Arkansas HFMA December CPE Seminar

Arkansas State Board Ethics: 2020 Board Update

December 10, 2020

Review of the Board's Code of Professional Conduct

- *Rule 100's - Independence, Integrity & Objectivity*
- *Rule 200's - Competence & Technical Standards*
- *Rule 300's - Responsibilities to Clients*
- *Rule 400's – Other Responsibilities and Practices*

Conduct Rule 100's

Independence, Integrity & Objectivity

Rule 101 - Independence

- Shall be independent in the performance of professional services.
- Lack of independence occurs when associated with a non-licensed office or business.
- Lack of independence shall be disclosed when performing attest or compilation services for a client who has paid or will pay a commission or fee to such non-licensed office or business.

Rule 101 – Independence (contined)

- *"Associated With"*

  1. any contractual relationship between the licensee (or firm) and non-licensed business whereby compensation is paid to or received from the non-licensed business by the licensee in connection with the performance of professional services,

  2. a situation where a relative (spouse, child, parent or sibling) of the licensee owns an interest in the non-licensed business, or

  3. any situation where a licensee, registered firm, or employee of the firm owns an interest in the non-licensed business.

Rule 102 - Integrity and Objectivity

- Shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts nor subordinate his or her judgment to others.
- However, in a tax practice, may resolve doubt in favor of client as long as there is reasonable support for position.
- *Incompatible Occupations* **(Rule 103)** - shall not concurrently engage in the practice of public accountancy and in any other business or occupation which impairs independence or objectivity in rendering professional services.

Conduct Rule 200's

Competence & Technical Standards

Rule 201 – General Standards

a) shall undertake only those professional services that can reasonably be expected to be completed with professional competence.

b) shall exercise due professional care in the performance of professional services.

c) shall adequately plan and supervise the performance of professional services.

d) obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

Conduct Rule 201C Example

Rule 202 – Compliance with Standards

- Shall comply with professional standards as defined in Board Rule 8.2.
  - *SAS – Statements on Auditing Standards*
  - *SSARS - Statements on Standards for Accounting & Review Services*
  - *SSCS – Statements on Standards on Consulting Services*
  - *SSAE – Statements on Standards for Attestation Engagements*
  - *SRTP - Statements on Responsibilities in Tax Practice*
  - *All related AICPA interpretations*

Rule 202 – Compliance with Standards

- *AICPA standards on Quality Reviews, Prospective Financial Information, and Governmental Organization Program Audits*
- *FASB GAAP*
- *GASB GAAP*
- *Catch all statement – similar pronouncements by the AICPA, FASB, GASB, SEC, PCAOB, and other organizations having generally recognized authority over licensees of the Board.*

Polling Question #1

Regarding Arkansas Accountancy Laws, Board Rules and the Board's Code of Professional Conduct:

a) I read over them when I was first licensed and have not looked at them since
b) I have a copy of them on my nightstand near my bed
c) I go to the Board's website to research them as the need arises
d) There's a Code of Conduct?

Rule 203 – Accounting Principles

- If financial statements (or data) contain any departure from an accounting principle that has a material effect on the financial statements taken as a whole, do not:
  - Express an opinion,
  - State that the statements are presented in conformity with GAAP, or
  - State that you are not aware of any material modifications that should be made to bring the statements into conformity with GAAP
- *Unless….you can demonstrate that, by reason of unusual circumstances, the financial statements or data would otherwise have been misleading*

Rule 204 – Prospective Financial Statements or Data

- A licensee shall not in the performance of professional services permit his or her name to be used in conjunction with any prospective financial statements or data in a manner which may reasonably lead to the belief that the licensee vouches for the achievability of the prospective financial statements or data.

Conduct Rule 300's

Responsibilities to Clients

Rule 301 - Confidential Client Information

- A licensee shall not disclose any confidential information pertaining to client obtained in the course of performing professional services without the consent of his or her client. This rule does not:
  - *Relieve obligations under Rule 202 and 203;*
  - *Affect obligation to comply with a validly issued subpoena or summons;*
  - *Prohibit compliance with applicable laws and regulations;*
  - *Prohibit review of a licensee's practice by the Board;*
  - *Preclude a licensee from initiating a complaint or responding to a Board inquiry (or any disciplinary body)*

Rule 302 - Records

- **Client-provided records:** *Must be returned to client within 10 business days regardless of account status*
- **Licensee-prepared records:** *Must be furnished to client within 20 business days; may require outstanding fees related to the specific engagement be paid, may charge reasonable fee; must be in readily usable format*
- **Licensee work products:** *Must be provided asap; may withhold if fees are due, product is incomplete, required by stds or litigation exists; may charge reasonable fee for copies*
- **Licensee working papers:** *Property of the licensee; no obligation to provide to client unless required by law or requested by the Board*

Polling Question #2

For work completed and paid for, a client's Depreciation Schedule is considered to be a:

a) Licensee work product and must be provided if requested by the client
b) Licensee-prepared record and must be provided if requested by the client
c) Licensee working paper and does not have to be provided if requested by the client
d) Licensee working paper but must be provided if requested by the Board

Conduct Rule 400's

Other Responsibilities and Practices

Rule 401 – Discreditable Acts

- *A licensee shall not commit any act discreditable to the profession*
- Not defined by Accountancy law or Board Rule
- However, conduct discreditable is listed among the acts, conduct, and practices that are prohibited by licensees (A.C.A. § 17-12-601)

A.C.A. §17-12-601 – Prohibited Acts

1) Fraud, dishonesty, or deceit in obtaining a CPA license, firm registration, or practice privilege;
2) Dishonesty, fraud, or gross negligence in the practice of public accountancy;
3) Violation of any of the provisions of this chapter;
4) Violation of a rule of professional conduct or other rule promulgated by the board;
5) Conviction of a felony under § 17-3-102;

A.C.A. §17-12-601 – Prohibited Acts (continued)

6) Conviction of any crime under any state or federal law that involves dishonesty or fraud;

7) Imposition of any sanction or disciplinary action (other than failure to pay fees) by any state, federal or foreign agency (e.g. SEC, PCAOB, IRS) that regulates public accounting regarding licensee's conduct while rendering services;

8) Conduct discreditable to the public accounting profession; and

9) Violation of any board order for the resolution of asserted violations of this chapter, a board rule of professional conduct, or other board rule.

Conduct Discreditable Examples

Rule 402 – Acting Through Others

- A licensee shall not permit others to carry out on his or her behalf, either with or without compensations, acts which, if carried out by the licensee, would place him in violation of the Rules of Conduct.

Rule 403 – Advertising & Other Solicitation

- A licensee shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading, or deceptive. Solicitation by the use of coercion, over-reaching, or harassing conduct is prohibited.

Conduct Rule 403 Examples

Rule 404 – Firm Names

- Cannot practice public accountancy under a name which is misleading in any way, as to the legal form of the firm, or as to the persons who are partners, managers, members, officers or shareholders of the firm.
- Can include the names of one or more past partners, members or shareholders in the firm name of a partnership, LLC or corporation or its successor.
- Can continue to use the partnership or LLC name for up to two (2) years after the death or withdrawal of all other partners or members.

Rule 404 – Firm Names (continued)

- A fictitious firm name may not be used by a CPA firm unless such name has been registered with and approved by the Board as not being false or misleading.
- A firm may not include the term "Associates" or "Company" unless the firm has at least two full time CPAs on staff.

Rule 405 – Practice in Un-registered Entity

- A licensee shall not practice public accountancy in association with a sole proprietor, partnership, corporation or other entity which is not registered with the Board, unless the appropriate disclaimer is used as provided in Board Rule 15.3.

A.C.A. §17-12-404 – Licensees Associated with Unregistered Firms

a) A licensee shall not perform attest services in any unregistered entity.

b) A licensee who performs professional services in an unregistered entity shall not associate their name and CPA designation with the unregistered entity unless the appropriate disclaimer language is used.

Conduct Rule 405 Example

Rule 406 – Notification of Association with Non-licensed Office or Business

- Must notify the Board in writing within 30 days after creation and termination of a licensee's relationship with a non-licensed office or business.

Rule 407 – Referrals between Licensee or Firm and Non-licensed Office or Business

- Must disclose relationship to client whenever you accept a client from or refer a client to a non-licensed office or business with which you are associated.

Rule 408 – Notification to Client of Commission or Referral Fees

- Must disclose existence of commission or referral fee to client whenever you pay a fee to obtain a client or receive a fee to refer a client.

Rule 409 – Communications

- A licensee shall, when requested, respond to communications from the Board within thirty (30) days of the mailing of such communications by registered or certified mail.
- The Executive Director of the Board may require a response earlier than 30 days if he or she determines that an earlier response is necessary to prevent public harm

Rule 411 – Failure to File Tax Returns

- Willful failure to file licensee's or client's tax return and resulting conviction, plea of guilty or nolo contendere shall be considered conduct discreditable to the public accounting profession.

Rule 412 – Criminal Convictions/ Disciplinary Actions

- Must notify the Board in writing within 30 days if:
  1) convicted of or pleads guilty or nolo contendere to any crime (except traffic violation).
  2) license is surrendered, denied, revoked, suspended or cancelled or is subject to any sanctions.
- Applicant must furnish a written report at the time of application if any of the above are applicable.

Polling Question #3

Which one of the following is an acceptable excuse for not responding within 30 days to a Board correspondence sent by certified mail?

a) The Board did not have my new address
b) I was unable to pick it up at the Post Office
c) I am retired
d) I was out of the country
e) My spouse threw it away before I could read it
f) There is no acceptable excuse

Investigation Difficulties

Questions???

Board staff members are always available to answer any questions about this course or any accountancy statutes or Board rules.

www.arkansas.gov/asbpa

tim.montgomery@arkansas.gov

The Board is here to help every Arkansas CPA licensee