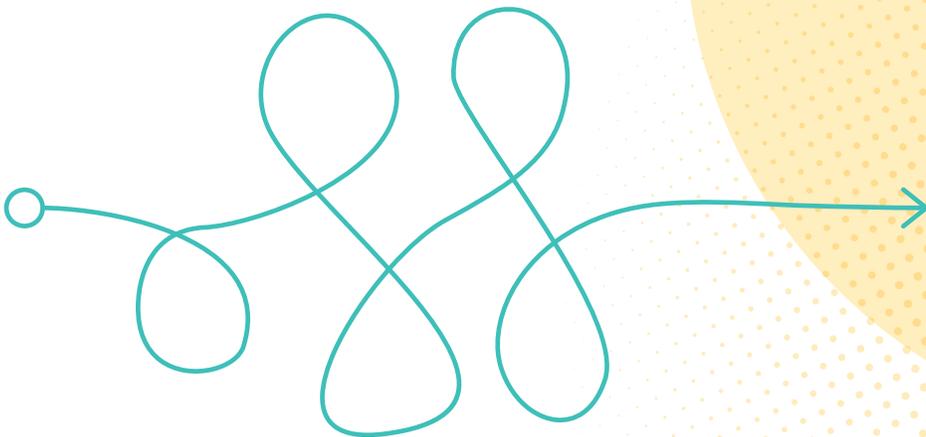


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SOMETIMES  
*the* RIGHT PATH  
IS NOT ALWAYS  
THE EASIEST



PROFESSIONAL  
JUDGMENT  
IN THE  
GRAY AREA



# VIRGINIA CPA ETHICS: 2020 REQUIRED COURSE

## STUDENT MANUAL

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This training has been created to fulfill the Virginia Board of Accountancy's (VBOA) annual 2-hour (100-minute) continuing professional education (CPE) requirement for 2020. Beginning in 2003, all CPAs subject to Virginia CPE requirements must take an annual Ethics CPE course. Each year, the VBOA provides an outline of topics to be included, which can be found on page 3 of this manual. This manual was developed using that outline as the course framework. Attendees will be able to accomplish the following fundamental objectives:

- Analyze American Institute of CPAs (AICPA) Code Professional of Conduct and how it relates to enforcement cases
- Identify clarifications to the volunteerism guidelines for CPAs in Virginia
- Recognize rules and regulations that guide the profession in the state of Virginia
- Analyze the difference between professional skepticism and professional judgment
- Identify different ethical decision-making models
- Apply decision-making models to come to informed decisions during ethical dilemmas

The VSCPA has confirmed that this class qualifies for 2 hours (100 minutes) of Ethics CPE in Virginia as well as 2 hours of Ethics CPE for CPAs licensed in these other states:

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

**Please note:** This class is not intended to be an all-encompassing update or to present all significant events occurring during the prior year. The information provided and scenarios presented do not represent official positions of the VBOA, the American Institute of CPAs (AICPA), the U.S. Internal Revenue Service (IRS), the International Ethics Standards Board for Accountants (IESBA) or any other standard-setting or regulatory body discussed herein, nor do they represent the views of any individual course instructor unless specifically noted. For specific advice or clarification, please research the applicable standards or seek advice from the appropriate governing/regulating organization.

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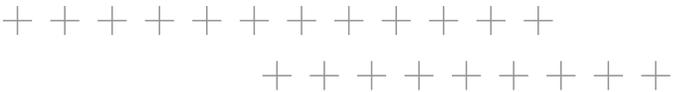
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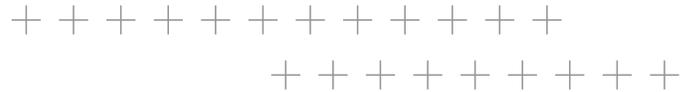
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# VIRGINIA-SPECIFIC ETHICS COURSE 2020 OUTLINE



## 1. ENFORCEMENT AND COMPLAINT PROCESS

- Prior year's enforcement cases and statistics
- Extensive investigative and enforcement process for complaints submitted to the VBOA

## 2. REGULATORY UPDATES

- Virginia license renewal and reinstatement
- Continuous testing for the CPA Exam
- CPE requirements and CPE Audit Service
- Updated guidelines on volunteering
- Updates to the AICPA Code of Professional Conduct

## 3. ETHICAL DECISION MAKING

- Professional skepticism and professional judgment
- Ethical decision-making model types
- The fraud triangle
- Ethical dilemmas, covering acts discreditable, client confidentiality, cybersecurity, social media and bribery

Upon successful completion of this course, attendees will be able to:

- Recognize rules and regulations that guide the profession in the state of Virginia
- Understand the difference between professional skepticism and professional judgment
- Identify different ethical decision-making models
- Use decision-making models to come to informed decisions during ethical dilemmas

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

**Important:** This outline has been approved by the Virginia Board of Accountancy. Virginia-Specific Ethics Course providers/instructors should encourage participants to monitor the VBOA website for updates and information regarding the VBOA. Providers/instructors should also recommend that licensees register with the Virginia Town Hall to receive automated VBOA regulatory updates ([townhall.virginia.gov](http://townhall.virginia.gov)).

# CHAPTER I: INTRODUCTION

## NOTES

Welcome to the 2020 Virginia-Specific Ethics Course. Ethics is rarely black and white; decisions are never clear-cut. Because the cornerstone of the CPA profession is professional judgment, this year we are focusing on how to make judgments in the gray area. This course is designed to help you think of ethics in terms of your day-to-day activities and make great decisions.

Before we dive into the gray area, we want to introduce you to the Virginia Board of Accountancy (VBOA). The VBOA's mission is to protect the citizens of the Commonwealth through a regulatory program of licensure and compliance of CPAs and CPA firms. The VBOA dates back to 1910! It is a volunteer board comprising four CPAs who have been actively engaged in providing services to the public for at least three years prior to appointment; one CPA who, in at least three years prior to the appointment, has been actively engaged in providing services to the public or to an employer in government or industry; one educator in the field of accountancy who is a CPA; and one citizen member who may be an accountant but is not licensed as a CPA. All volunteers are appointed by the governor of Virginia to serve four-year terms, and members may not serve for more than two consecutive terms.

Did you know that the VBOA is wholly dependent upon the fees established for CPA Exam candidates, applicants and licensees? The VBOA is not funded by public tax dollars.

The 2020–2021 Board of Accountancy members are:

- D. Brian Carson, CPA, CGMA — Chair, Virginia Beach
- Laurie A. Warwick, CPA — Vice Chair, Ashburn
- Matthew P. Boshier — Public Member, Richmond
- W. Barclay Bradshaw, CPA, Richmond
- William R. Brown, CPA, New Kent
- Nadia A. Rogers, CPA, Blacksburg
- Stephanie S. Saunders, CPA, Virginia Beach



# SNAPSHOT OF VIRGINIA

## VIRGINIA BOARD OF ACCOUNTANCY LICENSEE STATISTICS

As of fiscal year-end 6/30/2019

<b>INDIVIDUALS</b>	
Number of Active, licensed CPAs	26,282
Number of Active — CPE Exempt, licensed CPAs	1,784
Number of out-of-state licensees	8,679
Reinstatements — Individuals	162
Number of new CPA licenses issued	1,133
<b>FIRMS</b>	
Number of Active, licensed CPA firms	1,126
Reinstatements — Firms	10
Number of new CPA firm licenses issued	38
<b>EXAM CANDIDATES</b>	
Number of first-time candidates applying to sit for CPA Exam	1,624
<b>ENFORCEMENT (NON-CPE)</b>	
Number of complaints	49
Types of complaints:	
• Unlicensed activity	14
• Other disciplinary matters	35
<b>CPE AUDITS</b>	
Number of CPE audits selected	1,699
Status of CPE Audits:	
• Number of CPE audits resulting in compliance	1,079
• Number of CPE audit deficiencies	131
- Number of CPE audit deficiencies resulting in surrender of license	7
- Number of CPE audit deficiencies resulting in suspension of license	5
• Number of CPE audits open/pending review	489

# CHAPTER I: INTRODUCTION

## ENFORCEMENT PROCESS

In addition to licensing CPAs, the VBOA also must follow up on any complaint against CPAs or citizens who are holding themselves out as CPAs. That's where the enforcement process comes in.

In addition to licensing CPAs and CPA firms, the VBOA must also follow up on any complaint against CPAs, CPA firms, unlicensed CPA firms performing services restricted to CPA firm licensure or citizens who are holding themselves out as CPAs. That's where the enforcement process comes in.

The VBOA investigates complaints against Virginia licensees, expired licensees or non-licensees using the CPA title or performing services in Virginia restricted to CPAs or CPA firms. The VBOA does not have any authority over non-CPA accountants or bookkeepers, unless they are using the CPA title or are performing services in Virginia restricted to CPAs or CPA firms.

If probable cause exists to initiate an investigation, the investigation process begins. Depending upon the type of complaint or violation of statute or regulation, the case may be administered by VBOA staff or referred to a Board member(s) for resolution.

If sanctions are deemed appropriate, a potential resolution of the complaint is proposed in writing in a Consent Order. If the individual signs the Consent Order, agreeing fully to the terms and conditions, the Consent Order is then brought before the full Board for approval. The Board may accept or reject the Consent Order in whole or in part.

The penalties range from a reprimand, accelerated peer reviews, additional CPE, suspension or revocation of license, loss of privilege to perform services in Virginia and/or a monetary penalty.

If the individual chooses not to sign the Consent Order, he or she may elect to be heard in an administrative Informal Fact-Finding (IFF) Conference before members of the Board. Following an IFF, a case can be closed due to insufficient evidence or because the Board members hearing the IFF declined action. If evidence of a violation is found, the individual can be offered a Consent Order or a Presiding Officer Recommendation, both of which would be brought before the full Board for approval. The Board may accept or reject the Consent Order or Presiding Officer Recommendation in whole or in part.

A Consent Order cannot be appealed; however, in the case of a Presiding Officer Recommendation adopted as a Final Board Order, respondents have 30 days to appeal the Board's final case decision to the courts. All orders are signed by the Board chair, made available to the public and placed on the respondent's record.

# CHAPTER II: VIRGINIA REGULATORY UPDATE

## ANNUAL JUNE 30 LICENSE RENEWAL DATE

## NOTES

The VBOA has moved to the single renewal date of June 30 each year for all CPA and CPA firm licensees. All licensed Virginia CPAs and CPA firms must renew their individual license and firm license, if applicable, annually. Individual and firm CPA licenses expire on June 30 and may be renewed beginning March 1 (a 122-day window).

The VBOA sends out multiple renewal notices beginning 90 days prior to the expiration of the license. In accordance with VBOA regulation 18VAC5-22-170C, the VBOA transmits license renewal notices electronically unless a licensee is unable to communicate in that manner, in which case a notice will be sent via U.S. Postal Service. However, § 54.1-4413.2 in the Code of Virginia places the responsibility for renewing a Virginia license on its holder, and that responsibility is not affected by whether the holder receives a license renewal notice. Licensees should check their demographic information each time they renew.

## NO GRACE PERIOD FOR LICENSE RENEWAL

There is no grace period for licenses not renewed by June 30. Unrenewed licensees will automatically go into Expired status. Reinstatement of the license is required once the license is in Expired status.

## LICENSE REINSTATEMENT REQUIREMENTS

To reinstate an individual CPA license, the individual must:

- Meet requirements of § 54.1-4413.2 of the Code of Virginia, as prescribed by the VBOA (see below).
- Meet the CPE requirements in accordance with VBOA regulation 18VAC5-22-90.
- Submit an Individual CPA License Reinstatement Form to the VBOA with the required non-refundable fee of \$350, CPE documentation and other requested information.

§ 54.1-4413.2. Issuance, renewal, and reinstatement of licenses and lifting the suspension of privileges.

To be considered for reinstatement of a Virginia license or lifting the suspension of the privilege of using the CPA title in Virginia, a person shall:

Disclose to the Board why he no longer holds a Virginia license or why his privilege of using the CPA title in Virginia was suspended;

Disclose to the Board each state in which he has held a license. For each of the states in which the person has held a license, the person shall disclose why he no longer holds a license and provide documentation from the board of accountancy

# CHAPTER II: VIRGINIA REGULATORY UPDATE

## NOTES

concerning whether he has been found guilty of any violations of the standards of conduct and practice established by statutes of the state or regulations promulgated by the board; and

Describe his continuing professional education since his Virginia license expired or was suspended. The Board shall determine whether his continuing professional education complies with the continuing professional education requirement prescribed by the Board for that period.

After evaluating the information provided by the person, the Board may request additional information and may impose additional requirements for reinstatement of the Virginia license or lifting the suspension.

The Board shall communicate to the person its decision and, if the request for reinstatement or lifting the suspension is denied, the reasons for the denial. The request may be resubmitted when the person believes the matters affecting the request have been satisfactorily resolved. The person may request a proceeding in accordance with the provisions of the Administrative Process Act (§ 2.2-4000 et seq.).

## CONTINUOUS TESTING FOR THE UNIFORM CPA EXAMINATION

Due to the ongoing evolution of the CPA Exam and how it is administered, the National Association of State Boards of Accountancy (NASBA) and the American Institute of CPAs (AICPA) recently approved changes to the Uniform Accountancy Act to allow for the potential of a continuous testing window for the CPA Exam. These changes would allow candidates to retake a section of the Exam as soon as grades are posted for previously taken sections. This prompted a review and conforming changes to VBOA regulations related to the CPA Exam.

The VBOA's action allows them, if they so choose in the future, to decide to eliminate the current restriction that limits a person from retaking a failed section of the CPA Exam until the next quarter of the calendar year and instead retake a section as soon as grades for previous Exam attempts are posted.



## VBOA CPE REQUIREMENTS

Status	Calendar Year (CY)	Total Hours Required	Minimum Hours Required	Virginia-Specific Ethics (Included in Total Hours)	CPE Related to Providing Attest, Compilation, or Financial Statement Preparation Services (Included in Total Hours)
<b>Applying for initial license</b>					
Licensure Applicant	CY of passing exam	0 Hours	0 Hours	Not applicable	Not applicable
	1st CY after exam	40 Hours	40 Hours	2 Hours	Not applicable
	2nd CY after exam	80 Hours	80 Hours	2 Hours	Not applicable
	3rd CY (or more) after exam	120 Hours	120 Hours	2 Hours	Not applicable
<b>Licensed</b>					
Active Licensee	CY of initial license	0 hours	0 hours	Not applicable	Not applicable
	Any 3-CY Reporting Cycle	120 Hours/3 Years	20 Hours/CY	2 Hours	8 hours (only if releasing or authorizing release of reports)
<b>Reinstatement of license</b>					
Inactive/Expired/Voluntarily Surrender	Current CY	120 Hours	120 Hours	2 Hours	Not applicable

## CPE DOCUMENTATION REQUIREMENTS

Required CPE documentation includes:

- Certificates of completion from the CPE sponsor(s) including the sponsor(s)' name, participant's name, course/content name, date taken and CPE hours earned when attending a seminar, educational conference or completing a self-study course.
- Official transcript of the college or university for earning course credit at an accredited institution.
- Syllabus/agenda and signed statement indicating the length of the presentation when making a presentation.
- Copy of published article, book or written material (or proof of publication) when producing written material used by individuals who provide services to the public or on behalf of an employer.

The VBOA has restrictions on the types of documentation it regards as acceptable. The VBOA will not accept receipts, registration confirmations, cancelled checks, outlines, PowerPoint presentations or sign-in sheets, etc., as valid CPE documentation.

The VBOA will determine on a case-by-case basis whether other forums are acceptable for CPE credit.

# CHAPTER II: VIRGINIA REGULATORY UPDATE

## NOTES

### CPE REPORTING PERIOD

The VBOA uses a rolling three-calendar-year period to determine CPE compliance. This period includes the three calendar years prior to the current calendar year. The June 30 renewal date does not have an impact on the CPE reporting period.

### NASBA CPE AUDIT SERVICE

The VBOA, in cooperation with the National Association of State Boards of Accountancy (NASBA), offers the CPE Audit Service for all active Virginia CPAs. This system is available to CPAs at no charge and allows CPAs to keep track of and store all CPE records in one location.

In May 2019, NASBA transitioned from the previous CPE Tracking System to the new CPA Audit Service for individual CPAs. For CPAs who used the previous CPE Tracking System, all historical data, including past course and attendance records, has been transitioned to the new system. When the CPE Audit Service launched, CPAs received an email containing information to register a new account in the new system. Access information was included in the first registration email.

The CPE Audit Service system includes video tutorials that focus on new features and the most commonly used components. The videos are easy to follow and include step-by-step instructions on how to upload CPE certificates, enter the information and submit it to the VBOA.

CPAs who are selected for a CPE audit are required to use this system to submit CPE records and documentation to the VBOA. Use of this system does not reflect a final determination of CPE compliance. The VBOA has the final authority on the acceptance of individual courses and documentation for CPE credit.

For questions regarding the system, please contact the VBOA at [cpe@boa.virginia.gov](mailto:cpe@boa.virginia.gov) or (804) 367-1568. For questions regarding registration or trouble accessing an account, please contact NASBA directly through the help line at (844) 273-8722 or [CPEauditservice@nasba.org](mailto:CPEauditservice@nasba.org).



## INACTIVE STATUS (FORMERLY ACTIVE – CPE EXEMPT STATUS)

## NOTES

The name of the Active — CPE Exempt status changed to Inactive status effective Jan. 1, 2020. The process to apply and be approved for the status has not changed and licensees approved for this status can still use the CPA title. You must be **pre-approved** for the status to be exempt from CPE requirements. If you have not been approved for the status at the time of CPE audit selection and notification, you are responsible for meeting the VBOA's CPE requirements. To apply, CPAs must have Active CPA status. Those under CPE audit may not apply for Inactive status until the audit has been completed.

## VOLUNTEERING

Nonprofit organizations have long realized that the skills and abilities of CPAs are a valuable resource, and these organizations often call on CPAs to provide assistance on a volunteer basis. Because of this, the VBOA receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a nonprofit entity. Based on input from licensees requesting additional clarification on the topic of the ability of Virginia CPAs to provide volunteer services to nonprofit entities and how such services may impact the license requirements of the CPA, the VBOA updated the information intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide services, which may fall under the Virginia accountancy statutes and regulations.

Included in the update are a revised volunteer infographic designed to visually help a licensee determine what services they can provide based on the level of service, and a revised volunteer flowchart with clear-cut examples. Both tools are intended to help Virginia CPAs better navigate the provision of volunteer services.

This first thing the infographic addresses is the question, "What service is to be provided (for what service has the CPA been engaged)?" CPAs should first consider whether the service being provided is an attest, compilation or preparation of financial statement service as those terms are defined by accounting standards. Often, nonprofit entities freely use terms such as audit or review in manners different from those defined in accounting standards.

The infographic on the adjacent page also indicates the answer to the ever-pressing question, "In what capacity will I be providing the service?" If the CPA is a volunteer, they may serve in many capacities, including as a governing board member, officer, committee member (e.g. finance or audit) or simply as a volunteer worker. However, when a CPA is serving as a volunteer, and in that volunteer capacity is asked to provide attest, compilation or financial statement preparation services, a careful review of both Virginia law and professional standards is required.

In addition, the revised flowchart located in Appendix III provides a visual representation of the information contained in the table.

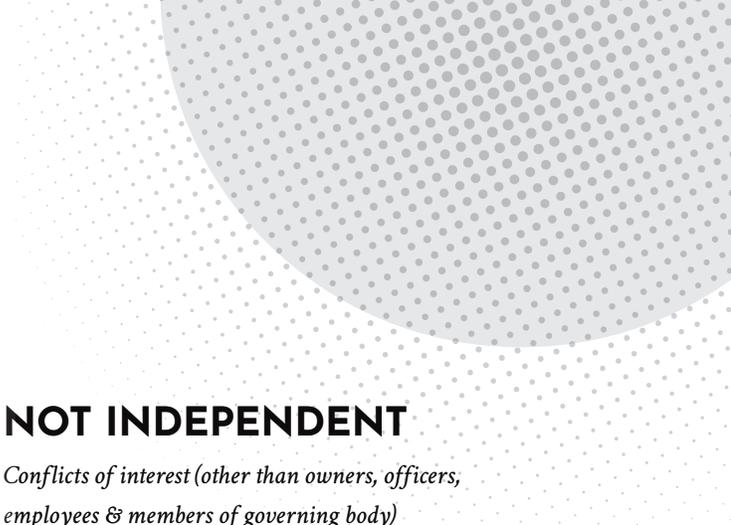
# CHAPTER II: VIRGINIA REGULATORY UPDATE

## VOLUNTEER SERVICES GUIDE

### TYPE OF SERVICE ENGAGED TO PERFORM:

### INDEPENDENT

<b>AUDIT, REVIEW, ATTESTATION</b>	<ul style="list-style-type: none"> <li>You must comply with technical standards, have a firm license and a peer review. The 8-hour A &amp; A CPE requirement applies.</li> </ul>
<b>COMPILATION</b>	<ul style="list-style-type: none"> <li>You must comply with technical standards, have a firm license and a peer review. The 8-hour A &amp; A CPE requirement applies.</li> </ul>
<b>FINANCIAL STATEMENT PREPARATION SERVICE</b>	<ul style="list-style-type: none"> <li>You must comply with technical standards and have a firm license. The 8-hour A &amp; A CPE requirement applies.</li> <li>No peer review is needed if preparation is the highest form of service provided.</li> <li>Peer review is needed if preparation is not the highest form of service provided.</li> </ul>
<b>CONSULTING SERVICES</b> <ul style="list-style-type: none"> <li>Accounting consultation</li> <li>Budget preparation assistance</li> <li>Fraud loss quantification</li> <li>Management consulting</li> <li>Other consulting engagements</li> </ul>	<ul style="list-style-type: none"> <li>You do not have to comply with technical standards other than Consulting Services Standards</li> </ul>
<b>OTHER SERVICES</b> <ul style="list-style-type: none"> <li>General ledger maintenance</li> <li>Working trial balance preparation</li> <li>Bank reconciliation preparation</li> <li>Bookkeeping &amp; payroll processing</li> <li>Tax returns preparation</li> </ul>	<ul style="list-style-type: none"> <li>You do not have to comply with technical standards other than Tax Services Standards.</li> </ul>
<b>OTHER</b> Procedures that would be performed in connection with an attest service but licensee has not been engaged to perform an attest service: <ul style="list-style-type: none"> <li>Bank reconciliation review</li> <li>Internal control review</li> <li>Inventory counts</li> <li>Other attest procedure</li> <li>Agreed-upon procedures of audit committee</li> </ul>	<ul style="list-style-type: none"> <li>You do not have to comply with technical standards.</li> </ul>



## NOT INDEPENDENT

*(Owners, officers, employees & members of governing body)*

---

• You cannot provide audit, review or attestation services if not independent

---

• This is not a compilation service as defined by SSARS.  
*\*\*See further guidance HERE.*

---

• This is not a financial statement preparation service as defined by SSARS.  
*\*\*See further guidance HERE.*

---

• You do not have to comply with technical standards other than Consulting Services Standards

---

• You do not have to comply with technical standards other than Tax Services Standards.

---

• You do not have to comply with technical standards.

## NOT INDEPENDENT

*Conflicts of interest (other than owners, officers, employees & members of governing body)*

---

• You cannot provide audit, review or attestation services if not independent

---

• You must comply with technical standards, have a firm license and a peer review. The 8-hour A & A CPE requirement applies.

---

• You must comply with technical standards and have a firm license. The 8-hour A & A CPE requirement applies.  
• No peer review is needed if preparation is the highest form of service provided.  
• Peer review is needed if preparation is not the highest form of service provided.

---

• You do not have to comply with technical standards other than Consulting Services Standards

---

• You do not have to comply with technical standards other than Tax Services Standards.

---

• You do not have to comply with technical standards.



# CHAPTER III: AICPA CODE OF PROFESSIONAL CONDUCT UPDATE

## NOTES

The rules on volunteering demonstrate how CPAs continue to get involved in other areas outside of the traditional financial parts of business. That is to say: The profession continues to evolve. It should come as no surprise then that the AICPA Code of Professional Conduct continues to grow and change as well.

The AICPA's Professional Ethics Executive Committee (PEEC) is responsible for ensuring that the Code is up to date. While the Code was refreshed in 2014, PEEC maintains an active agenda looking at potential issues that could affect ethics and independence. Using due process, PEEC issues exposure drafts of changes, and finalized interpretations are posted in the Journal of Accountancy. It is important to check the Journal for changes on a regular basis. Exposure drafts are posted on the AICPA's website at <https://www.aicpa.org/interestareas/professionalethics/community/exposedrafts.html>.

### HOSTING (ET 1.295.143)

*Effective July 1, 2019 (Original effective date Sept. 1, 2018.)*

When they hear the term hosting, many CPAs think of software as a service. The definition in the Code of Professional Conduct, however, is very different. Hosting is defined as a nonattest service that involves:

“a member accepting responsibility for the following:

- a. Acting as the sole host of a financial or non-financial information system of an attest client
- b. Taking custody of or storing an attest client's data or records whereby, that data or records are available only to the attest client from the member, such that the attest client's data or records are otherwise incomplete
- c. Providing electronic security or back-up services for an attest client's data or records”

At first glance, this situation might not appear to be commonplace. However, when looking at examples of hosting, it is clear that many firms, large and small, do offer services that meet the definition of hosting.

One of the more common hosting examples is:

“Keeping the attest client's data or records on the attest client's behalf, for example, the attest client's general ledger information, supporting schedules (such as, depreciation or amortization schedules), lease agreements or other legal documents are stored on the member's firm's servers or servers licensed by the member's firm or the member is responsible for storing hard copy versions of the data or records.”

Therefore, if a firm prepares the depreciation schedule for a client and then only provides the journal entry for depreciation, this is deemed to be hosting. As a result, the



CPA would not be independent of their audit client. As hosting is a nonattest service, there are no safeguards that can be used to overcome an independence issue resulting from hosting. Hosting creates a situation in which the CPA is the internal control structure for the entity, and is therefore deemed to be management participation.

In order to avoid hosting, the AICPA offers a few different options:

1. Provide the attest client with both the depreciation schedule AND supporting calculation so that client's books and records are complete.
2. Have the client engage a third-party service provider to maintain its software in a cloud-based solution and grant their CPA access to the software.
3. Have both the CPA and client maintain separate instances of the software on their respective servers.

Portals are also another area where the CPA may be hosting information. To avoid being the sole owner of the information provided via the portal, the CPA would need to terminate access to the data or records in the portal within a reasonable period of time following the conclusion of the engagement. Many firms eliminate access to the data after it has been downloaded to comply with this standard.

### **LEASES (ET 1.260.040)**

Due to the change in definition and accounting for leases for both the Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB), most leases will be capitalized on the balance sheet. The extant leases independence standard contains an exception for leases that meet the criteria for an operating lease. However, now that operating leases under FASB and GASB are capitalized, PEEC determined that the exception is no longer appropriate. When a covered member enters into or has a lease with an attest client, multiple threats to independence may exist including self-interest, familiarity and undue influence.

For new or renegotiated leases, in order to not impair independence, the lease must be on market terms and an arm's-length transaction, and the lease cannot be material to any of the parties to the lease. Materiality is considered in the aggregate. If at any point in time the lease is not paid on time, independence would be impaired.

If a covered member (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 entered into or renegotiated prior to the period of the professional engagement, prior to the member becoming a covered member or prior to the counterparty becoming an attest client or an affiliate of a financial statement attest client, the covered member should evaluate the significance of any threats to determine whether the threats are at an acceptable level. The covered member should also evaluate the significance of when a lease was entered into or renegotiated during the period of the professional engagement, in compliance with the rules but, due to a change in circumstances, the lease became material to a party to the lease during the period of the

# CHAPTER III: AICPA CODE OF PROFESSIONAL CONDUCT UPDATE

## NOTES

professional engagement. If threats are not at an acceptable level, safeguards should be applied. If no safeguards can be applied, independence would be impaired.

This interpretation was issued in December 2018 and is effective for fiscal years beginning after Dec. 15, 2019. Early implementation is allowed.

## STATE AND LOCAL GOVERNMENT CLIENT AFFILIATES (ET 1.224.020)

The new interpretation was issued in June 2019 and is effective for years beginning after Dec. 15, 2020. The definition of client affiliate has been used for several years under the Code. However, governmental entities are different in that the financial reporting entity rolls up at various levels. Therefore, PEEC has created a new definition of an affiliate that is unique to governmental entities that follow GASB.

“An affiliate of a financial statement attest client exists in all the following situations:

- i. The entity is included in the financial statement attest client’s financial statements and the member or member’s firm does not make reference to another auditor’s report on the entity.
- ii. The entity is included in the financial statement attest client’s financial statements, the member or member’s firm makes reference to another auditor’s report on the entity, and
  - (1) the entity is material to the financial statement attest client’s financial statements as a whole and
  - (2) the financial statement attest client has more than minimal influence over the entity’s accounting or financial reporting process. There is a rebuttable presumption that the financial statement attest client has more than minimal influence over the accounting or financial reporting process of funds and blended component units.
- iii. The entity is a material excluded entity, and the financial statement attest client has more than minimal influence over the entity’s accounting or financial reporting process. A material excluded entity is an entity that is required under the applicable financial reporting framework to be included in the financial statements of the financial statement attest client but is, nevertheless, excluded by the financial statement attest client and is material to the financial statement attest client’s financial statements as a whole. There is a rebuttable presumption that the financial statement attest client has more than minimal influence over the accounting or financial reporting process of funds and blended component units.
- iv. The investor, which is either the financial statement attest client or an affiliate as defined in item (i) of this definition, has an investment in an investee when the investor either

# NOTES

- (1) controls the investee, unless the investment in the investee is trivial and clearly inconsequential to the financial statement attest client's financial statements as a whole, or
- (2) has significant influence over the investee and the investment in the investee is material to the financial statement attest client's financial statements as a whole."

Financial interests, as well as other relationships with governmental affiliates of a financial statement attest client, may create threats to independence. The interpretation also indicates other relationships can cause threats to independence, including:

- a. A covered member's immediate family member is in a key position with a nonaffiliate that includes the financial statement attest client in its financial statements and the nonaffiliate provides accounting staff, shares financial information systems, or establishes internal controls over financial reporting for the financial statement attest client.
- b. The member or member's firm is considering providing financial information system design services to a nonaffiliate in which the same financial information system would also be used by the financial statement attest client.
- c. A covered member has a financial interest in a nonaffiliate that includes the financial statement attest client in its financial statements, and the nonaffiliate prepares the financial statements for the financial statement attest client.
- d. The financial statement attest client participates in a public-private partnership or joint venture that does not meet the definition of an investment in paragraph .03c of this interpretation. A covered member has a financial interest in an organization that is also involved with the public-private partnership or joint venture.
- e. A covered member owns utility bonds issued by a nonaffiliate, and the financial statement attest client is responsible for payment of the utility bond debt service.
- f. A covered member owns conduit debt issued by the financial statement attest client on behalf of a nonaffiliate. The conduit debt is not accounted for on the financial statements of the financial statement attest client, and the debt service is paid by the nonaffiliate."



Therefore, it will be imperative that auditors of governmental entities take the time to properly identify client affiliates and consider any threats to independence. This may take more time than potentially expected due to the way governmental entities prepare financial statements.

# CHAPTER III: AICPA CODE OF PROFESSIONAL CONDUCT UPDATE

## NOTES

### INFORMATION SYSTEM SERVICES (ET 1.295.145)

This interpretation was issued in June 2019 and was formerly known as “Information Systems Design, Implementation, or Integration.” The standard updates the terminology and is more precise regarding what impairs independence when a member in public practice assists a client with their information system services. The interpretation applies to all attest engagements, including those in which the subject matter of the engagement is not financial statements (i.e., examinations and acceptable use policies).

The standard defines a financial information system (FIS) as:

“a system that aggregates source data underlying the financial statements or generates information that is significant to either the financial statements or financial processes as a whole.”

Additional definitions for this standard are as follows:

“Designing an information system means determining how a system or transaction will function, process data, and produce results (for example, reports, journal vouchers, and documents such as sales and purchase orders) to provide a blueprint or schematic for the development of software code (programs) and data structures.”

“Developing an information system entails creating software code, for individual or multiple modules, and testing such code to confirm it is functioning as designed.”

When the project is not related to a FIS, threats would be at an acceptable level if the CPA performed design, development or implementation services so long as the normal nonattest service requirements are met (i.e., client takes responsibility).





# CHAPTER IV: PROFESSIONAL SKEPTICISM & PROFESSIONAL JUDGMENT

## NOTES

Recent audit standards have put an increased weight on professional skepticism and professional judgment. The new auditor's report in Statement on Auditing Standards (SAS) 134 explicitly lists both as requirements when performing an audit. In addition, recent proposals regarding auditing estimates and audit evidence show the importance these concepts have on how audits are performed now and will change as the profession evolves.

The audit standards define each term as follows.

Professional judgment is "The application of relevant training, knowledge, and experience, within the context provided by auditing, accounting, and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement."

Professional skepticism is "An attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence."

In an Aug. 22, 2019, press release on Proposed Statement on Auditing Standards Auditing Accounting Estimates and Related Disclosures, the AICPA states: "The proposed SAS is intended to help auditors appropriately address the increasingly complex scenarios that arise from today's new accounting standards that include:

- estimates and related disclosures,
- and enhancing the auditor's focus on factors driving estimation uncertainty and potential management bias.

The ASB believes the proposed changes will drive auditors to exercise professional skepticism, thereby improving audit quality."

The proposed SAS directly addresses audit evidence. The discussion memorandum at the beginning of the proposal states:

"The key issues identified with respect to professional skepticism are as follows:

- Questions have been raised about how auditors can more clearly demonstrate the application of professional skepticism, how to better describe the basis for the auditor's professional judgments, and how the auditor's mind-set has affected the nature, timing, and extent of audit procedures performed as well as the critical evaluation of audit evidence.
- Concern about instances in which auditors did not appropriately apply professional skepticism in their audits is a recurring theme in audit inspection findings globally and has been a key issue in discussions about audit quality. Regulatory bodies have suggested that enhanced professional skepticism by auditors will contribute significantly to improving the quality of audits and that firms should prioritize efforts in this area.

## NOTES

- The existence of many ways to describe the application of professional skepticism indicates that the concept of professional skepticism, and the expectations of how auditors should appropriately apply it, may need to be more clearly articulated in our standards.”

The AICPA decided to address these issues by interweaving professional skepticism concepts throughout the proposed SAS and explaining activities the auditor can perform to demonstrate the application of professional skepticism. The AICPA Auditing Standards Board determined that having a separate section of a proposed SAS labeled “professional skepticism” or merely using the words “professional skepticism” throughout the proposed SAS would not be sufficient to achieve its objectives.

## THE FRAUD TRIANGLE

Another tool you can use when exercising professional skepticism and professional judgment is the fraud triangle. Fraud experts generally agree that three elements need to coalesce for fraud to occur:

1. **Pressure:** The motivation behind the fraud, such as personal debt or a person’s feeling that their job might be in jeopardy.
2. **Opportunity:** The situation that allows the fraud to occur, like weak internal controls or inadequate accounting policies.
3. **Rationalization:** The justification that allows the person committing the fraud to see it as an acceptable act. For example, “I need to take care of my family,” or “They treated me wrong.”



As we present ethical dilemmas and scenarios, look for the elements of pressure, opportunity and rationalization and the potential for them to coalesce.

# CHAPTER V: MAKING SENSE OF ETHICAL DECISION-MAKING MODELS

## NOTES

In 2003, Virginia began requiring CPAs throughout the Commonwealth to take an ethics course. Almost every year since, the course has taken professionals through an ethical decision-making model. While the models have all differed in their approaches, each attempted to give CPAs a logical way to think through the industry's ever-evolving problems and issues.

When taken together, the sheer volume of models available can be overwhelming and leave you wondering about the point of it all. Are these ethical models really helpful? If push came to shove, would any of these models be useful to you in the real world — where problems are hardly ever black and white?

By examining how ethical models function within the framework of the AICPA Code of Professional Conduct, understanding the types of models available and drawing some conclusions about who might find them useful, CPAs can learn how to better apply these models within the bounds of their professional lives.

## DO YOU EVEN NEED AN ETHICAL DECISION-MAKING MODEL?

At first glance, CPAs may wonder if an ethical decision-making model is even necessary. After all, by virtue of being a CPA in Virginia, professionals agree to abide by the AICPA Code of Professional Conduct. If you have a Code of Conduct, isn't that enough?

In order to address this question, it is important to clarify what a model actually is as well as what it isn't. A decision-making model is not a replacement for the AICPA Code of Professional Conduct. The Code of Conduct espouses a list of values that those in the profession have collectively come to value over time. For example, the Code discusses the concepts of independence, objectivity and freedom from conflicts of interest. It also discusses professional competence and acts discreditable. In short, it is a description of the values that CPAs hold in highest esteem. They are the qualities that make the profession special and make the CPA designation unique, and why the profession is held in high regard by the public. An ethical decision-making model does not espouse any particular values; it simply gives an approach to implementing those values. A model is not a replacement for the Code, but merely an application step.

The addition of an ethical decision-making model should not be viewed as a shortcoming of the Code itself, but rather an acknowledgment of the expanding nature of our profession. The CPA profession continues to expand into new areas, such as business valuation, risk management and data analytics. Companies and the public see the benefit of these values espoused within the Code and use CPAs for services that go beyond basic bookkeeping. There can be no doubt that this will continue into the foreseeable future. It is impossible for the Code to contain statutes to cover every area CPAs may choose to offer services, and the conceptual framework addresses situations that fall outside of the exact language of the Code. Ethical decision-making models

function similarly — they give the practitioner a framework for viewing the ethical dilemma and applying the values of the Code correctly and accurately. In short, they supplement the core values of the Code. They do not replace them.

## ETHICAL DECISION-MAKING MODEL TYPES

Ethical decision-making models generally fall into two categories: step-by-step models and lens models. Step-by-step models generally give the CPA steps to work through that will help lead them to the most ethical choice.

### STEP-BY-STEP MODELS

For example, the ethics material in the 2011 course presented a step-by-step model from Santa Clara University:

## How to Make an Ethical Decision

### RECOGNIZE AN ETHICAL ISSUE

1. Could this decision or situation be damaging to someone or to some group? Does this decision involve a choice between a good and bad alternative, or perhaps between two “goods” or between two “bads”?
2. Is this issue about more than what is legal or what is most efficient? If so, how?

### GET THE FACTS

3. What are the relevant facts of the case? What facts are not known? Can I learn more about the situation? Do I know enough to make a decision?
4. What individuals and groups have an important stake in the outcome? Are some concerns more important? Why?
5. What are the options for acting? Have all the relevant persons and groups been consulted? Have I identified creative options?

### EVALUATE ALTERNATIVE ACTIONS

6. Evaluate the options by asking the following questions:
  - Which option will produce the most good and do the least harm? **(The Utilitarian Approach)**
  - Which option best respects the rights of all who have a stake? **(The Rights Approach)**
  - Which option treats people equally or proportionally **(The Justice Approach)**
  - Which option best serves the community as a whole, not just some members? **(The Common Good Approach)**
  - Which options leads me to act as the sort of person I want to be? **(The Virtue Approach)**

### MAKE A DECISION AND TEST IT

7. Considering all these approaches, which option best addresses the situation?
8. If I told someone I respect—or told a television audience—which option I have chosen, what would they say?

### ACT AND REFLECT ON THE OUTCOME

9. How can my decision be implemented with the greatest care and attention to the concerns of all stakeholders?
10. How did my decision turn out and what have I learned from this specific situation?

This Framework for Ethical Decision-Making is the product of dialog and debate at the Makkula Center for Applied Ethics at Santa Clara University. Primary contributors include Manuel Velasquez, Dennis Moberg, Michael J. Meyer, Thomas Shanks, Margaret R. McLean, David DeCosse, Claire André, and Kirk O. Hanson.

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# CHAPTER V: MAKING SENSE OF ETHICAL DECISION-MAKING MODELS

## NOTES

Part of the PLUS model that was presented in the ethics courses in 2010 and 2019 was also a step-by-step approach:

**Step 1:** Define the problem.

**Step 2:** Identify available alternative solutions to the problem.

**Step 3:** Evaluate the identified alternatives.

**Step 4:** Make the decision.

**Step 5:** Implement the decision.

**Step 6:** Evaluate the decision.

These models are meant to lead the CPA through a series of steps to get to a specific answer in a specific instance. For example, if you were asked by a superior to give false information in a financial report, you might use the PLUS model in the following way:

**Step 1: Define the problem.** Falsifying financial information could be illegal, but if a request from a superior is ignored, it could cause me to lose my job.

**Step 2: Identify available alternative solutions to the problem.** Deny the request and explain why to my superior. Grant the request anyway. Ask permission to change the request in such a way that it would no longer be problematic.

**Step 3: Evaluate the identified alternatives.** Denying the request and explaining why seems like the best move, because it avoids even the appearance of doing something illegal.

**Step 4: Make the decision.** Deny the request and explain why to my superior.

**Step 5: Implement the decision.**

**Step 6: Evaluate the decision.** How did my superior react?

## LENS MODELS

While helpful in a particular moment, step-by-step models fail to really help develop a framework for viewing ethical problems. Lens models attempt to give the CPA a view of how ethical decisions are made. By learning more about how one can view an ethical decision, they allow the CPA to evaluate the situation through multiple perspectives in an effort to make the best choice possible. An example of a lens model is Kohlberg's theory of three levels of moral reasoning, which was discussed in the ethics class in 2014:

1. **Pre-conventional morality:** A rules-based approach; right versus wrong. People define right and wrong based very much on their own perceived interests.
2. **Conventional morality:** People understand the impact of actions on others, seek to act in accordance with other people's expectations, understand that intent and perspectives can affect other people's actions, still regard obedience to rules as a duty and feel rules are needed for society.

3. **Post-conventional morality:** Rules are regarded as useful tools for society, but recognize that society's needs at times extend beyond the existing rules. People use more of a principles-based approach to determine appropriate actions.

A slight variation on the lens approach is the Society of Human Resource Management Ethical Culture Model from the 2015 ethics class, which asserts that an ethical culture rests upon four building blocks:

1. **Compliance:** Compliance with rules and laws is the baseline, or minimum bar, in an ethical environment. You must have a solid foundation of compliance upon which to build the rest of your workplace.
2. **Fairness:** The Merriam-Webster Dictionary defines fairness as a "lack of favoritism toward one side or another." Honesty, compassion and respect for rules and laws are a few of the values embraced in an ethical environment. Duplicity, self-interest and disregard for rules and laws are a few of the hallmarks of an unethical environment.
3. **Motive-based trust:** Motive-based trust is the level of trust that employees have in their co-workers and managers based on their observations of the ethical behavior of those co-workers and managers. Employees build motive-based trust by listening, admitting mistakes and taking corrective actions.
4. **Ethical working self-concept:** Ethical working self-concept is the level to which employees internalize the ethical values of the organization. When the work environment promotes a high level of ethical working self-concept, employees will act in accordance with the organization's ethical values.

While step-by-step models provide a better way to handle day-to-day ethical dilemmas, it is difficult to build an ethical culture around any of these approaches. In contrast, lens models give one the building blocks for achieving an ethical culture, but they are hard to apply to a specific situation.

## SO WHICH MODEL IS MOST USEFUL?

Like so many other things in ethics, the best model probably depends on several factors. First, the situation matters. If you are trying to solve a particular problem, a more prescriptive approach is warranted. If applied correctly, that approach will yield an answer that may be applied directly to the situation at hand. But if you are trying to build an ethical culture, you will want to use a lens approach that allows CPAs to think through a problem using multiple perspectives.

Second, the practitioner matters as well. Some people are more task-oriented. They think through problems using a logical approach that results in a very clear answer. This personality type probably leans more towards a step-by-step approach. On the other hand, some people are more conceptual thinkers and prefer to only get general

# CHAPTER V: MAKING SENSE OF ETHICAL DECISION-MAKING MODELS

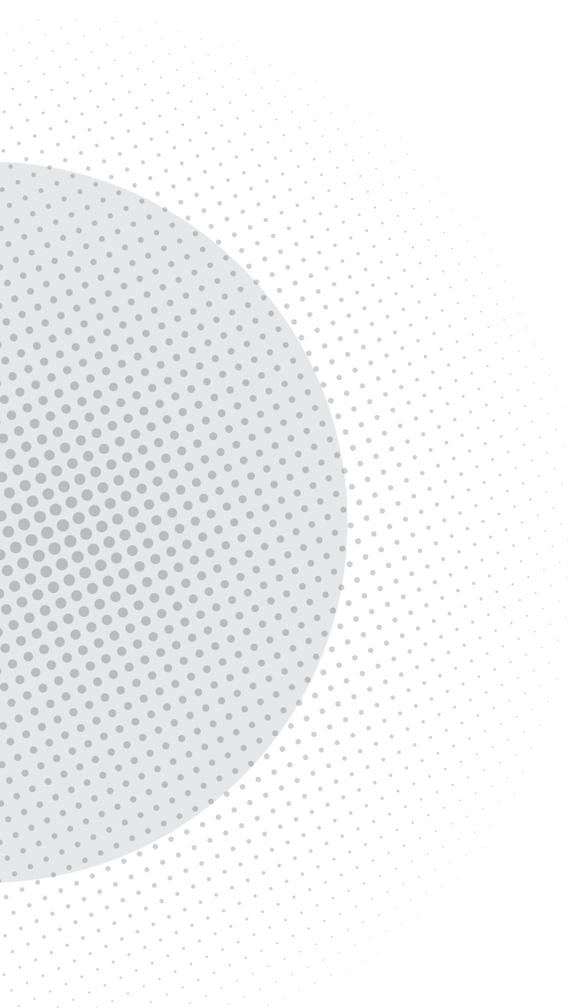
## NOTES

guidance on an issue before deciding. This personality type would probably be better suited to a lens approach.

Third, timeliness of the ethical decision matters. If you need an exact answer on the spot, certainly a step-by-step approach is better. If speed is less important, then a lens approach may work well.

## PUTTING IT ALL TOGETHER

The sheer volume of ethical decision-making models can be overwhelming, especially when you are trying to focus on a particular aspect of ethics or a specific situation. The key to successfully utilizing an ethical decision-making model is appreciating how they each may be useful depending on the circumstances. By better realizing what is needed in a given situation, practitioners can do a better job picking out the right decision-making model to address necessary issues.



# CHAPTER VI: CASE STUDIES

## WRITTEN SCENARIO CASE STUDIES

## NOTES

### WRITTEN SCENARIO CASE STUDY #1: 'NOT-SO-TINY TRIALS' – SMALL ETHICAL BREACHES / MISREPRESENTATIONS

Your friend is a member of the leadership team of a company with which your organization sometimes does business. You haven't seen her in a while, so you ask her out for lunch to catch up. When the bill comes, you pick up the check. *Under what circumstances, if any, would you feel comfortable declaring this a "business lunch" for expense purposes?*

Your co-worker, Michael, tells his supervisor that he needs the day off to attend the funeral of a family member. Because you are friends with Michael on social media, you know he is actually taking the day off to attend a sporting event. His supervisor mentions to you how sorry he is to hear of the death of Michael's family member. *Do you stay silent?*

Your daughter calls you at your office in a panic. She needs a folder and some paper clips for her school project that is due the next day. It's late and you're tired. *Do you take the supplies from the office supply closet?*



# CHAPTER VI: CASE STUDIES

## NOTES

### WRITTEN SCENARIO CASE STUDY #2: 'A TRIP TO REMEMBER' – CYBERSECURITY

Cybersecurity is now a billion-dollar-plus industry, and CPAs need to think about how cyber issues can affect them. In fact, the AICPA has developed several cyber offerings CPAs can provide to clients. Let's take a non-accounting look at cyber.

The man in seat 3b has been hard at work on his laptop for the past half hour. Perhaps in his early 30s, wearing a gray T-shirt and black reading glasses, the man could be a technology consultant on his way home from the client site or perhaps the founder of a start-up on his way to meet with venture capitalists. However, the man in seat 3b is not working on a client deliverable or polishing up a pitch deck. The man in seat 3b is a cybersecurity expert and he is hacking into the airliner's computer system.

Suddenly the aircraft pitches up. It climbs hard, the beverage cart shifts and a child in the back of coach spills a bit of water. Less than two seconds later, the airliner levels out and the veteran captain turns on the fasten seatbelt sign (as a precaution) and calmly warns about some unexpected turbulence. The rest of the flight is as smooth as silk from the perspective of the passengers on board.

On the ground, however, the turbulence resulting from the event lasts for weeks as aeronautical engineers, computer analysts and cybersecurity specialists try to understand why the aircraft behaved in this unexplained manner. It will soon be learned that the man in seat 3b overwrote the code on the craft's thrust management computer, causing the plane to climb for an instant, before quickly ceding control. His actions were purposeful, his knowledge of computer systems deep and his intention was to expose a security flaw that he thought was being ignored by the industry.

Sometimes referred to as "white hat hackers," some computer security specialists break into protected systems and networks to test and assess security. They use their deep skillset to improve security by exposing vulnerabilities before malicious hackers (also known as "black hat hackers") can exploit them. Individuals like this are often employed by corporations and governments as a means of keeping some of the most highly secure systems in the world a half-step ahead of those who wish to do harm. This hacker, however, was not hired by the airline and was simply trying to expose a vulnerability.

It could be said that the individual in this story, who was acting without authorization, was wearing a gray hat, matching the color of his T-shirt.

*What are the ethical implications in this scenario?*

*What shade of gray do you believe represents this man's hat?*

*Can you think of other acts of unauthorized cybersecurity breaches that were perpetrated with good intentions?*

*It has been said that technology is progressing faster than laws and faster even than moral standards. Do you agree with this statement?*

### WRITTEN SCENARIO CASE STUDY #3: 'PAYING TO PLAY' – BRIBERY

## NOTES

It's a competitive world out there. Since CPAs are so involved in the strategic operations of companies, there is perhaps no other profession that is more aware of this fact. The intense rivalry between companies can often make financial professionals desperate to find anything that would help them to get a leg up on their competition. While healthy competition is a natural part of our economy, financial professionals should be aware of where the lines are between right and wrong. Making sure that our desire to get ahead does not cloud our judgment is a constant battle in an ever-growing global marketplace.

Sarah Swanson, CPA, had never done any business outside of the United States before, but recently her company, Widget World, had begun expanding into other areas of the globe. In one of its new markets, Daveland, Widget World was having difficulties obtaining a business license. While the company continued to push forward figuring out pricing strategies, hiring and implementing system integrations in the new market, Sarah was becoming concerned about how long the licensing process was going to last.

To make matters worse, Widget World's biggest competitor, Better Widgets, had also recently announced plans to expand operations into Daveland. While Widget World had seemingly started its expansion before Better Widgets, rumors circulated that Better Widgets was already licensed and ready to sell its product. Ever since hearing this rumor, Widget World's Board of Directors had been putting increasingly more pressure on Sarah to get the licensing process completed. Sarah had tried everything to get the licensing process moving with no success.

One day, Sarah asked one of the Daveland location's new hires if he knew anything about the business licensing process. He had lived in Daveland his entire life, so if anyone could provide some insight, it was him. He asked Sarah if she had met with any public officials yet. When Sarah said that she hadn't, the new hire seemed surprised. He asked what gift she was planning on giving to the local official to thank him for getting the licensing process completed. Sarah was stunned. Was this normal? Was this how Better Widgets had received its license so quickly? Just then, the phone rang. In Sarah's gut, she just knew it was a Board member...

*What separates a bribe from a gift? Is there a difference? If so, what is it?*

*If your competition is using bribes to get ahead competitively, does that make it okay for you to use them? What if bribes are a natural part of the industry?*

*Do you have an ethical obligation if you believe another professional is bribing public officials? What is it? What if you aren't sure?*

# CHAPTER VI: CASE STUDIES

## NOTES

### WRITTEN SCENARIO CASE STUDY #4: 'HELPING OR HURTING?' – CLIENT CONFIDENTIALITY

The need to keep client information confidential continues to be a focal point in the CPA profession. For example, the IRS has insisted tax practitioners have a data security plan in place and obtain Form 7216 before giving out any tax information on a client. However, while nearly every CPA knows not to give out a client's Social Security Number or tax return without obtaining client permission, the obligation of the CPA becomes less apparent in other areas. CPAs often connect people with others in an effort to be helpful. However, where is the line? Is there a time where giving out information stops being helpful and becomes a violation of client confidentiality?

Sam Smith, CPA, has always viewed himself as a helpful person. He's assisted nonprofit clients who were looking for places to hold fundraising events, pointed young clients toward potential employers and helped business contacts make new connections. One day, Sam has just finished his third meeting of the day with his long-time clients, Jim and Jane Jones, a wealthy retired couple. As Jim and Jane are walking out of the office, Tim Thomas, an executive director of a local, struggling nonprofit walks into Sam's office. As Sam guides Tim to the conference room, Tim says, "Sam, I noticed the Mercedes in the parking lot as I walked in. Certainly that's not YOUR car."

"No," Sam chuckles, "That belongs to Jim and Jane — the folks who just left."

"Really? Man, they must be loaded," Tim says with a smile.

"Oh, yeah, they give away hundreds of thousands of dollars every year to charity, and still have some left over to gift away to their grandkids. Gigantic portfolio," Sam says.

Sam and Tim sit down and begin to pour over the nonprofit's most recent financial statements. Sam points out that donations are down significantly from the previous year. Tim says that ever since the new tax legislation had gone through, people seem less interested in contributing to the arts.

Finally, Tim asks, "Say, that couple that left here right before I came in ... Do they like the arts?"

Sam thinks about it for a minute and finally says, "Actually, yeah. I have been over to their house a few times. It is in a nice part of town. I saw tons of original artwork throughout the house."

"Well, if we could only get a few more donors like them, we would be in great shape. Do you think I could get their contact information from you?" Tim asks with a smile.

"Absolutely," Sam says. "I know they are looking for a few new giving opportunities." Sam then names a few charities he knows Jim and Jane contributed to from their most recent tax return. He hands Tim a note with Jim and Jane's e-mail addresses and phone numbers. Tim thanks Sam and hustles out the door.



Immediately after Tim leaves, Sam has a sinking feeling in his stomach. Has he said too much?

*Did Sam violate the privacy of Jim and Jane? If so, why? If not, why not?*

*Where is the line crossed between being helpful and violating privacy? What sorts of things would violate client confidentiality?*

## NOTES

# CHAPTER VI: CASE STUDIES

## NOTES

## ROLE PLAY CASE STUDIES

### ROLE PLAY CASE STUDY #1: 'CLIENT CALLS IT QUILTS' – ACTS DISCREDITABLE

#### 2 Required Roles:

- John Client — Long-time individual client
- Jane Smith — CPA

#### SCENARIO 1

**John Client:** “Jane, I’m calling to tell you that when it’s time to file my taxes this year, I’m going to be using Mary Jones CPA to prepare my return instead of you. You need to provide Mary with copies of all my records.”

**Jane Smith, CPA:** “But John, you haven’t paid me yet for preparing last year’s tax returns for you.”

*What else should Jane say or do in response to this request?*

#### SCENARIO 2

**John Client:** “Jane, I’m calling to tell you that when it’s time to file my taxes this year, I’m going to be using Mary Jones CPA to prepare my return instead of you. You need to provide Mary with copies of all my records.”

**Jane Smith, CPA:** “But John, I’m currently in the process of preparing your return.”

*What else should Jane say or do in response to this request?*

#### SCENARIO 3

**John Client:** “Jane, I’m calling to tell you that when it’s time to file my taxes this year, I’m going to be using Mary Jones CPA to prepare my return instead of you. You need to provide Mary with copies of all my records by the end of the week.”

**Jane Smith, CPA:** “But John, it’s already Wednesday.”

*What else should Jane say in response to this request?*

**ROLE PLAY CASE STUDY #2: 'IN THE BIG LEAGUE' – CLIENT CONFIDENTIALITY**

**NOTES**

**5 Required Roles:**

- Ned Smith — CPA and financial advisor
- Sally Smith — Orthopedic surgeon and Ned’s wife
- Jill Brown — Sally’s good friend and Bob’s wife
- Bob Brown — Former NFL lineman and sports talk radio host
- Mark Harding — Pitching phenom and playoff hero

**SCENE 1: HOME OF MR. NED SMITH, CPA, AND DR. SALLY SMITH**

**Ned:** Hey darling. Glad to see you home.

**Sally:** It was a grueling day today. Three surgeries back to back. Glad to be home. How was your day?

**Ned:** Today was great. I picked up a big new client! Being put on the approved provider list with Major League Baseball™ has really paid off. Today I met with that new pitcher on the Washington Nationals™ – you saw him on TV the other night. His finances are a mess. The kid makes millions of dollars and yet has no savings or investment accounts. Believe it or not, he just received notice that he’s delinquent on his mortgage. Bills don’t pay themselves!

**Sally:** It’s so sad that these kids get no formal financial literacy education. They are just sent out into the real world with no preparation.

**Ned:** I know it’s frustrating but I’m glad I can help. I’ve already requested all of his bills and financial information. We’re going to sit down and develop a good plan.

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**SCENE 2: LOCAL CAFÉ. SALLY SMITH IS MEETING WITH HER FRIEND JILL BROWN FOR BRUNCH.**

**Jill:** You look exhausted.

**Sally:** Another 24-hour shift in the OR. I’m always amazed at how crazy days can get. I don’t think I had 15 minutes to sit quietly the entire shift!

**Jill:** That is rough. Let’s get you a mimosa. How’s Ned doing?

**Sally:** He’s doing really well. He just picked up another big-name client from the Nats. It’s so sad. These young kids get huge contracts but have no sense of money. It takes Ned forever to get them on the straight and narrow.

**Jill:** I know it all too well. Who did he get as a new client?

**Sally:** That new pitcher. Ned said he was some kind of playoff hero ... But his finances are a total mess. He’s already getting delinquency notices on his mortgage. Did Bob ever have issues like that?

# CHAPTER VI: CASE STUDIES

## NOTES

**Jill:** No. Thankfully Bob's mom looked out for him in college and when he signed with the Steelers,<sup>TM</sup> his mom made him work with a CPA from day one. When we got married, he was already well invested and was basically living off an allowance. We were really lucky.

**Sally:** That's some great parenting.

**Jill:** Yes. His mom has always wanted to prevent Bob from being a statistic. I'm just glad he's retired now and we can live a normal life.

**Sally:** OK. I'm starving let's order.

### SCENE 3: HOME OF JILL AND BOB JONES

**Bob:** Hey, welcome back. Where did you run off to?

**Jill:** I had lunch with Sally. She looked exhausted. Apparently, the ER has been busy lately.

**Bob:** I guess it's that time of year with flu season. Hopefully it'll calm down for her soon.

**Jill:** I hope so. She works so much it's so hard to even schedule brunch!

**Bob:** How's Ned doing? I haven't seen him since the holidays.

**Jill:** It sounds like he's doing well. He picked up the new Nats pitcher. Apparently, the kid's finances are in total disarray. Not everyone has a mom like yours to guide them as they enter the profession.

**Bob:** I know I was lucky. I should definitely talk about the dangers of money on my show one of these days.



**SCENE 4: SPORTSTALK 700 RADIO STATION.**

**NOTES**

**Bob:** Hello everyone out there in radio land. Today I'm excited to announce a very special guest on the show. While I usually interview football players, today is going to be a treat for you guys. Today we have on the show Mark Harding, the new pitcher and playoff hero for your champion Nats. Welcome to the show Mark!

**Mark:** Great to be here. I listened to your show every day in college and it's such a crazy feeling to be a guest.

**Bob:** We're glad to have you. Congrats on your game 7 victory. I am sure we will be talking about your performance for years.

**Mark:** It was definitely a nail biter. But we knew we wanted to bring home the win. We're a strong but scrappy team. Lots of us are younger with lots to learn.

**Bob:** Oh to be young again. Speaking of having a lot to learn ... The word on the street is that you're having trouble paying bills, despite that big signing bonus. Do you think the lack of financial literacy training for athletes in college is an issue?

**Mark:** Umm... (He has a confused look as he wonders how Bob knew about his financial issues and why he is bringing it up on the radio.)

- *What ethical issues are brought to light in this case?*
- *Despite never saying the client's name or revealing any details to his wife, did Ned expose confidential client information? What are other examples of confidential information?*
- *Who is to blame for this embarrassing and potentially harmful situation? What are the potential repercussions?*

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# CHAPTER VI: CASE STUDIES

## NOTES

## VIDEO CASE STUDIES

### VIDEO CASE STUDY #1: 'SPEAKING OUT ON SOCIAL MEDIA'

- *What do you do?*
- *Does it make a difference if Robert's profile does list his CPA credential?*
- *What are the ethical issues associated with the content or comments that Robert posts?*

### VIDEO CASE STUDY #2: 'LITTLE WHITE LIES'

- *What ethical issues are brought to light in this case?*
- *Have you ever been in a situation where little white lies grow over time or build upon one another to become more significant than they originally seemed?*
- *Should professional relationships grow into personal relationships? What pitfalls can result? What safeguards can be employed?*

### VIDEO CASE STUDY #3: 'SAYING NO TO AUTHORITY'

- *Should Joe push back on Paul's request? If so, how could he have more effectively done this?*
- *Where is the line between productive disagreement with management and unproductive disagreement?*
- *Is there a right time and a wrong time to push back on a request from a superior? How do you define when this is?*





# CONCLUSION

## NOTES

This course is intended to provide an update on changes to regulations, standards and best practices in the accounting industry. Now it's up to practitioners to put them to use and maintain the high ethical standard for which the CPA profession has long been known. Where the standards don't quite cover an issue, the ethical decision-making models provided in this course can help practitioners make sense of those gray areas.

Here are a few next steps CPAs should take:

Review the takeaways at the end of each chapter.

Complete the class evaluations sent via email — these help the VSCPA make improvements to the course.

Check CPA license status (and firm license status, if applicable) on the VBOA website.

Make a note of the AICPA Ethics hotline number for any pressing concerns — (888) 777-7077, option 6.

Re-read the AICPA Code of Professional Conduct.

Check CPE history in the VBOA's CPE tracker and make sure it's up to date.

Review the topics discussed in this course and seek further information and/or education on those that are professionally relevant.

Visit [vscpa.com/EthicsResources](https://vscpa.com/EthicsResources) for the most up-to-date information on the topics discussed in this course.

As the leading professional resource for Virginia CPAs, the VSCPA takes immense pride in the quality and comprehensiveness of our Ethics course. Thanks for learning with us!



# APPENDIX I: RESOURCES, GLOSSARY AND ACRONYMS

## NOTES

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

### **Code of Virginia**

Title 54.1 Professions and Occupations; Chapter 44 — Public Accountants:

[tinyurl.com/CodeOfVirginia](http://tinyurl.com/CodeOfVirginia)

### **AICPA Code of Professional Conduct**

[tinyurl.com/AICPACodeStandard](http://tinyurl.com/AICPACodeStandard)

### **Virginia Board of Accountancy (VBOA)**

[boa.virginia.gov](http://boa.virginia.gov)

Email: [boa@boa.virginia.gov](mailto:boa@boa.virginia.gov)

CPA Licensing Services & General Information: (804) 367-8505

CPA Examination Services: (804) 367-1111

### **VBOA Regulations**

[tinyurl.com/VBOARegulations](http://tinyurl.com/VBOARegulations)

### **Virginia Society of CPAs**

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

(804) 270-5344

### **VSCPA Ethics Resource Center**

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

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

### **American Institute of CPAs (AICPA)**

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

AICPA hotline: (888) 777-7077

This hotline provides non-authoritative guidance to members on questions related to ethics, including independence, and is open from 9 a.m. – 5 p.m. EST on weekdays.

A staff member can be reached via email at [ethics@aicpa.org](mailto:ethics@aicpa.org) or via phone at (888) 777-7077, option 6, followed by option 1.

### **AICPA Technical Hotline**

[tinyurl.com/AICPATechnicalHotline](http://tinyurl.com/AICPATechnicalHotline)

(877) 242-7212



## GLOSSARY OF TERMS

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

**Affiliate** of a financial statement attest client is any of the following entities:

- a. An entity (for example, subsidiary, partnership or limited liability company) that a financial statement attest client can control.
- b. An entity in which a financial statement attest client or an entity controlled by the financial statement attest client has a direct financial interest that give the financial statement attest client significant influence over such entity and that is material to the financial statement attest client.
- c. An entity (for example, parent, partnership or limited liability company) that controls a financial statement attest client when the financial statement attest client is material to such entity.
- d. An entity with a direct financial interest in the financial statement attest client when that entity has significant influence over the financial statement attest client, and the interest in the financial statement attest client is material to such entity.
- e. A sister entity of a financial statement attest client if the financial statement attest client and sister entity are each material to the entity that controls both.
- f. A trustee that is deemed to control a trust financial statement attest client that is not an investment company.
- g. The sponsor of a single employer employee benefit plan financial statement attest client.
- h. Any entity, such as a union, participating employer, or a group association of employers, that has significant influence over a multiemployer employee benefit plan financial statement attest client and the plan is material to such entity.
- i. The participating employer that is the plan administrator of a multiple employer employee benefit plan financial statement attest client.
- j. A single or multiple employer employee benefit plan sponsored by either a financial statement attest client or an entity controlled by the financial statement attest client. All participating employers of a multiple employer employee benefit plan are considered sponsors of the plan.
- k. A multiemployer employee benefit plan when a financial statement attest client or entity controlled by the financial statement attest client has significant influence over the plan and the plan is material to the financial statement attest client
- l. An investment adviser, a general partner, or a trustee of an investment company financial statement attest client (fund) if the fund is material to the investment adviser, general partner, or trustee that is deemed to have either control or significant influence over the fund. When considering materiality, members should consider investments in, and fees received from, the fund.

*Source: AICPA Professional Ethics Committee October 2015 Official Release*

# APPENDIX I: RESOURCES, GLOSSARY AND ACRONYMS

## NOTES

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

**Attest services** means audit, review or other attest services for which standards have been established by the Public Company Accounting Oversight Board (PCAOB), by the Auditing Standards Board or the Accounting and Review Services Committee of the American Institute of CPAs (AICPA), or by any successor standard-setting authorities.

**Client** means any person or entity, other than a CPA's employer, that engages a CPA or CPA firm to perform professional services (engaging entity) and also a person or entity with respect to which a CPA or CPA firm perform professional services (subject entity). When the engaging entity and the subject entity are different, while there is only one engagement, they are separate clients. *Source: AICPA Professional Ethics Committee December 2017 Official Release*

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

**Cybersecurity** means how a company protects itself against unauthorized use or access to electronic data.

**Ethical communication** means communication that furthers integrity and builds trust based on the idea of congruent words and actions.

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

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

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

**Hosting services** are nonattest services that involve a CPA accepting responsibility for the following:

- a. Acting as the sole host of a financial or non-financial information system of an attest client
- b. Taking custody of or storing an attest client's data or records whereby, that data or records are available only to the attest client from the member, such that the attest client's data or records are otherwise incomplete
- c. Providing electronic security or back-up services for an attest client's data or records

*Source: AICPA Professional Ethics Committee August 2017 Official Release*

## NOTES

A **lens-based ethical decision-making model** prompts the practitioner to look at an ethical problem through different perspectives in order to find the best course of action.

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

**Mobility** means a practice privilege that generally permits a licensed CPA in good standing from a substantially equivalent state to practice outside of his or her place of business without obtaining another license. Source: [cpamobility.org](http://cpamobility.org)

**Online presence** means how we appear to clients, employers, colleagues, family, friends, the profession and the public at large on the Internet. It is the collective picture we present to the public through social media, blogs, websites and other Internet sources.

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

**Peer review** means one of two types of reviews (system and engagement) of a firm's accounting and auditing practice conducted in accordance with the AICPA's practice monitoring program. A system review is a study and appraisal by an independent evaluator of a CPA firm's system of quality control to perform accounting and auditing work. An engagement review is a study and appraisal by an independent evaluator of a sample of a CPA firm's actual accounting work, including accounting reports issued and documentation prepared by the CPA firm, as well as other procedures that the firm performed.

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

**Professional judgment** is the application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.

**Professional skepticism** is an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to fraud or error, and a critical assessment of audit evidence.

# APPENDIX I: RESOURCES, GLOSSARY AND ACRONYMS

## NOTES

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

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

5. Follow the technical standards, and the related interpretive guidance, issued by committees and boards of the American Institute of Certified Public Accountants that are designated by the Council of the American Institute of Certified Public Accountants to promulgate technical standards, or that are issued by any successor standard-setting authorities.
6. Follow the standards, and the related interpretive guidance, as applicable under the circumstances, issued by the Comptroller General of the United States, the Federal Accounting Standards Advisory Board, the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Public Company Accounting Oversight Board, the U. S. Securities and Exchange Commission, comparable international standard-setting authorities, or any successor standard-setting authorities.

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

**Safeguards** mean controls that eliminate or reduce threats to independence. Safeguards range from partial to complete prohibitions of the threatening circumstance to procedures that counteract the potential influence of a threat. The nature and extent of the safeguard to be applied depend on many factors, including the size of the firm and whether the client is a public interest entity. To be effective, safeguards should eliminate or reduce the threat to an acceptable level. *Source: AICPA Code of Professional Conduct*

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

**Social media** means forms of electronic communication, such as websites for social networking and microblogging, through which users create online communities to share information, ideas, personal messages and other content. *Source: Merriam-Webster, 2017*

**Special purpose framework** means a financial reporting framework other than GAAP that is one of the following bases of accounting:

- a. Cash basis. A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. Tax basis. A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.

## NOTES

- c. Regulatory basis. A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. Contractual basis. A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.
- e. Other basis. A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.

The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as other comprehensive bases of accounting. *Source: AICPA Clarified Statement on Auditing Standards (AU-C) 800*

A **step-by-step ethical decision-making model** prompts the practitioner to go through a prescriptive series of steps to find the best course of action.

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

**Threat** means a circumstance that could impair independence. Whether independence is impaired depends on the nature of the threat, whether it would be reasonable to expect that the threat would compromise the CPA's professional judgment and, if so, the specific safeguards applied to reduce or eliminate the threat and the effectiveness of those safeguards. *Source: AICPA Code of Professional Conduct*

**URL shortening** cons are shortened versions purporting to link to a legitimate URL which instead redirect the victim to a website which steals his or her information.

**Using the CPA title in Virginia** means using "CPA," "Certified Public Accountant" or "public accountant" (i) in any form or manner of verbal communication to persons or entities located in Virginia or (ii) in any form or manner of written communication to persons or entities located in Virginia, including but not limited to the use in any abbreviation, acronym, phrase or title that appears in business cards, the CPA wall certificate, Internet postings, letterhead, reports, signs, tax returns or any other document or device. Holding a Virginia license or the license of another state constitutes using the CPA title.

# APPENDIX I: RESOURCES, GLOSSARY AND ACRONYMS

## NOTES

## COMMON ACRONYMS & ABBREVIATIONS

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

# APPENDIX II: AICPA CODE OF PROFESSIONAL CONDUCT RULE 1.400.200

The rules from the American Institute of CPAs (AICPA) Code of Professional Conduct regarding record requests are:

## NOTES

### 1.400 Acts Discreditable

#### 1.400.200 Records Requests

- .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 body. 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 The member should return client-provided records in the member's custody or control to the client at the client's request.
- .07 Unless a member and the client have agreed to the contrary, when a client makes 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 provided to the client, the member should respond to the client's request as follows:
  - a. The member should provide member-prepared records relating to a completed and issued work product to the client, except that such records may be withheld if fees are due to the member for that specific work product.
  - b. Member's work products should be provided to the client, except that such work products may be withheld
    - i. if fees are due to the member for the specific work product;
    - ii. if the work product is incomplete;
    - iii. if for purposes of complying with professional standards (for example, withholding an audit report due to outstanding audit issues); or
    - iv. if threatened or outstanding litigation exists concerning the engagement or member's work.
- .08 Once a member has complied with these requirements, he or she is under no ethical obligation to
  - a. comply with any subsequent requests to again provide records or copies of records described in paragraphs .03–.04. However, if subsequent to complying with a request, a client experiences a loss of records due to a natural disaster or an act of war, the member should comply with an additional request to provide such records.

# APPENDIX II: AICPA CODE OF PROFESSIONAL CONDUCT RULE 1.400.200

## NOTES

- 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]
- .09 A member who has provided records to an individual designated or held out as the client's representative, such as the general partner, majority shareholder, or spouse, is not obligated to provide such records to other individuals associated with the client. [Prior reference: paragraphs .377–.378 of ET section 591]
- .10 Working papers are the member's property, and the member is not required to provide such information to the client. However, state and federal statutes and regulations and contractual agreements may impose additional requirements on the member.
- .11 In fulfilling a request for client-provided records, member-prepared records, or a member's work products, the member may
- a. charge the client a reasonable fee for the time and expense incurred to retrieve and copy such records and require that the client pay the fee before the member provides the records to the client.
  - b. provide the requested records in any format usable by the client. However, the member is not required to convert records that are not in electronic format to electronic format. If the client requests records in a specific format and the records are available in such format within the member's custody and control, the client's request should be honored. In addition, the member is not required to provide the client with formulas, unless the formulas support the client's underlying accounting or other records or the member was engaged to provide such formulas as part of a completed work product.
  - c. make and retain copies of any records that the member returned or provided to the client.
- .12 A member who is required to return or provide records to the client should comply with the client's request as soon as practicable but, absent extenuating circumstances, no later than 45 days after the request is made.
- .13 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. [Prior reference: paragraph .02 of ET section 501]
- .14 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.

# APPENDIX III: VIRGINIA BOARD OF ACCOUNTANCY GUIDANCE ON VOLUNTEER SERVICES



## Providing Volunteer Services as a Virginia CPA

2019

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*Reference the attached chart and graph for further guidance on volunteer services.*

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## Providing Volunteer Services as a Virginia CPA

The Virginia Board of Accountancy receives many inquiries regarding services that a CPA may and may not provide as a volunteer to a not-for-profit entity. Consistent with the mission of protecting the public, the VBOA believes that CPAs can bring valuable knowledge, experience and insights as volunteers to these types of organizations and support their involvement. The information contained herein is intended to provide guidance to CPAs who are serving in volunteer roles and may be asked to provide volunteer services, which may fall under the Virginia accountancy statutes and regulations.

All services provided by licensees are subject to the relevant parts of the standards of conduct and practice in [§ 54.1-4413.3](#). Application of the accountancy statutes and regulations is not affected by whether compensation is received for the service.

### What can CPAs do?

Opportunities abound for CPAs to serve the nonprofit sector in Virginia. The implementation of Statement on Standards for Accounting and Review Services (SSARS) No. 21 (Section 70) has affected volunteer services provided by CPAs to nonprofit organizations. More specifically, Virginia license holders must realize that the preparation of financial statements for such entities by Virginia CPAs may require a firm license, even when performed as a volunteer. Under Virginia law, “Only a firm can provide attest services, compilation services, or financial statement preparation services to persons or entities located in Virginia.” ([Code of Virginia § 54.1-4412.1](#)) Performance of such services may also require enrollment in the Peer Review Program. ([Code of Virginia § 54.1-4412.1.D.6](#))

However, a firm license and peer review enrollment may not be required in some cases, including if the CPA was acting as a member of the governing board or as an officer of the entity.

Nonprofit organizations have long realized that the skills and abilities of CPAs are a valuable resource and that CPAs can provide much needed financial and accounting services. These organizations often call on CPAs to provide assistance on a volunteer basis. Consistent with the VBOA’s mission of protecting the public, the VBOA believes that CPAs can bring valuable knowledge, experience and insights as volunteers and therefore supports such involvement with nonprofit entities.

If a person who only holds a Virginia individual license is asked to provide volunteer services to a nonprofit organization, the CPA must ask two very important questions:

1. What service is to be provided (i.e., for what service has the CPA been engaged)?
2. In what capacity will I be providing the service?

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## What service is to be provided? (i.e., for what service has the CPA been engaged)

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For instance, if a charity requested a CPA to complete a form that is entitled Audit Checklist, the CPA may discover that the steps outlined on the form do not resemble anything close to an audit as that term is defined by auditing standards. For example, the charity may simply be asking that the CPA reconcile beginning and/or ending cash balances to previously issued monthly reports. This service would constitute accounting services, but would not constitute an audit. The individual CPA can sign a statement related to the activities undertaken, but should exercise caution to avoid using the CPA designation in such a statement. In this situation, the CPA would not need a firm license.

In another example, a CPA may be asked to serve as a member of an Audit Committee, which will then examine the financial records and issue a report that they “found nothing out of the ordinary.” In this case, regardless of the nature of the work undertaken or its findings as reported, the individual CPA is not engaged to perform an audit. In reality, the members of the Audit Committee were engaged to perform various auditing-type procedures, but not the individual CPA. The individual CPA can, along with other members of the Audit Committee, sign a statement related to the Committee’s activities, but should exercise caution to avoid using the CPA designation in such a statement. In this situation where it does not require using a CPA designation, the CPA would not need a firm license.

Often, volunteer board members are familiar with some accounting terms, but do not fully understand those terms. For instance, a CPA could be asked as a volunteer to compile the financial statements for the entity. Upon inquiry, the CPA may learn the entity simply wants someone to prepare financial statements, not perform a compilation, as defined by professional standards. Since the preparation of financial statements is a separate professional service distinct from a compilation service, the CPA should thoroughly understand the entity’s needs in the situation.

CPAs should first consider whether the service being provided is an attest, compilation or preparation of financial statement service as those terms are defined by accounting standards. Often, nonprofit entities freely use terms such as audit or review in manners different from that defined in accounting standards.

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## In what capacity will I be providing the service?

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A CPA may provide services to a nonprofit entity as part of the normal practice of public accounting or as a volunteer. If the CPA is a volunteer, they may serve in many capacities, including as a governing board member, officer, committee member (e.g. finance or audit) or simply as a volunteer worker.

When a CPA in public practice provides professional services to any entity for compensation, whether the entity is a for-profit business, a government agency or a nonprofit entity, then clearly relevant standards and regulations apply. Specifically, providing attest, compilation or financial statement preparation services would require that the CPA have a firm license and may need to be enrolled in peer review. All work performed must comply with the profession's technical standards. However, when a CPA is serving as a volunteer, and in that volunteer capacity, is asked to provide attest, compilation or financial statement preparation services, a careful review of both Virginia law and professional standards is required.

### EXAMPLE

A not-for-profit entity could appoint a committee or task force consisting entirely of persons who do not hold a license to perform services similar to attest services that are not the practice of public accounting. A common example is performing agreed-upon procedures. The governing body of a church may specify procedures to be performed on the financial statements and communicated to the governing body and ultimately the congregation.

Similarly, the regional body that oversees a church may specify procedures to be performed on the financial statements and communicated to the regional body. Communicating the results of the procedures does not constitute providing an assurance, and the service is not the practice of public accounting.

A church may ask a member who is a licensee to serve as a member of the group. That does not make the service an attest service. The church did not engage the licensee to perform the services. Instead, it appointed the group to provide the services.

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## **Audit, Review and Attest Services**

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If the CPA is serving as a volunteer officer or governing board member of a nonprofit entity, then no audit, review or other attest engagements could be performed by the CPA since these services require independence. These services are defined within the relevant professional standards.

If the CPA is serving solely as a Volunteer Worker for a nonprofit entity, then the CPA could perform audit, review or other attest engagements, if and only if the CPA in his or her professional judgment could establish that independence exists in accordance with professional standards. These services would require that the CPA have a firm license and be enrolled in peer review and all work performed must comply with the profession's technical standards.

These same facts would apply if a CPA who was otherwise employed in business or industry agreed to volunteer to audit the nonprofit entity's records.

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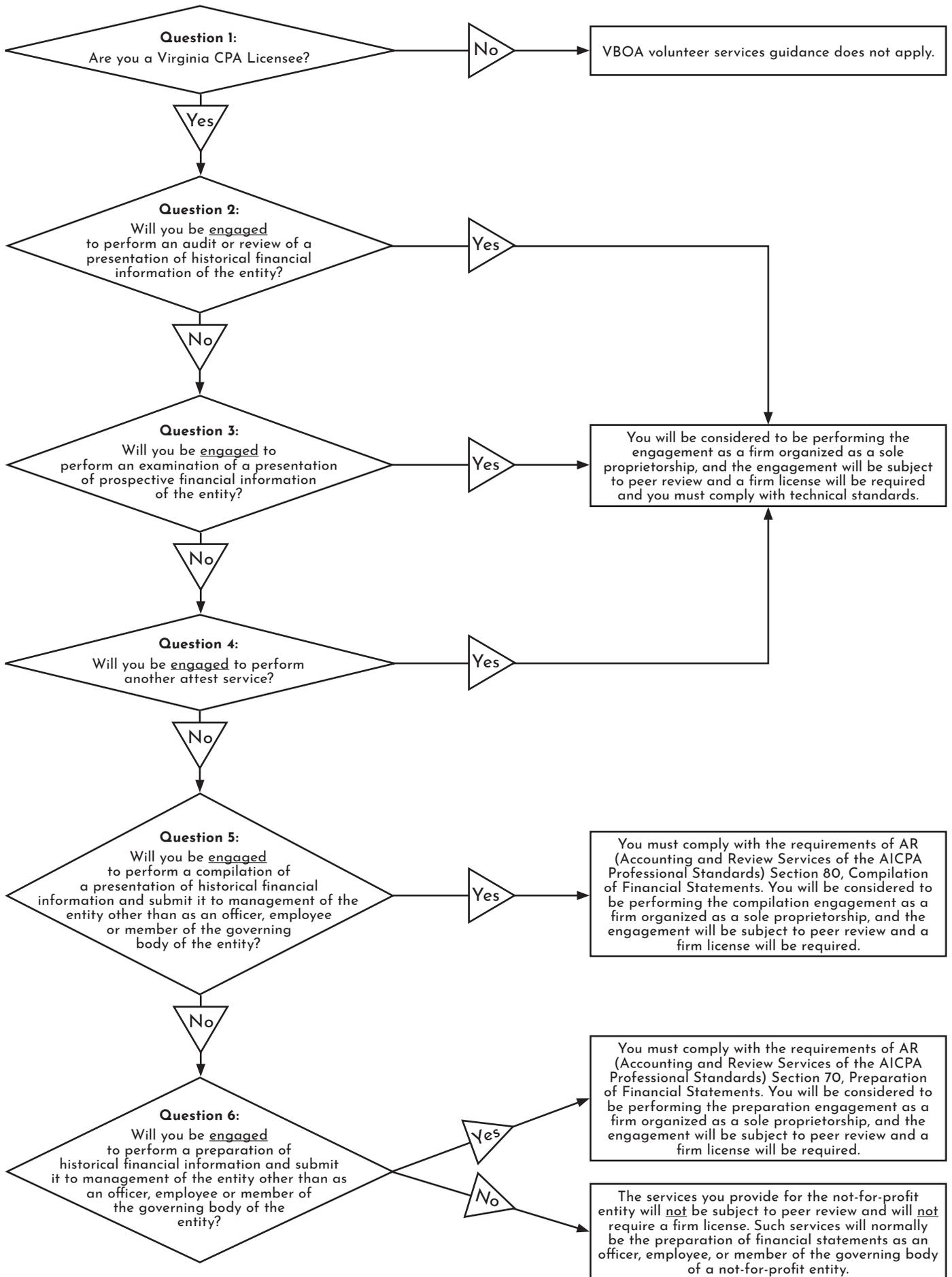
## **Compilation Services**

---

While serving as a volunteer officer or governing board member, a CPA could prepare the entity's financial statements. As noted in SSARS No. 21 Section 80, Interpretation 8, "If an accountant is not in the practice of public accounting, the issuance of a (compilation) report under SSARS would be inappropriate." Virginia law defines the practice of public accounting to exclude situations in which the service "is provided by one or more owners, officers, employees, or members of the governing body of the entity or entities about whom the financial information is presented" ([Code of Virginia § 54.1-4400](#)). Therefore, when a CPA serving as a volunteer board member or officer prepares the financial statements of the entity, this does not represent a compilation engagement as that service is defined by SSARS No. 21 Section 80. However, to avoid any misconceptions, it is recommended that the financial statements clearly indicate that no assurance is provided.

A firm license would not be required, nor would the CPA be required to enroll in peer review. The work performed for this service would not be required to meet the profession's technical standards.

If the CPA is serving solely as a Volunteer Worker for a nonprofit entity, they could perform a compilation on a volunteer basis. Independence is not required, but proper disclosure of the lack of independence (if that is judged by the CPA to be the case) would be required and a firm license and enrollment in peer review would be required. All work performed must comply with the profession's technical standards.



# APPENDIX IV: INACTIVE STATUS APPLICATION FORM



## Inactive Status Application Form

This individual is currently licensed as a CPA with the Active status. However, the individual is not currently providing services, including on a volunteer basis, that include the substantial use of accounting, financial, tax or other skills that are relevant, as determined by the VBOA. This includes services to the public or to or on behalf of an employer under the Code of Virginia [§ 54.1-4413.3](#). Therefore, this individual is requesting an exemption from the VBOA's continuing professional education requirements.

This individual must be approved for the Inactive status before ceasing to meet the CPE requirements.

---

### CERTIFICATION OF APPLICANT

Name: \_\_\_\_\_ License number: \_\_\_\_\_

Currently employed:  Not employed:

Current job title: \_\_\_\_\_

If employed, an official job description must accompany the application.

- I certify my Virginia license is in Active status.
- I certify that I am not currently providing services as defined in [§ 54.1-4400](#), "Providing services to an employer" or "Providing services to the public."
- I certify that my current position does not require the substantial use of accounting, financial, tax or other skills that are relevant, as determined by the VBOA.
- I certify that my current position does not require more than 5% of substantial use of accounting, financial, tax and other skills that are relevant, as determined by the VBOA.
- I certify that I will not provide accounting services to the public or to or on behalf of an employer with the Inactive status, which includes but is not limited to tax preparation (with or without compensation).
- I understand in order to begin providing services, I must request reinstatement of the Active status from the VBOA.
- I understand that I must comply with VBOA regulation to begin providing services. The requirements include obtaining at least 120 hours of CPE prior to providing the services, including the two hour Virginia-Specific Ethics Course.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

# APPENDIX V: VIDEO SCRIPTS

## WELCOME VIDEO

Hello, and welcome to the 2020 Ethics course required for all Virginia CPAs. I'm Laurie Warwick, CPA. I have been a licensed Certified Public Accountant in Virginia since 1997. In 2016, I was appointed by the governor to serve on the Virginia Board of Accountancy. It is the mission of the VBOA to protect Virginians by ensuring CPAs and CPA firms are properly licensed and comply with all relevant statutes and regulations.

I'm Brian Carson, and I became a Virginia licensed CPA in 1998. I've been honored to serve on the Board for the past five years, and I've really enjoyed my experiences thus far. As Laurie mentioned, the VBOA regulates CPAs by approving CPA Exam candidates, licensing individuals, managing continuing professional education requirements and ensuring CPA firms are properly licensed and, if required, enrolled in peer review. For over a century, the VBOA has valued high ethical standards and integrity.

Did you know the VBOA is not funded by tax dollars? It's completely dependent upon the fees paid by applicants, licensees and Exam candidates. And the Board members themselves are all volunteers.

That's right. Laurie and I are joined by five other Board members appointed by the governor. The Board is comprised of four CPAs who have actively engaged in providing services to the public for at least three years, one CPA who has actively provided services to the public or an employer in government or industry in the last three years, and one CPA from education.

We're also joined by one citizen member who is not a licensed CPA but may be an accountant. Currently, the individual serving in this role is an attorney. Each Board member is appointed for a four-year term, and we may not serve more than two consecutive terms.

To protect the public, the VBOA investigates complaints against CPAs and CPA firms who hold current or expired licenses in Virginia. The VBOA will also investigate an individual or entity who may be using the CPA designation without a license or performing services that are restricted to CPAs or CPA firm licensure. We don't have authority over non-CPA accountants or bookkeepers unless they are holding themselves out as CPAs without having obtained the designation. The VBOA also audits and sanctions CPAs who do not meet the continuing professional education requirements, and CPA firms required to be enrolled in peer review.

So, how many complaints does the VBOA actually receive each year? It is generally an average of 75 to 100 complaints, this does not include CPE violations, and last year VBOA received 50 new complaints.

Anyone can submit a complaint; this includes CPAs, clients, former clients, state or federal agencies or members of the public. Also, some complaints are initiated by the VBOA. A complaint form is available online at [boa.virginia.gov](http://boa.virginia.gov).

## NOTES

# APPENDIX V: VIDEO SCRIPTS

## NOTES

The VBOA can't look into everything; our authority is restricted to violations of the Code of Virginia statutes and/or Board regulations. We do not investigate complaints that involve fee disputes, minor errors or mistakes or cases currently in litigation.

Complaints must be received in writing and should specifically detail the issue with supporting documentation. In most cases, the accused party is made aware of the complaint as part of the investigation. That person will receive a copy of the detailed complaint and will have an opportunity to respond. The VBOA will also investigate an anonymous complaint, but it must receive enough information and supporting documents in order to do so.

The VBOA offers complainants assistance by providing checklists for filing complaints against both licensed and unlicensed CPAs and CPA firms. Those checklists are found on the VBOA's website.

So where do complaints go from here? All information that indicates or alleges a possible violation of law or regulation is referred to the VBOA Enforcement Division. A preliminary investigation is conducted by reviewing reports and complaints to determine if there is a possible violation and if the VBOA has jurisdiction over the matter. If there's not enough evidence to substantiate a violation of a law or regulation, or if the VBOA does not have jurisdiction, the complaint is closed and the complainant is notified in writing. In those cases where another regulatory agency or body may have jurisdiction, the matter is also referred to that regulatory agency or body, as appropriate.

On the other hand, if it's determined that a violation of law or regulation may have occurred, a case is docketed for further investigation. The respondent and complainant are notified in writing, and an investigation is initiated.

It is the responsibility of the VBOA Enforcement Division to conduct an investigation by contacting the respondent and potential witnesses and by obtaining copies of relevant documents and other relevant evidence. The results are fully documented as a written report of the investigative findings and evidence, which is submitted for probable cause determination. Depending upon the nature of the allegation, probable cause review may be conducted by VBOA staff or by a Board member.

Upon completion of the investigation and investigative report, a preliminary review is conducted to determine if probable cause exists and if charges should be issued against the respondent. In order to take disciplinary action against a licensee, the VBOA must have clear and convincing evidence that a violation of law or regulation has occurred. While one may believe that a licensee's action could be considered improper or otherwise deserving of corrective action, it may not always be a violation of law or regulation.

If probable cause is found, the result is typically to offer the respondent a Consent Order, or to issue a notice of Informal Fact-Finding Conference. If probable cause is not found, the complainant and the respondent are notified and the case is closed.

# NOTES

A Consent Order can be offered to the respondent if sanctions are deemed appropriate. A Consent Order is a potential resolution of the complaint proposed in writing to the CPA, CPA firm or unlicensed individual. If the respondent signs the Consent Order and fully agrees to the terms and conditions, the Consent Order is then brought before the full Board for approval. The Board can then accept or reject the Consent Order, in whole or in part. If the respondent chooses not to sign the order, they may elect to be heard at an administrative Informal Fact-Finding Conference.

Informal Fact-Finding Conferences — IFF for short — can happen based on the probable cause review recommendation or upon a request from the respondent. IFFs are an opportunity for the respondent to discuss the allegations stated in the notice and the evidence contained in the investigative file. In all disciplinary matters and proceedings, the burden of proof rests with the Commonwealth to establish clear and convincing evidence of a violation of law or regulation. An exception is cases involving applicants for initial licensure or reinstatement, who bear the burden of proof to establish evidence that they meet eligibility requirements and are safe and competent to practice.

Before the IFF convenes, the respondent will receive notice of the specific allegations and any information the board will use to make a determination. The respondent can present factual data, an argument or proof on the facts and circumstances surrounding the alleged violation. The respondent may choose to be represented by counsel at the IFF. The complainant, if not anonymous, can attend the IFF if they choose, and witnesses who are Virginia residents can be subpoenaed.

Board members participating in the IFF may be chosen based on their field of interest, their location or their representation of specific disciplines within the practice. One of the Board members will serve as the presiding officer for the IFF. Each of the Board members may ask questions regarding the allegations during the IFF.

IFFs are open to the public and will be posted on the Town Hall Commonwealth Calendar website prior to the meeting date.

Following the IFF, the Presiding Officer makes a recommendation to the full Board for consideration. The recommendation will include findings of fact, conclusions of law and any proposed disciplinary actions or sanctions. The respondent will receive a copy of the recommendation and a transcript of the proceedings. The Board can accept or reject the recommendations in whole or in part. The Final Opinion and Order are entered and signed by the Board chair and noted on the respondent's record. The Final Opinion and Order is generally published on the VBOA website and in the newsletter. The respondent has 30 days to appeal the Board's final decision to the courts.

In some cases, following the IFF, in lieu of a Presiding Officer recommendation, the respondent may be offered a Consent Order to settle the matter. The respondent can choose to either sign or not. If signed, the Consent Order goes to the full Board for





## PROFESSIONAL SKEPTICISM VIDEO

## NOTES

**Melisa Galasso:** I am super excited today to have Bob Dohrer with us from the AICPA to talk a little bit about professional skepticism. So Bob, you have a new role at the AICPA, tell us a little bit about what you do.

**Bob Dohrer:** Yeah, well thank you. And at the AICPA, my title is chief auditor, which may be a little bit new to some people, but it's essentially the former vice president of professional standards role that we had before.

**Melisa Galasso:** Thinking about the changes in the audit standards and some of the work that you guys have issued recently, but also are working on how have the audit standards evolve to really focus on professional skepticism and professional judgment?

**Bob Dohrer:** Yeah, well that's a good question. I think, you know, some of it is just inherent in the environment in which we find ourselves today as the business environment and the way that business is transacted has become more complex. It's a simple reality that setting standards to keep pace with that type of change is really impossible to do. And as such, we at the AICPA, and particularly the Auditing Standards Board, have recognized the importance of creating a fundamental principles based framework of standards that we can use that will provide a firm foundation for the way audits can be conducted while at the same time allowing the profession, auditors and firms and others, to innovate within those principles and to be able to keep pace with change that's occurring. Kind of let practice develop and allow the profession to stay relevant and keep pace.

**Melisa Galasso:** Alright, so you mentioned the movement towards a principles based approach, less rules, more principles. We see this on the FASB side. We see it on the GASB side. As we move to these principle-based approach, how does that impact the audit approach that entities are going to have to go through and firms are going to have to adopt?

**Bob Dohrer:** Well, you know it, it's an interesting interplay, right? It's, it's almost like the Seesaw or the Teeter totter of audit and accounting. As the accounting standards become more principles based, it puts more stress on auditor's professional judgment and skepticism actually to come into play. Now that's, you know, one could view that as being a little bit more difficult for auditors. You know, I actually view that as really good for us as a profession because it is what we train for, what we went to school for, what we get our experience for, is to apply that good sound, professional judgment, skepticism to anything we do.

**Melisa Galasso:** So we talked a lot about the audit standards, obviously your area of expertise, but we have, obviously, CPAs all over the profession doing various work. How can CPAs not involved in audit or attestation services still apply this concept of professional skepticism to their work? Is it still relevant to them?

# APPENDIX V: VIDEO SCRIPTS

## NOTES

**Bob Dohrer:** Yeah, that's a question that we get quite often actually. And it comes through in a, in a number of different ways. As CPAs, even if you're operating outside of public accounting, you are bound by the AICPA code of conduct, which of course requires us to perform our work with due professional care. And incumbent in that is that attitude of skepticism and questioning. So the way it works is a CPA, I don't believe should ever just take things at face value, whether it's recording transactions or doing bookkeeping or a payroll tax service, or whatever you may be doing. If you see something that doesn't seem just right, you are, you know, it's actually your responsibility as CPAs to follow up on that, to understand better and get satisfied that whatever action is being requested of you is appropriate in the circumstances and if not to push back and bring that to the attention of others. Of course, you know, with all of that comes, it's just a necessity that you're using judgment. So whether you're an auditor, whether you're an accountant, whether you're a practitioner, whatever you call yourself, as long as you're a CPA, you can never get away from the requirements of using professional judgment and skepticism when performing services with due care.

**Melisa Galasso:** We look forward to seeing some of the standards that are coming down the pike.

**Bob Dohrer:** Thank you very much. It's a great opportunity, as always, to share some information and we look forward to doing so in the future.

**Melisa Galasso:** Thank you.

**Bob Dohrer:** Thank you.

## SPEAKING OUT ON SOCIAL MEDIA VIDEO

You are a CPA in an organization in which many of the employees are also friends. Robert is a fellow CPA and one of your friends on Facebook. His profile is marked private and his work information and CPA credential are not listed.

A high-profile election is coming up. You notice that Robert has been interacting with and sharing posts related to the upcoming election that express a perspective and opinion different from your own.

What do you do? Does it make a difference if Robert's profile does list his CPA credential? What are the ethical issues associated with the content or comments that Robert posts?

## LITTLE WHITE LIES VIDEO

## NOTES

### SCENE ONE

**CPA:** Thank you Mrs. Davis for having your financials in such good order. I wish all of my clients had their ducks in a row like this.

**Mrs. Davis:** Well, I have an MBA and I did my own business taxes for five years. I thrive on organization and process. This year my LLC has simply grown to the point I don't have time to do my own taxes. That's where you come in.

**CPA:** Whatever the reason, I appreciate not having to follow up on every little item. However, I did have a few questions about some of the business expenses and deductions.

**Mrs. Davis:** Did you look at the files I provided? Every expense is meticulously documented and supported.

**CPA:** I see that. But these particular items here seem to be quite a bit ... and home office deductions appear to be too general.

**Mrs. Davis:** Okay.

**CPA:** And the automobiles are strictly for business use?

**Mrs. Davis:** Mhmm.

**CPA:** *I can't help but think that these expenses are overstated and I have a few lingering doubts about the top line as well. But every time I raise a concern, Mrs. Davis has the perfect explanation at the ready. I suppose I approach this with the appropriate due diligence and perhaps that's all I can do.*

**CPA:** Thank you Mrs. Davis. Those are all of the questions that I needed covered. I will have your return finalized this week.

**Mrs. Davis:** Thank you.

**CPA:** You're welcome.

### SCENE TWO

**CPA:** That holiday party was fantastic. Amy, you really know how to celebrate the season and those scallops were to die for.

**Mrs. Davis/Amy:** Thank you. It was so good to see you and your daughter. She is going to be off to college before you know it and Chef Pierre, he caters all of my events and he really does the best seafood. I'll get you his number.

**CPA:** Oh thanks. But I think I'll just enjoy chef Pierre's food at your house. Are we still on for the charity event next week?

**Mrs. Davis/Amy:** Absolutely. I wouldn't miss it. Unfortunately, today I'm running a little short on time. You wanted to wrap up that pesky tax return, right?



# APPENDIX VI: PRESENTATION

SOMETIMES *the*  
RIGHT PATH  
IS NOT ALWAYS  
THE EASIEST

VIRGINIA-SPECIFIC  
ETHICS COURSE 2020

PROFESSIONAL JUDGMENT IN THE GRAY AREA

The graphic features a light blue background with a halftone dot pattern. A large yellow circle is on the right side. The text is centered and uses a mix of teal, orange, and blue colors. A small orange arrow with a pulse line is at the bottom left.

WELCOME VIDEO

3

PROFESSIONAL JUDGMENT IN THE GRAY AREA

The graphic features a light blue background with a halftone dot pattern. A large yellow circle is on the right side. A teal rectangle with a white play button icon is in the center. The text is in teal. A small orange arrow with a pulse line is at the bottom left.

# APPENDIX VI: PRESENTATION



## FUN FACTS



- The VBOA dates back to 1910.
- The VBOA is not funded by public tax dollars.
- Members serve a four-year term and can't serve more than two consecutive terms.

5



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## ENFORCEMENT PROCESS

- Investigation
- Probable Cause
- No Violation—Case Closed
- Consent Order
- Informal Fact Finding
- Final Opinion
- Penalties



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## ENFORCEMENT STATISTICS

### Virginia Board of Accountancy Licensee Statistics

As of fiscal year-end 6/30/2019

Individuals	
Number of Active, licensed CPAs	26,282
Number of Active — CPE Exempt, licensed CPAs	1,784
Number of out-of-state licensees	8,679
Reinstatements — Individuals	162
Number of new CPA licenses issued	1,133

Firms	
Number of active, licensed CPA firms	1,126
Reinstatements — Firms	10
Number of new CPA firm licenses issued	38

Exam Candidates	
Number of first time candidates applying to sit for CPA Exam	1,624



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## ENFORCEMENT STATISTICS

8

### Virginia Board of Accountancy Licensee Statistics

As of fiscal year-end 6/30/2019

Enforcement	
Number of complaints	49
Types of complaints:	
• Unlicensed activity	14
• Other disciplinary matters	35
CPE Audits	
Number of CPE audits requested	1,699
Status of CPE Audits:	
• Number of CPE audits resulting in compliance	1,079
• Number of CPE audit deficiencies	131
• Number of CPE audit deficiencies resulting in surrender of license	7
• Number of CPE audit deficiencies resulting in suspension of license	5
• Number of CPE audits open/pending review	489



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## VIRGINIA REGULATORY UPDATE



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## VIRGINIA REGULATORY UPDATE

- Annual June 30 license renewal date
- No grace period for license renewal
- License reinstatement requirements
- Continuous testing for the CPA Exam



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## VIRGINIA REGULATORY UPDATE

- CPE requirements
- CPE documentation requirements
- CPE reporting period
- NASBA CPE Audit Service
- Inactive status updates



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## VIRGINIA REGULATORY UPDATE

12

### VBOA Revised Guidance on Volunteer Services

- Revisions clean up language, making the provision of volunteer services simpler for the licensee to follow.
- VBOA updated the visual aids, allowing licensees to determine their roles and requirements easily.



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## CODE OF PROFESSIONAL CONDUCT UPDATE



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## NEW STANDARDS (EFFECTIVE) – AICPA

- Hosting Services [1.295.143]
  - Added June 2017
  - Effective July 1, 2019
- Leases [1.260.040]
  - Revised December 2018
  - Effective for fiscal years beginning after Dec. 15, 2019
  - Early implementation allowed



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## NEW STANDARDS (PENDING) – AICPA

- State and Local Government Client Affiliates [1.224.020]
  - Revised June 2019
  - Effective for years beginning after Dec. 15, 2020
- Information Systems Services [1.295.145]
  - Revised June 2019
  - Effective Jan. 1, 2021
  - Early implementation permitted



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## KEY CONCEPTS:

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**Professional  
Skepticism**



**Professional  
Judgment**



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## PROFESSIONAL SKEPTICISM IN THE PROFESSION

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

# FRAUD TRIANGLE



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# ETHICAL DECISION-MAKING MODELS



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION



## ETHICAL FRAMEWORKS

21

- Any ethical framework supplements the AICPA Code of Professional Conduct, which every CPA in Virginia must abide by.
- The Code of Professional Conduct describes what we as a profession value most.
- The ethical framework helps us apply the Code.



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# ETHICAL FRAMEWORKS

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## Step-by-Step Approaches

- Santa Clara University Model
- PLUS Model (although the PLUS acronym part is a lens-based approach)



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# ETHICAL FRAMEWORKS

23

## Lens-Based Approaches

- SHRM's Ethical Culture Model
- Kohlberg's Theory of Three Levels of Moral Reasoning



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## ETHICAL FRAMEWORKS

24

Which one is best depends on:

- The situation
- The person
- The necessary timeliness of the response



PROFESSIONAL JUDGMENT IN THE GRAY AREA

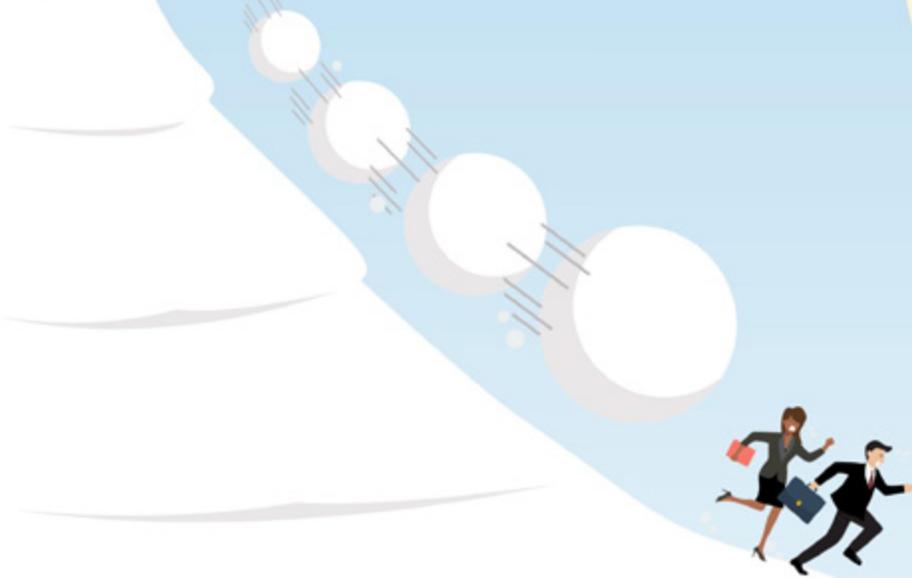
## CASE STUDIES



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# NOT-SO-TINY TRIALS

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

# A TRIP TO REMEMBER

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## PAYING TO PLAY

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

## HELPING OR HURTING?

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

## CLIENT CALLS IT QUILTS

30

# «EXIT»



PROFESSIONAL JUDGMENT IN THE GRAY AREA

## IN THE BIG LEAGUES

31



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

## SPEAKING OUT ON SOCIAL MEDIA

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PROFESSIONAL JUDGMENT IN THE GRAY AREA

## SPEAKING OUT ON SOCIAL MEDIA

33



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# LITTLE WHITE LIES

34



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# LITTLE WHITE LIES

35



PROFESSIONAL JUDGMENT IN THE GRAY AREA

# APPENDIX VI: PRESENTATION

**SAYING NO TO AUTHORITY**

36



PROFESSIONAL JUDGMENT IN THE GRAY AREA

This slide features a teal video player with a white play button icon in the center. The background is white with teal and yellow circular accents and a halftone dot pattern. A teal footer bar at the bottom contains a white waveform icon and the text 'PROFESSIONAL JUDGMENT IN THE GRAY AREA'.

**SAYING NO TO AUTHORITY**

37



PROFESSIONAL JUDGMENT IN THE GRAY AREA

This slide features a person in a dark suit and tie holding a white sign with the word 'NO' in large black letters. The background is white with teal and yellow circular accents and a halftone dot pattern. A teal footer bar at the bottom contains a white waveform icon and the text 'PROFESSIONAL JUDGMENT IN THE GRAY AREA'.

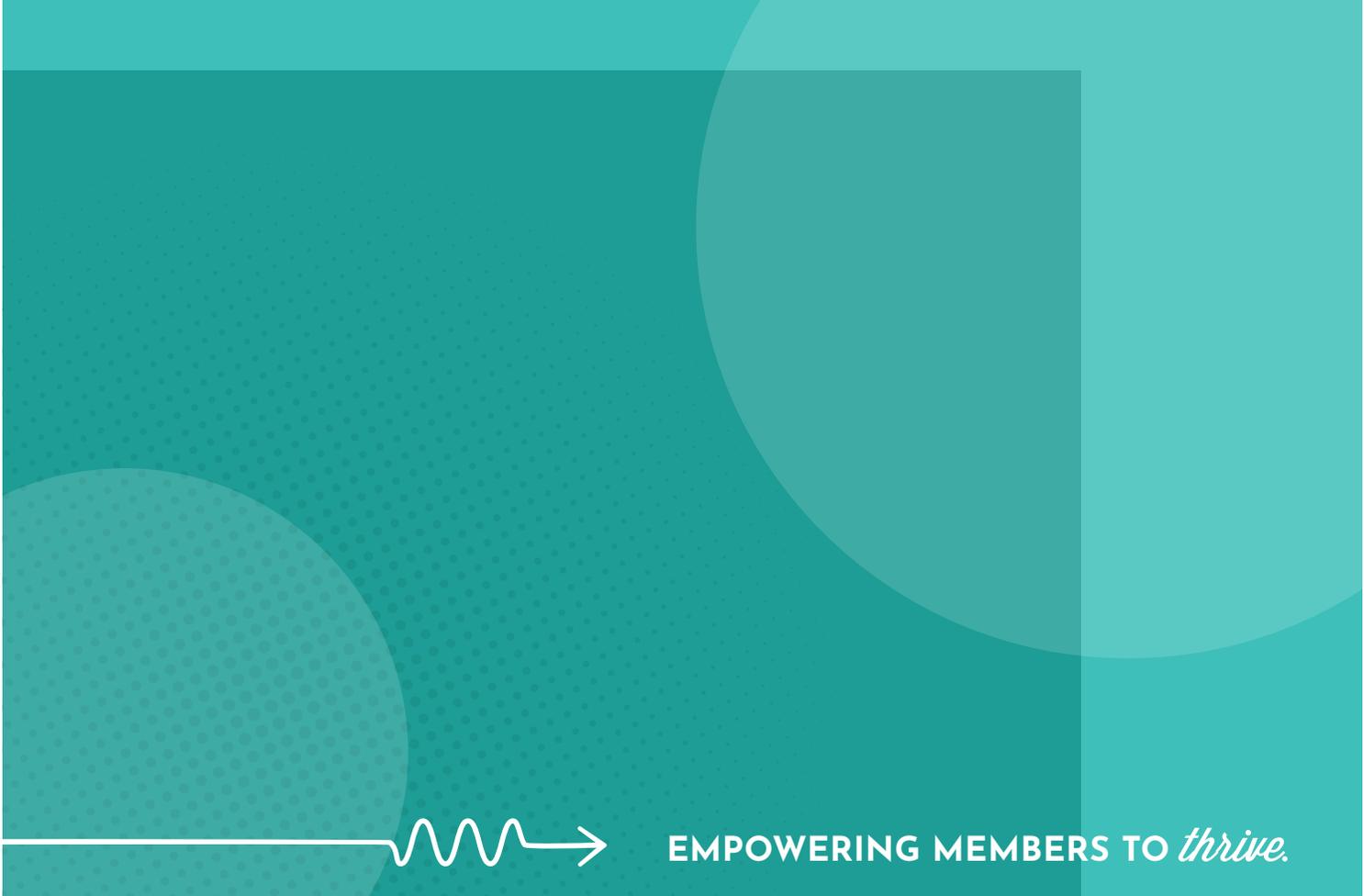
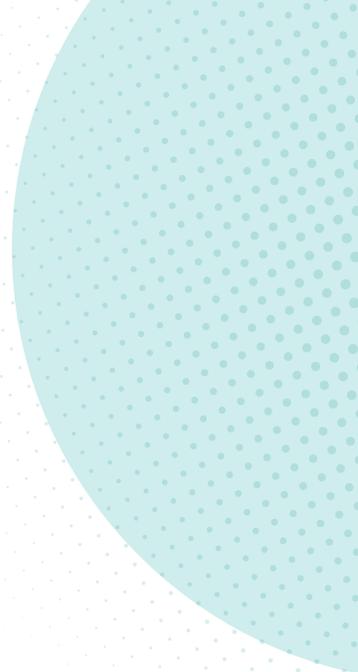
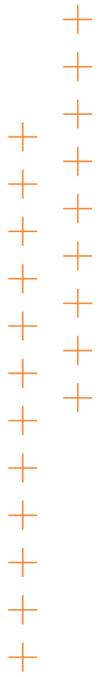
## NEXT STEPS

- Complete your course evaluation.
- Make sure you renew your license.
- Check your CPE information on NASBA's CPE Audit Service.
- Visit [vscpa.com/EthicsResources](https://vscpa.com/EthicsResources) for updates.



# REFLECTIONS





EMPOWERING MEMBERS TO *thrive.*