

**2026 ETHICS COURSE FOR  
LOUISIANA CPAs IN PUBLIC PRACTICE  
A CASE STUDY APPROACH**

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## 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 in 2020 with 44 years of public accounting experience, concentrated in government, financial institutions, public utilities 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, most recently 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. Oestrieher, CPA** is a partner with Oestrieher & Company, CPAs in Alexandria, Louisiana, where is currently Partner in charge of Accounting and Auditing. 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 three times, and has been awarded the AICPA Outstanding Discussion Leader of the Year every year from 2006 – 2016.

Kurt's biography is much shorter than Mike's because he is much younger than Mike.

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## **Chapter 1 – State Board of CPAs of Louisiana**

Title 46, Professional and Occupational Standards, Part XIX, Certified Public Accounts, Chapter 17 – Rules of Professional Conduct, provide the standards applicable to licensed CPAs in the State of Louisiana. Chapter 17 can be found at <http://cpaboard.state.la.us/blog/wp-content/uploads/2023/06/Board-Rules-May-2023.pdf>.

### **Preamble**

The preamble discusses five distinct issues:

- a. The services provided by those in public practice of accountancy involve a high degree of skill, education, and trust.
- b. The board has an underlying duty to the public to ensure that the obligations of a person in the public practice of accountancy maintain the high degree of personal and professional conduct expected by the public.
- c. The rules enumerated in Chapter 17 are intended to apply not only to members in public practice and the traditional services rendered in public practice, but will apply to all certificate holders unless the wording of the rules clearly limit the scope.
- d. The State Board may consider relevant interpretations, rulings, and opinions of other jurisdictions when enforcing the rules under Chapter 17. These jurisdictions include, but are not limited to, the Securities Exchange Commission, Recognized Professional Standards Setting Organizations, and appropriate committees of professional organizations. The State Board, while allowed to consider such rulings, are not bound by such rulings.
- e. All licensees and certificate holders shall comply with the AICPA Code of Professional Conduct. The rules of the State Board shall prevail if such rules conflict with the AICPA Code of Professional Conduct.

### **Competence and Professional Standards**

Professional Standards include, but are not limited to:

- Statements on Auditing Standards (SAS)
- Statements on Standards for Accounting and Review Services (SSARS)
- Statements on Standards for Consulting Services (SSCS)
- Statements on Standards for Attestation Engagements (SSAE)
- Standards for performing and Reporting on Peer Reviews or Quality Reviews
- Auditing Standards issued by the Comptroller General of the United States for governmental Audits (Yellow Book)
- Standards issued by the PCAOB

## ***Competence***

A licensee shall not undertake any engagement for performance of professional services which he or she cannot reasonably expect to complete with due professional competence

## ***Professional Standards***

A licensee shall not act or imply that he or she is acting as a CPA by permitting association of his or her name, firm's name, issue a report, or expressing an opinion, in connection with financial statements, elements thereof, or the written assertions and representations of a client, or by the performance of professional services, unless he or she has complied with applicable professional standards. This rule does not apply in any instance in which such compliance would otherwise be prohibited by the Act or by rule of the board.

## **Case Study 1**

James and Harrison, CPAs is a permitted local public accounting partnership providing accounting and tax services in Bienville Parish, Louisiana. In an effort to appeal to less affluent residents of the area, James and Harrison form a new partnership with Sam Davis, who has been operating a non-licensed bookkeeping and tax service, and select the name JHD Accounting Solutions for the new entity. Since Davis will be doing most of the heavy lifting, Davis will own 60% of the new venture and James and Harrison will each own 20%. JHD Accounting Solutions applies for a firm permit from the State Board, but their application is denied by the State Board.

Why would the State Board reject the permit application for JHD Accounting Solutions?

## **§1707. Other Responsibilities and Practices**

### **A. Acting through Others**

#### **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 relate 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
  - 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 by 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.

## Case Study 2

Samantha Good has been CFO for Farm Center, Inc., a local farm supply store chain for more than 20 years. Not wanting to maintain the rigors of continuing education, in 2006 Samantha elected to forego her license to practice and began using the “CPA-inactive” designation in connection with her employment in industry – on the company letterhead, business cards and in company email signatures.

In 2024, Samantha was approached by Dogs-R-Us, Inc. about preparing the company’s Form 1120S and Louisiana corporate return and agreed to do so, given the lucrative fee the company agreed to pay her. Samantha continues to serve as CFO for Farm Center, Inc. and does not alter her company letterhead, business cards or email signatures.

Is Samantha in compliance with the rules of the State Board?

C. Annual Registration of CPA Inactive or CPA Retired Status

1. Each person entitled to use the designation “CPA inactive” under R.S. 37:75(I) and “CPA inactive” or “CPA retired” under R.S. 37:76(D)(2) shall register such status annually during the period for renewal on or before the last day of December preceding the year for which renewal is applicable.

2. The board shall set the period of time for renewal.

3. Annual registration expires on the last day of each calendar year, or on a date following December 31, if another date is determined by the board for good cause.

4. The board may send a notice of default to the last known address or email address of each registrant who fails to renew.

5. Application for annual registration of “CPA inactive” or “CPA retired” status shall be made online via the Internet, or on forms that may be furnished by the board, and shall be accompanied by renewal fees fixed by the board pursuant to §319. The renewal forms shall contain all of the items and information requested in the appropriate space in order to be acceptable.

#### B. Use of the “CPA Inactive” or “CPA Retired” Designation

##### 1. Certificate only holders under prior law

a. 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.

b. 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.

##### 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 exception 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 no longer qualify for the use of the designation and shall immediately cease all uses of the designation “CPA inactive” or “CPA Retired” in connection with any employment or on any letterhead, business card, email signature, etc.**

### Case Study 3

Thomas Head, CPA has employed Jerald Shoulders, CPA as a staff accountant at Thomas Head and Associates, CPAs, for more than a decade. Jerald has decided to leave public accounting and pursue his lifelong dream of becoming a tattoo artist, and submits his resignation to the firm on June 18, 2025.

Upon Jerald's departure, Thomas renames the firm Thomas Head, CPA and immediately orders new letterhead and business cards, and changes the sign outside the building to reflect the new name.

Was Thomas required to go to all that trouble?

C. Firm Name

1. The name under which a licensee practices public accounting must indicate clearly whether he is an individual practicing in his own name or a named member of a firm. If the name includes the designation "and Company" or "and Associates" or "Group" or abbreviations thereof, there must be at least two licensees involved in the practice, who may be either partners, shareholders, members or employees of the firm. However, names of one or more past partners, shareholders, or members may be included in the firm name of a successor firm.

2. A partner, member or shareholder surviving the death or withdrawal of all other partners, members or shareholders may continue to practice under the partnership or corporate name for up to two years after becoming a sole practitioner, sole member or sole shareholder.

#### Case study 4

John Brown, CPA, a Louisiana licensee, operates a tax practice in Mansura, Louisiana. John's tax seasons are quite hectic and he usually works 75 to 100 hours per week from mid-January until the filing season is over.

On February 27, 2026, John receives a certified letter from the Louisiana State Board which was mailed on February 24. In the confusion that often accompanies the filing season, the letter gets buried under a pile of other mail and John does not discover it until April 17. The letter notifies John that the Board wants to audit his CPE record for 2025.

John immediately responds, but is then notified by the Board that he has been charged with noncooperation. Has John violated the Board rules?

D. Communications. A holder of a certificate or firm permit, or an individual in inactive or retired status shall, when requested, respond to communications from the board in the manner requested by the board within 30 days of the mailing of such communications by certified mail, or by such other delivery methods available to the board.

E. 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.

F. Cooperation with Board Inquiry or Investigation. A certificate holder, or CPA licensed in another state who has provided professional services to Louisiana clients, or CPA licensed in another state who may be granted rights under the substantial equivalency provisions of R.S. 37:94, shall fully cooperate with the board in connection with any inquiry or investigation made by the board. Full cooperation includes, but is not limited to, fully responding in a timely manner to all inquiries of the board or representatives of the board and claiming board correspondence from the U.S. Postal Service and from other delivery services used by the board.

# Chapter 2 – AICPA Code of Professional Conduct

## **OVERVIEW OF THE CODE**

The AICPA Code of Professional Conduct is available online at [aicpa.org](http://aicpa.org), or in Volume 2, AICPA Professional Standards, June, 1, 2017. Rules are voted by the membership, and interpretations of the rules are issued by the Professional Ethics Executive Committee of the AICPA.

The Code is divided into four sections:

- Preface: Applicable to All Members
- Part 1 – Members in Public Practice
- Part 2 – Members in Business
- Part 3 – Other Members

The code also contains the following appendices:

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

The Code should be consulted at all times when a member believes he or she may have an issue that could cause a violation of the AICPA Ethics Code. Licensed CPAs in Louisiana have a mandate to follow the code at all times. Members of the AICPA that are not licensed have voluntarily agreed to abide by the Code.

## **STRUCTURE OF THE CODE**

The rules of conduct apply to all professional services performed, except in very limited circumstances. The rules do not apply when the wording of a rule indicates otherwise, or in certain situations when the member is practicing outside the United States. Consult ET.0200.020.03 for the limited exceptions.

A member shall not knowingly permit a person whom the member has the authority or capacity to control to carry out on his or her behalf, with or without compensation, any act that, if carried out by the member would place the member in violation of the rules.

## Case Study 5

Rocco Graviano, CPA, operates his practice in Baton Rouge. Rocco has a variety of small business clients for whom he performs monthly bookkeeping and tax services, along with processing a few payrolls. Rocco also has a number of attest clients, including Prego Enterprises, Inc., for whom he performs an annual audit, tax preparation and consulting services.

Rocco has called you on a technical matter and the conversation drifts into small talk about family. He mentions that his step-sister has recently completed her degree in accounting at LSU and was promoted from accounting clerk to the CFO position at Prego.

Since the step-sister was already employed by Prego, Rocco is apparently unconcerned about her promotion, since he has previously determined that her employment there had no impact on his independence.

Should Rocco be concerned? Should you raise any issues with him?

### CONCEPTUAL FRAMEWORKS

The conceptual framework for independence has been effective now for several years (since April 30, 2005). When the Code of Professional Conduct was revised in 2014, a new conceptual framework was added to address the members' compliance with the remainder of the Code. The new Code was effective December 15, 2014, but the second conceptual framework was subject to a one-year delay, and thus became effective December 15, 2015.

There is still some confusion as to how and when members should use the conceptual frameworks to determine whether they are in compliance with the Code. This section will address the application of the frameworks to both members in public practice and members in business.

**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 impair independence (for members in public practice only) or compromise a member’s compliance with the rules (for all members). For members in public practice, the rules are as follows:

- Independence Rule
- Integrity and Objectivity Rule
- General Standards Rule
- Compliance with Standards Rule
- Accounting Principles Rule
- Acts Discreditable Rule
- Contingent Fees Rule
- Commissions and Referral Fees Rule
- Advertising and Other Forms of Solicitation Rule
- Confidential Client Information Rule
- Form of Organization and Name Rule

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

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

#### **Types of threats to independence:**

- 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

- A client, officer, director or significant shareholder of the client participating in litigation against the firm
- Advocacy threat – actions promoting an attest client’s interest or position, such as:
  - A member provides forensic accounting services or expert witness testimony for a client in litigation<sup>1</sup>
  - A firm acts as investment advisor for an officer, director or 10% shareholder of a client
  - A firm underwrites or promotes a client’s shares
  - A firm acts as registered agent for a client
  - A member endorses a client’s products or services
  - Representing the client in tax court
- Familiarity threat – 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, such as:
  - A member of the attest engagement team whose immediate family member or close relative is in a key position at the client, such as the chief executive officer
  - A partner of the firm who has provided the client with attest services for a prolonged period
  - A member who performs insufficient audit procedures when reviewing the results of a nonattest service because the service was performed by the member’s firm
  - A member of the firm having recently been a director or officer of the client
  - A member of the attest engagement team whose close friend is in a key position at the client
  - A member has a significant close business relationship with an officer, director or a 10% shareholder of the client
- Management participation threat – taking the role of client management or otherwise performing management functions on behalf of an attest client, such as:
  - Serving as an officer or director of the client
  - Establishing and maintaining internal controls for the client
  - Hiring, supervising or terminating employees of the client
  - Preparing financial statements for a client
- Self-interest threat – potential benefit to a member from a financial interest in, or from some other financial relationship with, an attest client, such as:
  - Having a direct financial interest or material indirect financial interest in the client
  - Having a loan from the client, from an officer or director of the client, or from an individual who owns 10 percent or more of the client’s outstanding equity securities
  - The member’s spouse enters employment negotiations with the client
  - The firm enters into a contingent fee arrangement for a tax refund claim that is not a predetermined fee

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<sup>1</sup> This threat does not arise from testifying as a fact witness or defending the results of a professional service that the member performed for a client.

- Excessive reliance on revenue from a single attest client
- Having a material joint venture or other material joint business arrangement with the client
  
- 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
  - A partner in the member’s office was associated with the client as an employee, officer, director or contractor
  - The member performs bookkeeping services for a client
  - The member relies on the work product of the member’s firm
  
- Undue influence threat – attempts by an attest client’s management or other interest parties to coerce the member or exercise excess influence over the member, such as:
  - A threat to replace the member or the member’s firm over a disagreement with client management on the application of an accounting principle
  - Pressure from the client to reduce necessary audit procedures for the purpose of reducing audit fees
  - A gift from the client to the member that is other than clearly insignificant to the member

## **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 client or the firm (for members in public practice) or 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 client**

- The client has personnel with suitable skill, knowledge and experience who make managerial decisions with respect to the delivery of professional services
- A tone at the top that emphasizes the client's commitment to fair financial reporting and compliance with applicable laws, regulations and corporate governance policies
- Policies and procedures addressing ethical conduct
- A governance structure, such as an active audit committee, designed to ensure appropriate decision making, oversight and communications regarding a firm's services
- Policies that dictate the types of services the entity can hire a firm to provide without causing the firm's independence or objectivity to be considered impaired or that do not serve the public interest

### **Safeguards implemented by the firm**

- Firm leadership that stresses the importance of complying with the rules and the expectation that engagement teams will act in the public interest
- Policies and procedures designed to implement and monitor engagement quality control
- Documented policies regarding the identification of threats to compliance with the rules, the evaluation of the significance of those threats, and the identification and application of safeguards that can eliminate identified threats or reduce them to an acceptable level
- Internal policies and procedures that are designed to monitor compliance with the firm's policies and procedures
- Policies and procedures that are designed to identify interests or relationships between the firm or its partners and professional staff and the firm's clients
- The use of different partners, partner equivalents and engagement teams from different offices or that report to different supervisors
- Training on, and timely communication of, a firm's policies and procedures and any changes to them for all partners and professional staff
- Policies and procedures designed to monitor the firm's, or a partner's, or a partner equivalent's reliance on revenue from a single client, and that, if necessary, cause action to be taken to address excessive reliance
- Designating someone from senior management as the person responsible for overseeing the functioning of the firm's quality control system

- A means of informing partners and professional staff of attest clients and related entities for whom independence is required
- A disciplinary mechanism that is designed to promote compliance with policies and procedures
- Policies and procedures designed to empower staff to communicate to senior members of the firm any engagement issues that concern them without fear of retribution
- Policies and procedures relating to independence and ethics communications with audit committees or those charged with client governance
- Discussing independence issues with the audit committee or others responsible for the client's governance
- Disclosing to the audit committee or those charged with governance the nature of services that are or will be provided the extent of the fees charged or to be charged for such services
- Involvement of another professional accountant (either inside or outside the firm) who (1) reviews the work that is done for a client or (2) otherwise advises the engagement team
- Consultation on engagement issues with an interested third party, such as a committee of independent directors, a professional regulatory body or another professional accountant
- Rotation of senior personnel who are part of the engagement team
- Policies and procedures designed to ensure that members of the engagement team do not make or assume responsibility for management decisions
- Involvement of another firm to perform part of the engagement
- Involvement of another firm to reperform a nonattest service to the extent necessary to enable it to take responsibility for the service
- Removal of an individual from an engagement team when that individual's financial interests or relationships pose a threat to independence or objectivity
- A consultation function that is staffed with experts in accounting, auditing, independence, ethics, and reporting matters who can help engagement teams (1) assess issues when guidance is unclear or when the issues are highly technical or require a great deal of judgment, and (2) resist undue pressure from a client when the engagement team disagrees with the client about such issues
- Client acceptance and continuance policies that are designed to prevent association with clients who pose an unacceptable threat to the member's compliance with the rules
- Policies that preclude audit partners or partner equivalents from being directly compensated for selling nonattest services to the attest client
- Policies and procedures addressing ethical conduct and compliance with laws and regulations

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.

### **THE INDEPENDENCE RULE**

The independence rule is as follows:

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

“Bodies designated by Council” in this case refers to the AICPA Professional Ethics Executive Committee (PEEC). The PEEC is responsible for the AICPA Code and has therefore provided that for attest engagements, independence is required of *covered members*, as defined below.

### **Case Study 6**

Gerald Daigle, CPA is the auditor for Last Chance Enterprises, Inc., an online dating service for individuals over 60. Gerald has provided audits for Last Chance for the last 31 years. Last Chance’s CEO, Thomas Free, considers Gerald to be the equivalent of family after all this time. He even asked Gerald to be godfather to two of his children. Gerald and Thomas often take their families on vacation together in the Bahamas and are regular golf partners most weekends.

Are there any concerns about the effect Gerald’s and Thomas’ relationship may have on Gerald’s ability to continue to serve as auditor for Last Chance? If so, what can Gerald do about those concerns?

### **Case Study 7**

Mary Alice Wonderbread, CPA, is a partner in Dixon, Gottlieb and Davis, a nine-partner, three-office firm in Richland and Ouachita Parishes. Dixon, Gottlieb and Davis have offices located in West Monroe, Rayville and Delhi. Mary Alice is a partner in the Delhi office.

Dixon, Gottlieb and Davis provides attest services to Pelican Technologies, a local internet service provider. The services are provided by the West Monroe office, where William Strouck, CPA (Mary Alice's partner) serves as the engagement partner. Mary Alice does not provide any services to Pelican.

When Pelican's CFO retired last year, Pelican hired Gary Wonderbread (Mary Alice's brother) to replace the retired CFO. It is now time for Pelican's annual audit and Strouck has raised questions about whether the firm can continue to provide the audit service and has sought out your thoughts on the matter.

What advice do you provide to Strouck? Can the firm continue as auditors?

### **Covered members who are required to be independent when performing attest services**

The following are included in the hierarchy of *covered members*:

- A member of the engagement team
- An individual in a position to influence the engagement
- A partner or manager who provides 10 or more hours of nonattest services to the attest client
- A partner in the office where the lead attest engagement partner practices in connection with the attest engagement
- The firm itself, including its retirement plans (this excludes the partners in the firm)
- Any of the above persons, or any two or more of them who can exercise *significant influence over the attest client*

### **Family relationships with attest clients**

**Immediate family members** – The immediate family members of a covered member must comply with the Independence Rule and its interpretations, except as permitted under the following interpretations. Immediate family members include parents, siblings and dependent children (including step-parents, step-siblings and step-children).

Regardless of any exceptions based on the interpretations that follow, the ownership interests of a covered member's immediate family may not exceed the provisions described in "Overview of financial interests" interpretation (see above). When assessing materiality of a financial interest to a covered member, the ownership interests of the covered member and the immediately family member are combined.

**Immediate family member is employed by attest client** – Employment at an attest client of a **covered member's immediate family member** may create management participation, familiarity and self-interest threats to independence.

Employment of an immediate family member would not impair independence if the employment is not in a key position.

If the employment of the immediate family member is in a key position, the threats would not be at an acceptable level and could not be reduced to an acceptable level through the application of safeguards. Independence would be impaired.

The Code provides grandfather exceptions to the key position rule for employment positions that existed prior to the establishment of the interpretation. See the Code for more information.

## Case Study 8

Andrea Sullivan, CPA, a sole practitioner, has just completed a merger of her practice with that of Biggers, Best and Evers. The merged firm will continue to operate as Biggers, Best and Evers. Andrea has been providing ongoing IT monitoring and backup (hosting) services to Biggers, Best and Evers attest client, Johnson Industries for several years before the merger. However, in anticipation of the merger, Andrea discontinued the services and referred Johnson Industries to another firm months before the merger was completed. Andrea does not provide any attest services.

The managing partner for Biggers, Best and Evers has notified Andrea that the firm can no longer provide attest services to Johnson Industries. Andrea cannot see why the firm cannot continue to provide the services, as there has been no change in the acquiring firm's independence status. Is she correct?

### 1.220.040 Firm Mergers and Acquisitions

#### Prohibited Nonattest Services Provided by *Acquiring* Firm

.05 If the acquiring firm provided prohibited nonattest services to an *attest client* of the acquired firm during the period covered by the *financial statements*, *threats* to compliance with the “[Independence Rule](#)” [1.200.001] will not be at an *acceptable level* and cannot be reduced to an *acceptable level* by the application of *safeguards*. Accordingly, the acquiring firm's *independence* will be *impaired* with respect to the *attest client*.

#### Prohibited Nonattest Services Provided by *Acquired* Firm

.06 If the acquired firm provided prohibited nonattest services to an *attest client* of the acquiring firm prior to the financial statement period covered by the acquiring firm's next attest report, the acquiring firm's *independence* would not be *impaired*.

**.07** If the acquired firm provided prohibited nonattest services to an *attest client* of the acquiring firm during the *period of the professional engagement* (except as provided for in [paragraph .06](#)) or the period covered by the *financial statements*, the acquiring firm's *independence* would be *impaired* unless all of the following conditions are satisfied:

- a. The acquired firm terminates the prohibited nonattest services (or modifies the service offerings such that they would not *impair independence*) prior to the closing date of the merger or acquisition.
- b. Any individual who participated in the engagement to provide the prohibited nonattest services is neither on the *attest engagement team* nor an *individual in a position to influence the attest engagement*.
- c. An evaluation of the *threats* is performed and *threats* are determined to be at an *acceptable level* or reduced to an *acceptable level* by the application of *safeguards*. The evaluation should be conducted on the basis of the attribution of the results of the nonattest services to the acquiring firm. That is, if the nonattest services
  - i. can be attributed to the acquiring firm because the acquiring firm will assume responsibility for the results of the nonattest services, then the evaluation should assess all prohibited nonattest services that the acquired firm performed for the *attest client* during the financial statement period to be covered by the acquiring firm's next attest report; or
  - ii. cannot be attributed to the acquiring firm, then the evaluation should assess all prohibited nonattest services that the acquired firm performed for the *attest client* during the period in which the merger or acquisition was pending (that is, from the commencement of negotiations through the closing date of the merger or acquisition).

**.08** In evaluating the significance of any *threats*, consideration should also be given to the following:

- a. Whether the nonattest service is attributed to the acquiring firm and whether the work performed or its results will be subject to attest procedures.
- b. The significance of the results of the nonattest service to the *attest client's financial statements*.
- c. The extent to which the *attest client* and its management were involved in overseeing the nonattest services performed (including making any significant judgments and decisions with respect to the nonattest services) and whether the *attest client* and its management possessed the suitable skill, knowledge and/or experience to oversee such services.
- d. Whether the nonattest services involved the assumption of a management responsibility.

**.09** If the *member* concludes that the *threats to independence* are not at an *acceptable level*, the *member* should apply *safeguards* to reduce *threats* to an *acceptable level*.

**.10** Examples of *safeguards* include the following:

- a. An individual not associated with the nonattest engagement reviews the nonattest services work performed.

- b. Another *firm* performs an *attest engagement* on the subject matter of the nonattest service.
- c. Another *firm* re-performs the nonattest service to the extent necessary for it to take responsibility for that service.

If no *safeguards* exist that will eliminate or reduce the *threats* to an *acceptable level*, *independence* will be *impaired*.

## Case Study 9

Don Willis, CPA, has practiced alone for the last 20 years. During that time, Don served on the board of directors of Fantastic Adventures, Inc., a travel agency. In anticipation of his retirement down the road, Don has now decided to merge with Smith, Baker and Company, CPAs. Fantastic Adventures, Inc. is an attest client of Smith, Baker and Company.

As soon as the merger is agreed to, Don resigns from the board of directors, withdraws from their employee benefit plans and settles a loan he had from the company. Smith, Baker and Company intends to continue to provide attest services with Fantastic Adventures, Inc. and Don will not participate in the engagement or have any interaction with the engagement team.

Can Smith Baker and Company continue to provide the attest services, and if so, what other requirements should be met?

### 1.275.005 Employment or Association with an Attest Client

.03 If a *partner* or professional employee was formerly employed by or associated with an entity as a director, officer, employee, promoter, underwriter, voting trustee, trustee of any pension or profit-sharing trust of the entity, or in any capacity equivalent to that of a member of management and that entity becomes an *attest client* through a merger or acquisition, then *threats* will be at an *acceptable level* and *independence* will not be *impaired* provided all of the following *safeguards* are met:

- a. The *partner* or professional employee terminates the relationship with the *attest client* (for example, resigns as a director) prior to the closing date of the merger or acquisition.
- b. The *partner* or professional employee does not participate on the *attest engagement team* and is not an *individual in a position to influence the attest engagement* for the *attest client* when the *attest engagement* covers any period that includes his or her former employment or association with that *attest client*.

- c. The applicable disassociation *safeguards* in [paragraph .04](#) of the “Former Employment or Association With an Attest Client” interpretation [1.277.010] are implemented prior to the closing date of the merger or acquisition.
- d. As soon as practicable under the circumstances but before issuing the attest report, a responsible individual within the *firm* assesses the prior relationship of the *partner* or professional employee with the *attest client*, as well as the position he or she holds at the *firm*, to determine if *threats* are created that are not at an *acceptable level*. If the responsible individual determines that *threats* are not at an *acceptable level*, he or she should be satisfied that *safeguards* are applied to eliminate or reduce the *threats* to an *acceptable level*. *Threats* will not be at an *acceptable level* if
- i. the *partner* or professional employee will have interaction with members of the *attest engagement team* regarding the *attest client* or
  - ii. the *attest engagement team* is placed in a position of evaluating the *partner* or professional employee’s representations and work while he or she was employed or associated with the *attest client*.
- In such situations, an individual within the *firm* with the appropriate stature, expertise, and objectivity should review the subsequent *attest engagement* prior to issuing the attest report to determine whether the *attest engagement team* maintained integrity; objectivity; and, as appropriate, professional skepticism.
- e. As soon as practicable under the circumstances but before issuing the attest report, the nature of the relationship and any *safeguards* that were applied are discussed with *those charged with governance*. Documentation of the substance of the discussion with *those charged with governance* is encouraged.

## Case Study 10

Theresa Jones, CPA, is a 5% limited partner in Advanced Properties, LLC, a local real estate investment company. Advanced Properties, LLC is managed by its general partner, Harold Parker and has assets in excess of \$3.5 million.

Harold makes all the day-to-day decisions of Advanced Properties, LLC, including its investment decisions. Harold only provides the limited partners with financial statements at year-end when he distributes the limited partners’ Forms K-1.

When Theresa receives her K-1 and financial statements for 2025, she is most upset to see that the partnership invested \$150,000 in another real

estate company, Thompson Apartments, Inc., Theresa's attest client. Theresa's annual billings to Thompson Apartments, Inc. are more than \$40,000 annually.

She calls Harold in a rage, claiming he should have sought input from the limited partners before making the investment and that he is costing her a fortune by not consulting her.

Has Harold's action impaired Theresa's independence? If not, what should Theresa consider going forward?

#### 1.240.050 Partnerships

.01 When used in this interpretation, control includes situations in which the *covered member* has the ability to exercise such control, either individually or acting together with his or her *firm* or other *partners* or professional employees of his or her *firm*.

.02 The ownership of a general or limited partnership interest is considered a *direct financial interest* in the partnership.

.03 *General partner*. If the *covered member* is a general partner, the *financial interests* held by a partnership are a *covered member's direct financial interests* because the *covered member* is in a position to control the partnership or supervise or participate in the partnership's investment decisions.

.04 *Limited partner*. If the *covered member* is a limited partner, the *financial interests* held by a limited partnership are a *covered member's indirect financial interests* as long as the *covered member* does not control the partnership or supervise or participate in the partnership's investment decisions. However, if the *covered member* has the ability to replace the general partner or has the authority to supervise or participate in the partnership's investment decisions, the partnership's *financial interests* would be the *covered member's direct financial interests*.

.05 Refer to the "[Client Affiliates](#)" interpretation [1.224.010] [1.200.001] and the "[Joint Closely Held Investments](#)" interpretation [1.265.020] of the "Independence Rule" for additional guidance.

## Case Study 11

Jerri Leah Willing, CPA, and four of her close friends decide to start an investment club. Each member puts up \$50,000 (total investment \$250,000). A steering committee of two members is elected to begin meeting each week to pick investments to buy and sell. Jerri Leah is not on the steering committee.

When the financial statements for the three months ended September 30, 2025 are sent out to the members, Jerri Sue notices that the steering committee has invested \$20,000 in short-term commercial paper issued by Franks, Inc., a local company which is also Jerri Leah's attest client.

Has Jerri Leah's independence been impaired?

1.240.030 Mutual Funds

.01 A *covered member* who owns shares in a mutual fund has a *direct financial interest* in the mutual fund. However, whether the underlying investments in the mutual fund are considered to be the *covered member's direct financial interests* or *indirect financial interests* depends on the proportion of the mutual fund's outstanding shares that the *covered member* owns and whether the mutual fund is diversified.

.02 If a *covered member* owns 5 percent or less of the outstanding shares of a diversified mutual fund, the underlying investments would be considered immaterial *indirect financial interests*. Accordingly, the self-interest *threat* would be at an *acceptable level*, and *independence* would not be *impaired*. To determine if the mutual fund is diversified, the *covered member* should consider referring to (a) the mutual fund's prospectus for disclosure regarding fund management's determination regarding diversification and (b) Section 5(b)(1) of the Investment Company Act of 1940.

.03 If a *covered member* owns more than 5 percent of a diversified mutual fund's outstanding shares, or if a *covered member* owns a *financial interest* in a nondiversified mutual fund, the *covered member* should evaluate the mutual fund's underlying investments to determine whether the *covered member* holds a material *indirect financial interest* in any of the underlying investments.

.04 The following example illustrates how to determine if the underlying investments are material to a *covered member's* net worth. If

- a nondiversified mutual fund owns shares in client company A,
- the mutual fund's net assets are \$10 million,
- the *covered member* owns 1 percent of the outstanding shares of the mutual fund, having a value of \$100,000, and
- the mutual fund has 10 percent of its assets invested in company A,

then the *covered member's indirect financial interest* in company A is \$10,000 ( $\$100,000 \times 10\%$ ).

The *covered member* would then compare the \$10,000 *indirect financial interest* with his or her net worth, including the net worth of his or her *immediate family*, to determine if the *indirect financial interest* in company A is material.

## Case Study 12

Alfred Patillo, CPA is named as executor in the will of Haywood Davis. Haywood is extremely wealthy. Alfred also serves as auditor for Davis Investments, Inc. Haywood owns 80% of the outstanding shares of Davis Investments, Inc. and those shares make up about 40% of Haywood's assets.

Haywood passes away and his will provides that all his shares of Davis Investments, Inc. are to be included in the estate and that the executor is to make all decisions concerning the estate assets.

Does being named as executor impair Alfred's independence? If Alfred accepts the executor's position, will he have to resign as auditor?

### 1.245.010 *Trustee or Executor*

.01 The designation of a *covered member* to serve as a trustee of a trust or an executor or administrator of an estate that held, or was committed to acquire, any *direct financial interest* or any material *indirect financial interest* in an *attest client* during the *period of the professional engagement* does not in itself create a self-interest *threat* to the *covered member's* compliance with the "[Independence Rule](#)" [1.200.001].

.02 However, when the *covered member* serves as the trustee or executor during the *period of the professional engagement*, *threats* to compliance with the "[Independence Rule](#)" [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards* if

- a. the *covered member* (individually or with others) has the authority to make investment decisions for the trust or estate,
- b. the trust or estate owned or was committed to acquire more than 10 percent of the *attest client's* outstanding equity securities or other ownership interests, or
- c. the value of the trust's or estate's holdings in the *attest client* exceeds 10 percent of the total assets of the trust or estate.

Accordingly, in these situations, *independence* would be *impaired*.

## Case Study 13

Janet Jackson, CPA has a certificate of deposit account with her client, The Peoples Bank of Ferriday. Janet prepares the bank's annual income tax returns. Her certificate balance is approximately \$375,000. Her account is insured through the FDIC. Janet's net worth is in excess of \$1.4 million.

The Peoples Bank has now advised Janet that they must provide their correspondent bank with audited financial statements for 2025.

Can Janet perform the audit of The Peoples Bank financial statements?

1.255.010 Depository Accounts

**.01** If a *covered member* maintains checking, savings, certificates of deposit, money market, or other depository accounts (depository accounts) at a bank or similar depository institution that is an *attest client* during the *period of the professional engagement*, a self-interest *threat* to the *covered member's* compliance with the "[Independence Rule](#)" [1.200.001] may exist. For specific guidance applicable to any other types of custodial accounts (for example, brokerage accounts), see the "[Brokerage and Other Accounts](#)" interpretation [1.255.020] of the "Independence Rule."

**.02** When the *covered member* is a *firm*, the *threat* would be at an *acceptable level*, and *independence* would not be *impaired* if the *firm* concludes that the likelihood is remote that the bank or similar depository institution will experience financial difficulties.

**.03** When the *covered member* is an individual, the *threat* would be at an *acceptable level*, and *independence* would not be *impaired* if

- a. the balance in the depository account(s) is fully insured by the appropriate state or federal government deposit insurance agencies or by any other insurer, or
- b. any uninsured amounts, in the aggregate, were not material to the *covered member's* net worth, or
- c. if uninsured amounts were considered material, any uninsured amounts, in the aggregate, are reduced to an immaterial amount no later than 30 days from the date that the uninsured amount becomes material to the *covered member's* net worth.

## Case Study 14

Henrietta Braswell, a partner with Braswell and Rider, LLC, has a home mortgage loan with Thrifty Mortgage Company. Her loan was originated in 2009 and currently her loan balance is \$425,000.

In 2026, Thrifty Mortgage Company files for bankruptcy protection and its assets (including Henrietta's loan) are acquired by AAA Bancshares, Inc. who is an attest client of Braswell and Rider, LLC. Henrietta is concerned that her mortgage loan may jeopardize her relationship with AAA Bancshares, Inc. She has come to you for advice.

What do you tell her?

1.260.020 *Loans and Leases With Lending Institutions*

.01 The “[Loans](#)” interpretation [1.260.010] of the “Independence Rule” [1.200.001] provides that a self-interest *threat* would not be at an *acceptable level* and *independence* would be *impaired* if a *covered member* had a *loan* to or from an *attest client*, any officer or director of the *attest client* with the ability to affect decision-making, or any individual with a *beneficial ownership interest* (known through reasonable inquiry) that gives the individual *significant influence* over the *attest client*, except as provided for in this interpretation.

Home Mortgages, Other Secured Loans, Immaterial Unsecured Loans, and Student Loans

.02 The *loans* covered by [paragraph .03](#) include home mortgages, other secured *loans*, unsecured *loans* that are not material to the *covered member’s* net worth (that is, immaterial unsecured *loans*), and student *loans*.

.03 *Threats* would be at an *acceptable level* and *independence* would not be *impaired* if a *covered member* or his or her *immediate family* has any of the *loans* identified in [paragraph .02](#) from a *lending institution attest client*, if all the following *safeguards* are met:

- a. The *loans* were obtained under the *lending institution’s* normal *lending procedures, terms, and requirements*.
- b. The *loans* were obtained in one of the following ways (in determining when the *loans* were obtained, the date a commitment or line of credit is granted must be used, rather than the date a transaction closes or funds are obtained):
  - i. From the *lending institution* prior to it becoming an *attest client*
  - ii. From a *lending institution* for which *independence* was not required and that was later sold to an *attest client*
  - iii. From a *lending institution attest client* by a borrower prior to the *member* becoming a *covered member* with respect to that *attest client*
  - iv. Prior to May 31, 2002, and the requirements of the loan transition provision in <https://us.aicpa.org/content/dam/aicpa/interestareas/professionaethics/community/downloadabledocuments/transistion%20periods.pdf> are met
- c. After an individual becomes a *covered member*, any *loans* must be kept current regarding all terms, at all times, and the terms may not change in any manner not provided for in the original agreement. Examples of changed terms are a new or extended maturity date, a new interest rate or formula, revised collateral, and revised or waived covenants.
- d. The estimated fair value of the collateral for home mortgages or other secured *loans* should equal or exceed the outstanding balance during the term of the home mortgages or other secured *loans*. If the estimated fair value of the collateral is less than the outstanding balance of the home mortgages or other secured *loans*, the portion that exceeds the estimated fair value of the collateral may not be material to the *covered member’s* net worth.

## Case study 15

David Ross, CPA, is considering leasing a condominium from Superior Villas, an attest client, for \$1,400 per month. David's lease would be in amounts and at terms comparable to other lessees. David serves on the engagement team at Superior Villas. The lease would not be material to David or to Superior Villas. Would the lease impair David's independence?

David does in fact enter the lease, but seven months into the lease, David falls behind on his lease payments. He is able to catch up all but the last month by the end of Superior Villas fiscal year.

Is David able to continue to provide attest services to Superior Villas?

1.260.040 Leases

.01 When a *covered member* enters into or has a lease with an *attest client*, self-interest, familiarity, and undue influence *threats* to the *covered member's* compliance with the "[Independence Rule](#)" [1.200.001] may exist.

*New or Renegotiated Leases*

.02 If a *covered member* who is an individual on the *attest engagement team*, an individual in a position to influence the *attest engagement*, or the *firm* enters into a lease or renegotiates terms of an existing lease with an *attest client* during the *period of the professional engagement*, *threats* to compliance with the "[Independence Rule](#)" [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*. *Independence* would be *impaired*, unless all of the following *safeguards* are met at the time of entering into or renegotiating the lease:

- a. The lease is on market terms and established at arm's length.
- b. The lease is not material to any of the parties to the lease. When evaluating materiality, all leases between the *covered member* and the *attest client* should be considered in the aggregate.

.03 Once the *covered member* enters into or renegotiates the lease, *threats* to the *covered member's* compliance with the "[Independence Rule](#)" [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired* if the lease amounts are not paid in accordance with the lease terms or provisions by the due date or within any available grace periods during the *period of the professional engagement*.

*Existing Leases*

.04 Under the circumstances in [paragraph .05](#), the *covered member* should evaluate the significance of any *threats* to determine whether the *threats* are at an *acceptable level*. If the *covered member* determines that *threats* are not at an *acceptable level*, the *covered member* should apply *safeguards* to eliminate or

reduce the *threats* to an acceptable level. If no *safeguards* are available to eliminate or reduce *threats* to an *acceptable level*, *independence* would be *impaired*.

.05 A *covered member* who is an individual on the *attest engagement team*, an *individual in a position to influence the attest engagement*, or the *firm* has a lease with an *attest client* that was

- a. entered into or renegotiated prior to the
  - i. *period of the professional engagement*,
  - ii. *member* becoming a *covered member*, or
  - iii. counterparty becoming an *attest client* or an *affiliate of a financial statement attest client*,  
or
- b. entered into or renegotiated during the *period of the professional engagement*, in compliance with paragraph .02, but, due to a change in circumstances after the lease is entered into or renegotiated, the lease becomes material to any party to the lease during the *period of the professional engagement*.

.06 The significance of the *threats* will depend on factors such as the following:

- a. The role of the *covered member* on the *attest engagement* or with the *firm*
- b. The materiality of the lease to the *covered member* or the *attest client* during the *period of the professional engagement*
- c. Whether multiple leases exist with the *attest client* and, if so, the aggregate materiality of those leases to the *covered member* or the *attest client*
- d. The extent to which the lease will be subject to attest procedures or financial statement disclosures
- e. The duration of the lease term
- f. Whether the lease is on market terms or established at arm's length

.07 However, *threats* to compliance with the “[Independence Rule](#)” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired*, if the lease amounts are not paid in accordance with the lease terms or provisions by the due date or within any available grace periods during the *period of the professional engagement*.

## Case Study 16

Angelique DaVinci, CPA, provides an annual review of the financial statements of Sicilian Village, Inc, a local restaurant operated by Vito Dispenza. Vito has approached Angelique's husband, Massimo, about jointly acquiring a condominium in Gulf Shores, Alabama. The condo will be rented and managed by a rental management company, as neither Vito nor Massimo has the time or interest in the business of keeping the property rented or maintained. The proposed purchase price of the condo would be in excess of \$525,000. However, real estate prices in Gulf Shores have historically increased in value by 7-10% annually, and Massimo believes the investment will pay off down the road.

Since the restaurant (a corporation) will not be involved in the property, Angelique believes that the acquisition of the condominium would not impair her independence and she can continue to provide the annual review. Is she correct?

### 1.265.020 Joint Closely Held Investments

.01 If a covered member has a joint closely held investment, a self-interest threat to the covered member's compliance with the "Independence Rule" [1.200.001] may exist. Threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards if the covered member holds a material joint closely held investment during the period of the professional engagement. Accordingly, independence would be impaired. [Prior reference: paragraph .02A(3) of ET section 101]

.02 A joint closely held investment includes a joint interest in a vacation home shared by a covered member and an attest client (or one of the client's officers or directors, or any owner who has the ability to exercise significant influence over the attest client), if the covered member and attest client (or one of the client's officers or directors or any owner who has the ability to exercise significant influence over the attest client) control the investment and the vacation home is material to the covered member. Such is the case even if the vacation home is solely intended for the personal use of the owners

## Case Study 17

Franco Constantino, CPA, has been a partner in the firm of Perry, Thomas & Company for over 30 years. Franco is ever aware of the finite nature of life and decides he wants more time to spend on his favorite pastime, video gaming. Franco

accepts an offer from his long-time attest client, Nature Trails, Inc. to serve as Nature Trails' CFO.

Franco has agreed to sell his interest in the firm to the remaining twelve partners. The amount owed to Franco is not material to the firm. Franco will get a fixed payout over the ten years following his resignation, and no longer have access to the firm's offices or communications. The firm letterhead will indicate that he has retired, and the firm will announce his retirement formally in the local media.

Can the firm continue to perform attest services for Nature Trails, Inc. after Franco's departure? If so, what steps must the firm take?

1.279.020 Subsequent Employment or Association With an Attest Client

.01 This interpretation applies to *partners* and professional employees who leave their *firms* and are subsequently employed by, or associated with, one of the *firm's attest clients* in a *key position*.

.02 The familiarity, self-interest, undue influence, or management participation *threats* to the *member's* compliance with the "Independence Rule" [1.200.001] would not be at an *acceptable level* and *independence* would be *impaired* unless all of the *safeguards* in items *a–e* of the following list are met:

*Individual Safeguards*

- a. Amounts due to the former *partner* or professional employee for his or her previous interest in the *firm* and unfunded, vested retirement benefits cannot be material to the *firm*, and the underlying formula used to calculate the payments remain fixed during the payout period. The *firm* may adjust the retirement benefits for inflation and pay interest on amounts due.
- b. The former *partner* or professional employee is not in a position to influence the *firm's* operations or financial policies.
- c. The former *partner* or professional employee does not participate or appear to participate in the *firm's* business and is not otherwise associated with the *firm*, regardless of whether he or she is compensated for such participation or association, once employment or association with the *attest client* begins. For example, the individual would appear to participate in, or be associated with, the *firm* if
  - i. the individual provides consultation to the *firm*;
  - ii. the *firm* provides the individual with an *office* and related amenities, such as administrative and technology services;
  - iii. the individual's name is included in the *firm's office* directory; or
  - iv. the individual is identified as a member of the *firm* in membership lists of business, professional, or civic organizations, unless the *member* is clearly designated as retired.

### *Ongoing Attest Engagement Team Safeguards*

- d. The ongoing *attest engagement team* should consider whether to modify the engagement procedures to adjust for the risk that the former *partner's* or professional employee's prior knowledge of the audit plan could reduce audit effectiveness. In addition, if the individual will have significant interaction with the *attest engagement team*, an appropriate individual in the *firm* should evaluate whether the existing *attest engagement team* members have sufficient experience and stature to deal effectively with the individual in conducting the engagement.
- e. If the former *partner* or professional employee joins the *attest client* in a *key position* within one year of disassociating from the *firm* and has significant interaction with the *attest engagement team*, an appropriate professional in the *firm* should review the subsequent *attest engagement* to determine whether the engagement team members maintained the appropriate level of skepticism when evaluating the individual's representations and work. The professional applying this *safeguard* should have appropriate stature, expertise, and objectivity. In performing this review, the professional should consider relevant factors, such as the following:
  - i. The position that the individual assumed at the *attest client*.
  - ii. The position that the individual held at the *firm*.
  - iii. The nature of the services that the individual provided to the *attest client*.The professional should take appropriate actions, as deemed necessary, based on the results of this review.

.03 The procedures performed in applying items *d–e* of [paragraph .02](#) of this interpretation will depend on several factors, including the following:

- a. Whether the individual served on the engagement team
- b. The positions that the individual held at the *firm* and has accepted at the *attest client*
- c. The length of time that has elapsed since the individual left the *firm*
- d. The circumstances of the individual's departure

.04 An inadvertent and isolated failure to apply items *d–e* in [paragraph .02](#) of this interpretation would not *impair independence* provided that the relevant parties perform the required procedures promptly upon discovery of the failure to do so and all other provisions of this interpretation are met.

## Case Study 18

The firm of Manson and Howard, CPAs, provides both attest and nonattest services (preparation of financial statements and an annual Form 1120-S) for Physician's Medical Group, LLC, a primary care facility in Bossier City. Until this year, Physician's CFO, Althea Wagner, CPA, reviewed both the financial statements and 1120-S before the engagement was completed.

Wagner resigned earlier in the year, and Physician's has not been able to locate a suitable replacement for her, and CFO position remains unfilled. Physician's has asked Manson and Howard to take responsibility for the financial statements and tax return until a replacement can be hired.

Manson and Howard are now concerned that the nonattest services they are providing may impair their independence, since Physician's now has no one with the accounting background necessary to oversee the financial statements and 1120-S, make necessary decisions and take responsibility for the work products. They are considering recommending that Physician's engage another firm to prepare both the financial statements and the tax return.

Can Manson and Howard continue to serve as auditors for Physician's? Should they require Physician's to engage another firm to perform the nonattest services in order to do so?

#### 1.295 Nonattest Services

##### 1.295.010 Scope and Applicability of Nonattest Services

.01 When a *member* performs nonattest services for an *attest client*, self-review, management participation, or advocacy *threats* to the *member's* compliance with the "[Independence Rule](#)" [1.200.001] may exist. When significant *independence threats* exist during the *period of the professional engagement* or the period covered by the *financial statements* (except as provided for in [paragraph .03](#)), *independence* will be *impaired* unless the *threats* are reduced to an *acceptable level* and any requirements included in the *interpretations* of the "[Nonattest Services](#)" subtopic [1.295] under the "[Independence Rule](#)" have been met.

##### 1.295.030 Management Responsibilities

.01 If a member were to assume a management responsibility for an *attest client*, the management participation *threat* would be so significant that no *safeguards* could reduce the *threat* to an *acceptable level* and *independence* would be *impaired*. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

.02 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, *impair independence* if performed for an *attest client*, include

- a. setting policy or strategic direction for the *attest client*.
- b. directing or accepting responsibility for actions of the *attest client's* employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.
- c. authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an *attest client* or having the authority to do so.

- d. preparing *source documents*, in electronic or other form, that evidence the occurrence of a transaction.
- e. having custody of an *attest client's* assets.
- f. deciding which recommendations of the member or other third parties to implement or prioritize.
- g. reporting to *those charged with governance* on behalf of management.
- h. serving as an *attest client's* stock transfer or escrow agent, registrar, general counsel or equivalent.
- i. accepting responsibility for the management of an *attest client's* project.
- j. accepting responsibility for the preparation and fair presentation of the *attest client's financial statements* in accordance with the applicable financial reporting framework.
- k. accepting responsibility for designing, implementing, or maintaining internal control.
- l. performing ongoing evaluations of the *attest client's* internal control as part of its monitoring activities.

#### 1.295.040 General Requirements for Performing Nonattest Services

.01 When a member performs a nonattest service for an *attest client*, *threats* to the member's compliance with the "[Independence Rule](#)" [1.200.001] may exist. Unless an *interpretation* of the "[Nonattest Services](#)" subtopic [1.295] under the "Independence Rule" states otherwise, *threats* would be at an *acceptable level*, and *independence* would not be *impaired*, when all the following *safeguards* are met:

- a. The member determines that the *attest client* and its management agree to
  - i. assume all management responsibilities as described in the "[Management Responsibilities](#)" interpretation [1.295.030].
  - ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.
  - iii. evaluate the adequacy and results of the services performed.
  - iv. accept responsibility for the results of the services.
- b. The member does not assume management responsibilities (See the "[Management Responsibilities](#)" interpretation [1.295.030] of the "Independence Rule") when providing nonattest services and the member is satisfied that the *attest client* and its management will
  - i. be able to meet all of the criteria delineated in item *a*;
  - ii. make an informed judgment on the results of the member's nonattest services; and
  - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.

If the *attest client* is unable or unwilling to assume these responsibilities (for example, the *attest client* cannot oversee the nonattest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member's performance of nonattest services would *impair independence*.

- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the *attest client* (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
  - i. objectives of the engagement,
  - ii. services to be performed,
  - iii. *attest client's* acceptance of its responsibilities,
  - iv. member's responsibilities, and
  - v. any limitations of the engagement.

## Case Study 19

Philip Cavalieri, CPA, has been asked by his attest client, Starnes Consulting, Inc., to “find us a new CFO.” Philip begins to advertise for candidates without indicating that the position is at Starnes Consulting, Inc. He conducts interviews in his office and screens the candidates using his best judgment about what the position requires based on his knowledge of the client’s needs. Philip conducts reference and background checks on all candidates to make sure he selects the best person for the job.

Philip determines that Marian Brister, CPA, is best suited for the position. Only then does he inform the candidate of the identity of the would-be employer, and works out what he considers is a reasonable compensation and benefit package. Philip then accompanies Marian to Starnes Consulting, Inc.’s office and presents her to Starnes’ CEO. Philip tells the CEO, “I have found the perfect CFO for you.” He introduces Marian and then informs the CEO of the compensation and benefit arrangements that were discussed with Marian, to which the CEO readily agrees. The CEO thanks Philip for his diligence and offers Marian the position.

What are the independence issues associated with Philip’s actions?

1.295.135 Executive or Employee Recruiting

.01 When a member provides executive or employee recruiting services to an *attest client*, self-review and management participation *threats* to the *covered member’s* compliance with the “[Independence Rule](#)” [1.200.001] may exist.

.02 If the member applies the “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] of the “[Independence Rule](#)” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*. For example, a member may

- a. recommend a position description or candidate specifications.
- b. solicit and screen candidates based on criteria approved by the *attest client*, such as required education, skills, or experience.
- c. recommend qualified candidates to the *attest client* for their consideration based on criteria approved by the *attest client*.
- d. participate in employee hiring or compensation discussions in an advisory capacity.

.03 However, *threats* to compliance with the “[Independence Rule](#)” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired*, if, for example, a member

- a. hires or terminates the *attest client’s* employees. [Prior reference: paragraph .05 of ET section 101]
- b. **advises on the specific terms of employment, renumeration, or related benefits of a particular candidate for a key position.**

- c. searches for or seeks out candidates for *key positions*.
- d. undertakes reference checks of prospective candidates for a *key position*.
- e. recommends to the *attest client* only one candidate for consideration for a *key position*.
- f. ranks candidates for a *key position* whether or not using the *attest client's* criteria.
- g. negotiates with the candidate on behalf of the *attest client*
- h. commits the *attest client* to employee compensation or benefit arrangements.

## Case Study 20

Gregory Rollins, CPA, has provided tax preparation services to Ken and Frances Porter for the last 15 years. Ken operates a highly successful drycleaning business that has eight locations in Jefferson Parish. Frances is a housewife who, now that their children are grown, spends her days at the country club playing bridge and pickleball, as well as enjoying cosmopolitans with her besties.

In mid-July 2026, the Porters make an appointment with Gregory, at which time they indicate their intent to divorce. Both Ken and Frances agree that they want to do so amicably, but are in need of someone to apportion the community property. Since they both trust and admire Gregory, they agreed that he would be the perfect person to do so, as he is already aware of what assets make up the community and he is “fair-minded” and reasonable.

Gregory believes that he can act with integrity and maintain his objectivity and after explaining the possible conflict of interest and obtaining written permission from both spouses, agrees to partition the assets. Has Gregory violated the Code of Professional Conduct? Can he proceed with the partition?

## Case Study 21

Two weeks into the undertaking, Gregory holds a preliminary meeting with the spouses. During the meeting, a disagreement emerges over which spouse should retain possession of the vintage Corvette, an original Picasso and the rare gem collection. The tensions escalate further. During the disagreement, Frances goes into a rant, stating that Ken is a liar and discloses that Ken has been hiding income from both Gregory and the IRS for years. Ken has no answer for the accusations, but states that Frances shouldn't be entitled to anything because she never contributed anything to the community. Ken continues to try and humiliate Frances by making disparaging remarks about her family members. Gregory feels sorry for Frances, believing that Ken is attempting to bully her into agreement. Can Gregory continue the partition project?

## Case Study 22

The next day, Frances, obviously inebriated (before noon), calls Gregory in a rage and tells him that there is no way she is ever going to agree to anything close to what Ken has proposed as a settlement. She tells Gregory that unless Ken agrees to her terms, she will blow the whistle on Ken with the IRS and claim that Gregory knew about the unreported income all along. What should Gregory do now?

### THE INTEGRITY AND OBJECTIVITY RULE

“In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest and shall not knowingly misrepresent facts or subordinate his or her judgment to others.”

#### 1.110.010 Conflicts of Interest for Members in Public Practice

**.01** A member or his or her firm may be faced with a conflict of interest when performing 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.

**.02** A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the "[Integrity and Objectivity Rule](#)" [1.100.001]. For example, threats may be created when

- a. the member or the member's firm provides a professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict, or
- b. the interests of the member or the member's firm with respect to a particular matter and the interests of the client for whom the member or the member's firm provides a professional service related to that matter are in conflict.

**.03** Certain professional engagements, such as audits, reviews and other attest services require independence. Independence impairments under the "[Independence Rule](#)" [1.200.001], its interpretations, and rulings cannot be eliminated by the safeguards provided in this interpretation or by disclosure and consent.

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

- a. Providing corporate finance services to a client seeking to acquire an audit client of the firm, when the firm has obtained confidential information during the course of the audit that may be relevant to the transaction
- b. Advising two clients at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
- c. Providing services to both a vendor and a purchaser who are clients of the firm in relation to the same transaction
- d. Preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
- e. Representing two clients at the same time regarding the same matter who are in a legal dispute with

each other, such as during divorce proceedings or the dissolution of a partnership

- f. Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
- g. Advising a *client* to invest in a business in which, for example, the *immediate family* member of the *member* has a *financial interest* in the business
- h. Providing strategic advice to a *client* on its competitive position while having a joint venture or similar interest with a competitor of the *client*
- i. Advising a *client* on the acquisition of a business which the *firm* is also interested in acquiring
- j. Advising a *client* on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
- k. Providing forensic investigation services to a *client* for the purpose of evaluating or supporting contemplated litigation against another *client* of the *firm*
- l. Providing tax or personal financial planning services for several members of a family whom the *member* knows to have opposing interests
- m. Referring a personal financial planning or tax *client* to an insurance broker or other service provider, which refers *clients* to the *member* under an exclusive arrangement
- n. A *client* asks the *member* to provide tax or personal financial planning services to its executives, and the services could result in the *member* recommending to the executives actions that may be adverse to the company.
- o. A *member* serves as a director or an officer of a local United Way or similar organization that operates as a federated fund-raising organization from which local charities receive funds. Some of those charities are *clients* of the *member's firm*.
- p. A *member* who is an officer, a director, or a shareholder of an entity has *significant influence* over the entity, and that entity has a loan to or from a *client* of the *firm*.

### Identification of a Conflict of Interest

.05 Before accepting a new *client* relationship, engagement, or business relationship, a *member* should take reasonable steps to identify circumstances that might create a conflict of interest including identification of

- a. the nature of the relevant interests and relationships between the parties involved and
- b. the nature of the service and its implication for relevant parties.

.06 The nature of the relevant interests and relationships and the services may change during the course of the engagement. This is particularly true when a *member* is asked to conduct an engagement for a *client* in a situation that may become adversarial with respect to another *client* or the *member* or *member's firm*, even though the parties who engage the *member* may not initially be involved in a dispute. A *member* should remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

## Case Study 23

Thurston Howell, CPA, has invited Dan Jared, a vice-president of Zippy Time Enterprises, Inc. (Thurston's attest client) to use his condominium in Orange Beach, Alabama, for two weeks in March 2026. Thurston knows that Dan loves the beach and the unit is not normally occupied until the end of April. Zippy Time Enterprises, Inc. has no policy prohibiting acceptance of gifts and entertainment.

Is Thurston in violation of the Code of Conduct?

## Case Study 24

Same facts as before, but Zippy Time Enterprises, Inc. has a strict policy prohibiting the acceptance of gifts or entertainment. Thurston was not aware of the prohibition.

Is Thurston in violation of the Code of Conduct?

### 1.120.010 Gifts and entertainment for members in public practice

As used in this interpretation, the term *client* refers to a client, someone in a key position with the client or an owner of 10% or more of the client's equity interests.

**Offering or accepting gifts or entertainment** – When a member offers to a client or accepts gifts from a client, 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 a client or accepts gifts or entertainment from a client that violate the member's or the client's policies or applicable laws, rules and regulations, 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. Threats would be considered acceptable when 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 clients also participated in the entertainment
- The individuals from the client and the member's firm 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 a client or accepts gifts or entertainment from a client that is not reasonable in the circumstances. The member would be presumed to lack integrity in violation of the rule.

## Case Study 25

Samantha Simpson, CPA, disagrees with the engagement partner, Harry Dryer, CPA, as to the accounting estimate (a level 3 measurement) for an unregistered investment owned by a nonpublic company whose financial statements are being compiled. Samantha has carefully reviewed the accounting pronouncement on fair value estimates, and believes that the measurement methodology used by management's specialist is inappropriate, because the assumptions used are not reasonable. She is also concerned that the specialist may not be objective in the use of the measurement methodology, since the company president and the specialist are close friends and share some investment property. Samantha believes that the difference between the specialist's valuation and the actual value could be material.

Harry believes that the specialist's valuation is "fine" and that there is no need to raise any issues about the specialist's objectivity. Harry accuses Samantha of being obstinate.

What should Samantha do?

### 1.130.020 Subordination of judgment for members in public practice

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.

An advocacy threat may exist when a member or the member's firm is engaged to perform nonattest services (such as tax or consulting) that involve acting as an advocate for the client or to support the client's position on accounting or financial reporting issues either within the firm or outside the firm (such as with standard setters, regulators or others). The code governs these types of professional services and the member must perform such services in compliance with the General Standards Rule, the Compliance with Standards Rule, the Accounting Principles Rule and the Integrity and Objectivity Rule and interpretations of the rules.

Some professional services that may involve client advocacy may stretch the boundaries of performance standards, go beyond sound and reasonable professional practice or compromise credibility, creating threats to the member's compliance with the rules (and damaging the reputation of the member and the member's firm). In those circumstances, the member and the member's firm should determine whether it is appropriate to perform such professional services.

## Case Study 26

Terri Hightower, CPA, is in public practice, but also serves as treasurer for United Way of Alexandria. Terri prepares monthly balance sheet and operating statement on “plain paper” (without disclosures) for the United Way board of governors each month. At year end, Terri provides a complete set of financial statements with full disclosures and forwards them with a transmittal letter on her firm’s letterhead.

What precautions should she take with the annual financial statements?

### 1.300.001 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.

The bodies designated by council, listed in Appendix A to the code are as follows:

- Federal Accounting Standards Advisory Board (FASAB)
- Financial Accounting Standards Board (FASB)
- Governmental Accounting Standards Board (GASB)
- Public Company Accounting Oversight Board (PCAOB)
- International Accounting Standards Board
- AICPA Accounting and Review Services Committee (ARSC)
- AICPA Auditing Standards Board (ASB)
- AICPA Management Consulting Services Executive Committee
- AICPA Tax Executive Committee
- AICPA Forensic and Valuation Services Executive Committee
- AICPA Personal Financial Planning Executive Committee

### 1.300.030 Submission of Financial Statements

.01 When a member prepares or submits *financial statements* as a stockholder, a partner, a director, an officer, or an employee of an entity using the firm’s letterhead or similar identification, the member should comply with the “[Compliance With Standards Rule](#)” [1.310.001], including any requirements to disclose a lack of *independence* in the member’s report.

1.310.001 Compliance With Standards Rule

.01 A *member* who performs auditing, review, compilation, management consulting, tax, or other *professional services* shall comply with standards promulgated by bodies designated by *Council*.

### Case Study 27

John Gooden, CPA, has recently opened his practice. John has a broad knowledge of general business entities. John has been approached about the possibility of providing audit services for a defined benefit pension plan sponsored by a local company and file its annual Form 5500. The plan is required to file financial statements with the U.S. Department of Labor.

John has never audited a pension plan before, but believes that he can “read up” on the requirements and meet the expectations of both the client and the Department of Labor.

Can John accept the engagement?

1.300.010 Competence

.01 Competence, in this context, means that the *member* or *member's* staff possess the appropriate technical qualifications to perform *professional services* and that the *member*, as required, supervises and evaluates the quality of work performed. Competence encompasses knowledge of the profession's standards, the techniques and technical subject matter involved, and the ability to exercise sound judgment in applying such knowledge in the performance of *professional services*.

.02 A *member's* agreement to perform *professional services* implies that the *member* has the necessary competence to complete those services according to professional standards and to apply the *member's* knowledge and skill with reasonable care and diligence. However, the *member* does not assume a responsibility for infallibility of knowledge or judgment.

.03 The *member* may have the knowledge required to complete the services in accordance with professional standards prior to performance. A normal part of providing *professional services* involves performing additional research or consulting with others to gain sufficient competence.

.04 If a *member* is unable to gain sufficient competence, the *member* should suggest, in fairness to the *client* and public, the engagement of a competent person to perform the needed *professional service*, either independently or as an associate.

## Case Study 28

Steve Wallace, CPA is performing an audit of the financial statements of General Disposal Services, Inc. In the course of the audit, Steve considers whether a material amount of goodwill recorded in the entity's financial statements may be impaired. Steve believes the goodwill is likely impaired, as the company has sustained considerable losses for the last few years and the goodwill was recorded when General Disposal Services, Inc. was acquired 18 years prior to the current year-end.

Steve has a discussion of the matter with management, but management is adamant that no impairment is evident and no write-down is required. Steve continues to disagree, and believes that the goodwill impairment would be material to the financial statements.

Steve qualifies the audit report, identifying the fact that the goodwill may be impaired, but states that the effect of the omission is not determined.

Has Steve met the requirements of professional standards?

1.320.001 Accounting Principles Rule

.01 A *member* shall not (1) express an opinion or state affirmatively that the *financial statements* or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by *Council* to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the *member* can demonstrate that due to unusual circumstances the *financial statements* or data would otherwise have been misleading, the *member* can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

## Case Study 29

Linda Houston, CPA and her client, TWX Enterprises, Inc. have come to the end of their relationship. Linda has had it with TWX's slow payment history and continuing demands on her time despite being past-due.

TWX appears at Linda's office unannounced to pick up the records they have provided Linda in order to perform the services she has already rendered. These

include TWX's bank statements, payroll summaries and similar items. Linda informs TWX that they must pay her all amounts due before she is required to provide their records.

Has Linda complied with the Code of Professional Conduct?

1.400.0200 Records Requests

### *Terminology*

.01 The following terms are defined here solely for use with this interpretation:

- a. A client includes current and former *clients*.
- b. A member means the *member* or the *member's firm*.
- c. Client-provided records are accounting or other records, including hardcopy and electronic reproductions of such records, belonging to the client that were provided to the member by, or on behalf of, the client.
- d. Member-prepared records are accounting or other records that the member was not specifically engaged to prepare and that are not in the client's books and records or are otherwise not available to the client, thus rendering the client's financial information incomplete. Examples include adjusting, closing, combining, or consolidating journal entries (including computations supporting such entries) and supporting schedules and documents that the member proposed or prepared as part of an engagement (for example, an audit).
- e. Member's work products are deliverables set forth in the terms of the engagement, such as tax returns.
- f. Working papers are all other items prepared solely for purposes of the engagement and include items prepared by the
  - i. member, such as audit programs, analytical review schedules, and statistical sampling results and analyses.
  - ii. client at the request of the member and reflecting testing or other work done by the member.
- g. Make records available means to provide the records in any format that is usable and accessible, whether electronic or otherwise, regardless of the format in which they were received.
- h. Beneficiary is a person or entity for which the engaging entity has requested the member to perform *professional services*.

### *Applicability*

.02 When a person or entity engages a member to perform *professional services* (engaging entity) with respect to a beneficiary, the member will be considered in compliance with the requirements of this interpretation related to client-provided records if the member makes these records available to the person or entity that provided the records to the member or to the individual designated or held out as the entity's or individual's representative.

.03 The member will be considered in compliance with the requirements of this interpretation related to member-prepared records and a member's work products if the member makes such records and work products available to the beneficiary or to the individual designated or held out as the beneficiary's representative. For example, if a company engages a member to perform personal tax services for the benefit of its executives, the member would be in compliance with the interpretation if the member made the tax returns available to the executives (see the "[Confidential Client Information Rule](#)" [1.700.001]).

.04 When an engaging entity engages a member to perform *professional services* with respect to another entity that is not the beneficiary of the *professional services*, absent an agreement stating otherwise, the member would be in compliance with the requirements of this interpretation related to a member's work products if the member made such work products available to the engaging entity or to the individual designated or held out as the engaging entity's representative. For example, if a company engaged a member to value the assets of another company for a possible acquisition, absent an agreement stating otherwise, the member would be in compliance with this interpretation if the member made the valuation report available only to the engaging entity.

#### *Interpretation*

.05 Members must comply with the rules and regulations of authoritative regulatory bodies, such as the member's state board(s) of accountancy, when the member performs services for a client and is subject to the rules and regulations of such regulatory bodies. For example, a member's state board(s) of accountancy may not permit a member to withhold certain records, even though fees are due to the member for the work performed. Failure to comply with the more restrictive provisions of the applicable regulatory body's rules and regulations concerning the return of certain records would constitute a violation of this interpretation.

.06 When an initial request for client-provided records is received, the member should make those records in the member's custody or control available to the person or entity that provided the records to the member. The member may charge a reasonable fee for the time and expense incurred to retrieve, copy, and ship such records; however, the client-provided records may not be withheld for nonpayment of such fees.

.07 A member and the client or beneficiary may agree to terms other than those stated in this paragraph. When this occurs, the member should respond in accordance with such agreement. Otherwise, a member should respond to a request for member-prepared records or a member's work products that are in the member's custody or control and that have not previously been made available to the client or, if applicable, to the beneficiary as follows:

- a. The member should make available member-prepared records relating to a completed and issued work product; however, such records may be withheld if fees are due to the member for that specific work product.
- b. Member's work products should be made available; however, such work products may be withheld if
  - i. fees are due to the member for the specific work product;
  - ii. the work product is incomplete;
  - iii. for purposes of complying with professional standards (for example, withholding an audit report with outstanding audit issues); or
  - iv. threatened or outstanding litigation exists concerning the engagement or the member's work.

.08 Once a member has complied with [paragraphs .02–.07](#), the member is under no ethical obligation to

- a. comply with any subsequent requests to again make records or copies of records available. However, if after complying with a request, a loss of records due to a natural disaster or an act of war is experienced, the member should, when practicable, comply with an additional request to make such records available.
- b. retain records for periods that exceed applicable professional standards, state and federal statutes and regulations, and contractual agreements relating to the service performed. [Prior reference: paragraph .02 of ET section 501]
- c. make the records available to any other associated party, such as the general partner, majority shareholder, or spouse.

.09 Working papers are the member's property, and the member is not required to make such information available. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.

.10 In fulfilling a request for the member's copy of client-provided records that was previously made available to the client or a party identified in [paragraph .02](#), member-prepared records, or a member's work products, the member may

- a. charge a reasonable fee for the time and expense incurred to retrieve, copy, and ship such records and require payment before the member makes the records available.
- b. make the requested records available in any usable and accessible format. However, the member is not required to convert records that are not in electronic format to electronic format. If the records are requested in a specific format and the records are available in such format within the member's custody and control, the request should be honored. In addition, the member is not required to make formulas available, unless the member was engaged to make such formulas available as part of a completed work product or the formulas were used to create member-prepared records without which the client's financial information would be incomplete.
- c. make and retain copies of any records that the member already made available.

.11 When a member is required to return or make records available, the member should comply as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.

.12 The fact that the statutes of the state in which the member practices grant the member a lien on certain records in his or her custody or control does not relieve the member of his or her obligation to comply with this interpretation.

.13 A member would be considered in violation of the "[Acts Discreditable Rule](#)" [1.400.001] if the member does not comply with the requirements of this interpretation.

### Case Study 30

Dewey Mannis, CPA, is in full-time public practice. Dewey also serves as treasurer for the Kiwanis Club. Dewey has a discussion with a third party about financial matters of the Kiwanis Club without permission.

Has Dewey violated the Code of Conduct?

2.400.070 Confidential Information Obtained From Employment or Volunteer Activities

.01 A *member* should maintain the confidentiality of his or her employer's confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship, such as discussions with the employer's vendors, customers, or lenders (for example, any confidential information pertaining to a current or previous employer, subsidiary, affiliate, or parent thereof, as well as any entities for which the *member* is working in a volunteer capacity).

.02 For purposes of this interpretation, confidential employer information is any proprietary information pertaining to the employer or any organization for whom the *member* may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

.03 A *member* should be alert to the possibility of inadvertent disclosure, particularly to a close business associate or *close relative* or *immediate family* member. The *member* should also take reasonable steps to ensure that staff under his or her control or others within the *employing organization* and persons from whom advice and assistance are obtained are aware of the confidential nature of the information.

.04 When a *member* changes employment, a *member* should not use confidential employer information acquired as a result of a prior employment relationship to his or her personal advantage or the advantage of a third party, such as a current or prospective employer. The requirement to maintain the confidentiality of an employer's confidential information continues even after the end of the relationship between a *member* and the employer. However, the *member* is entitled to use experience and expertise gained through prior employment relationships.

.05 A *member* would be considered in violation of the "[Acts Discreditable Rule](#)" [2.400.001] if the *member* discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the *member* may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information.

.06 The following are examples of situations in which *members* are permitted or may be required to disclose confidential employer information or when such disclosure may be appropriate:

- a. Disclosure is permitted by law and authorized by the employer.
- b. Disclosure is required by law, for example, to
  - i. comply with a validly issued and enforceable subpoena or summons or
  - ii. inform the appropriate public authorities of violations of law that have been discovered.
- c. There is a professional responsibility or right to disclose information, when not prohibited by law, to
  - i. initiate a complaint with, or respond to any inquiry made by, the Professional Ethics Division or trial board of the AICPA or a duly constituted investigative or disciplinary body of a state CPA society, board of accountancy, or other regulatory body;
  - ii. protect the *member's* professional interests in legal proceedings;
  - iii. comply with professional standards and other ethics requirements; or
  - iv. report potential concerns regarding questionable accounting, auditing, or other matters to the employer's confidential complaint hotline or *those charged with governance*.
- d. Disclosure is permitted on behalf of the employer to
  - i. obtain financing with lenders;
  - ii. communicate with vendors, *clients*, and customers; or
  - iii. communicate with the employer's external accountant, attorneys, regulators, and other business professionals.

.07 In deciding whether to disclose confidential employer information, relevant factors to consider include the following:

- a. Whether all the relevant information is known and substantiated to the extent that it is practicable. When the situation involves unsubstantiated facts, incomplete information, or unsubstantiated conclusions, the *member* should use professional judgment in determining the type of disclosure to be made, if any.
- b. Whether the parties to whom the communication may be addressed are appropriate recipients.

.08 A *member* may wish to consult with his or her legal counsel prior to disclosing, or determining whether to disclose, confidential employer information.

## Case Study 31

Leonardo Gucci, CPA, has decided to sell out and retire. He makes arrangements with Newguys and Company, CPAs to take over his practice. Leonardo notifies his clients that Newguys will be taking over and that all client records will be turned over as of September 30. Leonardo gives the clients until September 15 (90 days) to sign a consent form for the transfer of their records. Leonardo's notice of the sale of his practice to his client, Happy Days, LLC, is returned to him undelivered by the USPS.

What should Leonardo do about Happy Day's records?

1.400.205 Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice

### *Sale or Transfer of Member's Practice*

.01 A member or member's firm (member) that sells or transfers all or part of the member's practice to another person, firm, or entity (successor firm) and will no longer retain any ownership in the practice should do all of the following:

- a. Submit a written request to each *client* subject to the sale or transfer, requesting the *client's* consent to transfer its files to the successor firm and, notify the *client* that its consent may be presumed if it does not respond to the member's request within a period of not less than 90 days, unless prohibited by law, including but not limited to the rules and regulations of the applicable state boards of accountancy. The member should not transfer any *client* files to the successor firm until either the *client's* consent is obtained or the 90 days has lapsed, whichever is shorter. The member is encouraged to retain evidence of consent, whether obtained from the *client* or presumed after 90 days.
- b. With respect to files not subject to the sale or transfer, make arrangements to return any *client* records that the member is required to provide to the *client* as set forth in the "[Records Request](#)" interpretation [1.400.200] unless the member and *client* agree to some other arrangement.

.02 In cases in which the member is unable to contact the *client*, *client* files and records not transferred should be retained in a confidential manner and in accordance with the *firm's* record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

### *Discontinuance of Member's Practice*

.03 A member who discontinues his or her practice but does not sell or transfer the practice to a successor firm, should do all of the following:

- a. Notify each *client* in writing of the discontinuance of the practice. The member is encouraged to retain evidence of notification made to *clients*. The member is not required to provide notification to former *clients* of the *firm*.

- b. Make arrangements to return any *client* records that the member is required to provide to the *client* as set forth in the “[Records Request](#)” interpretation [1.400.200] unless the member and *client* agree to some other arrangement.

.04 In cases in which the member is unable to contact the *client*, *client* files should be retained in a confidential manner and in accordance with the *firm's* record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

#### *Acquisition of Practice by a Member*

.05 A member who acquires all or part of a practice from another person, *firm*, or entity (predecessor firm) should be satisfied that all *clients* of the predecessor firm subject to the acquisition have, as required in [paragraph .01](#), consented to the member's continuation of *professional services* and retention of any *client* files or records the successor firm retains

.06 A member will be considered in violation of the “[Acts Discreditable Rule](#)” [1.400.001] if the member does not comply with any of the requirements of this interpretation.

## Case Study 32

Vivian Vance, CPA, is a sole practitioner who operates in Lake Charles. Vivian provides mostly bookkeeping, payroll and similar services to small business clients. She does, however, have one attest client, One Big Beautiful Company, Inc. (OBBC), whose annual fees make up more than 54% of her billings for the year 2025. OBBC has made up more than 50% of Vivian's billings for the last 4 years.

Vivian is concerned about the appearance that her independence may be in question, given the amount of money she is paid by OBBC. Can Vivian continue to provide attest services for OBBC and if so, what actions should she take?

#### 1.230.040 Fee Dependency

**.01 When the total fees generated in any year from an *attest client* by the *firm* represent a large proportion of the total fees of that *firm*, the dependence on and concern about the potential loss of fees from attest and other services from that *client* affect the level of the self-interest *threat* and create an undue influence *threat* to a *covered member's* independence.**

.02 In calculating the total fees of the *firm*, the *covered member* should include fees from attest and nonattest services and might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate. For purposes of this calculation, the *covered member* is not required to include fees from attest and nonattest services of other *network firms* within the *firm's* network.

.03 When the *attest client* is a *financial statement attest client*, the *covered member* should include fees from entities described under item *a* of the definition of *affiliate*.

.04 When, for each of five consecutive years, total fees from an *attest client* represent or are likely to represent a large proportion of the total fees received by the *firm*, *threats* to the *covered member's* compliance with the “[Independence Rule](#)” [1.200.001] would not be at an *acceptable level* and *independence* would be *impaired* unless one of the following *safeguards* is applied:

- a. Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the *firm* issuing the report reviews the fifth year’s attest work.
- b. After the attest report on the fifth year has been issued, and before the attest report is issued on the sixth year’s *attest engagement*, an appropriate reviewer who is not a member of the *firm* issuing the report reviews the fifth year’s attest work.

.05 If the total fees described in [paragraph .04](#) continue to represent a large proportion, the *covered member* shall, each year, apply one of the *safeguards* in [paragraph .04a](#) or [.04b](#).

.06 When two or more *firms* are engaged to conduct an *attest engagement*, the involvement of the other *firm* in the *attest engagement* may be regarded each year as an action equivalent to that in [paragraph .04a](#) if

- a. the circumstances addressed by [paragraph .04](#) apply to only one of the *firms* performing the *attest engagement* and
- b. each *firm* performs sufficient work to take full individual responsibility for the report.

#### *Effective Date*

.07 This interpretation is effective January 1, 2025. Early implementation is allowed.

### **Case Study 33**

The firm of Reedem and Weep, CPAs, specializes in technology and is an authorized vendor for Software Solutions Galore (SSG), who provides general ledger, payroll, and other application software. SSG provides its vendors with a 40% commission in the year in which the application software is installed and 10% for each year in which the application is renewed.

Reedem and Weep demonstrates SSG software applications to their tax client, Lost Productions, and the client is impressed enough to agree to the purchase of the software on the spot. Reedem and Weep provides Lost Productions with an

acceptance form authorizing the firm to install the software, and also discloses (in the fine print) the commissions they will receive for recommending SSG.

Have Reedem and Weep complied with the code of conduct?

Two years after the initial installation of the software, Lost Productions notifies Reedem and Weep that their financial institution is now requiring their financial statements to be reviewed. Can Reedem and Weep perform the review?

#### 1.520.001 *Commissions and Referral Fees Rule*

.01 *Prohibited commissions.* A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or member's firm also performs for that client

- a. an audit or review of a financial statement; or
- b. a compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or
- c. an examination of prospective financial information.

.02 This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

.03 *Disclosure of permitted commissions.* A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

.04 *Referral fees.* Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

#### 1.520.040 *Referral of Products of Others*

.01 Paragraph .04 of the "Application of the AICPA Code" [0.200.020] section of the preface provides that a member shall not permit others to perform acts on the member's behalf that, if carried out by the member, would place the member in violation of the rules. Therefore, the member would be held responsible for the actions of third parties, such as distributors or agents, that act on the member's behalf.

.02 For example, if the *member* or *member's firm* performs for a *client* a service listed in [paragraph .01](#) of the “Commissions and Referral Fees Rule” [1.520.001], the *member* may not recommend or refer to that *client* any product or services for a commission that will be paid through a distributor or an agent or receive a commission for the recommendation or referral. This prohibition applies during the period in which the *member* is engaged to perform any of the services listed in [paragraph .01](#) of the rule and during the period covered by any historical *financial statements* in such services.

.03 In addition, if a *member* receives a commission for referring a third party's product or service to a *client* with respect to which the *member* does not perform a service listed in [paragraph .01](#) of the “Commissions and Referral Fees Rule” [1.520.001] through a distributor or an agent and receives a commission from the third party, the *member* should disclose the commission, as discussed in [paragraph .03](#) of the “Commissions and Referral Fees Rule.” However, any subsequent performance of a service listed in [paragraph .01](#) of that rule during a period in which the commission was received would be considered to violate the rule.

### Case Study 34

Barbara O'Fallon, CPA, advertises during the tax filing season that she will prepare a first return for most clients for \$150. Barbara fails to mention that the quoted fee applies only to returns with income from W-2 and 1099s and which do not itemize deductions.

Barbara is contacted by James and Sarah Williams, and when Barbara meets with them, it is clear their return will include a Schedule A, Schedule C and Schedule E. Barbara fails to mention that additional charges will apply to their return.

When the Williams' arrive to pick up their tax return, they are noticeably and understandably distraught to find out that the fee has increased to \$425. They pay the fee, but file a complaint with the State Board for the “bait and switch” to which they feel they were subjected.

Has Barbara violated the rules of conduct?

1.600.010 False, Misleading, or Deceptive Acts in Advertising or Solicitations

.01 A *member* would be in violation of the “[Advertising and Other Forms of Solicitation Rule](#)” [1.600.001] if the *member's* promotional efforts are false, misleading, or deceptive. If a *member* is asked to perform *professional services* for a *client* or customer of a third party, the *member* should determine that the third party's promotional efforts comply with the “[Advertising and Other Forms of Solicitation Rule](#).” Such action is required because the *member* will receive the benefits of such efforts by third parties, and *members* must not do through others what they are prohibited from doing themselves. [Prior reference: paragraph .06 of ET section 502]

.02 Promotional efforts would be considered false, misleading, or deceptive if they

- a. create false or unjustified expectations of favorable results.
- b. imply the ability to influence any court, tribunal, regulatory agency, or similar body or official.
- c. contain a representation that the *member* will perform specific *professional services* in current or future periods for a stated fee, estimated fee, or fee range when it was likely at the time of the representation that such fees would be substantially increased and the *member* failed to advise the prospective *client* of that likelihood.
- d. contain any other representations that would be likely to cause a reasonable person to misunderstand or be deceived.

### Case Study 35

Amanda Donaldson, CPA, has just been served with a subpoena for the accounting and tax records of her client, Egregious Enterprises, Inc. The subpoena was issued by the state Attorney General's office in connection with its investigation of possible contract fraud on the part of Egregious Enterprises. Amanda is reasonably certain that her client would not want that information available to the AG. As a courtesy, Amanda notifies Egregious Enterprises, Inc. of the receipt of the subpoena. Egregious Enterprises, Inc.'s CEO, Howie Cheatem, notifies Amanda that he will file charges for failure to maintain client confidentiality if she complies.

Can Amanda supply client information without Egregious Enterprises, Inc.'s permission?

1.700.100 Disclosing Confidential Client Information as a Result of a Subpoena or Summons

.01 The *member's* disclosure of *confidential client information* in compliance with a validly issued and enforceable subpoena or summons would not violate the "[Confidential Client Information Rule](#)" [1.700.001].

.02 When complying with such subpoena or summons, the *member* is not required to notify the *client* that its records have been subpoenaed or that a summons related to the *client's* records has been issued. The *member* may also wish to consult with legal counsel to determine the validity and enforceability of the subpoena or summons and the specific *client* information required to be provided. The *member* may also wish to consult with his or her state board of accountancy.

*Effective Date*

.03 Effective December 15, 2014.