



December, 2011

Ethically Speaking

A Publication of the AICPA Professional Ethics Division

In This Issue

- Webcasts
- Exposure Drafts
- Standard-Setting Projects--Pending
- Ethics Codification
- Faces of the PEEC

Ethically Speaking

U.S. Government Accountability Office (GAO)

In August 2011, the Government Accountability Office (GAO) issued an Internet version of the [2011 edition of Government Auditing Standards \(the Yellow Book\)](#). The revised Yellow Book includes significant revisions to the independence standards, including the incorporation of a conceptual framework approach to analyzing independence issues. Although the effective date for financial audits and attestation engagements is for periods ending on or after December 15, 2012, certain of the independence requirements should be implemented by auditors as of January 1, 2012.

Therefore, auditors will need to conform to the 2011 Yellow Book independence standards, including application of the conceptual framework approach, the nonaudit services requirements, and the new documentation requirements, beginning on January 1, 2012 (calendar year 2012 audits).

To assist in implementing this new guidance, the Governmental Audit Quality Center (GAQC) is developing [2011 Yellow Book Independence--Nonaudit Services Documentation Practice Aid](#). The practice aid will soon be available to all members of the AICPA via the GAQC's website, and nonmembers may purchase the practice aid by visiting www.cpa2biz.com.

Ethically Speaking

Webcasts

Registration for a live [2012 Independence Refresher ... The ABCs for CPAs](#) webcast is now available. The webcast will take place on December 20, 2011, from 2 p.m. to 4 p.m. EST. Topics that will be discussed include nonattest services, affiliates, and how to use the independence conceptual framework.

Registration is also available for a rebroadcast of [The New 2011 Yellow Book: What You Need to Know Now](#) webcast on December 9, 2011, from 11 a.m. to 1 p.m. EST. Nancy Miller, Jim Dalkin (GAO), and Lisa Snyder explain the new Yellow Book independence requirements and also how they differ from the AICPA's Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05).

Exposure Drafts

November 30, 2011

The Professional Ethics Division issued an exposure draft dated [November 30, 2011](#), and comments are requested no later than January 30, 2012.

The exposure draft proposes guidance on when firm names would be considered misleading, a violation of Rule 505, *Form of Organization and Name* (AICPA, *Professional Standards*, ET sec. 505). The proposed guidance is consistent with revisions made in August 2011 to Section 14(i) of the Uniform Accountancy Act (UAA) and Article 14, "Unlawful Acts," of the *UAA Model Rules*.

Proposed Interpretation No. 505-4, "Misleading Firm Names," states that a firm name would be considered misleading if the name contains any representation that would be likely to cause a reasonable person to misunderstand, or be confused about, the legal form of the firm or who the owners or members of the firm are. Proposed Interpretation No. 505-5, "Use of a Common Brand Name in Firm Name," states that a firm's use of a common brand name as *part of* the firm name would not be considered misleading, provided that the firm was a *network firm*, as defined by paragraph .24 of ET section 92, *Definitions* (AICPA, *Professional Standards*). In order for a firm to use a common brand name as the *entire* firm name, however, it would need to meet the definition of *network firm* and share one or more of the other characteristics of a network (paragraph .23 of ET section 92), such as common control or a significant part of professional resources, in addition to sharing a common brand name.

The exposure draft also proposes to delete Ethics Ruling No. 134, "Association of Accountants Not Partners," of ET section 591, *Ethics Rulings on Other Responsibilities and Practices* (AICPA, *Professional Standards*, ET sec. 591 par. .267-.268), because it would no longer be needed as a result of the new guidance.

September 23, 2011

The Professional Ethics Division issued an exposure draft dated [September 23, 2011](#), and [comments](#) were due no later than November 23, 2011.

The exposure draft contains clarifications to Interpretation No. 501-1, "Response to Requests by Clients and Former Clients for Records," under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .02), that describe a member's responsibilities with respect to electronic records and that propose to add a provision that failure to comply with the more restrictive provisions of authoritative regulatory bodies, such as a state board's more restrictive requirement on withholding certain documents due to unpaid client

Ethical Tax Standards

On February 3, 2011, revised Interpretation Nos. 1-1, "Reporting and Disclosure Standards," and 1-2, "Tax Planning," of Statement on Standards for Tax Services No. 1, *Tax Return Positions* (AICPA, *Professional Standards*, TS sec. 100), were [exposed for comment](#). These proposed, revised interpretations incorporate revisions made to SSTS No. 1 that became effective on January 1, 2010, and provide members with additional guidance on the application of SSTS No. 1.

In August 2011, the Tax Executive Committee approved the proposed revisions. The revisions will appear in the December 2011 issue of the *Journal of Accountancy* and will be effective on January 31, 2012.

International Focus

The International Ethics Standards Board for Accountants (IESBA) issued an [exposure draft](#) that proposes changes related to how breaches of a requirement to the Code of Ethics for Professional Accountants should be handled. The focus of the proposal is around the impact that the breach has on the client and the professional accountant's integrity and objectivity. Comments are due by January 23, 2012.

The IESBA also has a project addressing illegal acts and what actions professional accountants should take when they discover suspected illegal acts in their employing company or at their client. The IESBA continues to deliberate certain issues and will consider whether to expose a proposed standard or, possibly, a discussion memorandum seeking further input at its February 2012 meeting.

At the IESBA's October 2011 meeting, it agreed to expose guidance dealing with conflicts of interest, including how to address conflicts within the network firm environment.

[Agenda materials and minutes](#) for past IESBA meetings are available on the IESBA's website.

The next IESBA meeting is scheduled for February 20-22, 2012, in Dublin, Ireland.

Other Projects

A complete list of the [projects](#) that PEEC plans to undertake during the next three years and a list of all PEEC [exposure drafts](#) are available online.

fees, would constitute a violation of the interpretation. It also proposes to add a new category of documents—a member's work products—to address engagement deliverables.

The exposure draft also contains a proposed revision to Interpretation No. 203-1, "Departures From Established Accounting Principles," under Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .02), that clarifies that a member would not be in violation of Rule 203 when preparing or reporting on financial statements that have been prepared using a financial reporting framework that is not promulgated by a body designated by Council to establish such principles.

In addition, the Professional Ethics Executive Committee (PEEC) is proposing new Interpretation No. 203-5, "Financial Statements Prepared Pursuant to Financial Reporting Frameworks Not Promulgated by Bodies Designated by Council," that describes the types of financial reporting frameworks that a member may report on that are not promulgated by a Council-designated body.

The exposure draft also proposes to delete two ethics rulings that would no longer be applicable because of the revised guidance.

Standard Setting Projects — Pending

Interpretation No. 101-3: Establishing or Maintaining Internal Control

The [February 28, 2011](#), exposure draft contained proposed revisions to Interpretation No. 101-3.

One of the proposed revisions to this interpretation relates to a general activity that would impair a member's independence: establishing or maintaining internal controls, including performing ongoing monitoring activities for a client. PEEC recognized that an inconsistency existed within the current interpretation in that certain bookkeeping and other nonattest services permitted under the interpretation could be viewed as maintaining internal controls for the client and, as such, may appear to be prohibited by the general activity.

In addition, the proposal replaces the term *management functions* with *management responsibilities* because PEEC believed that it is clearer, and PEEC proposes certain revisions to reflect this change, such as incorporating a description of the term *management responsibilities*, as well as additional examples of management responsibilities.

Another proposed revision to the interpretation may be viewed as more restrictive. Specifically, PEEC proposed to include a requirement that members evaluate the significance of the management participation threat created by performing separate evaluations on the client's internal control system. PEEC believed that an inconsistency in the interpretation exists by prohibiting a member from performing ongoing monitoring procedures for a client while permitting separate evaluations because, depending on the scope or extent of the controls being tested and the frequency of the separate evaluations, the member may be performing services equivalent to ongoing monitoring procedures. Accordingly, PEEC proposed that the significance of the threat created by performing separate evaluations should be evaluated, and safeguards should be applied, when necessary, to eliminate the threat or reduce it to an acceptable level.

Update

PEEC's Study Group continues to study certain issues raised during the comment process and plans to present a revised interpretation to PEEC on January 30, 2012.

At the November 2011 meeting, PEEC agreed to expose for comment a provision stating that preparing financial statements or converting the client's financial statements from cash to the accrual basis as part of the attest engagement should be a nonattest service subject to the general requirements of Interpretation No. 101-3, which would be consistent with the GAO's position in its revised Yellow Book.

Also at the November 2011 meeting, a number of members of PEEC agreed that in lieu of incorporating an enhanced documentation requirement that would require members to document their assessment that the client has the skills, knowledge, or experience to oversee the nonattest service (consistent with the revised Yellow Book requirement), the Study Group should draft language that members *consider* documenting this assessment.

Finally, PEEC was also supportive of incorporating a provision that members should consider the cumulative effect that nonattest services could have on independence (that is, in the aggregate) and that requires members to consider threats and safeguards in such situations.

Members in Business--Financial Interests

The [April 4, 2011](#), exposure draft contained a number of proposals adopted by PEEC in August 2011. One proposal not adopted was proposed Interpretation No. 501-10, "Financial Interests," which applies to members in business.

Ethics Hotline

The AICPA Ethics Hotline provides non-authoritative guidance to members on questions related to ethics, including independence. Each year, staff members respond to more than 4,000 inquiries. The Ethics Hotline is open from 9 a.m. to 5 p.m. ET on weekdays. A staff member can be reached via email at ethics@aicpa.org or via phone at (888) 777-7077, option 6 followed by option 1.

Other Resources

The Independence and Ethics Developments--2011/12 Audit Risk Alert will be available to pre-order later this month. This publication focuses on recent developments in independence and ethics requirements for accountants and auditors. To order this publication, visit www.cpa2biz.com or call the AICPA Service Operations Center at 888.777.7077 (refer to product no. 0224711).

The [Ethics Division website](#) has been redesigned, and new content is added regularly. Information regarding the activities of PEEC can be found under "[Community](#)," and numerous tools and aids issued by the division or others can be found under "[Resources](#)." Articles, past copies of this newsletter, recently issued division documents, and disciplinary reports can be found under "[News & Publications](#)."

Future Meetings

January 30-31, 2012 (TBD)
April 30-May 1, 2012 (TBD)
August 7-8, 2012 (TBD)
November 5-6, 2012 (TBD)

Interested parties are encouraged to attend the open meetings in person. Furthermore, the Professional Ethics Division maintains an open phone line, so that interested parties can observe PEEC's public meetings via telephone. Anyone interested in attending a meeting in person or via conference call should contact Ellen Gorja at egoria@aicpa.org.

- [Agenda](#) materials are available online approximately one week before the meeting.
- [Minutes](#) of past meetings are also available online.

This interpretation addresses threats to integrity and objectivity that a member in business may face due to the member's or his or her family member's financial interest in, or other relationship with, the employer. The proposed interpretation is not intended to create new requirements or bar members in business from having financial interests in an employer but, rather, to provide guidance to members in business on evaluating potential threats to their integrity and objectivity and applying appropriate safeguards, when necessary.

Update

Based upon feedback received during the comment process, the majority of PEEC agreed that the guidance would not be helpful to members and, therefore, should not be adopted. However, PEEC agreed to table the proposal, pending further input from members in business.

Ethics Codification

PEEC continues to make progress on its Ethics Codification project. The primary focus of this initiative is to improve the AICPA Code of Professional Conduct (Code), so that members and others can apply the rules and reach the right conclusions more easily. To achieve this, PEEC will restructure the AICPA Code into topical areas, edit the AICPA Code using consistent drafting and style conventions, and revise certain provisions (primarily independence) to reflect the conceptual framework approach.

One of the other aspects of the Ethics Codification is that it will be structured into three distinctive parts. Part 1 will apply to members in the practice of public accounting; Part 2 will apply to members in business; and Part 3 will apply to all other members, such as those who are retired or unemployed. Structuring the AICPA Code this way will allow members to focus on their ethical obligations, given their area of practice.

Draft content can be found in the following PEEC agendas: [appendix 1](#) of May 2011, [appendix 12](#) of August 2011, and [appendix 1](#) of November 2011. The January 2012 PEEC agenda will also contain additional draft content.

The codification will also be pilot tested prior to exposure by a broad group of users, including state CPA society representatives, various regulators, and AICPA members.

If you have a question or comment about the codification project, please e-mail PEEC staff member Ellen Gorja at egoria@aicpa.org.

Faces of PEEC

G. Randall Hansen



Rand joined PEEC in 2010 and is president of G. Randall Hansen, CPA, P.C., an accounting firm in Omaha, NE, providing tax, accounting, auditing, business consultation, and elder care services to a wide variety of clients. While on PEEC, he served as a member of the Non-authoritative Literature Task Force of the PEEC Codification Project.

Rand is also a member of the Nebraska Society of CPAs (Society) where he currently serves on the Society's Professional Ethics Committee. Rand is past chairman of the Society, as well as past chairman of the Society's Small Business Committee, Management Advisory Services Committee, and Professional Ethics Committee. Rand served as the Society's treasurer, a member of the board of directors, and on the Society's Taxation Committee.

Rand also served on the Mobility Task Force and the Experience Work Group of the Nebraska Board of Public Accountancy.

Rand has served as president of the Administrative Management Society, as a member of the board of advisors of the Grande Olde Players, and as a member of the curatorial committee of the Western Heritage Museum. He was appointed in 2009 to serve on the Nebraska Crime Victims Reparations Committee where he currently serves as vice-chairman.

He is a graduate of the University of Nebraska--Lincoln and has over 30 years of public accounting experience.