” interpretation (ET sec. 1.210010).

# Other Guidance, Tools and Aids

# Online Code of Professional Conduct

- Online platform
  - Basic and advanced search capability
  - Pop ups
  - Bookmarks
  - Record notes
  - Hyperlinks
- Revision History
- [www.aicpa.org/newcode](http://www.aicpa.org/newcode)

# Non-authoritative Tools and Aids

- **Toolkit: Conceptual Framework for Members in Business and Public**
  - Understanding and flowcharts
  - Examples and worksheet
- **FAQs**
  - Frequently asked and general industry questions
- **Ethics Case Study and Questions**
- **Ethics decision tree for members in business and industry**
- **Ethically Speaking podcasts**
- **Call me BMSS 256.964.9826 or e-mail at [mbrand@bmss.com](mailto:mbrand@bmss.com)**

# Thank You!