

2026 ETHICS COURSE FOR LOUISIANA CPAs IN BUSINESS

A CASE STUDY APPROACH

**J. Michael Inzina, CPA, CGFM, CGMA
Kurt G. Oestrieher, CPA**

ALTEC

Audit Litigation, Training and Efficiency Consulting, Inc.
1401 Hudson Lane, Suite 201
Monroe, Louisiana 71201
(318) 322-2870
www.altec-usa.com



ABOUT THE AUTHORS

J. Michael Inzina, CPA, CGFM, CGMA is founder and chief executive officer of Audit Litigation Training and Efficiency Consulting, Inc. (ALTEC), a consulting company serving public accounting firms and other accounting and auditing organizations on matters of audit efficiency, continuing education, litigation and ethics. He retired from public practice in 2020 with 44 years of public accounting experience, concentrated in government and nonprofits organizations. Mike holds a BBA in accounting from the University of Louisiana (Monroe), where he graduated summa cum laude in May 1976. He is a member of the American Institute of CPAs, Society of Louisiana CPAs, Government Finance Officers Association of Louisiana, and the Association of Government Accountants. Mike earned the CEA in governmental in 1990, was awarded the Certified Government Financial Manager (CGFM) designation in 1996, and the Chartered Global Management Accountant (CGMA) designation in 2012. He is a past chapter president and member of the Society of Louisiana CPAs Board of Directors and served two terms as chairman of the Governmental Positive Enforcement Program of the Louisiana State Board of CPAs. He has served on a number of committees of the Society of Louisiana CPAs, and currently serves on its Ethics Committee. Mike also served on the GASB Service Efforts and Accomplishments Task Force.

Mike has twice been a member of the AICPA Professional Ethics Executive Committee (1989-1992 and 2000-2003), and served on the Auditing Standards Board from 1997 to 2000. From 1986 to 1993, he also served as a member of AICPA Independence and Behavioral Standards Subcommittee, and as Subgroup Chairman of the Governmental Technical Standards Committee. During this time, he conducted numerous investigations of complaints filed by federal, state and local agencies alleging substandard performance of audits of governmental and nonprofit entities, and represented the Professional Ethics Division at hearings of the Joint Regional Trial Board.

He contributed to the *Implementation Guide* for GASB Statement 34, AICPA Statement of Position 98-3, *Audits of States, Local Governments and Not-for-Profit Organizations Receiving Federal Awards*, revisions to the AICPA Audit and Accounting Guide, *Audits of State and Local Governmental Units*, the AICPA Practice Aid *Fraud Detection in a GAAS Audit*, revisions to the Louisiana Governmental Audit Guide and in drafting state legislation affecting governmental accounting and auditing requirements. He has served as technical consultant and instructor for the Louisiana Division of Administration (Office of Community Development) and as consultant to the Louisiana Department of Education. Mike frequently appears as moderator and panelist on the Accountants' CPE Network. (ACPEN).

Mike has been named thirteen times as an Outstanding Instructor by the American Institute of CPAs and several state societies, and received a Special Recognition Award from the Society of Louisiana CPAs Board of Directors for his contributions to continuing education in 1994. In addition, he was awarded the 2001 National Education and Training Award from the Association of Government Accountants and in 2009 was named national Beta Alpha Psi Business Information Professional of the Year. In 2016 he received the Distinguished Service Award from the Society of Louisiana CPAs.

Kurt G. Oestriecher, CPA is managing partner of Oestriecher & Company, CPAs in Alexandria, Louisiana. Kurt joined the firm in 1986 after graduating from the University of Louisiana – Monroe, cum laude. He is a member of the AICPA and LCPA. He has served on the AICPA Accounting and Review Services Committee and has served two terms on AICPA Council, once as Louisiana's designated member, and once as an elected member. He also served a six-year term on the AICPA Joint Trial Board. Kurt was elected President of the LCPA from 2002-2003 and has served on a number of LCPA committees. He is currently serving as chair of the LCPA Professional Ethics Committee.

Kurt has authored several CPE publications, including the AICPA Annual Update for Accountant's and Auditors, Professional Ethics for Oklahoma CPAs, SSARS Engagements, and Identifying and Reporting Control Deficiencies under AICPA Auditing Standards. He has been named the Outstanding Discussion Leader by the LCPA four times, and has been awarded the AICPA Outstanding Discussion Leader of the Year 15 times

© J. Michael Inzina, CPA, CGFM, CGMA 2026

All rights reserved. No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage and retrieval system without permission from the author.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that neither the author nor the publisher is engaged in the rendering of accounting or other professional services. If expert assistance is required, the services of a competent professional should be sought.

TABLE OF CONTENTS

Introduction.....	1
Case Study 1 – Acting through others	2
Case Study 2 - CPA Inactive	4
Case Study 3 – Remote work in Louisiana.....	5
Case Study 4 – Conceptual Framework.....	6
Case Study 5 – Ethical Conflicts	12
Case Study 6 – Conflicts of Interest	13
Case Study 7 – Gifts and Entertainment.....	17
Case Study 8 – Preparing and Reporting Financial Information	18
Case Study 9 – Subordination of Judgment.....	21
Case Study 10 – Obligation to External Accountant	23
Case Study 11 – Compliance with US GAAP	24
Case Study 12 – GAAP Exception	24
Case Study 13 – Special Purpose Frameworks.....	25
Case Study 14 – Discrimination in Employment Practices	26
Case Study 15 – Failure to pay a tax liability	26

INTRODUCTION

This course is designed to provide case studies applicable to CPAs licensed in the State of Louisiana that are not in the practice of public accounting, but instead are employed by industry and government. This course is not designed to include every State Board or AICPA Rule and Interpretation, but instead highlight areas that are most likely to involve misapplication of the rules.

Louisiana CPAs are legally bound by the State Board of CPAs of Louisiana Rules when performing services for Louisiana based entities. The State Board of CPAs of Louisiana Rules of Professional Conduct, as promulgated in Chapter 17 of the “Board Rules”, can be more restrictive than the American Institute of CPAs’ (AICPA) rules of conduct.

Correspondingly, the Preface of the AICPA Code of Professional Conduct provides that:

0.100.020 Interpretations and Other Guidance

.01 *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. *Interpretations* that existed before the adoption of the code on January 12, 1988, will remain in effect until further action is deemed necessary by the appropriate senior committee.

.02 A *member* should also consult the following, if applicable:

- The ethical requirements of the *member’s* state CPA society and authoritative regulatory bodies such as state board(s) of accountancy
- The Securities and Exchange Commission (SEC)
- The Public Company Accounting Oversight Board (PCAOB)
- The Government Accountability Office (GAO)
- The Department of Labor (DOL)
- Federal, state and local taxing authorities
- Any other body that regulates a *member* who performs *professional services* for an entity when the *member* or entity is subject to the rules and regulations of such regulatory body. [Prior reference: Introduction]

Accordingly, depending on the service performed, the engagement contract, or filing requirements, Louisiana licensees should comply with the applicable rules or requirements. In cases in which more than one set of requirements may apply, the more restrictive should be followed.

Case Study 1 – Acting Through Others

Ashley Cooper has been working in an industry job as a CFO for the past 14 years. She was happy to leave public practice to work in industry, but now misses the rigors of tax season and assisting clients in achieving their lowest possible tax liability. Ashley decided to open a “side practice” with permission of her employer and work 15-20 hours per week after normal working hours preparing tax returns.

Ashley has her husband form an LLC so that the entity would not be subject to the rules of the Louisiana State Board of Accountancy. She developed a written business and marketing plan and aggressively marketed her new company via social media and well placed internet ads on youtube.com. The agency that Ashley hired was excited about this opportunity and developed a marketing strategy similar to larger tax preparers such as Turbo Tax and H&R Block. The advertising stressed Ashley’s expertise in tax, especially the fact she was a CPA. The agency also used bait and switch tactics by promising free tax preparation (but not mentioning the \$250 filing fee and \$150 direct deposit fees that would be added to the “free” preparation of a return that only had W-2s).

What State Board Rules should Ashley consider in her new business arrangement?

Other Responsibilities and Practices – Louisiana State Board Rule

Acting through Others

1. A licensee or CPA firm shall not permit others to carry out on his behalf or on the firm's behalf, either with or without compensation, acts which, if carried out by the licensee or CPA firm, would place him or the CPA firm in violation of the rules of professional conduct, professional standards, or any provisions of the Act.
2. Acting through an affiliated entity
 - a. Definition
 - i. Affiliated Entity. Affiliated entities for purpose of this rule refers to entities which share elements of ownership structure with a CPA firm and which offer to clients, or the public, professional services or products related to the skills associated with CPAs. Conversely, entities that offer services or products that do not related to matters of accounting and financial reporting, tax, finance, investment advice or financial planning, management, or consultation are excluded.

- ii. Similar Name. A similar name is one that contains one or more names, or initials of the names, or reference to that/those names that are included in a CPA firm applying for or currently holding a firm permit.
- b. On and after January 1, 2008, a CPA firm shall not affiliate with an entity that has a similar name unless:
 - i. the affiliated entity is owned in accordance with §1707.A.2.d.i, or has been issued a firm permit by the board pursuant to §1707.A.2.e.ii; or
 - ii. has been issued a firm permit by the board pursuant to §1707.A.2.d.ii; or
 - iii. The CPA firm has entered into a written agreement with the board pursuant to §1707.A.2.d.ii.
- c. a CPA firm seeking issuance, renewal, or reinstatement of a firm permit, to be effective on and after January 1, 2008 shall, as a condition thereof, satisfy the requirements of this Paragraph §1707.A.2;
- d. depending on the ownership structure, an affiliated entity may be required to obtain a firm permit in order to use a similar name which indicates that the CPA or CPA firm is providing services through the affiliated entity
 - i. affiliated entities wholly owned either by the owners of the CPA firm, on the same basis as the CPA firm is owned, or directly by the CPA firm may use a similar name and would not be required to obtain a firm permit;
 - ii. affiliated entities that are majority-owned (not wholly owned) by the owners of the CPA firm or by the CPA firm, or that are wholly owned but in different percentages are required to obtain a firm permit if the affiliated entity uses a similar name. If the affiliated entity does not qualify for a firm permit under R.S. 37:77, the CPA firm (i.e., one that does hold a firm permit) must enter into a written agreement with and acceptable to the board that sets forth that the CPA firm is responsible to the board for the actions of the affiliated entity and its owners;
 - iii. if the CPA firm and/or its owners (whether individually CPA licensed or not) own 50 percent or less of the other affiliated entity, a similar name may not be used for the affiliated entity;
- e. under R.S. 37:77(C), a majority of the ownership of a CPA firm (in terms of financial interests and voting rights of all partners, officers, shareholder, members, or managers) must belong to holders of valid licenses. Thus an unlicensed "holding company" cannot own a majority or 100 percent of a CPA firm. Therefore, such a "holding company" would have to apply for a CPA firm permit and qualify as such. The holding company and the CPA firm must both be registered as firms with the board even though the holding company will not directly offer services to clients. If the holding company does not otherwise meet the requirements to be licensed (e.g., the requirements that a majority ownership interest is held by licensees; the owners must be active in the firm or affiliates; and, the name must not be misleading) then such a firm structure would not be permissible.

Case Study 2 – Use of the CPA-Inactive Designation- State Board Rule

Shannon enjoyed a wonderful, but short, career in public accounting. In her early 30s, Shannon decided to pursue her doctorate and become a professor at ULM. Because she was no longer in public practice and was now in academia, Shannon registered as CPA Inactive with the Louisiana State Board of Accountancy.

Shannon began teaching tax courses at ULM and realized that she could sharpen her skills in tax law and make some money by preparing tax returns for fellow staff members, students, and a few friends. Shannon used her office at ULM to run this side practice and had her CPA Certificate hanging on the wall of her office. She continued to register as CPA Inactive each year with the State Board, even after she began preparing tax returns.

What issues may Shannon have with the Louisiana State Board of Accountancy?

Use of the “CPA Inactive” or “CPA Retired” Designation

CPA Inactive

1. Prior to applying for and obtaining a certificate under R.S. 37:75.I, individuals who annually register in inactive status may use the "CPA inactive" designation in connection with an employment position held in industry, government or academia, or in personal correspondence.
 - i. Any—such individual who offers to perform or performs, for the public, professional services of any type involving the use of accounting, management advisory, financial advisory, tax, or consulting skills shall not use the designation CPA or "CPA inactive" in connection therewith or in any other manner or in connection with any employment.

CPA Retired

2. Certificate Holders Subject to CPE Exemption
 - a. Individuals granted an exception to continuing education requirements under R.S. 37:76.D(2) shall not perform or offer to perform for the public one or more kinds of services involving the use of accounting, attest, management advisory, financial advisory, tax, or consulting skills and must place the word "inactive" or “retired”, as applicable based on the individual’s registered status, adjacent to their CPA title on any business card, letterhead, or any other document or device.
 - b. Any individual referenced in R.S. 37:76.D(2) who after being granted an exemption under that Section offers to perform or performs for the public professional services of any type involving the use of accounting, management advisory, financial advisory, tax, or consulting skills shall not use the designation "CPA inactive" or “CPA-Retired” in connection therewith or in any other manner or in connection with any employment.

- c. A “CPA-Retired” may perform uncompensated volunteer services as long as the individual does not sign any documents related to such services as a CPA.

Case Study 3 – CPA in Industry working remote with a Louisiana CPA firm

Jill Eichenberry, CPA moved to Mississippi several years ago after obtaining a job in industry. She had previously worked as a CPA in Louisiana and was licensed by the State of Louisiana. Jill dropped her Louisiana license when she moved to Mississippi.

Jill picked up extra income beginning in 2025 working part time for a Louisiana CPA firm remotely from her home in Mississippi. Due to the close proximity of her hometown in Natchez Mississippi, Jill often meets with clients in Eastern Central Louisiana as part of her duties in working for the Louisiana CPA firm located in Alexandria, Louisiana.

Does Jill have any concerns related to the Louisiana State Board of Accountancy?

Applicability

All of the rules of professional conduct shall apply to and be observed by Louisiana licensees and CPAs licensed in other states who may be granted rights under the substantial equivalency provisions of R.S. 37:94. Notwithstanding anything herein to the contrary, they shall also apply to and be observed by individuals registered in inactive or retired status, where applicable.

Case Study # 4– Conceptual Framework for Members in Business ET 2.000.010

Jayne Smith, CPA is self-employed as an investment advisor and has maintained her CPA license as well as having all of the necessary credentials to sell securities, insurance, annuities, and any other type of financial product. Jayne also is a Certified Financial Planner.

Jayne is very active in her community and serves as a Board Member for various entities, some of which have large endowments. After Jayne has spent a couple of years on these boards, she resigns her position then actively pursues the opportunity to provide financial services for many of these entities, including hosting fund-raising parties at her home and hosting other events for key decision makers on these Boards.

Question for consideration

Assuming there are no specific violations of the AICPA Code of Professional Conduct, are there any threats to compliance under the framework that Jayne should consider? If so, what are the threats, and what safeguards may be put in place to reduce the threat to an acceptable level?

2.000.010 Conceptual Framework for Members in Business

.01 *Members* may encounter various relationships or circumstances that create *threats* to the *member's* compliance with the rules. The rules and *interpretations* seek to address many situations; however, they cannot address all relationships or circumstances that may arise. Thus, in the absence of an *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 the *member's* compliance with the rules that is not at an *acceptable level*. When making that evaluation, the *member* should apply the conceptual framework approach as outlined in this interpretation.

.02 The code specifies that in some circumstances, no *safeguards* can reduce a *threat* to an *acceptable level*. For example, the code specifies that a *member* may not subordinate the *member's* professional judgment to others without violating the “[Integrity and Objectivity Rule](#)” [2.100.001]. A *member* may not use the conceptual framework to overcome this or any other prohibition or requirement in the code.

When to apply - The conceptual frameworks are applied when the member has an issue regarding possible noncompliance with one of the Rules of Conduct and is unable to find an answer in the Rules or Interpretations. The conceptual frameworks cannot be used to override a prohibition against certain actions elsewhere in the Code.

How to apply - Under the conceptual framework approach, members are required to:

- Identify threats that could compromise the member's compliance with the rules or be perceived by a reasonable and informed third party who is aware of the relevant information as compromising the member's compliance with the rules:
- Evaluate the significance of the threat(s) identified;
- Identify and apply appropriate safeguards, when necessary, and
- Evaluate whether such safeguards have been effective to eliminate or reduce significant threats to an acceptable level.

Each step in the process is discussed below.

Step 1 – Identify Threats

Members may encounter relationships or circumstances that threaten the member's compliance with the rules. The rules and interpretations address many situations, but cannot address all relationships or circumstances that may arise. Thus, when guidance is not provided, the member should evaluate the situation from the perspective of a reasonable and informed third party, using the conceptual framework.

Threats are relationships or circumstances that could compromise a member's compliance with the rules. The rules that are applicable for members in business are as follows:

- Integrity and Objectivity Rule
- General Standards Rule
- Compliance with Standards Rule
- Accounting Principles Rule
- Acts Discreditable Rule

The conceptual frameworks identify the following types of threats for members in business:

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

Types of threats to rules *other than independence*:

Adverse interest threat - The threat that a member will not act with objectivity because the member's interests are opposed to the interests of the employing organization. Examples of adverse interest threats include the following:

- A member has charged, or expressed an intention to charge, the employing organization with violations of law.
- A member or the member's immediate family or close relative has a financial or another relationship with a vendor, customer, competitor, or potential acquisition of the employing organization.
- A member has sued or expressed an intention to sue the employing organization or its officers, directors, or employees.

Advocacy threat - The threat that a member will promote an employer's interests or position to the point that his or her objectivity is compromised, such as:

- 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.
- The member gives or fails to give information that the member knows will unduly influence the conclusions reached by an external service provider or other third party.

Familiarity threat - 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, such as:

- A member uses an immediate family's or a close relative's company as a supplier to the employing organization.
- A member may accept an individual's work product with little or no review because the individual has been producing an acceptable work product for an extended period of time.
- A member's immediate family or close relative is employed as a member's subordinate.
- A member regularly accepts gifts or entertainment from a vendor or customer of the employing organization.

Self-interest threat - 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, such as:

- A member's immediate family or close relative has a financial interest in the employing organization.

- A member holds a financial interest (for example, shares or share options) in the employing organization, and the value of that financial interest is directly affected by the member's decisions.
- A member is eligible for a profit or other performance-related bonus, and the value of that bonus is directly affected by the member's decisions.

Self-review threat - 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, such as:

- When performing an internal audit procedure, an internal auditor accepts work that he or she previously performed in a different position.
- The member accepts the work previously performed by the member, alone or with others, that will be the basis for providing another professional service.

Undue influence threat - 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, such as:

- A member is pressured to become associated with misleading information.
- A member is pressured to deviate from a company policy.
- A member is pressured to change a conclusion regarding an accounting or a tax position.
- A member is pressured to hire an unqualified individual.

Step 2 – Evaluate the significance of the threat

If the member has identified a threat resulting from a relationship or circumstance, the member will need to evaluate the significance of the threat. Members should evaluate identified threats, both individually and in the aggregate, because threats can have a cumulative effect on a member's compliance with the rules. When evaluating the significance of a threat, the member should determine whether the threat is at an acceptable level, that is, would a reasonable and informed third party who is aware of the relationship or circumstance conclude that the threat identified would not compromise the member's compliance with the rules. Additionally, the member should consider both qualitative and quantitative factors, including whether any existing safeguards are in place that already reduce the threat to an acceptable level. If after evaluating the significance of the threat, the member concludes that the threat is at an acceptable level, then the member is not required to evaluate the threat any further and may proceed with the professional service. However, if the member's evaluation of the threat concludes that the threat is not at an acceptable level, then the member must proceed to Step 3.

Step 3 – Identify and apply safeguards

The member may identify safeguards that already exist or may need to identify new safeguards. It is possible that the member will need to apply only one safeguard that may eliminate or reduce multiple threats. However, in some cases, the member may need to apply multiple safeguards to eliminate or reduce one threat to an acceptable level.

Safeguards may be created by the profession, legislation or regulation, or may be implemented by the employing organization for members in business.

Safeguards created by the profession, legislation, or regulation

- Education and training requirements on ethics and professional responsibilities
- Continuing education requirements on ethics
- Professional standards and the threat of discipline
- Legislation establishing prohibitions and requirements for entities and employees
- Competency and experience requirements for professional licensure
- Professional resources, such as hotlines, for consultation on ethical issues

Safeguards implemented by the employing organization (members in business)

- A tone at the top emphasizing a commitment to fair financial reporting 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
- Internal policies and procedures requiring disclosure of identified interests or relationships among the employing organization, its directors or officers, and vendors, suppliers, or customers
- Internal policies and procedures related to purchasing controls
- Internal policies and procedures related to customer acceptance or credit limits
- Dissemination of corporate ethical compliance policies and procedures, including whistleblower hotlines, the reporting structure, dispute resolution, or other similar policies, to promote compliance with laws, rules, regulations, and other professional requirements
- Human resource policies and procedures safeguarding against discrimination or harassment, such as those concerning a worker's religion, sexual orientation, gender, or disability
- Human resource policies and procedures stressing the hiring and retention of technically competent employees
- Policies and procedures for implementing and monitoring ethical policies
- Assigning sufficient staff with the necessary competencies to projects and other tasks
- Policies segregating personal assets from company assets
- Staff training on applicable laws, rules, and regulations
- Regular monitoring of internal policies and procedures

- A reporting structure whereby the internal auditor does not report to the financial reporting group
- Policies and procedures that do not allow an internal auditor to monitor areas where the internal auditor has operational or functional responsibilities
- Policies for promotion, rewards, and enforcement of a culture of high ethics and integrity
- Use of third-party resources for consultation as needed on significant matters of professional judgment

After identifying and applying safeguards, the member will need to proceed to Step 4 and use professional judgment to evaluate whether the safeguards to be applied would be effective in eliminating or reducing the threat to an acceptable level.

Step 4 – Evaluate the effectiveness of safeguards

If the member concludes that threats are at an acceptable level after applying the safeguards, then the member may proceed with the professional service. However, if there are no safeguards that can be applied to eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the circumstance or relationship creating the threat should be changed, or the member should decline or discontinue the professional services or resign from the employing organization. If the member provides professional services under such circumstances, the member will compromise his or her compliance with the rules.

Step 5 – Document threats and safeguards (recommended)

When safeguards are applied to eliminate or reduce significant threats to an acceptable level, the member is encouraged to document the identified threats and safeguards applied.

Case Study 5 – Ethical Conflicts ET 2.000.020

John Smith, CPA, is the CFO of a large business in Louisiana and has maintained his Louisiana CPA license for over 30 years. In his current role, he often acts as the liaison between his employer and the outside CPA firm that performs review services, tax planning, and tax preparation.

The owner of the business is typically aggressive with tax strategy, but will always stay in the grey area. He typically respects the opinions of the CPA firm. However, the owner is much more aggressive, citing the limited resources of the IRS and his desire to take every advantage of the tax code. His new strategy seems to be, do whatever is necessary, because you probably will not have to ask for forgiveness in the future.

The owner has taken very aggressive tax deductions and instructed John to not run these issues by the CPA firm as they will probably not take the deductions on the tax return. John has told the owner that he must sign the returns, as John will not put his license in jeopardy.

What potential ethical issues should John consider related to the AICPA Code of Professional Conduct? Consider the following:

- a. What are John's responsibilities related to the tax return
- b. What are John's responsibilities when signing the management representation letter in the review, especially in regards to potential income tax disclosures

Ethical Conflicts (2.000.020)

An ethical conflict occurs when a member encounters either (or both) of the following:

- Obstacles to following an appropriate course of action due to conflicting pressures from various parties
- Conflicts in applying professional standards or legal standards

For example, a member may suspect fraud may have occurred, but reporting the suspected fraud would violate the member's responsibility to maintain confidentiality.

Once an ethical conflict is encountered, a member should take steps to best achieve compliance with the rules and law. In considering different courses of action, the member should consider:

- Relevant facts and circumstances, including applicable rules, laws, or regulations
- Ethical issues involved
- Established internal procedures

The member should also be prepared to justify any departures that the member believes were appropriate in applying the relevant rules and law. If the member is not able to resolve the conflict in a such a way that both the professional standards and the law are met, any violations may result in consequences to the member. Thus, before pursuing a course of action, the member should consider consulting with appropriate persons within the firm or the member's employer, and legal counsel may be advisable.

The member is also advised to document the substance of the issue, the parties with whom the issue was discussed, details of any discussions held, and any decisions made concerning the issue.

If the ethical conflict remains unresolved, the member will likely be in violation of one or more rules if he or she remains associated with the matter creating the conflict. Accordingly, the member should consider his or her continuing relationship with the engagement team, specific assignment, client, firm, or employer.

Case Study 6 – Conflicts of Interest ET 2.100.000

Dimitri Apostolov is a CPA that has been employed in various roles at XYZ Company for the last 20 years, and is now the CFO. He had very little knowledge of this industry when he began working for this company, but now has extensive knowledge of not only the accounting side, but the entire operational structure of the company.

Dimitri has a relationship with an AI development company that is trying to bring to market an AI product that will create efficiencies for similar organizations within the industry. The AI development company has offered Dimitri a consulting fee of \$400,000, plus 3% of product revenues for the next five years to provide guidance on the project. Dimitri has an employment contract that does not allow outside employment using his CPA skills. However, Dimitri does not believe that his CPA skills are required for this project and he will not be considered an employee anyway. It is also clear to Dimitri that he would not have been approached for this project if he were not immersed in the company and therefore have the strategic knowledge necessary for the AI project.

Does Dimitri have a conflict of interest if he accepts the consulting contract?

Conflicts of Interest for Members in Business (2.110.010)

A member in business 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 or self-interest threats to the member's compliance with the Integrity and Objectivity rule. For example, threats may be created when:

- A member undertakes a professional service related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict, or
- The interests of the member with respect to a particular matter and the interests of a party for whom the member undertakes a professional service related to that matter are in conflict.

A party may include an employing organization, a vendor, a customer, a lender, a shareholder or another party.

The following are examples of situations in which conflicts of interest may arise:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the member to the advantage or disadvantage of the other employing organization
- Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving the partnership
- Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out
- Being responsible for selecting a vendor for the member's employing organization when the member or his or her immediate family member could benefit financially from the transaction
- Serving in a governance capacity or influencing an employing organization that is approving certain investments for the company in which one of those specific investments will increase the value of a personal investment portfolio of the member or his or her immediate family

Identification of a conflict of interest - In identifying whether a conflict of interest exists or may be created, a member should take reasonable steps to determine:

- The nature of the relevant interests and relationships between the parties involved, and
- The nature of the services and its implication for relevant parties

The nature of the relevant interests and relationships and the services may change over time. The member should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

Evaluation of a conflict of interest - When a conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both quantitative and qualitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.

In evaluating the significance of an identified threat, members should consider the following:

- The significance of relevant interests or relationships
- The significance of the threats created by underrating the professional service or services. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include the following:

- Restructuring or segregating certain responsibilities and duties
- Obtaining appropriate oversight, for example, acting under the supervision of an executive or non-executive director
- Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
- Consulting with third parties, such as a professional body, legal counsel or another professional accountant

In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest, or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.

Disclosure of conflict of interest and consent - When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel, or another professional accountant.

A member may encounter other threats to compliance with the Integrity and Objectivity rule. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close or immediate family members of the member have with the employing organization. Guidance on managing such threats is covered by the “Knowing Misrepresentations in the Preparation of Financial Statements or Records” interpretations, and the “Subordination of Judgment by a Member” interpretation, under the Integrity and Objectivity rule.

Director positions (members in public practice)– When a member serves as a member of an entity’s board of directors (such as a financial institution), the member’s responsibilities may create threats to compliance with the Integrity and Objectivity Rule and the Confidential Client Information Rule. For example, an adverse interest threat to the member’s objectivity may exist if the member’s clients are customers of the entity or are likely to engage in significant transactions with the entity. Although the member’s knowledge and experience may be helpful to the entity, if the member’s clients are likely to engage in significant transactions with the entity, it may be better for the member to serve as a consultant to the board. As a consultant, the member could limit his or her activities to those that would not threaten the member’s compliance with these rules. Should the member serve as a board member, the member should evaluate the significance of any threats and apply safeguards as necessary to eliminate or reduce the threats to an acceptable level. The member should also see the “Disclosing client information in director positions” interpretation under the Confidential Client Information Rule.

Case Study 7 – Gifts and Entertainment ET 2.100.000

Katy Bennet, CPA is well respected within her community and her company. She is known for her integrity and is often the sounding board for members in senior management when guidance is needed on complex issues.

Katy has been moving up the corporate ladder in a very large publicly traded company. She has developed relationships with many of the key stakeholders and vendors in her company and is now in a position to make decisions on how to allocate the budget in her department. One of the vendors has offered Katy use of 2 tickets to the South End Zone Corporate suites for LSU football games, and Katy has been happy to view the games from the luxurious suites and enjoy the free food and drink that comes with the tickets.

Toward the end of the season, the vendor is one of several entities that has responded to an RFP for IT services in her department. To the surprise of the vendor, his company was not selected. When he asked Katy why they were not selected, she gave sound reasoning and explained the point system that was used to evaluate the proposals.

The next day, the COO of the company contacted Katy and told her to change the award of the contract to the IT vendor in question. He also informed Katy that she needed to transfer the SEZ tickets for the final two LSU games (including the Bama game) to him.

Does Katy have a potential issue with the AICPA Code of Professional Conduct?

What are the issues, if any, Katy should consider?

Gifts and entertainment for members in business 2.120.000

As used in this interpretation a *customer* or *vendor* of the member's employer includes a representative of the customer or vendor.

When a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer, self-interest, familiarity or undue influence threats may exist.

Such threats would not be at an acceptable level and could not be reduced by safeguards, and the member would be *presumed to lack integrity* if:

- The member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer that violate applicable laws, rules or regulations, or the policies of the member's employer or the customer or vendor, and
- The member knows of the violation or demonstrates recklessness in not knowing.

A member should evaluate the significance of any threats to determine if they are at an acceptable level. Such threats would be at an acceptable level if gifts or entertainment are reasonable in the circumstances, considering the following factors:

- The nature of the gift or entertainment
- The occasion giving rise to the gift or entertainment
- The cost or value of the gift or entertainment
- The nature, frequency and value of other gifts and entertainment accepted
- Whether the entertainment was associated with the active conduct of business directly before, during or after the entertainment
- Whether other customers or vendors also participated in the entertainment
- The individuals from the customer or vendor and the member's employer who participated in the entertainment.

Threats would not be at an acceptable level and could not be reduced by safeguards if a member offers to, or accepts gifts or entertainment from, a customer or vendor of the member's employer that is not reasonable in the circumstances. The member would be deemed to lack objectivity in violation of the rule.

Case Study 8 – Preparing and Reporting Financial Information ET 2.130.000

Rick Orr, CPA is the CFO of a family business and often performs services for the individuals that own the business. On one such occasion, the patriarch of the family requested that Rick assist him in completing the Personal Financial Statement requested by his bank using the ABA standard form for personal financial statements.

The patriarch was very aggressive in valuing many of the assets on the financial statement, including the value of some vacation property along the Alabama and Florida gulf coast. Rick discussed the issues with the owner, and the owner was adamant that the values he provided were correct. Rick is not sure what value should even be used as the ABA form does not specify if GAAP, Income Tax, or some other reporting framework is to be used.

Fearful of losing his job, Rick prepares the personal financial statement using the values provided by the owner, even though he knew he would never pay that amount for the assets in question.

Is Rick in violation of AICPA ET 2.130.000?

Preparing and reporting information 2.130.000

Knowing misrepresentations in the preparation and presentation of information for members in business 2.130.010

Members at all levels of an employer organization may be involved in preparation and presentation of information for use both inside and outside the employer. Stakeholders for whom such information is prepared may include management, those charged with governance, investors, lenders, creditors and regulators. This information assists stakeholders in understanding and evaluating the employer's operations and finances and in making decisions about the employer. This includes financial and nonfinancial information such as:

- Operating and performance reports
- Decision support analyses
- Budgets and forecasts
- Information provided to internal and external auditors
- Risk analyses
- General and special purpose financial statements
- Tax returns
- Reports filed with regulators for legal and compliance purposes

Members who are responsible for recording, maintaining, preparing, approving or presenting information should comply with the following:

- Present the information in accordance with a relevant reporting framework, where applicable
- Prepare or present information in a manner that is intended not to mislead, including not to influence contractual or regulatory outcomes inappropriately
- Prepare or present information without omissions that would render the information misleading

This responsibility involves the use of professional judgment to:

- Represent the facts accurately and completely in all material respects
- Describe clearly the true nature of business transactions or activities
- Classify and record information in a timely and proper manner

Preparation and presentation of financial statements and records - When preparing and presenting financial statements, the member would be considered to have knowingly misrepresented facts if the member:

- Makes, permits or directs another to make, materially false and misleading entries in an entity's financial statements or records
- Fails to correct an entity's financial statements or records that are materially false and misleading when the member has the authority to record the entries, or

- Signs, or permits or directs another to sign, a document containing materially false and misleading information.

Preparation and presentation of information not subject to a reporting framework - When preparing or presenting information that is not subject to a reporting framework (such as pro forma reports, budgets or forecasts), the guidance would require that the member use professional judgment to identify and take into account the purpose for which the information is to be used, the context in which it is provided and the audience to whom it is addressed.

Reliance on the work of others - In cases in which a member relies on the work of others, the member is required to use professional judgment to determine if any actions should be taken to ensure that the requirements set out in the interpretation are met. In determining whether it is reasonable to rely on the work of others, the member should consider factors such as the reputation and expertise of the individual or organization. Such information might be obtained from prior dealings with the individual or the organization or through consulting with others

Association with misleading information - If the member knows or has reason to believe that the information with which he or she is associated is misleading, the member should apply appropriate safeguards to seek to resolve the matter, including:

- Consulting the employing organization’s policies and procedures (such as an ethics or whistleblower policy) regarding how such matters should be addressed internally
- Discussing concerns that the information is misleading with the member’s supervisor or the appropriate level(s) of management within the member’s employing organization or those charged with governance and requesting such individuals to take appropriate action to resolve the matter. Such action may include:
 - Having the information corrected
 - If the information has already been disclosed to the intended users, informing them of the correct information.

If the member determines that appropriate action has not been taken and continues to have reason to believe that the information is misleading, threats to compliance with the “Integrity and Objectivity Rule” would not be at an acceptable level. In such circumstances, the member, while being alert to the requirements of the “Confidential Information Obtained from Employment or Volunteer Activities” Interpretation, should consider one or more of the following safeguards:

- Consulting with a relevant professional body
- Consulting with the employing organization’s internal and external auditor
- Determining whether any requirements exist to communicate to third parties, including users of the information, the organization’s external accountant, or regulatory authorities
- Consulting legal counsel regarding his or her responsibilities

If after exhausting all feasible options, the member determines that appropriate action has not been taken and there is reason to believe that the information is still misleading, the member should refuse to be associated with the information. The member also should consider whether to continue a relationship with the employing organization.

Nothing in the interpretation precludes a member from resigning from the organization at any time. However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employing organization's external accountant.

The member is also encouraged to document the facts, the accounting principles or other relevant professional standards involved, and the communications and parties with whom these matters were discussed, the courses of action considered, and how the member attempted to address the matters.

When threats to compliance with the Integrity and Objectivity Rule are due to differences of opinion between a member and his or her supervisor (or other person within the member's organization) relating to the application of accounting principles, auditing standards, or other relevant professional standards, the member also should refer to the "Subordination of judgment" Interpretation.

Case Study 9 – Subordination of Judgement ET 2.130.020

Grace Hines, CPA is happy to have escaped the grind of public accounting. She became very familiar with financial institutions as an auditor and has a role in upper management in the accounting department and is responsible for financial statement preparation.

Grace has always embraced technology and is a huge believer in AI. She believes that AI modeling is far superior to anything a human can do because of the ability to comb through large amounts of data without the inherent human bias.

Grace used an AI application to determine the amount of Current Expected Credit Loss for the close of the fiscal year. This is the first time that the AI app was used, and the results provided were far different than the reserves that had been calculated in prior year, or the results that would have been obtained this year if the old models that were calculated in excel had been used.

The CFO did not sign off on the CECL calculated by the AI model and instructed Grace to use the amount calculated by the excel file. The CFO cited consistency as the rational for using the same model. Grace disagrees and is not sure what to do next.

What obligations, if any, does Grace have under AICPA Professional Ethics?

Subordination of judgment for members in business 2.130.020

This interpretation addresses differences of opinion between a member and the member's supervisor or any other person in the member's organization.

Self-interest, familiarity and undue influence threats may exist when a difference of opinion occurs with respect to the application of accounting principles, auditing standards or other relevant professional standards (such as tax or consulting, or relevant laws and regulations). A member should evaluate the significance of any threats to determine if they are at an acceptable level. Such threats would be at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards below to eliminate or reduce the threats so that the member does not subordinate his or her judgment.

In evaluating the significance of any threats, the member should determine, after any necessary research or consultation, whether the result of the position taken by the supervisor or other person:

- Fails to comply with professional standards, when applicable
- Creates a misrepresentation of fact, or
- May violate applicable laws or regulations.

If the member concludes the threats are at an acceptable level, the member should discuss his or her conclusions with the person taking the position, and no further action is necessary. If the member concludes that the position results in a material misrepresentation of fact or a violation of laws or regulations, then threats would not be at an acceptable level, and the member should discuss his or her concerns with the supervisor (or other person).

If the difference of opinion is not resolved after discussion, the member should discuss his or her concerns with the appropriate higher level(s) of management within the member's organization. If after that discussion the member concludes that appropriate action was not taken, then the member should consider (in no specific order) the safeguards below to ensure that threats are eliminated or reduced to an acceptable level:

- Determine whether the organization's internal policies and procedures have any additional requirements for reporting differences of opinion
- Determine whether he or she is responsible for communicating to third parties, such as regulators or the organization's external accountant (cognizant of obligations regarding confidentiality)
- Consult with legal counsel regarding the member's responsibilities
- Document his or her understanding of the facts, the accounting principles, auditing standards or other relevant standards involved or the applicable laws or regulations and the conversations and parties with whom the matters were discussed.

If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level, or if the member concludes that appropriate action was not taken, the member should

consider the continuing relationship with the member's organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.

Nothing in the interpretation precludes a member from resigning at any time, although resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose the matter to third parties.

Similar safeguards may be applied to other situations involving a difference of opinion so that the member does not subordinate his or her judgment.

Case Study 10 – Obligation to External Accountant ET 2.130.030

Clarence Lofgrin, CPA, has been employed by a not-for-profit entity for the past year and the entity is about to have its annual audit performed. Clarence is aware of potential fraudulent activity of an employee during the year. However, that employee is the grandchild of a significant donor to the organization and the issue was quickly resolved without the employee losing his position. The Executive Director of the organization has instructed the staff to not disclose the potential fraud to the auditors as the issue was handled “in-house”, and the amount was not to be considered material.

As luck would have it, Clarence was one of the people interviewed by the CPA firm during the risk assessment process and was directly asked if he was aware of any fraud during the year. Clarence just assumed that the CPA left out the word “material”, and believed that he could answer “no” because management did not consider the fraud to be material (even though Clarence and others in the accounting department sure would have liked to have a bonus similar to the amount of questioned expenses on the NFP charge card by the grandchild))

What, if any, interpretations of the AICPA Code of Professional Conduct may Clarence be concerned with violating because of his response to the inquiry?

Obligation of a member to his or her employer's external accountant for members in business 2.130.030

When dealing with his or her employer's external accountant, a member must be candid and not knowingly misrepresent facts or fail to disclose material facts. This includes, for example, responding to specific inquiries for which the external accountant requests written representations.

Case Study 11 – Application of United States GAAP ET 2.320.010

Belinda Hof, CPA, is responsible for submitting the financial statements of her employer to both banks and insurance companies. The loan and insurance contracts require the financial statements to be in accordance with United States GAAP. There is no outside CPA firm that issues a compilation, review, or audit on the financial statements.

Belinda likes to keep things simple, especially when it comes to tax return preparation. She therefore calculates depreciation based on the tax code so that there will be no book to tax differences for depreciation and any gains or losses recognized on the sale of assets. She also measures investments in mutual funds at cost. She does not believe that these issues are material as depreciation is a made-up estimate and unrealized gains and losses are not real until you actually sell the asset.

Is Belinda in violation of AICPA Ethics Standards? If so, what remedies should she seek to become compliant?

Applicable Financial Reporting Framework 2.320.010

A member shall not state affirmatively that an entity's financial statements or other financial data are presented in conformity with GAAP if such statements or data contain any departure from an accounting principle promulgated by a body designated by Council to establish such principles. A member's representation in a letter or other communication that an entity's financial statements are in conformity with GAAP may be considered an affirmative statement with the meaning of this rule with respect to the member who signed the letter or other communication.

Case Study 12 – GAAP Exception Rule

Suzanna Hof, CPA is responsible for preparing GAAP based financial statements for her company, which is audited by an outside CPA firm. Suzanna did not implement the lease guidance in ASC 842 as she claimed that the recognized asset and related liability distorted the financial position of the company and thereby falls into the exception under 2.320.030.

The audit firm proposed the adjustment to recognize the ROU asset and the lease liability. Suzanna refused to book the entry, citing 2.320.030.

Is Suzanna in compliance with AICPA Ethics Standards? What options does the CPA firm have that is conducting the audit?

Application of GAAP that renders financial statements misleading 2.320.030

It is accepted that the application of GAAP will produce financial statements that are not misleading. However, it is acknowledged that in rare circumstance, the strict adherence to GAAP may cause financial statements to be misleading. It is proper to apply accounting treatment that *does not* render the financial statements misleading in such circumstances.

Case Study 13 – Special Purpose Frameworks

Scotty Garcia, CPA is the CFO of a very large private company. The company is well capitalized and has no loans. No outside party requires the financial statements.

In order to minimize costs, and because the financial statements are mainly used internally and for tax planning, Scotty maintains the books on the income tax basis of accounting.

There is outside interest in buying the company, and after appropriate NDAs are executed, Scotty forwards the income tax basis financial statements to the potential buyer. There is no indication that the financial statements are on any specific framework, GAAP or otherwise.

Is there a potential violation of the Code of Conduct?

Financial Statements Prepared Pursuant to Financial Reporting Frameworks Other than GAAP 2.320.040

The Accounting Principles Rule does not preclude a member from reporting on or preparing financial statements that have been prepared pursuant to financial reporting frameworks other than GAAP such as

- Frameworks in other countries
- Frameworks prescribed by agreement or contract
- Other special purpose frameworks

Case Study 14 – Discrimination in Employment Practices ET 2.400.005

Rory Rahm, CPA is the CFO of a company. He is a frequent poster on social media, and his postings often refer to his belief that women should not be in the work force when they have young children. Rory is respectful to his employees (of both genders), but everyone is well aware of his beliefs. The women that work in his department cannot point to any specific behavior of Rory that has caused discrimination, yet they feel as though they are looked at differently, especially the young mothers.

Has Rory violated AICPA Ethics?

Discrimination and Harassment in Employment Practices 2.400.005

A member would be presumed to have committed an act discreditable to the profession if a final determination, no longer subject to appeal, is made by a court or administrative agency that a member has violated any antidiscrimination laws of the United States, a state, or a municipality.

Case Study 15 – Failure to Pay a Tax Liability ET 2.400.030

Jordan Scheffler, CPA is the CFO of a mid-sized company that is taxed as a Sub-S Corporation. The entity elected to pay corporate taxes at the entity level in order to take advantage of the loophole for the SALT deduction.

Not realizing that estimates were required in 2025 (the first year of the election), a large tax bill was due to the State of Louisiana, along with the appropriate penalties and interest for not paying quarterly estimates as required by state law.

Is Jordan in violation of AICPA Ethics? If so, what action should he take?

Failure to File a Tax Return or Pay a Tax Liability 2.400.030

A member who fails to comply with applicable federal, state, or local tax laws regarding the member's tax return, the firm's tax return, the member's employer, or timely filing and remittance of payroll and other taxes collected by others may be considered to have committed an act discreditable.