

ETHICS FOR COLORADO

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CHAPTER 1

ETHICS AND ETHICAL REASONING

LEARNING OBJECTIVES:

After studying this chapter, you will be able to:

1. Define ethics.
2. Differentiate between amoral and ethical values.
3. List and characterize two systems of ethics.
4. Differentiate between legal versus ethical codes.
5. Discuss ethical reasoning used by accountants.
6. Illustrate ethical dilemmas encountered by accountants.

Ethics is the "science of morals". A moral is an accepted rule or standard of human behavior. The understanding of "accepted" is "accepted by society", and accepted only insofar as the behavior in question being behavior that affects others in the society, even if only indirectly. The implication of this definition is therefore that private actions that have no impact on others are a matter for personal morality, which is not of business or organizational concern.

However, the distinction between personal morality and business morality may not always be so clearly defined. This is because individuals bring personal values to their jobs and to the real or perceived problems of moral choice that confront them at work. Moral choices sometimes must be made because of tensions within individuals, between individuals, or between individuals and what they believe to be the values that drive their organizations.

Furthermore, business organizations do not operate in a social vacuum. Because of the ways business organizations can and do affect the lives and livelihoods of society at large, some would argue that business organizations are kind of "moral agents" in society. Therefore managers and general public alike often wrestle with defining exactly what constitutes the ethical way of doing business, and what constitutes proper constraints on individual self-interests, and by whom shall these constraints be imposed.

A further complexity results from the fact that businesses are increasingly becoming global in nature. Different countries have or seem to have vastly different customs and values. Understanding and assessing whether and how these different cultural and ethical conflicts should be taken into account is often most difficult.

ATTITUDES TOWARD ETHICS

AMORAL:	Condone any actions that contribute to the corporate aim. Getting away with it is the key. No set of values other than greed.
LEGALISTIC:	Obey the letter of the law but not the spirit of it, especially if it conflicts with profits. Ethics ignored until it becomes a problem
RESPONSIVE:	Take the view that there is something to gain

	from ethical behavior, Using ethics as a tool to attain corporate aim.
EMERGING:	Ethical values becoming part of the culture. Codes of ethics being action documents, and likely to contain statements reflecting core value,
ETHICAL:	Total ethical profile. Everything done is ethical, and the right thing always done by everyone. The ideal.

In general, a key focus of ethics is the concept of integrity (or honesty). Integrity in broad terms will imply that no business-persons in the course of their business functions should be party to the falsification of any facts or information or make any statement which knowingly is misleading, false or deceptive in a material particular.

Another major focus of ethics is professional competence and due care, which implies that business professionals should always perform their functions in accordance with law and regulations. In other words, business transactions and professional functions should not be undertaken unless one possesses the required competence and technical skills.

A more controversial focus is the area of freedom from conflicts of interests. The preferred position of many is that one should always avoid concurrent involvement in any business, occupation or activity, which might result in the compromising of integrity, objectivity and independence of decision making.

In defining law and ethics and their relationship to each other, it is necessary to distinguish between moral and legal rights and duties. Morally, a person's rights consist of claims that he can justly make to the conditions of well-being; his duties consist of what he can justly contribute to well-being. Legal rights and duties - that is, claims and obligations enforceable at law - may or may not be fully in harmony with prevalent moral opinion systems in which law and ethics and religion are closely interwoven. The impact of moral opinion on law varies with the type of political structure and influence of public opinion.

In free societies, the ultimate justification of law is that it serves moral ends. However, the dependence of law on moral principles must not be taken to imply that there is a set of moral principles, which can be laid down for guidance. However, most free societies are coming to be more or less consistent in principles that draw the line between law and morals. The task of ethics becomes two-fold: to bring out what is involved in the notion of a principle or norm of action and to recognize ideals that serve as agencies of guidance and control.

A number of consistent principles recognized in modern society are the individual, responsibility and equity. The end of law is to secure the greatest possible general individual self-assertion. In the Judeo-Christian ethic, responsibility is a given: the best ordering of human society in which the individual may come to full manhood and satisfying existence. On the basis of equitable doctrine, we can say confidently that morality is inseparable from the legal order; that right and wrong is part of the legal order.

ETHICAL REASONING AND ACCOUNTANTS

The largest part of the prior research projects which have been done on ethical issues in accounting have generally avoided theoretical discussions about "right and wrong" or "good and

bad" choices. Instead, they have focused on determining whether or not accountants are abiding by the rules of professional conduct. There are basically two principles used to resolve ethical dilemmas, related to CPAs, which are utilitarianism and rule deontology.

Utilitarianism (teleological ethics)	The promotion that the best long-term interest of everyone concerned should be the moral standard: one should take those actions that lead to the greatest balance of good versus bad consequences
Deontology (Kantian ethics)	It deals with the concept of duty and the rightness of acts. It emphasizes maxims, duties, rules, and principles that are so important that they should be followed whatever the consequences.

In utilitarian, the focus is based on the consequences of an action rather than abiding by rules. Deontology, on the other hand, focuses on just the opposite. Under Deontology principles, an accountant would be more concerned with abiding by rules of professional conduct no matter what the consequences.

For example, a 2008 study published in *The CPA Journal* attempted to determine how accountants, specifically auditors, used ethical reasoning when confronted with issues related to client confidentiality. Rule 301, *Confidential Client Information*, of the AICPA's Code of Professional Conduct states that a member in public practice cannot disclose confidential client information without the client's consent. However, this Rule does not affect a CPA's obligations

- (1) To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations
- (2) To discharge his/her professional obligations properly under Conduct Rules 202 and 203
- (3) To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization
- (4) To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy

In the study, a survey consisting of three different circumstances was sent to 100 randomly selected CPA's. Each CPA was asked to respond to each circumstance described using the following guide:

- 1) To inform or not inform a third party of confidential client information, and

2) To indicate which response given in 1) was considered "good ethical behavior" if the Code was disregarded. Respondents were also asked to provide justification for their answers.

The following are the circumstances they were given:

"Scenario 1: James Corporation employs the regional CPA firm of Green and Cash to audit its financial statements. The firm has been asked to prepare quarterly financial statements. Bob Ethics, a staff accountant, was assigned to do the work. During the course of preparing the statements, Bob discovered that James Corporation materially understated net income on last year's tax return. Bob informed his supervisor about this and the client is asked to prepare an amended tax return. The client, however, refused to take corrective action.

Scenario 2: Johnson Manufacturing Corporation is a publicly owned company that manufactures equipment used by hospitals and medical laboratories. The company is audited by the national accounting firm of Adams & Pitre. One day, John, the senior in charge of the engagement overheard a conversation between two managers indicating that although they met inspection standards, they were aware of a defect in a particular piece of equipment, but they had not notified any of their customers because they felt the probability of malfunction was low. John takes this information to the controller and is told not to include it in the audit report. He then takes it to the manager on the engagement. The manager informs University Hospital, one of its clients, and also a major customer of Johnson Manufacturing Corporation, not to purchase any more equipment from Johnson. Johnson sues Adams & Pitre for violating the confidentiality rule.

Scenario 3: William Johnson, a CPA, served as a director of Last National Bank for a year. As a director, William may be held liable for damages if he fails to use care and prudence in administering bank affairs and such action causes the bank to suffer a financial loss. In the course of an audit, William discovered a seriously weakened financial position in a client who has a large loan at Last National Bank. Disclosure of this condition to the other bank directors would minimize the bank's loss, however, since the audit has not been completed, this would represent a violation of Rule 301 of the Code.¹"

According to the study, the following were the results, conclusions and implications:

"Scenario 1. Given a Code, most (78%) respondents would not inform the IRS. This is in agreement with the rule of conduct. Although the variability increased, most CPAs (70%) in this situation, would make the same decision without a Code. This is consistent with the justification given that most CPAs perceived themselves to be an

¹ "Ethical reasoning in confidentiality decisions," by Barbara L. Adams, Fannie L. Malone, and Woodrow James, Jr., *The CPA Journal*, July 2008

advocate of the client in a tax engagement. There was no perceived conflict in the rule of conduct and what most accountants perceived as good ethical behavior.

Scenario 2. Most CPAs (78%) responding in this situation would adhere to the Code and not inform one client of information discovered while auditing another client. A large percentage (52%) of respondents, however, indicated that informing would be the "best ethical behavior." In most instances, "potential safety concerns" were cited as the justification for considering informing as the "best ethical behavior." Thus, there appears to be some conflict in adhering to the Code and the moral value of some CPAs.

Scenario 3. Given a Code, a majority (78%) of CPAs would not inform, which is in agreement with the Code. A lesser percentage (53%), however, feel this is the best ethical behavior.

Conclusions and Implications

The findings of this study indicate that CPAs usually adhere to the Code (rule deontology) in resolving issues involving confidentiality. However, such decisions are not always in accord with what they perceive as "good ethical behavior." The broad principles of the Code indicate that ethical conduct, in the truest sense, means more than abiding by a letter of a rule. It means accepting a responsibility to do what is honorable or doing that which promotes the greatest good to the greatest number of people, even if it results in some personal sacrifice. Somehow, the profession needs to emphasize the "greatest good" criterion more strongly in applying the rules of conduct."

ETHICAL DILEMMAS IN ACCOUNTING

Deciding how to handle ethical dilemmas is an important part of the accounting profession. Individuals in the accounting profession have a considerable responsibility to the general public. Accountants provide information about companies that allow the public to make investment decisions for retirement, a child's education and major purchases such as a home. For the public to rely on the information provided, there must be a level of confidence in the knowledge and behavior of accountants. Ethical behavior is necessary in the accounting profession to prevent fraudulent activities and to gain public trust.

The main reason for ethical guidelines is not to provide an exact solution to every problem, but to aid in the decision-making process. An established set of guidelines provides an accounting professional with a compass to direct him toward ethical behavior. Specific responsibilities of the accounting profession are expressed in the various codes of ethics established by the major organizations such as the American Institute of CPAs. The AICPA Code of Professional Conduct outlines an accountant's responsibilities towards the public interest and emphasizes integrity, objectivity and due care.

The effects of ethical behavior in accounting are far reaching in the economy. Every business entity has an accounting professional provide information at some point in the organization's life cycle. Many accounting professionals are tempted to alter financial results

and often rationalize the behavior by calling it creative or aggressive accounting. Aggressive accounting is the process of employing questionable accounting methods to boost results. An accountant may record revenues and expenses in an incorrect manner or omit expenses altogether. Repeated incidences of aggressive accounting are a result of the lack of ethical behavior.

Example

A common example of an ethical dilemma involves management instructing a subordinate employee to record a transaction in an incorrect manner. For instance, a company with a Dec. 31 year-end calendar year, signs contracts with consumers to perform services. The contracts are usually signed Dec. 1 and are a year in length. Accounting principles require the company to record the revenue for the contract for one month only, the month of December. The remainder of the revenue is recognized on next year's financial statements. However, management instructs an employee to record the entire amount of the contract in December to boost revenues for the current year end. Management receives a bonus for the boosted revenue and the subordinate receives recognition in an upcoming performance review.

Solutions

Unfortunately, ethical dilemmas, such as the example provided, are common. To help curb the desire to practice aggressive accounting and ignore ethical behavior, a number of organizations require accounting professionals to complete continuing professional education courses on ethics. In addition, a number of companies establish *whistleblower hotlines* to encourage employees to demonstrate honesty and integrity in the workplace.

CHAPTER 2

AICPA CODE OF PROFESSIONAL CONDUCT AND STANDARDS FOR TAX SERVICES

LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Differentiate between rulings and principles of the AICPA' Code of Professional Conduct.
2. Briefly describe the six principles and list the eleven rules of the AICPA *Code of Professional Conduct*.
3. Outline ethics rulings on independence.
4. Resolve ethical dilemmas using the *threats and safeguards approach*, a conceptual framework.
5. List the key features of corporate responsibility law (Sarbanes-Oxley act) that influence auditor independence.
6. List consulting services prohibited by the Sarbanes-Oxley (SOX) Act of 2002.
7. Explain licensing and disciplinary mechanisms within the profession.
8. Outline the Standards for Tax Services.
9. Discuss cases of ethical violations.

This chapter covers the AICPA's *Code of Professional Conduct*, SOX, the licensing and disciplinary systems within the accounting profession, and Statements on Standards for Tax Services. This chapter has five sections. The first section is a condensed but comprehensive summary of the AICPA Code of Conduct. The second section contains summaries of AICPA Ethics Interpretations and Professional Ethics Rulings under the 11 Rules of Conduct. It also explains the *threats and safeguards approach* to resolve ethical dilemmas faced by accountants. The third section outlines the key features of the Sarbanes-Oxley (SOX) Act of 2002 and lists some of the consulting services prohibited by the SOX. The fourth section addresses AICPA's *Standards for Tax Services*. The final section covers licensing and disciplinary systems within the profession and illustrates some cases of ethics violations.

AICPA's CODE OF PROFESSIONAL CONDUCT

AICPA's *Code of Professional Conduct* consists of four parts, which are summarized in Exhibit 1. The four parts to the Code are:

- *Principles*. These establish ideal standards of ethical conduct stated in philosophical terms. There are *six* principles that are goal-oriented but *nonbinding*.
- *Rules of conduct*. These are the minimum standards of ethical conduct stated as specific rules. There are *eleven* rules of conducts that are *enforceable (binding)*.
- *Interpretations*. Interpretations of rules are intended to clarify the rules of conduct. They are not officially enforceable, but a practitioner must justify any

departure.

- *Ethical rulings.* These are answers to specific questions submitted to the AICPA by practitioners. They are not enforceable, but a practitioner must justify any departure.

EXHIBIT 1 AICPA'S CODE OF PROFESSIONAL CONDUCT

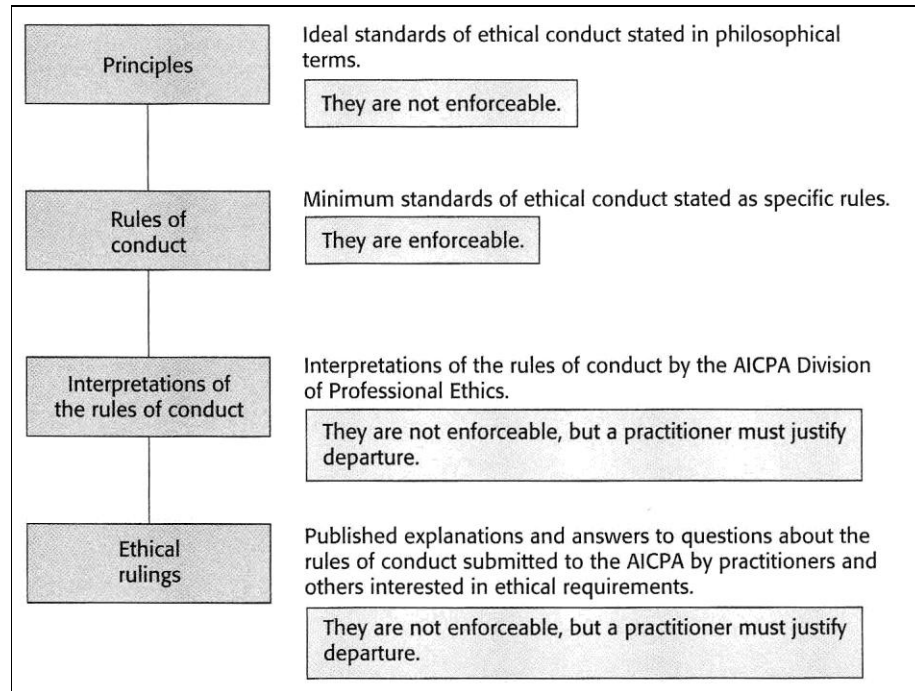


Exhibit 2 lists 6 principles and 11 rules of conduct.

EXHIBIT 2 THE SIX PRINCIPLES AND ELEVEN RULES OF CONDUCT

<i>The Six Principles</i>	
1	Responsibilities
2	The Public Interest
3	Integrity
4	Objectivity and Independence
5	Due Care
6	Scope and Nature of Services

<i>The Eleven Rules of Conduct</i>		
1	Rule 101	Independence
2	Rule 102*	Integrity and Objectivity
3	Rule 201*	General Standards
4	Rule 202*	Compliance with Standards
5	Rule 203*	Accounting Principles
6	Rule 301	Confidential Client Information
7	Rule 302	Contingent Fees

8	Rule 501*	Acts Discreditable
9	Rule 502	Advertising and Other Forms of Solicitation
10	Rule 503**	Commissions and Referral Fees
11	Rule 505*	Form of Organization and Name

NOTE:

- (1) The first five of these principles are equally applicable to **all members** of the AICPA, regardless of whether they practice in a CPA firm, work as accountants in business or government, are involved in some other aspect of business, or are in education. One exception is the last sentence of objectivity and independence. It applies only to members **in public practice**, and then only when they are providing attestation services such as audits. The sixth principle, scope and nature of services, applies only to members in public practice. That principle addresses whether a practitioner should provide a certain service, such as providing personnel consulting when an audit client is hiring a chief information officer (CIO) for the client's IT function. Providing such a service can create a loss of independence if the CPA firm recommends a CIO who is hired and performs incompetently.
- (2) Of the Rules of Conduct, the six marked with single asterisks (*) apply to **all members**. Conduct Rule 503 (**) applies in part (Referrals) to all members and in part (Commissions) only to members in public practice. The remaining Rules apply only to members in public practice.

Summaries of the Six Principles

1. *Responsibilities.* Members should exercise sensitive professional and moral judgments when carrying out their professional responsibilities. Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. A distinguishing mark of a profession is acceptance of its responsibility to the public.
2. *The Public Interest.* Members should act to benefit the public interest, honor the public trust, and demonstrate commitment to professionalism. The AICPA adopted the ethical standards because a distinguishing mark of a profession is an acceptance of responsibility to the public.
3. *Integrity.* Members should perform all professional responsibilities with the highest sense of integrity to maintain public confidence.
4. *Objectivity and Independence.* A member should maintain objectivity and be free of conflicts of interest. A member **in public practice** should be independent in fact and appearance when providing attestation services. Objectivity is a state of mind, a quality that lends itself to a member's services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. *Independence of mind* is the state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism. *Independence in fact* is the

member's ability to take an unbiased viewpoint in the performance of professional services. *Independence in appearance* is the avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest engagement team had been compromised.

5. *Due Care*. A member should follow the profession's technical and ethical standards, strive for improved competence and quality services, and discharge professional responsibility to the best of the member's ability. Members must adequately plan and supervise any activity for which they are responsible.
6. *Scope and Nature of Services*. A member in public practice should follow the Principles of the *Code of Professional Conduct* in determining the nature and scope of services.

Summaries of the Eleven Rules

Rule 101 - Independence. A member in public practice should be independent when performing professional services as required by standards-setting bodies.

- 1) In this context, rules of the state boards of accountancy, state CPA societies, the Independence Standards Board (ISB), the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the General Accounting Office (GAO), and other bodies may be relevant. Under the *Sarbanes-Oxley Act of 2002 (SOX)*, the PCAOB has authority to establish auditing, attestation, quality control, ethics, and independence standards applying to *registered public accounting firms*. To promote continuity and certainty regarding the standards for audits of public companies (issuers), the PCAOB has published *Interim Professional Auditing Standards* on a transitional basis. They do not apply to audits of nonissuers.
- 2) Relevant AICPA standards-setting bodies are the Auditing Standards Board (ASB), Accounting and Review Services Committee (ARSC), and Management Consulting Services Executive Committee. The foregoing bodies are authorized to issue technical standards.
- 3) The ASB issues *Statements on Auditing Standards*. Thus, SAS 1 is consistent with the requirement for auditors to maintain an independence in mental attitude. To inspire public confidence, an auditor must not only be independent (intellectually honest) but also be recognized as independent (free of any obligation to, or interest in, the client).
- 4) The *fourth general attestation standard* likewise requires practitioners to maintain an independence in mental attitude when performing attest engagements.
- 5) Under *Statements on Standards for Accounting and Review Services (SSARs)*, an

accountant may not report on a review of the financial statements of a nonpublic entity if (s)he is not independent.

- 6) According to the *Statement on Standards for Consulting Services*, the practitioner must serve the client interest. Thus, (s)he must accomplish the objectives established in the understanding with the client while maintaining integrity and objectivity. However, independence is not required.
- 7) According to the AICPA's *Statements on Standards for Attestation Engagements (SSAEs)*, a practitioner must also be independent to examine or apply agreed-upon procedures to prospective financial statements (financial forecasts and projections).
- 8) SEC independence regulations were revised in accordance with the Sarbanes-Oxley Act of 2002.
- 9)
 - a) *Preapproval of services.* Audit committees ordinarily must preapprove the services performed by accountants (permissible nonaudit services and all audit, review, and attest engagements). Approval must be either explicit or in accordance with detailed *policies and procedures*. If approval is by detailed policies and procedures, the audit committee must be informed, and no delegation of its authority to management is allowed.
 - b) *Disclosure of fees.* An issuer must disclose in its proxy statement or annual filing fees paid to the accountant segregated into four categories: (1) audit, (2) audit-related, (3) tax, and (4) all other. The disclosure is for the two most recent years and must describe the services in audit-related, tax, and all other.
 - c) *Rotation of partners.* The lead and concurring (reviewing) audit partners must **rotate** every 5 years, with a 5-year time-out period. Other audit partners must rotate every 7 years, with a 2-year time-out.
 - d) *Compensation.* An accountant is not independent if, during the audit and the period of the professional engagement, any audit partner (excluding specialty partners such as tax partners) earns or receives compensation for selling services (excluding audit, review, or attest services) to the audit client.
 - e) *Conflict of interest.* An accounting firm is not independent with respect to an audit client if a former partner, principal, shareholder, or professional employee accepts employment with a client if (s)he (1) has a continuing financial interest in the firm or (2) is in a position to influence the firm's operations or financial policies. Moreover, an accounting firm is not independent if a CEO, CFO, controller, or person in an equivalent position for an issuer was (1) employed by that firm and (2) participated in any capacity in the audit of that issuer during the year before the beginning of the audit.
 - f) *Communication with the audit committee.* The accounting firm must include (1) all critical accounting policies and practices; (2) all material alternative accounting policies and practices within GAAP that were discussed with management; and (3) other material written communications with management, such as management representations and schedules of unadjusted audit differences.

These communications must be prior to filing the audit report with the SEC.

8) The PCAOB's **Rule 3600T** applies in connection with the preparation or issuance of any audit report. It adopts **interim independence standards**. They are **Conduct Rule 101 — Independence** (and its Interpretations and Rulings), in effect on April 16, 2003, and pronouncements of the now-defunct Independence Standards Board (ISB).

- a) **ISB 1, *Independence Discussions with Audit Committees***, and its Interpretations have been superseded by Rule 3526.
- b) **ISB 2, *Certain Independence Implications of Audits of Mutual Funds and Related Entities***, states that the audit firm is not independent of all entities in the mutual fund complex (the entire fund operation) if the partners can significantly influence any entity in the complex. Moreover, the firm, its retirement plans, the audit team, and those able to influence the audit must be independent of all sister funds (those with the same adviser) if a firm is auditing a fund. They also must be independent of (1) all funds in the complex if the auditee is a related nonfund entity (e.g., an adviser, broker, or bank) or (2) all related nonfund entities if the auditee is a fund.
- c) **ISB 3, *Employment with Audit Clients***, states that firm independence is impaired by a client's employment of a former firm professional that could adversely affect the audit unless safeguards are established. *Pre-change safeguards* include (1) reporting of employment conversations with the client, (2) removal from the audit of those negotiating with the client, and (3) post-removal review of the professional's work. *Post-change safeguards* include (1) possibly modifying the audit plan, (2) ensuring that team members can effectively deal with the former employee, (3) a separate review of the next audit, and (4) prompt (a) liquidation of a partner's capital balance and (b) settlement of retirement balances.

9) The PCAOB has issued the following rules concerning independence, tax services, and contingent fees:

- a) **Rule 3502. *Responsibility not to cause violations***. A person associated with a registered public accounting firm shall not cause that firm to violate (1) the Securities Exchange Act of 1934; (2) the Rules of the PCAOB; (3) the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect to them, including the rules of the SEC; or (4) professional standards. The person causes such a violation if (s)he commits an act or omission the person knew, or was reckless in not knowing, would directly and substantially contribute to the violation.
- b) **Rule 3520. *Auditor independence***. A registered public accounting firm and its associated persons must be independent of the firm's audit client throughout the audit and professional engagement period. Such parties must satisfy all other independence criteria applicable to the engagement.
- c) **Rule 3521. *Contingent fees***. A registered public accounting firm is not

- independent of its audit client if the firm, or any affiliate during the audit and professional engagement period, provides any service or product to the client for a contingent fee or a commission, or receives from the client, directly or indirectly, a contingent fee or commission.
- d) **Rule 3522. *Tax transactions.*** A registered public accounting firm is not independent of its audit client if the firm, or any affiliate, during the audit and professional engagement period, provides any nonaudit service to the client related to marketing, planning, or expressing an opinion in favor of the tax treatment of confidential transactions or aggressive tax position transactions. A confidential transaction is one offered to a taxpayer by an advisor for a fee on condition that the taxpayer observe a limitation on disclosure of the advisor's tax strategies. An aggressive tax position transaction is one that was initially recommended, directly or indirectly, by the firm and a significant purpose of which is tax avoidance. However, this rule does not apply if the proposed tax treatment is at least more likely than not to be allowable under applicable tax laws.
- e) **Rule 3523. *Tax services for persons in financial reporting oversight roles.*** A registered public accounting firm is not independent of its audit client if the firm, or any affiliate, during the professional engagement period provides any tax service to a person in a *financial reporting oversight role* at the client, or an immediate family member of such person. The professional engagement period begins the earlier of when (1) the firm begins audit procedures or (2) signs the initial engagement letter. The period ends when the SEC is notified that the company is no longer an audit client. The following three exceptions apply:
- i) The person is in a financial reporting oversight role only because (s)he serves as a member of the board of directors or similar management or governing body of the client.
 - ii) The person is in a financial reporting oversight role only because of the person's relationship to an affiliate of the entity being audited.
 - The affiliate's financial statements must not be material to the consolidated financial statements of the entity being audited, or its statements must be audited by an auditor other than the firm or an associated person of the firm.
 - iii) The person was not in a financial reporting oversight role at the client before a hiring, promotion, or other change in employment event, and the tax services are
 - Provided under an engagement in process before the hiring, promotion, or other change in employment event, and
 - Completed on or before 180 days after the hiring or promotion event.
- f) **Rule 3524. *Audit committee pre-approval of certain tax services.*** In connection with seeking audit committee pre-approval to perform for an audit client any permissible tax service, a registered public accounting firm shall

Describe, in writing, to the audit committee the following:

- The scope of the service, the fee structure for the engagement, any side letter or other amendment to the engagement letter, and any other agreement between the firm and client relating to the service.
 - Any compensation arrangement or other agreement, such as a referral agreement, a referral fee, or a fee-sharing arrangement, between the firm (or an affiliate) and any person (other than the client) with respect to the promoting, marketing, or recommending of a transaction covered by the service.
- ii) Discuss with the audit committee the potential effects of the services on the independence of the firm.
 - iii) Document the substance of the firm's discussion with the audit committee.

g) **Rule 3525.** *Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting.* When seeking audit committee pre-approval to perform any permissible non-audit service related to *internal control over financial reporting*, a firm must

- i) Describe in writing the scope of the service,
- ii) Discuss the potential effects of the service on the independence of the firm, and
- iii) Document the substance of the discussion.

NOTE: An auditor is not independent if (s)he is not, or a reasonable investor with knowledge of all relevant information would conclude that (s)he is not, capable of objective and impartial judgment on all engagement issues. Guiding principles include whether the auditor assumes a management role or audits his/her own work. Thus an auditor is not independent if, for example, management had delegated its responsibility for internal control over financial reporting to the auditor or if the auditor had designed or implemented the client's internal control over financial reporting.

h) **Rule 3526.** *Communication with Audit Committees Concerning Independence.*

A registered public accounting firm must

i) Before accepting an initial engagement under PCAOB standards,

- Describe in writing to the audit committee all relationships between (1) the firm or its affiliates and (2) the client or persons in financial reporting oversight roles at the client that, as of that date, may reasonably bear on independence;
- Discuss with the audit committee the potential effects of those relationships on the independence of the firm if it becomes the auditor; and
- Document the substance of its discussion with the audit committee.

ii) At least annually for each issuer audit client,

- Describe in writing to the audit committee all relationships between (1) the firm or its affiliates and (2) the client or persons in financial reporting oversight roles at the client that, as of that date, may reasonably bear on independence;
- Discuss with the audit committee the potential effects of those relationships on the independence of the firm;
- Affirm to the audit committee in writing that, as of that date, the firm is independent in compliance with Rule 3520; and
- Document the substance of its discussion with the audit committee.

Rule 102 — *Integrity and Objectivity.* All members must maintain objectivity and integrity, be free of conflicts of interest, not knowingly misrepresent facts, and not subordinate his/her judgment to others when performing professional services (in every engagement). The PCAOB's Rule 3500T applies in connection with the preparation or issuance of any audit report. It adopts Conduct Rule 102 — *Integrity and Objectivity* (and its Interpretations and Rulings).

Rule 201 — *General Standards.* A member shall comply with the following:

1. Undertake only those services that the member can reasonably expect to complete with *professional competence*.
2. Exercise *due professional care* when performing professional services.
3. Adequately *plan and supervise* performance of professional services.
4. Obtain *sufficient relevant data* to provide a reasonable basis for conclusions in relation to any professional service.
 - (a) *Proficiency.* Auditors must have adequate technical training and proficiency. According to SAS 1, both education and experience, as well as proper supervision, are necessary. Objectivity and independent judgment are necessary in the preparation of the audit opinion. An auditor must have experience and seasoned judgment to accept final responsibility for an audit opinion.
 - (b) *Due professional care* must be exercised in the planning and performance of the audit and the preparation of the report. According to SAS 1, an auditor should have the degree of skill commonly possessed by other auditors and must exercise it with reasonable care and diligence. An auditor should also exercise *professional skepticism*. The exercise of due professional care allows the auditor to obtain reasonable assurance. Absolute assurance is impracticable due to characteristics of fraud such as concealment by collusion, withheld or falsified documentation, or management override of controls.

Rule 202 — *Compliance with Standards.* A member who performs professional services must comply with standards issued by designated bodies (the PCAOB and relevant AICPA committees and boards).

Rule 203 — *Accounting Principles.* A member shall not (1) express an opinion, (2) make an affirmative statement about conformity with GAAP, or (3) state that (s)he is not aware of any material modifications that should be made to achieve conformity with GAAP, given any

departure from an accounting principle issued by bodies designated to establish such principles by the AICPA Council (the Financial Governmental Accounting Standards Board, Federal Accounting Standards Advisory Board, and International Accounting Standards Board). The departure must have a material effect on the financial statements or data taken as a whole. However, if the member can demonstrate that, due to unusual circumstances, the financial statements or data would have been misleading without a departure from GAAP, the member can comply with the rule by (1) describing the departure; (2) its approximate effects, if practicable; and (3) the reasons compliance with the principle would be misleading.

Rule 301 — *Confidential Client Information.* A member in public practice cannot disclose confidential client information without the client's consent. However, this Rule does not affect a CPA's obligations

1. To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations
2. To discharge his/her professional obligations properly under Conduct Rules 202 and 203
3. To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization
4. To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy

Rule 302 — *Contingent Fees.* A contingent fee is established as part of an agreement under which the amount of the fee is dependent upon the finding or result.

1. The receipt of contingent fees by a member is prohibited when the member performs an audit, a review, a compilation when the report will be used by third parties and the report does not disclose the CPA's lack of independence, or an examination of prospective financial information.
2. A contingent fee is not permitted for preparing an original or amended tax return or claim.
3. Fees are not deemed to be contingent if fixed by courts or other public authorities, or in tax matters, if they are based on the results of judicial proceedings or the findings of governmental agencies.

Rule 501 — *Acts Discreditable.* A member shall not commit an act that is discreditable to the profession.

Rule 502 — *Advertising and Other Forms of Solicitation.* A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation done in a false, misleading, or deceptive manner. Solicitation through coercion, overreaching, or harassing conduct is prohibited.

Rule 503 — *Commissions and Referral Fees.* A member in public practice shall not accept a commission for recommending or referring to a client any product or service, or for recommending or referring any product or service to be supplied by a client, if the member performs for that client an audit, a review, a compilation when a third party will use the

financial statement and the report does not disclose the CPA's lack of independence, or an examination of prospective financial information.

1. Permitted commissions must be disclosed to any person or entity to whom the member recommends a product or service.
2. Any member who accepts a referral fee for recommending services of a CPA or who pays a referral fee to obtain a client must disclose the arrangement to the client. A referral fee is compensation for recommending or referring any service of a CPA to any person. Referral fees are not considered commissions.

NOTE: Conduct Rule 503 prohibits a member in public practice from recommending any product or service to a client when the firm performs (1) an audit or review of financial statements, (2) a compilation of a financial statement that is reasonably expected to be used by a third party if the report does not disclose the CPA's lack of independence, or (3) an examination of prospective financial information for that client.

Rule 505 — *Form of Organization and Name.* A member may practice public accounting only in a form of organization allowed by law or regulation that conforms with resolutions of the AICPA Council.

1. The firm name must not be misleading.
2. Names of past owners may be included in the name of the successor organization.
3. A firm cannot designate itself as "members of the AICPA" unless all CPA owners are members.

INTERPRETATIONS AND RULINGS

Interpretations and rulings are presented for each of the eleven Rules. The Interpretations are in outline format followed by brief summaries of the Rulings.

Rule 101 — *Independence.*

A. Interpretation 101-1

1. Independence is impaired if, during the period of the professional engagement, a covered member

- 1) Had a direct financial interest or a material indirect financial interest in the client.
- 2) Was a trustee of any trust or executor of any estate that had a direct or material indirect financial interest in the client and (1) the covered member's position conferred investment authority, (2) the trust/estate owned more than 10% of the client, or (3) the interest of the trust/estate was more than 10% of its total assets.
- 3) Had any joint, closely held investment that was material to the covered member.
- 4) Had a loan to or from a client, any of its officers or directors, or an individual owning at least 10% of the client. Exceptions are grandfathered loans and certain other permitted loans.

Situation: John Woods, a partner of Woods & Costas, CPAs, has an indirect financial interest in the auditor's client, Alpha Manufacturing that is immaterial to John's net worth.

Independent: An immaterial, indirect financial interest does not impair an auditor's independence.

Situation: Kelly Costas, a partner of Woods & Costas, owns a vacation home with Steve Hunter, a principal shareholder of Alpha Manufacturing. The value of the vacation home is material to Kelley Costas.

Not Independent. An auditor's joint interest in a vacation home with a principal shareholder of a client (presumably one able to exercise significant influence over the client) is considered a joint closely held investment that impairs independence if it is material to the auditor.

2. Independence is impaired if, during the period of the professional engagement, a firm partner or professional employee, such individual's immediate family, or a group of these individuals acting together *owned more than 5% of the client*.

3. Independence is impaired if, during the period covered by the financial statements or during the period of the professional engagement, a firm, or partner or professional employee of the firm, was

- 1) Also associated with the client as an officer, director, employee, promoter, underwriter, or voting trustee, or in a management capacity.
- 2) A trustee for any pension or profit-sharing trust of the client.

4. An individual may have been employed by the client or associated with the client in a capacity listed in Interpretation 101-3. Independence is impaired if (1) the employment or association overlapped the engagement, and (2) the individual participated in the engagement or was able to influence it. Independence is also impaired if the individual was otherwise a covered member relative to the client unless the individual dissociates from the client by

- 1) Ending any relationship described in Interpretation 101-3.
- 2) Disposing of any direct or material indirect financial interest in the client,
- 3) Collecting or repaying any loans to or from the client (except as permitted under the rules for grandfathered loans),
- 4) Ceasing participation in any client-sponsored employee benefit plan (unless the client is legally required to allow participation and the individual pays the full cost), and
- 5) Liquidating or transferring any vested benefits in a client plan as soon as legally permitted. This is not required if a large penalty would result.

5. A covered member's *immediate family* is subject to Rule 101. However, independence is not impaired solely because

- 1) An immediate family member was employed by the client in a non-key position.
- 2) As part of his or her employment, an immediate family member of one of the following participated in a benefit plan that is a client, is sponsored by a client, or invests in a client if the plan is offered to all similarly situated employees:

- a) A partner or manager who provided at least 10 hours of nonattest services to the client
- b) Any partner in the office where the lead engagement partner primarily practiced in relation to the engagement

Situation: Tim Robin is a staff auditor for Woods & Costas, CPAs who is currently working on the Alpha Manufacturing audit engagement. Tim Robin's sister works in the sales department of Alpha Manufacturing.

Independent: Independence is impaired if an individual participating in the audit has a close relative who has a key position with the client. The sales position held by Tim's sister is not a key position. Thus, independence is not impaired. A close relative is defined as a parent, sibling, or nondependent child.

6. Independence is impaired if an individual who is participating on the engagement team, who can influence the engagement, or who is a partner in the office where the lead engagement partner primarily practices, has a close relative who

- 1) Occupied a key position with the client,
- 2) Held a material financial interest in the client that was known to the individual, or
- 3) Held a financial interest that permitted significant influence over the client.

7. Because listing all situations in which an appearance of a lack of independence might arise is not feasible, members also should consider whether a relationship between the member and the client or an associate of the client might lead to a reasonable conclusion that independence is lacking.

8. Under Rule 101, materiality is determined by aggregating the interests of the covered member and his/her immediate family.

B. Interpretation 101-2 (Employment or association with attest clients)

1. A former partner or professional employee of the firm who is employed by or associated with an attest client in a key position impairs the firm's independence unless

- (1) Amounts due to the former partner or professional employee are not material to the firm, and the payment formula is fixed during the payout period. Retirement benefits may also be adjusted for inflation, and interest may be paid.
- (2) The former partner or professional employee cannot influence the firm's operations or financial policies.
- (3) Once employed or associated with the client, the former partner or professional employee does not participate or appear to participate in, and is not associated with, the firm, regardless of compensation, for example, by consulting, use of an office, or inclusion in membership lists.
- (4) The engagement team considers the risk that the partner or professional employee's knowledge of the audit plan will reduce audit effectiveness.
- (5) The firm assesses when team members can effectively deal with the partner or professional employee.

- (6) The engagement is reviewed to determine whether team members maintained professional skepticism in dealings with the partner or professional employee .
2. A team member's consideration of employment or association with the client impairs independence absent prompt reporting to the firm and removal from the team.

C. Interpretation 101-3 (Performance of nonattest services)

- 1) Before a member and his or her firm performs nonattest services (such as tax or consulting services) for an attest client, (s)he must comply with Interpretation 101-3 to avoid impairment of independence. If the applicable independence rules of an authoritative body (e.g., the SEC or a state board of accountancy) are more restrictive, the member must comply with them.
- 2) General Requirements. Performing management functions or making management decisions impairs independence, but providing advice, research, and recommendations does not.
 - a) The member should be satisfied that the client will make an informed judgment about the results of nonattest services and be able to designate a competent employee (preferably a senior manager) to oversee the services; evaluate their adequacy and results; make management decisions and perform management functions; accept responsibility for results; and establish and maintain internal controls.
 - b) The member and client should agree about the objectives and limitations of the engagement, the services to be performed, and mutual responsibilities. The understanding should be documented in writing. This requirement does not apply to routine services, those provided before the client became an attest client, and those performed before 2005.
- 3) General activities that impair independence include
 - a) Exercise or possession of authority over transactions on a client's behalf
 - b) Preparing source documents evidencing transactions
 - c) Custody of client assets
 - d) Supervision of client employees in normal activities
 - e) Determining member recommendations to be implemented
 - f) Reporting to the board on behalf of management
 - g) Service as a stock transfer or escrow agent, registrar, or general counsel
 - h) Establishing or maintaining controls for a client, such as performing ongoing monitoring.
- 4) Examples of nonattest services that may not impair independence if the general requirements are met include bookkeeping, disbursement, benefit plan administration (e.g., preparing participant account valuations and statements), investment advisory, finance, executive search, business risk consulting, and IT (but designing a system or operating a network impairs independence).
- 5) *Tax compliance services.* Preparing a return and transmitting it and the payment does not impair independence if (a) the member does not have control of client

funds and (b) the client-designated person who oversees the process approves the return and, if required, signs it. But a member's signing and filing the return impairs independence unless (a) the taxing authority has a procedure in place for such action or (b) a designated client manager has reviewed the documents and authorized the member to sign and file. Authorized representation of a client in administrative proceedings does not impair independence if the client gives prior agreement to the resolution of the tax matter. But representation in a court or public hearing is an impairment.

- 6) *An appraisal, valuation, or actuarial service* impairs independence if the results are material to the financial statements and significant subjectivity is involved. For example, a valuation for a business combination, but not an actuarial valuation for a pension liability, usually involves significant subjectivity. Furthermore, appraisal, valuation, and actuarial services not performed for financial statement purposes do not impair independence if the other requirements of Interpretation 101-3 are satisfied. Such services must involve determination of all significant assumptions and matters of judgment by the client. The client also should be able to make informed decisions and accept responsibility.
- 7) *Forensic accounting services.* Litigation services involve assisting in actual or potential legal or regulatory proceedings. They include expert witness services, that is, the expression of an opinion based on the member's expertise, not his/her knowledge of disputed facts. These services impair independence unless (a) they are rendered to a large group of parties, (b) no attest client is the lead plaintiff or defendant, and (c) other requirements related to the influence of attest clients on the proceedings are met. However, testimony as a fact witness does not impair independence. Litigation consulting services are advisory and do not impair independence as long as expert testimony is not given. Other litigation services involve serving as a trier of fact, arbitrator, etc. If a client is involved in the matter, independence is impaired. But service as a mediator or facilitator without decision-making authority in a dispute resolution procedure is not an impairment. Investigative services do not involve actual or potential litigation, although they may require the same skills needed for litigation services. They do not impair independence.
- 8) *Internal audit assistance services* impair independence unless the member ensures that the client understands its responsibility for internal control and managing the internal audit function. Accordingly, the member must ensure that the client (a) designates an individual(s) with suitable skill, knowledge, or experience (preferably a senior manager) to oversee internal audit; (b) determines the scope, risk, and frequency of its activities; (c) evaluates its findings; and (d) evaluates the adequacy of its procedures.
 - a) The member should be satisfied that the client's governing body is informed about his/her role so that it can develop proper guidelines.
 - b) The member may assist in preliminary risk assessment, preparation of the audit plan, and recommendation of priorities.
 - c) Independence is impaired if the member, among other things, (1) performs an ongoing monitoring or control function, (2) determines which control recommendations are adopted, (3) reports to the board on behalf of

- management, (4) approves or is responsible for the overall audit work plan, or (5) is a client employee or manager (or the equivalent).
- d) Services that are normal extensions of the external audit scope (e.g., confirming receivables or analyzing balances) and engagements under the attestation standards do not impair independence.
- 9) SEC regulations issued under the Sarbanes-Oxley Act of 2002 prohibit auditors of issuers (public companies) from performing certain nonaudit **services**:
- a) Appraisal and other valuation services if the results are subject to audit.
 - b) Designing and implementing financial information systems if the results are subject to audit.
 - c) Actuarial functions if the results are subject to audit.
 - d) Management services.
 - e) Human resource services.
 - f) Bookkeeping if the results are subject to audit.
 - g) Legal and other expert services not pertaining to the audit (client advocacy, including internal fact-finding and providing explanations of conclusions).
 - h) Investment banking or advisory services.
 - i) Broker-dealer services.
 - j) Internal audit outsourcing that involves financial accounting controls, systems, or statements.
 - k) Tax services not preapproved by the audit committee or that are prohibited nonaudit services.
 - l) Any other nonaudit services not preapproved by the audit committee.

Situation: Alpha Manufacturing solicited Woods & Costas, CPAs to perform permitted tax services. Alpha's audit committee approved the arrangement. These services consist of preparing an income tax return. The return is approved and signed by a designated client manager.

Independent: Independence is not impaired if the firm provides tax services as long as the services are not prohibited nonaudit services and the provision of the services has been approved by the client's audit committee. But preparing a tax return could impair independence, e.g., if the member had control of client funds or the return was not approved by a client-designated person.

D. Interpretation 101-4 (Honorary directorships and trusteeships of non-for-profit organizations)

A partner or professional employee of a firm holding an honorary position with a not-for-profit organization will sometimes allow his/her name to be used on letterheads and circulated materials to lend prestige to the group. Independence is not impaired if the position is clearly honorary and the individual is not able to vote or participate in board or management decisions. Moreover, (s)he must be identified as an honorary director or trustee.

E Interpretation 101-5 (Loans from financial institution clients)

- 1) *Grandfathered loans.* Independence is not impaired by (a) unsecured loans that are not material to the covered member's net worth or (b) secured loans (including home mortgages) provided that the loans were obtained from a financial institution under its normal lending procedures, terms, and requirements. However, loans are

grandfathered only if

- a) They were kept fully current at all times after the borrower became a covered member, and the terms did not change in a way not allowed in the original agreement.
 - b) They were obtained
 - i) From a financial institution before it became a client requiring independence;
 - ii) From a client not requiring independence and were sold to one requiring independence;
 - iii) Prior to February 5, 2001 and satisfied the requirements of the Interpretation then effective;
 - iv) During the period from February 5, 2001 through May 31, 2002, and the covered member complied with SEC regulations then effective; or
 - v) After May 31, 2002 from a client requiring independence before the borrower became a covered member relative to the client.
- 2) The date a grandfathered loan is obtained is the date a loan commitment or line of credit was granted.
 - 3) The collateral for a secured grandfathered loan must equal or exceed the remaining balance of the loan during its term. If the loan exceeds the value of collateral, this excess must not be material to the covered member's net worth.
 - 4) In the case of a limited partnership in which covered members have a combined interest exceeding 50% or a general partnership in which covered members control the partnership, the loan is ascribed to each covered member based on his/her legal liability as a limited or general partner. Even if this amount is zero, renegotiating the loan or entering into a new loan that is not an "other permitted loan" is deemed to impair independence.
 - 5) *Other permitted loans.* The following loans are permitted even if the client is one for which independence is required, provided that they are obtained under normal lending procedures, terms, and requirements and are always kept current:
 - a) Automobile loans and leases collateralized by the automobile
 - b) Loans fully collateralized by the cash surrender value of insurance
 - c) Loans fully collateralized by cash deposits
 - d) Credit cards and overdraft reserve accounts with an aggregate outstanding balance of \$10,000 or less on a current basis by the payment due date

NOTE: Loans from financial institution clients may impact the CPAs objectivity and independence since any kind of favorable treatment by the financial institution would create a financial interest in the institution. Any direct financial interest by the CPA causes him to lose independence.

F. Interpretation 101-6 (Effect of actual or threatened litigation)

- 1) Effect on independence of litigation between client and member
 - a) Independence is impaired when litigation is begun by
 - i) The present management alleging deficiencies in audit work
 - ii) The member alleging management fraud or deceit
 - b) An expressed intention by the management to litigate against the member for

alleged deficiencies in audit work will impair independence if it is probable that the claim will be filed.

c) Independence is not impaired when the threatened or actual litigation is not related to the audit and the amount is not material. Examples include disputes over billings for services and results of tax advice.

Situation: The management of Alpha Manufacturing is being sued by shareholders due to some previous irregularities in financial statements audited by Woods & Costas, CPAs. Alpha is likely to file a cross claim against Woods & Costas.

Not Independent. Independence is not necessarily impaired when a client is sued regarding previous financial statements. However, threatened litigation by current client management asserting deficient audit work impairs independence.

- 2) Effect on independence of litigation by security holders (primary litigation)
 - a) Shareholders may bring a class action against the client company or its management without impairing independence. Often the member and the client are both defendants, but if cross-claims are filed, adverse interests may arise and independence may be impaired.
 - b) Cross-claims filed by the client to protect a right to legal redress in the event of a future adverse decision do not impair independence in the absence of a significant risk of a material settlement.
 - c) Cross-claims against the member by an underwriter do not impair independence if no similar claims are made by the client.
 - d) Cross-claims filed against the member by persons who are also officers or directors of other clients do not usually impair independence with respect to the other clients.
- 3) Effect on independence of other third-party litigation
 - a) Litigation may be commenced against the member by a creditor or insurer that alleges reliance on financial statements of the client. This litigation does not affect independence if the client is not the plaintiff or is a nominal plaintiff. Independence may be impaired if the third party (e.g., an insurance company) is also a client of the member and there is a significant risk of a material settlement.
- 4) If a reasonable person would conclude that litigation poses an unacceptable risk of impairment of independence, the member should disengage or disclaim an opinion for lack of independence.

G. Interpretation 101-10 (Effect on independence of relationships with entities included in governmental financial statements)

- 1) A financial reporting entity's basic financial statements (BFS) issued in accordance with U.S. GAAP include the government-wide statements (reporting governmental activities, business-type activities, and discretely presented component units), fund financial statements (reporting major funds, nonmajor governmental and

enterprise funds, internal service funds, blended component units, and fiduciary funds), and other entities disclosed in the notes of the BFS. Disclosures should be made in the notes to the BFS about related organizations, joint ventures, jointly governed organizations, etc.

- 2) An auditor of the BFS of the entity must be independent of it. Nevertheless, a primary auditor need not be independent with respect to any fund, component unit, or disclosed entity if (s)he explicitly relies on reports by other auditors on such fund, etc. Moreover, (s)he need not be independent of a disclosed entity if the reporting entity is not financially accountable for it and the required disclosure does not include financial information. Neither the covered member nor a member of his/her immediate family should occupy a key position with a fund, component unit, or disclosed entity.
- 3) An auditor of the statements of a fund, component unit, or disclosed entity who is not auditing the primary government must be independent only of the statements reported on. Nevertheless, the covered member or a member of his/her immediate family may not occupy a key position with the primary government.

H. Interpretation 101-11 (Independence and attest engagements)

- 1) This interpretation applies only to engagements, other than examinations and reviews, covered by SSAEs when the use of the report is restricted.
- 2) The following covered members and their immediate families must be independent in relation to the responsible party:
 - a) An individual on the attest engagement team.
 - b) An individual who directly supervises or manages the attest engagement partner.
 - c) Individuals who consult with the attest engagement team about technical or industry-related matters specific to the engagement.
- 3) Independence is impaired if the firm had a material relationship with the responsible party prohibited under Rule 101.
- 4) A firm may provide nonattest services to the responsible party that are prohibited due to an association as an employer, director, officer, promoter, voting trustee, or pension trustee. However, if they do not relate directly to the subject matter of the attest engagement, independence is not impaired.
- 5) When the party that engages the firm is not the responsible party or associated therewith, individuals on the attest engagement need not be independent of the party that engaged the firm. However, they should consider their responsibilities regarding conflicts of interest.

I. Interpretation 101-12 (Independence and cooperative arrangements with clients)

- 1) Independence is impaired if, during the engagement or at the time of expressing an opinion, a member's firm had any material cooperative arrangement with the client.
 - a) A cooperative arrangement means joint participation in a business activity.
 - b) A cooperative arrangement is not present when (1) the participants are governed by separate understandings, (2) responsibility for the other party's activities does not exist, and (3) neither party is the other's agent.

J. Interpretation 101-14 (Effect of APSs on independence rules)

- 1) The independence rules for an alternative practice structure (APS) apply to all structures in which "the 'traditional firm' engaged in attest services is closely aligned with another organization, public or private, that performs other professional services." For example, a CPA firm may be sold to another entity having subsidiaries or divisions such as a bank, an insurance company, a broker-dealer, and entities providing nonattest services (tax, management consulting, etc.). The owners and employees of the CPA firm become employees of one of the parent's subsidiaries or divisions and may offer nonattest services. Moreover, the original owners of the acquired CPA firm create a new CPA firm to offer attest services. The majority ownership of the new firm must be held by CPAs, but it leases employees, offices, and equipment from the parent, which may also provide advertising and perform back office functions. The owners of the new CPA firm pay a negotiated amount for such services.
- 2) In the example above, the term "member or a member's firm" includes the new CPA firm (the firm) and any leased or employed person or entity.
- 3) When two or more new CPA firms are "closely aligned" with another organization, issues arise as to whether owners of one perform services or have significant economic interests in another. Thus, if an owner of one performs services for another, (s)he is deemed to be an owner of both. Similar issues arise regarding managers (leased or otherwise).
- 4) In an APS, persons and entities included in "member or a member's firm" are closely aligned with other persons and entities. The latter include direct superiors who can directly control the activities of an owner or manager. A direct superior is an immediate superior who can direct the activities of an owner or manager so as to be able to directly or indirectly derive a benefit. Direct superiors are subject to the same independence rules as persons included in "member or a member's firm."
- 5) An indirect superior (defined to include a spouse, cohabitant, or dependents of an indirect superior) is one or more levels above a direct superior and does not have a direct reporting relationship with the new CPA firm's owners and managers. Less restrictive standards apply to indirect superiors and to other entities in the consolidated group.
 - a) These parties may not have a relationship involving a direct financial interest or an indirect material financial interest with an attest client of the new CPA firm that is material.
 - b) These parties also should not exercise significant influence over the attest client.
 - c) Other entities in the consolidated group and their employees may not be promoters, underwriters, directors, officers, or voting trustees of an attest client. However, with the foregoing exceptions, indirect superiors and other consolidated entities may provide services to an attest client that a member could not without impairing independence.

- 6) The new CPA firm may not perform a service requiring independence for any entity in the consolidated group.
- 7) Independence is impaired with regard to an attest client who exercises significant influence over, or has a material investment in, the parent. a) Significant influence means "the ability to exercise significant influence over the financial, operating, or accounting policies of the entity, for example, by (1) being connected with the entity as a promoter, underwriter, voting trustee, general partner, or director; (2) being in a policy-making position, such as chief executive officer, chief operating officer, chief financial officer, or chief accounting officer; or (3) meeting the criteria" in APB Opinion 18, *The Equity Method of Accounting for Investments in Common Stock*.
- 8) Referrals within the consolidated group are subject to the provisions regarding conflicts of interest.

//K. Interpretation 101-15 (Financial relationships)

- 1) *Mutual funds*. Ownership of fund shares is a direct financial interest in the fund. Underlying investments in the fund are indirect interests. Materiality is evaluated if (a) the fund is not diversified, or (b) the covered member holds more than 5% of a diversified fund.
- 2) *Retirement, savings, or compensation plans*. Participation constitutes a direct financial interest in the plan. Investments of a plan sponsored by the member's firm are direct interests of the firm. Investments of a plan controlled or supervised by the member are the member's direct interests. Otherwise, they are indirect interests of the members. Investments in a defined benefit plan are not financial interests of the plan in the absence of control or supervision.
- 3) *Unsolicited financial interests*. Independence is not impaired if the interest in the client received (e.g., by gift or inheritance) is disposed of promptly (no more than 30 days after the member has the right of disposal). If the member has no such right, independence is impaired by a direct or material indirect interest unless (s)he (a) does not participate in the engagement and (b) disposes of the interest promptly after the right exists.
- 4) *Section 529 plans*. These plans are prepaid tuition or savings plans sponsored by states or colleges.
 - a) *Prepaid tuition plans*. The account owner has a direct interest in the plan but an indirect interest in its investments. (S)he does not participate in investment returns.
 - b) *Savings plans*. The account owner has a direct interest in the plan and its investments because (s)he decides in which plan to invest. If the plan subsequently invests in an attest client, the member should transfer the account to another plan or account owner. If transfer incurs a significant penalty or tax, it may be delayed if the member does not participate in, or have the ability to influence, the engagement.
 - c) A beneficiary of a Section 529 plan has no interest in the plan or its investments.
- 5) *Trusts*. A grantor who can (a) amend or revoke the trust or (b) supervise its investments has a direct interest in both. Otherwise, (s)he has no financial

interest in either.

- a) A beneficiary has a direct interest in the trust. (S)he has an indirect interest in its investments unless (s)he controls the trust or its investments.
 - b) A blind trust and its investments are direct interests of the grantor. The investments will revert to the grantor.
- 6) *Partnerships*. A partnership interest is a direct financial interest of the owner. The financial interests of the partnership are direct interests of a general partner. The financial interests of a limited partnership are indirect interests of a limited partner who does not control the entity or supervise investments.
- 7) *Limited liability companies*. An owner's interest in an LLC is direct.
- a) A member-manager has a direct interest in the LLC's financial interests.
 - b) A nonmanager has an indirect interest in the LLC's financial interests unless the operating agreement gives him/her control of the LLC or the right to supervise its investments.
- 8) *Insurance products*. If a policy offers no investment option, it is not a financial interest. Thus, independence is not impaired with respect to the insurer if the policy was issued under normal terms, procedures, and requirements. An investment option is a financial interest. Whether it is direct or indirect is determined based on the principles applied throughout Interpretation 101-15.

ETHICS RULINGS ON INDEPENDENCE — RULE 101.

Independence Not Impaired

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1. Membership in a client trade association provided the member is not an officer or a director, or in a position equivalent to management.
 2. The member provides advisory services for a client.
 3. A member is designated to serve as an executor of an individual's estate that owns the majority of the stock of a corporation. Independence with respect to the corporation is not impaired unless the member serves as executor.
 4. A CPA is a director of a federated fund-raising organization, e.g., United Way, and audits local charities receiving funds. Independence with respect to the charities is not impaired unless the organization exercises managerial control over them.
 5. A CPA has a pro rata share of securities in a social club, unless (s)he is on the governing board or takes part in management.
 6. A member serves on a citizens' committee advising a county and on another committee advising the state where the county is located.

7. A member and a client bank serve in a co-fiduciary capacity with respect to an estate, provided the estate assets are not material.
8. A client financial services company has custody of a covered member's assets (not in depository accounts); services are provided under its normal procedures, terms, and requirements; and any assets subject to risk of loss are immaterial to the member's net worth.
9. Independence is not impaired if a member audits an employee benefit plan unless a partner or professional employee of the firm had significant influence over the employer(s); was in a key position with the employer; or was associated with the employer as a promoter, underwriter, or voting trustee.
10. The mere servicing of a member's loan by a client financial institution.
11. When a covered member has a checking or savings account, certificate of deposit, or money market account in a client financial institution, provided the amounts are fully insured. Uninsured amounts do not impair independence if they are immaterial or if they are reduced to an immaterial balance within 30 days. A firm's independence is not impaired if the probability is remote that the depository institution will have financial difficulty.
12. Membership in a client credit union if all the following are met:
 1. Each member qualifies to join the credit union without regard to the professional services.
 2. The member's vote must not have significant influence over policies.
 3. Loans must be limited to grandfathered and other permitted loans made under normal procedures, terms, and requirements.
 4. Any deposits with the credit union must meet the conditions in number 12.
13. A member's service as treasurer of a mayoral campaign organization. Independence is impaired with respect to the organization itself, but not the political party of the candidate or the city.
14. If a member leases property to or from a client under an operating lease with terms comparable to those of similar leases, and all amounts are paid in accordance with the lease. If, however, the lease is a capital lease, independence would be impaired unless the lease is tantamount to a permitted loan.

Situation: Ben Costas, a partner of Woods & Costas, owns the building in which Alpha Manufacturing's corporate offices are located. The lease qualifies as a capital lease but not a grandfathered loan.

Not independent: Leasing property to a client under a capital lease is deemed to be a loan to the client. Independence is impaired unless the loan is a grandfathered loan.

15. Inclusion of a clause in an engagement letter providing for member indemnification by the client.

Situation: The engagement letter sent to Alpha Manufacturing by Woods & Costas contains an indemnification clause. It requires Alpha to reimburse Green & Martin for any losses due to a lawsuit based on Alpha's financial statements.

Independent: Inclusion of a clause in the engagement letter providing for indemnification of the firm by the client does not impair independence.

16. A predispute agreement with a client to use alternative dispute resolution (ADR) techniques.
17. Commencement of an ADR proceeding. However, Interpretation 101-6 applies, and independence may be impaired if the proceeding is sufficiently similar to litigation because the parties have material adverse interests, e.g., in binding arbitration.
18. Performing extended audit services regarding reporting on internal control if management assumes responsibility for control, and management does not rely on the member's work as the primary basis for its assertion.

Rule 101 - Independence Impaired

1. The member signs or cosigns checks or purchase orders or exercises general supervision to ensure compliance as a representative of a creditors' committee in control of a debtor corporation.
2. The member serves as an elected legislator in a municipal body at the same time as (s)he is performing an audit of that body.
3. With respect to a foundation and an estate if the member is a trustee of the foundation that is the beneficiary of the estate.
4. A CPA serves on the board of directors of a client nonprofit social club.

NOTE: The board of directors has the ultimate responsibility for the affairs of the club

5. A CPA is on a client's committee that administers the deferred compensation program.
6. A CPA is a director of a company and an auditor of the profit sharing and retirement trust.
7. A CPA owns an immaterial amount of bonds in a municipal authority (considered a loan).
8. With respect to a common interest realty association (CIRA) as a result of owning or leasing realty. But no impairment occurs if the CIRA has governmental functions, the CPA's annual assessment is immaterial, sale of the CIRA or common assets does not result in a distribution to the member, CIRA creditors have no recourse to the member, and the CPA is not a manager or employee of the CIRA.

9. A member of a university's faculty audits the student senate fund (the member will audit functions performed by the university, which is his/her employer).
10. If billed or unbilled fees, or a note arising from the fees, for client services rendered more than 1 year before the current year's report date remain unpaid. Audit fees that are long past due take on the characteristics of a loan under Conduct Rule 101. Not applicable if the client is in bankruptcy.
11. When a CPA is on the board of directors of a fund-raising organization; unless the position is honorary.
12. For both partnerships, when two limited partnerships have the same general partner and a member has a material interest in one of the partnerships.
13. The use of partners, shareholders, and professional employees from another firm that is not independent of the client. Their work can be used in the same manner as that of internal auditors.
14. A CPA's service on a client's advisory board unless it
 - a. Is in fact advisory.
 - b. Has no authority to make management decisions, and
 - c. Is distinct from the board of directors with few common members.
15. A CPA who is not independent may not express an audit opinion or issue a review report, but (s)he may issue a compilation report disclosing the lack of independence.
16. A member who is a general partner in a partnership that invests in a client. If the member is a limited partner, independence would not be impaired unless the interest in the client is material.
17. If a member is a limited partner in a limited partnership (LP) and the client is a general partner, the member lacks independence with respect to the LP, the client if the client has a material interest in the LP, and a subsidiary of the LP if the member's interest is material.
18. Unless a loan from a nonclient subsidiary of a client parent is "grandfathered" or "permitted" under Interpretation 101-5, it impairs independence with respect to the parent. However, a loan from a nonclient parent does not impair independence with respect to a client subsidiary if the subsidiary is not material to the parent.
19. If a report was issued when a member was independent, (s)he may reissue it or consent to its use when his/her independence is impaired provided (s)he did not do any post-audit work (not including reading subsequent statements or inquiries of subsequent auditors) while not independent.
20. Agreeing to indemnify a client for losses arising from lawsuits, etc., that relate directly or

indirectly to client acts impairs independence.

21. When a member has significant influence over an entity with significant influence over a client.
 22. With respect to the client and the plan if a member participates in a client's health and welfare plan. But, if participation arises from permitted employment of the immediate family of the covered member, no impairment occurs provided the plan is offered to all employees in equivalent positions.
 23. If a member performs investment management or custodial services for an employee benefit plan sponsored by a client, with respect to the plan. Independence is also impaired regarding the client-sponsor of a defined benefit plan if the assets involved are material to the plan or sponsor. Independence is not impaired regarding a client-sponsor a defined contribution plan if the member performs no management functions and does not have custody of the assets.
 24. Acceptance of a gift from an attest client by a member on the engagement team or able to influence the engagement unless the value is clearly insignificant. Acceptance of entertainment from the attest client, or the offer of a gift or entertainment to the attest client, does not impair independence if it is reasonable in the circumstances.
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Rule 102— *Integrity and Objectivity.*

- a. **Interpretation 102-1.** Knowing misrepresentations of facts include knowingly making materially false and misleading entries in financial statements or records, failing to make corrections in materially false or misleading statements or records when the member has such authority, or signing a document with materially false and misleading information.
- b. **Interpretation 102-2.** If a conflict of interest arises that could impair objectivity When a member performs a professional service, Rule 102 will not prohibit the service if disclosure is made to and permission is obtained from the appropriate parties. However, an independence objection cannot be overcome by disclosure and consent. The following are examples of situations in which objectivity may be impaired:
 - 1) Performing litigation services for the plaintiff when the defendant is a client
 - 2) Providing tax or *personal financial planning* (PFP) services to both parties to a divorce
 - 3) Suggesting that a personal financial planning client invest in a business in which the member has an interest
 - 4) Providing tax or personal financial planning services to family members with conflicting interests
 - 5) Performing consulting services for a client that is a major competitor of a company in which the member has a significant financial interest, occupies a management position, or exercises influence

- 6) Serving on a board of tax appeals that hears matters involving clients
- 7) Providing services in connection with a real estate purchase from a client
- 8) Referring a tax or personal financial planning client to a service provider that refers clients to the member under an exclusive arrangement
- 9) Referring a client to a service bureau in which the member or a partner in the member's firm has a material interest
- c. **Interpretation 102-3.** In dealings with an employer's external accountant, a member must be candid and not knowingly misrepresent facts or fail to disclose material facts.
- d. **Interpretation 102-4.** (Subordination of Judgment by a Member)
 There is an old saying that "the boss is not always right but (s)he is always the boss." What must a member do when (s)he disagrees with the boss relative to an accounting matter?
 If a member and his/her supervisor have a dispute about statement preparation or recording of transactions, the member should do nothing if the supervisor's position is an acceptable alternative and does not materially misrepresent the facts.
 - 1) If the member concludes that a material misstatement would result, (s)he should consult the appropriate higher level(s) of management and should consider documenting relevant matters.
 - 2) If, after such discussions, the member concludes that action was not taken, (s)he should consider the continuing relationship with the employer, the obligation to communicate with third parties, and the desirability of consulting legal counsel.
- e. **Interpretation 102-5.** Educational services, e.g., teaching and research, are professional services subject to Rule 102.
- f. **Interpretation 102-6.** Professional services involving client advocacy are governed by the Code, e.g., Rules 201, 202, 203, and 102. If independence is required for a service, Rule 101 also applies. If the service stretches the bounds of performance standards, exceeds sound and reasonable professional practice, or compromises credibility, and therefore poses an unacceptable risk of injury to the member's or the firm's reputation, the propriety of accepting the engagement should be considered.

ETHICS RULINGS ON INTEGRITY AND OBJECTIVITY — RULE 102.

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- 1. A member in public practice should not ordinarily serve as a director of a bank if it engages in significant transactions with his/her clients. The rules on confidential client information and conflict of interest may be violated.
 - 2. The use of the CPA designation by a member not in public practice if it implies the member is independent of his/her employer is an intentional misrepresentation. The member should clearly indicate the employment title in any transmittal in which (s)he uses the CPA designation. If the member states that a financial statement conforms with GAAP, Rule 203 applies.

3. A member is a director of a federated fund-raising organization from which local charities that are clients (with significant relationships with the member) receive funds. If the significant relationship is disclosed and consent is received from the appropriate parties, performance of services not requiring independence is allowed.
 4. A company approaches a member to provide personal financial planning or tax services for its executives, who consent to the arrangement and are aware of any relationship the member has with the company. The result of the services could be recommendations adverse to company interests. Rule 102 and Rule 301 do not prohibit acceptance of the engagement if the member believes (s)he can perform objectively. The member should consider informing all parties of possible results. The member should also consider responsibilities to the company and to the executives under Rule 301.
 5. If a member is an officer, director, or principal shareholder of an entity having a loan to or from a client, independence is impaired with respect to that client if the member controls the entity, unless the loan is specifically permitted. If the member does not control the entity, the guidance in the interpretations should be considered. Disclosure and consent may therefore overcome the conflict-of-interest objection and permit the performance of the professional service for the client, provided the member believes it can be done with objectivity.
 6. Use of a third party to assist in providing professional services must be disclosed to the client before confidential client information is disclosed to the provider. The third-party service provider may not be used if the client objects. But disclosure is not necessary if the services constitute administrative support (e.g., records storage).
 7. Offering or accepting a gift or entertainment to or from (a) a client; (b) a person in a key position with, or a 10% owner of, a client; or (c) a customer or vendor of the member's employer impairs objectivity unless it is reasonable in the circumstances. A member lacks integrity if (s)he knew that the offer violated the policies of those involved or laws and regulations.
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Rule 201 — General Standards.

1. Interpretation 201-1. A member should have the competence to complete professional services according to professional standards and with reasonable care and diligence.

- 1) Competence involves technical qualifications and the ability to supervise and evaluate the work. It relates to knowledge of standards, techniques, and technical subject matter and to the ability to exercise sound judgment.
 - 2) In some cases, additional research and consultation is a normal part of performing services. However, if a member cannot gain sufficient competence, (s)he should suggest the engagement of someone competent.
2. The general standards apply to consulting services.

Rule 202 — *Compliance with Standards.* No interpretations.

Rule 203 — *Accounting Principles.*

- a. **Interpretation 203-1.** Professional judgment should be used in determining what constitutes unusual circumstances requiring a departure from established principles to prevent the financial statements or data from being misleading. Events that may justify such departures are new legislation or evolution of a new form of business transaction. An unusual degree of materiality or conflicting industry practices ordinarily do not justify departures.
- b. **Interpretation 203-2.** The body designated to establish accounting principles for nongovernmental entities is the FASB. Unsuperseded SFASs, ARB5, and APB Opinions are accounting principles within the meaning of Rule 203. The GASB, with respect to Statements of Governmental Accounting Standards, is the designated body for state and local governments. The Federal Accounting Standards Advisory Board (FASAB), with respect to its Statements of Federal Accounting Standards adopted and issued beginning in March 1993, is the designated body for federal governmental entities.
- c. **Interpretation 203-4.** Rule 203 applies to all members regarding any affirmative statement about GAAP conformity. Thus, Rule 203 applies to members who sign client reports to regulatory agencies, creditors, or auditors that contain such representations.

**ETHICS RULINGS ON GENERAL AND TECHNICAL STANDARDS
— RULES 201, 202, 203.**

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- 1. The member has a responsibility to make sure that a subcontractor (s)he has selected has the professional qualifications and skills needed.
 - 2. A member is not required to be able to perform all the services of a newly hired systems analyst. But the member must be qualified to supervise and evaluate the specialist's work.
 - 3. If a member submits financial statements in his/her capacity as an officer, shareholder, partner, director, or employee to a third party, the member's relationship to the entity should be clearly communicated. No implication of independence should be made. Rule 203 applies if the communication states that the financial statements conform with GAAP. If the member acts as a public practitioner or submits the statements on his/her public practitioner's letterhead, (s)he should comply with applicable standards, including disclosure of lack of independence.
 - 4. Rule 203 applies to members who perform litigation support services.

5. Use of a third-party to assist in providing professional services does not change the duty to comply with the general and technical standards.
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Rule 301 — Confidential Client Information

- a. **Interpretation 301-3.** The rule against disclosure of confidential information does not prohibit the review of a member's professional practice pursuant to a purchase, sale, or merger of the practice. However, appropriate precautions (e.g., a written confidentiality agreement) should be taken so that the prospective buyer does not disclose any confidential client information.

Rule 302 — Contingent Fees.

Rules on Contingent Fees and Commissions prohibit, among other acts, the receipt of contingent fees for the performance of certain services and the receipt of a commission for the referral of products or services under certain circumstances. The Code's objective is to keep the CPA that receives a contingent fee or commission from a possible conflict of interest within the service to be performed.

Interpretation 302-1. Contingent Fees in Tax Matters

The use of contingent fees is limited to a great degree in accounting practice. The area in which contingent fees situations arise most regularly is the tax area. The following are examples, of circumstances where a contingent fee would be permitted.

- a) Representation of a client in an examination by a revenue agent
- b) Representation of a client who is obtaining a private letter ruling
- c) Filing an amended tax return claiming a refund based on a tax issue that is the subject of a test case involving a different taxpayer

NOTE: An example of circumstances in which a contingent fee is not allowed is the preparation of an amended income tax return for a client claiming a refund of taxes because of an inadvertent omission of a proper deduction.

ETHICS RULINGS ON RESPONSIBILITIES TO CLIENTS — RULES 301 AND 302.

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1. Before use of a third party to assist in providing professional services, the member should (a) have a contract with the provider to protect client confidentiality and (b) be reasonably assured that the provider's procedures are sufficient for this purpose. Absent the contract, specific client consent is needed to disclose confidential client information.
 2. A member may give a client's profit and loss percentages to a trade association provided the member has permission from the client.
 3. A member who withdrew from an engagement because of fraud on a client's tax return

should suggest that the successor obtain permission from the client to reveal the reasons for leaving.

4. A member may work for a municipality in verifying that proper amounts of taxes have been paid by the area businesses. Members are prohibited from releasing any confidential information obtained in their professional capacity.
5. A member may reveal a client's name without permission unless disclosure would constitute release of confidential information.
6. A member performing a consulting service must maintain the confidentiality of nonclient outside sources. If the client does not agree to this arrangement, the member should withdraw.
7. Knowledge and expertise obtained from a prior engagement may be used on behalf of a current client provided that the details of the other engagement are not revealed without permission.
8. A member who prepares a joint tax return should consider both spouses to be clients. After the spouses have divorced, the member will not violate Rule 301 if (s)he releases information to either spouse. But the legal implications should be discussed with an attorney.
9. A contingent fee or commission is considered to be received when the performance of related services is complete and the fee or commission is determined.
10. Rule 301 does not prohibit a member from releasing confidential client information to the member's liability insurance carrier solely to assist the defense against a claim against the member.
11. A member may make disclosures necessary to initiate, pursue, or defend legal or alternative dispute resolution proceedings. Rule 301 does not prohibit compliance with laws or regulations.
12. A member who provides investment advisory services for an attest client for a percentage of the investment portfolio violates Rule 302 unless the fee is a specified percentage of the portfolio, the dollar amount of the portfolio is determined at the beginning of each quarterly (or longer) period and is adjusted only for the client's additions or withdrawals, and the fee arrangement is not renewed more often than quarterly.
13. See Ethics Ruling 24 under Rule 503.
14. See Ethics Rulings 1 and 4 under Rule 102.

Rule 501 — Acts Discreditable

- a. **Interpretation 501-1.** Client records must be returned after a client demands them even if fees have not been paid. This ethical standard applies even if the state in which the member practices grants a lien on certain records in his/her possession.
 - 1) *Client-provided records* are "accounting or other records belonging to the client that were provided to the member by or on behalf of the client."
 - 2) However, "a member's working papers include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the member." *Working papers* are the member's property and need not be made available unless required by (a) statute, (b) regulation, or (c) contract.
 - 3) Client records prepared by the member include accounting and other records (e.g., tax returns, journals, ledgers, and supporting schedules) that the member was engaged to prepare. They may be withheld if fees are due or the engagement is incomplete.
 - 4) Supporting records contain information not in the client's records, without which its financial information is incomplete. Supporting records, such as entries and related calculations, are produced by the member. They are not otherwise available to the client. Supporting records for an issued work product should be given to the client upon request unless fees are due for that product.
 - 5) Records also must be given to a client who suffered a loss because of an act of war or natural disaster.
 - 6) The member may (a) charge a reasonable fee, (b) provide records in any usable form, and (c) retain copies. Moreover, the records provided must be in a requested format only if the engagement was to prepare them in that format.
 - 7) Compliance with a client's request usually should be within 45 days.
- b. **Interpretation 501-2.** When a court or administrative agency has made a final determination that a member has violated an antidiscrimination law, (s)he is deemed to have committed an act discreditable.
- c. **Interpretation 501-3.** In a governmental audit, failure to adhere to applicable audit standards, guides, procedures, statutes, rules, and regulations is an act discreditable to the profession unless the report discloses the failure and the reasons therefore.
- d. **Interpretation 501-4.** Negligently making, or permitting or directing another to make, materially false and misleading entries in the financial statements or records; negligently failing to correct materially false and misleading statements when the member has such authority; or negligently signing, or permitting or directing another to sign, a document with materially false and misleading information is an act discreditable.
- e. **Interpretation 501-5.** A member must follow GAAP and the requirements of governing bodies, commissions, or regulatory agencies when preparing financial statements or related information or in performing attest services for entities subject to their jurisdiction. For example, the SEC and PCAOB have created such requirements. If the member performs attest services related to reports to governing bodies, etc., (s)he must follow the requirements of those bodies as well as GAAS. A material departure from the requirements is an act discreditable unless the member discloses the reasons.
- f. **Interpretation 501-6.** Solicitation or knowing disclosure of May 1996 or later CPA examination questions or answers is an act discreditable.
- g. **Interpretation 501-7.** Failing to comply with laws regarding timely filing of personal or firm tax returns or timely remittance of taxes collected for others is an act discreditable.
- h. **Interpretation 501-8.** Regulators may prohibit regulated entities from entering into certain kinds of indemnification and limitation of liability agreements in connection with

attest services. Regulators also may prohibit members from providing services under such agreements. Failing to comply with such prohibitions is an act discreditable.

Rule 502 — *Advertising and Other Forms of Solicitation.*

- a. **Interpretation 502-2.** False, misleading, or deceptive acts are prohibited because they are against public interest. These prohibited activities include
 - 1) Creating false expectations of favorable results
 - 2) Implying the ability to influence any court, regulatory agency, or similar body
 - 3) Representing that specific services will be performed for a stated fee when it is likely at the time of the representation that the fees will be substantially increased and the client is not advised of the possibility
 - 4) Other representations that would cause a reasonable person to misunderstand or be deceived
- b. **Interpretation 502-5.** Members are permitted to render services to clients of third parties. If the third party obtained its clients through advertising, the members must ascertain that all promotional efforts were within the Rules of Conduct. Members must not do through others what they are prohibited from doing themselves.

Rule 503 — *Commissions and Referral Fees. No interpretations.*

Rule 505 — *Form of Organization and Name.*

- a. According to the relevant AICPA Council Resolution, a member may practice public accounting only in a firm or organization with certain characteristics.
 - 1) If such an entity performs any audit under the SASS, a review under the SSARSs, or an examination of prospective information under the SSAEs or holds itself out as a firm of CPAs, an entity must have the following attributes:
 - a) CPAs must own a majority of the firm in terms of financial interests and voting rights.
 - b) A non-CPA owner, including an investor or commercial enterprise, must be actively engaged in providing services to clients as his/her/its principal occupation.
 - c) A CPA must have ultimate responsibility for all services provided.
 - d) A non-CPA owner must have a baccalaureate degree.
 - e) Non-CPA owners cannot hold themselves out to be CPAs, must abide by the Code, must complete the work-related CPE requirements, and are ineligible for AICPA membership.
 - f) Owners must own their equity in their own right.
 - g) Ownership must be transferred to the firm or to other qualified owners within a reasonable time if the owner ceases to be actively engaged in the firm.
 - 2) The characteristics of all other entities are considered to be whatever is legally permissible except as indicated in 3) below.
 - 3) If a firm or organization not meeting the foregoing requirements performs compilations under SSARSs, a CPA must have ultimate responsibility for any such services and for each business unit performing such services. Moreover, any compilation report must be signed individually by a CPA.

<p>NOTE: Rule 505 allows members to practice not only in corporations and general partnerships but also in limited liability companies, limited liability partnerships, and other forms permitted by state law.</p>
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- b. **Interpretation 505-2.** A member in the practice of public accounting may own an interest in a separate business that performs the services for which standards are established. If the member, individually or with his/her firm or members of the firm,

- controls the separate business (as defined by U.S. GAAP), the entity and all its owners and employees must comply with the Code. Absent such control, the member, but not the separate business, its other owners, and its employees, would be subject to the Code.
- c. **Interpretation 505-3.** The overriding focus of the Council Resolution, the Code, and other AICPA requirements is that CPAs remain responsible, financially and otherwise, for the attest work performed to protect the public interest. However, in the context of alternative practice structures (APSs), CPAs may own the majority of financial interests in the attest firm, but substantially all revenues may be paid to another entity in return for services and the lease of employees, equipment, etc. Nevertheless, given the previously mentioned safeguards, if the CPA-owners of the attest firm remain financially responsible under state law, they are deemed to be in compliance with the financial-interests requirement of the Resolution.

ETHICS RULINGS ON OTHER RESPONSIBILITIES AND PRACTICES — RULES 501 -503, AND 505.

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1. A firm may arrange with a bank to collect notes issued by a client in payment of fees.
 2. A CPA employed by a firm with one or more non-CPA practitioners must obey the Rules of Conduct. If the CPA becomes a partner, (s)he is responsible for compliance with the Rules of Conduct by all associated practitioners.
 3. A CPA who teaches a course is responsible for determining that promotional efforts are within Rule 502.
 4. A member not in public practice who is controller of a bank may use the CPA title on bank stationery and in paid advertisements.
 5. A member who is an attorney and a CPA may use a letterhead with both titles on it.
 6. A member interviewed by the press should observe the Rules of Conduct and not provide information that the member could not publish.
 7. A member may serve as a director of a consumer credit company if (s)he does not audit the company and avoids conflicts of interest.
 8. Although members may share an office, have the same employees, etc., they should not use a letterhead with both their names unless a partnership exists.
 9. CPA firms that wish to form an association are not allowed to use the title of an association (e.g., Smith, Jones & Associates) because the public may believe a true partnership exists instead of an association. Each firm should use its own letterhead indicating the others as correspondents.
 10. A CPA and a non-CPA who dissolve their partnership should sign an audit report, after dissolution, in a way not implying a partnership.
 11. The title "nonproprietary partner" should not be used by someone who is not a partner because it is misleading.
 12. A member may have his/her own CPA practice and be a partner of a public accounting firm all other members of which are noncertified.
 13. A partnership may continue to practice using the managing partner's name as the firm name after (s)he

withdraws. "And Company" should be added to the partnership name.

14. If a CPA forms a partnership with a non-CPA, the CPA is responsible for the non-CPA's violation of the Code.
15. A firm may use an established firm name in different states even though the roster of partners differs.
16. When two partnerships merge, they may retain a title that includes a retired or former partner's name.
17. A newsletter, tax booklet, etc., not prepared by the member or member's firm (member) may be attributed to the member if the member has a reasonable basis to believe the information attributed to the member is not false, misleading, or deceptive.
18. If a CPA in public practice forms a separate business that centralizes billing services for physicians, the CPA must comply with the Rules of Conduct because this service is of a type performed by public accountants.
19. CPA firms that are associated for joint advertising and other purposes should practice under their own names and indicate the association in other ways.
20. A CPA is not required to give the client a prepared tax return if the engagement to prepare the return is terminated prior to completion. Only the records originally provided by the client must be returned.
21. The designation "Personal Financial Specialists" may only be used on a letterhead when all partners or shareholders have the AICPA-awarded designation. However, the individual members holding the designation may use it after their names.
22. A member is permitted to purchase a product and resell it to a client. Any profits collected are not considered a commission because the member had title to the product and assumed the risks of ownership.
23. A member may contract with a computer hardware maintenance servicer to support a client's computer operations and charge a higher fee to the client than the servicer charges the member.
24. A member's spouse may provide services to the member's attest client for a contingent fee or refer products or services for a commission to or from the member's attest client, provided the spouse's activities are separate from the member's practice and the member is not significantly involved. However, a conflict of interest issue may arise.
25. A CPA may not refer for commissions products to clients through distributors and agents when the CPA is performing any of the services described in Rule 503. If the services are not being provided by the CPA, (s)he may refer the products provided (s)he discloses the commissions to the clients
26. Individuals associated with a client may be involved in an internal dispute, and each may request client records and other information. The CPA is under an obligation to supply certain information specified by Interpretation 501-1. This obligation is satisfied by turning over any required information to the designated client representative.
27. A CPA in partnership with non-CPAs may sign the firm name to a report and below it affix his/her name with the CPA designation. However, it must be clear that the partnership does not consist entirely of CPAs.

28. Unless permitted by contract, if the relationship of a member who is not an owner of a firm is terminated, (s)he may not take or retain originals or copies from the firm's client files or proprietary information without permission.

CONCEPTUAL FRAMEWORK-- THREATS AND SAFEGUARDS APPROACH

The threats and safeguards approach can help members comply with the rules in situations not explicitly addressed in the code. It is an approach that the AICPA's Professional Ethics Executive Committee also uses when developing the code's interpretations and rulings.

The threats and safeguards approach identifies threats to compliance with the rules and evaluates the significance of those threats. If a threat is not at an acceptable level, members should determine whether safeguards can eliminate or reduce the threat to an acceptable level and, if so, apply such safeguards or, if not, avoid the situation that creates the threat. Members should evaluate in-the-aggregate a situation with multiple threats since the cumulative effect could be at an unacceptable level.

Identifying threats. Members often face risks of encountering relationships or circumstances that could compromise compliance with the roles (in other words, threats) in their duties or work environments.

Six threat categories are identified to help members identify and develop sensitivity to potential threats:

1. *Self-review threat.* The threat that a member will not appropriately evaluate the results of prior services performed by the member himself or herself, or by an individual in the member's firm or employing organization.
2. *Advocacy threat.* The threat that a member will promote a client or employer's position to the point that his or her objectivity is compromised.
3. *Adverse interest threat.* The threat that a member will not be objective because his or her interests are in opposition to those of a client or employer.
4. *Familiarity threat.* The threat that because of a long or close relationship with a client or employer, a member will become too sympathetic to their interests or too accepting of their work.
5. *Undue influence threat.* The threat that a member will subordinate his or her judgment to that of an individual associated with a client, employer or other relevant third party because of the individual's (1) reputation or expertise, (2) aggressive or dominant personality, or (3) attempts to coerce or exercise excessive influence over the member.
6. *Self-interest threat.* The threat that a member will act in a manner that is adverse to the interests of his or her firm, employer, client or the public, as a result of the member or his or her close family member's financial interest in or other relationship with a client or the employer.

Examples of Threats to Compliance With AICPA Rules of Conduct

<i>Situation</i>	<i>Threat</i>
As part of an attest engagement, a member uses consulting work previously done by his firm.	Self-review and self-interest threats to compliance with rules 102 and 201.
A member has charged his employer with violating certain labor laws.	Adverse interest threat to compliance with Rule 102.
An employer pressures a member to be associated with misleading information.	Undue influence threat to compliance with rules 102 and 201

A member is directed to complete a task within an unrealistic time frame.	Undue influence threat to compliance with rules 102 and 201.
Revenue received from a single client is significant to the firm.	Self-interest threat to compliance with Rule 102.

Evaluating the significance of a threat. The existence of a threat does not necessarily mean noncompliance with the rules; rather, members should evaluate a threat's significance by considering whether a reasonable and informed third party, weighing all quantitative and qualitative facts and circumstances, would likely conclude that the threat would compromise the member's compliance with the rules. If this evaluation finds that the threat would not compromise a member's compliance, the threat is at an acceptable level, requiring no further evaluation under the guide. If the evaluation finds the threat at an unacceptable level, the member should identify and apply appropriate safeguards.

Identifying and applying safeguards. Safeguards are controls that mitigate or eliminate threats to independence. Required or prohibited actions and internal control measures can serve as safeguards to eliminate or reduce threats to acceptable levels. The profession, legislation and public regulations create some safeguards for all members. Employers implement other safeguards in the specific work environment. Members in public practice also may consider their client's safeguards when evaluating the significance of a threat.

Examples of safeguards and associated threats they might reduce are:

- Peer reviews (actions required by the profession) that consider appropriate reliance on external evidence in attest engagements reduce undue influence threats.
- Periodic rotations of senior members on an attest engagement (actions required by Sarbanes-Oxley legislation or a firm's internal controls) reduce familiarity threats.
- Limitations of services to clients whose billings would be significant to the firm (actions prohibited by a firm's internal controls) reduce undue influence and self-interest threats.
- Avoiding joint ventures with a client (actions prohibited in a firm's internal controls) reduces advocacy and self-interest threats.
- Corporate governance that restrict certain services by the corporation's external auditors (actions prohibited by the client's internal controls) reduce self-review threats.
- Corporate policies that stress ethical behavior and provide channels to discuss ethical issues without fear of retribution (workplace internal controls, "tone at the top") reduce undue influence threats.

Determining which safeguard to apply requires judgment, since a safeguard's effectiveness can vary from one environment to another. Members should analyze a particular situation's facts and circumstances, identify significant threats and then design safeguards, considering:

- The safeguard's objective.
- Parties who will be subject to the safeguard.
- How the safeguard will be applied (for example, uniformly, consistently, objectively).
- Who will apply the safeguard (for example, a third party, a supervisor, a computer).

A threat is reduced to an acceptable level if, after applying safeguards, a reasonable and informed third party would likely conclude that compliance with the rules is not compromised.

What if there are no effective safeguards? A threat may be so significant that no safeguard can eliminate or reduce it to an acceptable level. If so, providing the specific professional or employee service will likely cause noncompliance with the rules. While declining or discontinuing the service would prevent a

rules violation, the member should also consider the stronger response of resigning from the client or employment position.

Ethical Conflicts Unrelated to Threats

Members may confront ethical conflicts due to internal or external work-environment pressures or conflicts within professional standards unrelated to threats described above. For example, a member may encounter a fraud and feel ethically bound to report it; but reporting the fraud could breach Rule 301's mandate to maintain client confidentiality. To resolve such ethical conflicts and comply with the rules, the guide recommends that members:

- a) Recognize and consider all relevant facts and circumstances, including applicable rules, laws or regulations,
- b) Consider the ethical issues involved,
- c) Consider established internal procedures, and then
- d) Formulate alternative courses of action.

After weighing the consequences of each course of action, the member should select the course that best enables compliance with the rules. Before pursuing the selected course of action, the member may want to consult with legal counsel, applicable professional bodies and appropriate firm or employer personnel.

If the conflict remains unresolved after pursuing the selected course of action, the member should consider further consultation with those advisers to review the process and reach a different resolution. Members may be well-advised to document the ethical conflict's substance, details of discussions and suggested decisions.

What if there is no effective resolution? If, after exhausting all reasonable possibilities, the ethical conflict remains unresolved, members will probably not be in compliance with the rules if they remain associated with the matter creating the conflict. In this case, members should consider withdrawing from the engagement team or specific assignment, and perhaps consider the stronger response of resigning from the client or employment position.

Applying Threats and Safeguards Approach to Ethics Violation Cases

Case 1: Company controller Davidson, CPA, prepared his employers 2007 financial statements knowing that they misstated revenues. The company's CEO, who could fire Davidson at will, "strongly urged" Davidson to record sales at full invoice prices despite customers' fights to return merchandise long after a normal return period. Davidson's brother-in-law, a company in-house lawyer, wrote the sales contracts and assured Davidson that recording the full sales amounts was appropriate. After investigating the misstatement, the Illinois Department of Financial and Professional Regulation revoked Davidson's CPA certificate for "negligence in the preparation of financial statements" and "subordination of judgment" even though he was not in public practice.

Solution: CPA Davidson, whose boss urged him to record transactions contrary to GAAP and whose brother-in-law analyzed GAAP for him, should have referred to Interpretation 102-4 that prescribes potentially confrontational actions when a member's interpretation of GAAP differs from those of his or her supervisors. However, with the "threats and safeguards" approach, the unwelcomed need to invoke Interpretation 102-4 might have been avoided, as in this scenario: Davidson recognized the CEO's authority to fire him at-will as an *undue influence threat* and his brother-in-law's legal counsel as a *familiarity threat*. Davidson wrote a memo to his files discussing both threats and his belief that a reasonable and informed third party, weighing all the facts and circumstances, would likely conclude that the threats--separately and in the aggregate--compromise his compliance with rules 102, 201 and 202.

He considered actions or policies that might reduce the two threats to acceptable levels and wrote to the company's audit committee suggesting safeguards to protect his objectivity: (1) an officer's employment

termination should require a due process hearing before an independent arbitrator, allowing the officer to respond to allegations; and (2) staff preparing financial statements cannot be related to staff generating transactions or related documents. The audit committee adopted the due process personnel policy and assigned Davidson's brother-in-law to other legal matters. Davidson properly deferred revenue recognition on the dubious sales in accordance with the provisions of ASC 605-15-25-1, *Revenue Recognition: Products* (FAS-48, *Revenue Recognition When Right of Return Exists*).

Case 2: The California Board of Accountancy disciplined Norman & Co., CPAs, (the firm's name and other facts have been modified) when it audited a bank's financial statements while the firm's consulting group concurrently sold the client's debt consolidation services. The Board of Accountancy imposed a three-year CPA license probation plus frequent and costly peer reviews.

Solution: Two audit team members familiar with the AICPA's threats and safeguards approach knew that the firm's consulting group was negotiating a client-firm joint marketing venture and wrote memos identifying a *self-review threat*, *advocacy threat*, *self-interest threat* and independence issues. Their memo labeled the threats severe and urgent. The lead partner found that no safeguards could adequately reduce the threats to acceptable levels, and the firm immediately withdrew from the nonaudit activities.

CORPORATE RESPONSIBILITY LAW (SARBANES-OXLEY ACT)

President George W. Bush signed the Sarbanes-Oxley Act of 2002 (Public Law 107-204) on Tuesday, July 30, 2002. As enacted, the law will directly impact the following groups:

1. CPAs and CPA firms auditing public companies;
2. Publicly traded companies, their employees, officers, and owners—including holders of more than 10 percent of the outstanding common shares. This category would include CPAs employed by publicly traded companies as chief financial officers (CFOs) or in the finance department;
3. Attorneys who work for or have as clients publicly traded companies; and
4. Brokers, dealers, investment bankers and financial analysts who work for these companies.

The Act changes how publicly traded companies are audited, and reshapes the financial reporting system. This Act adopts tough new provisions to deter and punish corporate and accounting fraud and corruption, ensures justice for wrongdoers, and protects the interests of workers and shareholders.

This law improves the quality and transparency of financial reporting, independent audits, and accounting services for public companies. It also:

- Creates a Public Company Accounting Oversight Board (www.pcaobus.org) to enforce professional standards, ethics, and competence for the accounting profession;
- Strengthens the independence of firms that audit public companies;
- Increases corporate responsibility and the usefulness of corporate financial disclosure;
- Increases penalties for corporate wrongdoing;
- Protects the objectivity and independence of securities analysts; and
- Increases Securities and Exchange Commission resources.

Under this law, CEOs and chief financial officers must personally vouch for the truth and fairness of their company's disclosures. And those financial disclosures will be broader and better than ever before.

Corporate officials will play by the same rules as their employees. In the periods when workers are prevented from buying and selling company stock in their pensions or 401 (k)s, corporate officials will also be banned from any buying or selling.

Corporate misdeeds will be found and punished. This law authorizes new funding for investigators and technology at the SEC to uncover wrongdoing. The SEC will now have the administrative authority to bar dishonest directors and officers from ever again serving in positions of corporate responsibility. The penalties for obstructing justice and shredding documents are greatly increased.

Specifics

New Public Company Accounting Oversight Board (PCAOB)

- The law establishes a five-member accounting oversight board that is subject to Securities and Exchange Commission (SEC) oversight.
- Though the board oversees accounting firms, only two members of the board may be CPAs.
- The SEC will appoint the board.
- Duties of the board include registering public accounting firms that prepare audit reports; and establishing or adopting auditing, quality control, ethics and independence standards.
- The board also inspects, investigates and disciplines public accounting firms and enforces compliance with the act.
- *Registration with the Board Is Mandatory.* For public accounting firms, foreign or domestic, that participate in the preparation or issuance of any audit report with respect to a public company. Registration and annual fees collected from each registered CPA firm will go towards the costs of processing and reviewing applications and annual reports.
- *Seven-Year Record Retention Requirement.* PCAOB must adopt a rule to require registered CPA firms to prepare and maintain audit work papers and other information related to an audit for at least seven years in sufficient detail to support the conclusions reached in the audit report. (A separate criminal provision requires retention of all audit and review workpapers for five years from the end of the fiscal year in which the audit or review was completed.)
- *Cooperation with CPA Groups.* The board will cooperate with professional accountant groups and advisory groups to increase the effectiveness of the standards setting process. (The PCAOB may cooperate, but authority to set standards rests with the PCAOB, subject to SEC review.)
- *Annual Inspections.* Inspection of registered public accounting firms shall occur annually for every registered public accounting firm that regularly provides audit reports for more than 100 issuers (at least once every three years for registered firms that audit fewer than 100 issuers).
- *Investigations.* The board may investigate any act, omission or practice by a registered firm or an individual associated with a registered firm for any possible violation of the act, the board's rules, professional standards, or provisions of the securities laws relating to the preparation and issuance of audit reports.
 - (a) The board may require testimony or documents and information (including audit work papers) from a registered firm or individual associated with a registered firm or in the possession of any other person.
- Sanctions for violations that the board finds may include:
 - (a) Suspension or revocation of a registration;
 - (b) Suspension or bar of a person from further associating with any registered public accounting firm;
 - (c) Limitations on the activities of a firm or person associated with the firm; and
 - (d) Penalize the firm up to \$2 million per violation, up to a maximum of \$15 million.
 - (e) Individuals employed or associated with a registered firm who violate the act can face penalties that range from required additional continuing professional education (CPE) or training, disbarment of the individual from further association with any registered public accounting firm, or even a fine up to \$100,000 for each violation, up to a maximum of \$750,000.
- (1) A portion of the penalties collected will go to accounting scholarships.

- **Funding.** The law also provides independent funding for the Financial Accounting Standards Board (FASB). While the SEC and American Institute of CPAs (AICPA) both have recognized FASB as the standard setting body for accounting principles, federal authority to issue auditing, quality control, ethics and independence standards may seriously impact the AICPA's role in official pronouncements.

Other Requirements for CPA Firms

- *Audit Reports Require Concurring Partner Review.* Requires a concurring or second partner's review and approval of all audit reports and their issuance.
- *"Revolving Door" Employment of CPAs with Audit Clients Is Banned.* A registered CPA firm is prohibited from auditing any SEC registered client whose chief executive, CFO, controller or equivalent was on the audit team of the firm within the past year.
- *Audit Partner Rotation Required.* Audit partners who either have performed audit services or been responsible for reviewing the audit of a particular client must be rotated every five consecutive years. CPAs should read carefully the requirements for rotation of both the partner-in-charge and the concurring review partner for certain organizational constraints.
 - (a) *No Firm Rotation Requirement.* Firm rotation is not required. However, the U.S. Comptroller General will study and review the potential effects of mandatory rotation and will report its findings to the Senate Committee on Banking, Housing, and Urban Affairs and the House Committee on Financial Services.
- *CPA Firms Are Required to Report Directly to the Audit Committee.* The Sarbanes-Oxley Act requires that the audit committee of a public company hire and pay the external auditors. Such affiliation inhibits management from changing auditors to gain acceptance of a questionable accounting method. Also, a potential successor auditor must inquire of the predecessor auditor before accepting an engagement.
- *CPA Firm Consolidations to Be Studied.* The U.S. Comptroller General will conduct a study analyzing the impact of the merger of CPA firms to determine if consolidation leads to higher costs, lower quality of services, impairment of auditor independence, or lack of choice.
- *Corporate and Criminal Fraud Accountability.* Changes to the securities laws can penalize anyone found to have destroyed, altered, hid or falsified records or documents to impede, obstruct or influence an investigation conducted by any federal agency, or in bankruptcy, with fines or up to 20 years imprisonment, or both.
- *Current Requirements for Audit Firms.* Accountants are required to maintain all audit or review workpapers for a period of five years from the end of the fiscal period in which the audit or review was concluded.
- *Additional Rules.* The law requires the SEC to promulgate rules and regulations on the retention of any and all materials related to an audit, including communications, correspondence and other documents created, sent or received in connection with an audit or review. For violating the requirement or the rules that will be developed will result in a fine, or up to 10 years imprisonment, or both.

Internal Control Report.

Under Section 404 of the act, management must establish and document internal control procedures and include in the annual report a report on the company's *internal control over financial reporting*. This report is to include

1. A statement of management's responsibility for internal control;
2. Management's assessment of the effectiveness of internal control as of the end of the most recent fiscal year;
3. Identification of the framework used to evaluate the effectiveness of internal control (such as the

- report of the Committee of Sponsoring Organizations);
- 4. A statement about whether significant changes in controls were made after their evaluation, including any corrective actions; and
- 5. A statement that the external auditor has issued an attestation report on management's assessment.

Because of Section 404, two audit opinions are expressed: one on internal control and one on the financial statements. The auditor must attest to and report on management's assessment.

The auditor must evaluate whether the structure and procedures

- Include records accurately and fairly reflecting the firm's transactions.
- Provide reasonable assurance that transactions are recorded so as to permit statements to be prepared in accordance with GAAP.

The auditor's report also must describe any material weaknesses in the controls. The evaluation is not to be the subject of a separate engagement but be in conjunction with the audit of the financial statements.

Of Note to Industry Members—Requirements for Corporations, Their Officers and Board Members

- *No Lying to the Auditor.* The act makes unlawful for an officer or director or anyone acting for a principal to take any action to fraudulently influence, coerce, manipulate or mislead the auditing CPA firm.
- *Code of Ethics for Financial Officers.* The SEC is mandated to issue rules adopting a code of ethics for senior financial officers.
- *Financial Expert Requirement.* The SEC is required to issue rules requiring a publicly traded company's audit committee to be comprised of at least one member who is a financial expert.
- *Audit Committee Responsible for Public Accounting Firm.* The Act vests the audit committee of a publicly traded company with responsibility for the appointment, compensation and oversight of any registered public accounting firm employed to perform audit services.

NOTE: The Act requires that the audit committee of a public company hire and pay the external auditors. Such affiliation inhibits management from changing auditors to gain acceptance of a questionable accounting method. Also, a potential successor auditor must inquire of the predecessor auditor before accepting an engagement.

- *Audit Committee Independence.* Requires audit committee members to be members of the board of directors of the company, and to otherwise be independent.
- *CEOs & CFOs Required to Affirm Financials.* Chief executive officers (CEOs) and CFOs must certify in every annual report that they have reviewed the report and that it does not contain untrue statements or omissions of material facts.
 - (a) *Penalty for Violation.* If material noncompliance causes the company to restate its financials, the CEO and CFO forfeit any bonuses and other incentives received during the 12-month period following the first filing of the erroneous financials.
- *CEOs & CFOs Must Enact Internal Controls.* CEOs and CFOs will be responsible for establishing and maintaining internal controls to ensure they are notified of material information.
- *Penalties for Fraud.* The Act also has stiffened penalties for corporate and criminal fraud by company insiders. The law makes it a crime to destroy, alter or falsify records in a federal investigation or if a company declares bankruptcy. The penalty for those found guilty includes fines, or up to 20 years imprisonment, or both.
- *Companies Affected by the Act.* Publicly traded companies affected by the Act are those defined as an "issuer" under Section 3 of the Securities Exchange Act of 1934, whose securities are registered under Section 12 of the 1934 Act. An issuer also is considered a company that is required to file

reports under Section 15(d) of the Act, or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933.

- *Debts Not Dischargeable in Bankruptcy.* Amends federal bankruptcy law to make non-dischargeable in bankruptcy certain debts that result from a violation relating to federal or state securities law, or of common law fraud pertaining to securities sales or purchases.
- *Expanded Statute of Limitations for Securities Fraud.* For a civil action brought by a non-government entity or individual, an action involving a claim of securities fraud, deceit or manipulation may be brought not later than the earlier of two years after discovery or five years after the violation.
- *No Listing on National Exchanges for Violators.* The SEC will direct national securities exchanges and associations to prohibit the listing of securities of a noncompliant company.
- *No Insider Trading.* No insider trading is permitted during pension fund blackout periods. The insider must forfeit any profit during this period to the company.
- *SEC Rules on Enhanced Financial Disclosures.*
 - (a) *Off-Balance Sheet Transactions:* All quarterly and annual financial reports filed with the SEC must disclose all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the issuer with unconsolidated entities. Disclosure must be made on significant aspects relating to financial condition, liquidity, capital expenditures, resources, and components of revenue and expenses.
 - (b) *Pro Forma Figures:* Pro forma financial information in any report filed with the SEC or in any public release cannot contain false or misleading statements or omit material facts necessary to make the financial information not misleading.
- *No Personal Loans.* No personal loans or extensions of credit to company executives either directly or through a subsidiary, except for certain extensions of credit under an open-ended credit plan or charge card, home improvement and manufactured home loans, or extensions of credit by a broker or dealer to its employee to buy, trade, or carry securities.
 - (a) The terms of permitted loans cannot be more favorable than those offered to the general public.

CRIMINAL PENALTIES ENHANCED*

BEHAVIOR	SENTENCE
The alteration, destruction, concealment of any records with the intent of obstructing a federal investigation.	Fine and/or up to 10 year's imprisonment.
Failure to maintain audit or review "work papers" for at least five years.	Fine and/or up to 5 year's imprisonment.
Anyone who "knowingly executes, or attempts to execute, a scheme" to defraud a purchaser of securities.	Fine and/or up to 10 year's imprisonment.
Any CEO or CFO who "recklessly" violates his or her certification of the company's financial statements.	Fine of up to \$1,000,000 and/or up to 10 years imprisonment.
If violation is willful.	Fine of up to \$5 million and/or up to 20 years imprisonment.
Two or more persons who conspire to commit any offense against or to defraud the U.S. or its agencies.	Fine and/or up to 10 year's imprisonment.
Any person who "corruptly" alters, destroys, conceals, etc., any records or documents with the intent of impairing the integrity of the record or document for use in an official proceeding.	Fine and/or up to 20 year's imprisonment.

Mail and wire fraud.	Increase from 5 to 20 years imprisonment.
Violating applicable Employee Retirement Income Security Act (ERISA) provisions.	Various lengths depending on violation.

*Source: Sarbanes-Oxley Act of 2002 and New York City Office of the Comptroller.

CONSULTING SERVICES PROHIBITED BY SARBANES-OXLEY ACT OF 2002

Title II of the Sarbanes-Oxley Act of 2002 prohibits most "consulting" services outside the scope of practice of auditors.

(a) *Prohibited services.* Even if pre-approved by the issuer's audit committee, prohibited services include

- Bookkeeping and related services,
- Design and implementation of financial information systems,
- Appraisal or valuation services (including fairness opinions and contribution-in-kind reports),
(*Note:* The valuations relate to financial statement items and not valuations per se.)
- Actuarial services,
- Internal audit outsourcing, *Note:* "Operational" internal audits are allowed.
- Services that provide any management or human resources,
- Investment or broker/dealer services, and
- Legal and "expert services unrelated to the audit."
- Any other service that the board determines, by regulation, is impermissible.

(b) *Services Not Prohibited.* Firms, however, may provide tax services (including tax planning and tax compliance) or others that are not listed, provided the firm receives pre-approval from the board. However, certain tax planning products, like tax avoidance services, may be considered prohibited nonaudit services.

NOTE: The definition of consulting services includes consultations, advisory services, implementation services, transaction services, staff and other support services, and product services.

QUICK QUIZ

Indicate whether each of the following statements is true or false.

1. AICPA's *Code of Professional Conduct* covers principles and rules of conduct.
2. The rules of professional conduct are nonbinding, but the principles are binding.
- 3.
4. The public interest is not a concern of AICPA members.
5. When performing attestation services, an AICPA member should be independent in both fact and appearance.
6. A member may subordinate his/her judgment to qualified client experts.
7. Professional competence, due professional care, adequate planning and supervision, and obtaining sufficient relevant data are general standards.
8. A member must never accept a departure from GAAP in the financial statements.
9. A member may never reveal a client's confidential information.
10. A member may advertise.
11. The following rules are binding on all members of the AICPA: Integrity and Objectivity, General Standards, Compliance with Standards, Accounting Principles, Acts Discreditable, Commissions and Referral Fees, Form of Organization and Name, and Contingent Fees.

12. All CPA owners of a firm need not be AICPA members for the firm to designate itself as "members of the AICPA."

1. False. It also covers interpretations and ethical rulings.
2. False. The principles of professional conduct are a nonbinding framework. The rules of professional conduct are mandatory.
3. False. The Public Interest is one of the 6 principles of the AICPA Code of Professional Conduct.
4. True. According to the principles of professional conduct, a member should be independent in fact and appearance when providing attestation services.
5. False. Rule 102 states that a member shall maintain objectivity and integrity, be free of conflicts of interest, not knowingly misrepresent facts, and not subordinate his/her judgment to others when performing professional services.
6. True. Professional competence, due professional care, adequate planning and supervision, and obtaining sufficient relevant data are required for member compliance with Rule 201.
7. False. According to Rule 203, "Accounting Principles," if a member can demonstrate that, due to unusual circumstances, the financial statements or data would be misleading without a departure from GAAP, the member can comply with this rule by describing the departure, its effect, and the reasons compliance with the principle is misleading.
8. False. A client's confidential information may be disclosed when necessary to comply with a CPA's obligations, including: (1) To comply with a validly issued and enforceable subpoena or summons or with applicable laws and regulations. (2) To discharge his/her professional obligations properly under Conduct Rules 202 and 203. (3) To cooperate in a review of the CPA's professional practice under AICPA or state CPA society or board of accountancy authorization. (4) To initiate a complaint with or respond to any inquiry made by the professional ethics division, trial board of the AICPA, or an investigative or disciplinary body of a state society or board of accountancy.
9. True. Rule 502 states that a member in public practice shall not seek to obtain clients by advertising or other forms of solicitation done in a false, misleading, or deceptive manner. Solicitation through coercion, overreaching, or harassing conduct is prohibited.
10. False. The Rule of Conduct regarding Contingent Fees is binding only on members in public practice. Part of Rule 503, *Commissions*, also applies only to members in public practice.
11. False. According to Rule 505, *Form of Organization and Name*, all CPA owners must be AICPA members for the firm to designate itself "members of the AICPA."

AICPA's STANDARDS FOR TAX SERVICES

The AICPA has issued seven Statements on Standards for Tax Services. The statements are enforceable under the AICPA's *Code of Professional Conduct*.

SSTS No. 1 — *Tax Return Positions*

- a. An AICPA member should not recommend a position unless (s)he has a good faith belief that the position has a realistic possibility of being sustained if challenged. A member may reach such a position on the basis of well-reasoned articles or treatises or pronouncements of the taxing authority.

NOTE: According to the *Small Business and Work Opportunity Act of 2007* (as amended), an undisclosed, nonabusive position must be supported by substantial authority. However, for tax shelters and reportable transactions, the tax return preparer must have a reasonable belief that the position is more likely than not to be sustained on its merits. If the position is disclosed, its tax treatment must have a reasonable basis.

- b. A member should not prepare or sign a return if (s)he knows it takes a position that cannot be recommended as stated in a. above.

- c. Despite a. and b., a member may recommend a position that is not frivolous (knowingly advanced in bad faith and improper) if (s)he advises disclosures. The member may prepare or sign a return containing such a position if the position is properly disclosed.

NOTE: The 2007 legislation cited above replaces the not-frivolous standard for disclosed positions with a reasonable basis standard.

- d. A member should advise the taxpayer of possible penalties associated with the recommended tax return position.
- e. A member should not recommend a position that
 - 1) Exploits the taxing authority's audit selection process, or
 - 2) Is advanced solely to obtain leverage in the bargaining process.
- f. A member has the right and responsibility to be an advocate for the taxpayer. A taxpayer has no obligation to pay more taxes than legally owed.

SSTS No.2— *Answers to Questions on Returns*

- a. A member should make a reasonable effort to obtain appropriate answers to all questions on a tax return before signing as preparer.
- b. Examples of reasonable grounds for omitting an answer
 - 1) Information is not readily available, and the answer is insignificant with respect to taxable income or loss or the tax liability.
 - 2) Genuine uncertainty exists as to the meaning of the question in relation to the particular return.
 - 3) The answer to the question is voluminous, and the return states that the data will be supplied upon examination.
- c. A taxpayer is not required to explain on the return the omission of an answer when reasonable grounds exist for the omission. The member should consider whether the omission causes the return to be incomplete.

SSTS No. 3— *Certain Procedural Aspects of Preparing Returns*

- a. A member may rely without verification on information provided by the taxpayer or third parties. Reasonable inquiries should be made if information appears to be incorrect, incomplete, or inconsistent on its face or on the basis of other facts known. Prior returns should be consulted if feasible.
- b. Inquiries should be made to determine whether the taxpayer has met requirements to maintain books, records, or documentation to support deductions.
- c. A member who prepares a return should consider information known from another taxpayer's return if it is relevant, its consideration is necessary, and its use does not violate any law or rule of confidentiality.

SSTS No.4— *Use of Estimates*

- a. A member may use the taxpayer's estimates if it is impracticable to obtain exact data, and the estimates are reasonable under the facts.
- b. Estimates should be presented so as not to imply greater accuracy than exists.
- c. The taxpayer is responsible for providing the estimated data.
- d. Appraisals and valuations are not considered estimates.

SSTS No.5— *Departure from a Position Previously Conducted in an Administrative Proceeding or Court Decision*

- a. The treatment of an item as determined in an administrative proceeding or a court decision does not restrict the recommendation of a different tax treatment in later years, unless the taxpayer is bound to a specified treatment in the later year.

SSTS No.6— *Knowledge of Error: Return Preparation and Administrative Proceedings*

- a. The member should inform the taxpayer upon becoming aware of an error in a previously filed return or that the taxpayer did not file a required form.
- b. The member should recommend measures to take.
- c. The member is not obligated to inform the taxing authority and may not do so without the taxpayer's permission, unless required by law.
- d. If the member is requested to prepare a return when the taxpayer has not corrected a previous year's error, the member should consider whether to continue a professional relationship with the taxpayer or withdraw.
- e. If the member prepares the current return, the member should take reasonable steps to ensure that the error is not repeated.
- f. Errors include a position on a return that no longer meets these standards (SSTS No. 1) because of retroactive legislation, judicial decisions, or administrative pronouncements. An error does not include an item with an insignificant effect.

SSTS No. 7— *Form and Content of Advice to Clients*

- a. When providing tax advice to a taxpayer, a member should use judgment to ensure that the advice reflects professional competence and meets the taxpayer's needs.
- b. When advising or consulting on tax matters, the member should follow SSTS No. 1.
- c. A member is not obligated to communicate with the taxpayer when subsequent developments affect previous advice. However, (s)he is obligated to do so when helping to implement the plans associated with the advice or when undertaking the obligation by specific agreement.
- d. Tax advice can be in any form. However, important, unusual, or complicated transactions should be in writing.

SSTS INTERPRETATION NO. 1-1, "REPORTING AND DISCLOSURE STANDARDS," OF STATEMENT ON STANDARDS FOR TAX SERVICES NO. 1, *TAX RETURN POSITIONS*

This interpretation provides that a member should not recommend a tax return position or take a position on a tax return that the member prepares unless that position satisfies applicable reporting and disclosure standards. The tax laws of various taxing jurisdictions contain similar limitations on the ability to recommend or take certain tax return positions.

SSTS INTERPRETATION NO. 1-2, "TAX PLANNING," OF STATEMENT ON STANDARDS FOR TAX SERVICES NO. 1, *TAX RETURN POSITIONS*

This interpretation has its origins in the AICPA's desire to provide adequate guidance to its members with respect to providing services in connection with tax planning. Its goal is to clarify existing standards, recognizing the compelling need for a comprehensive interpretation of a member's responsibilities in connection with tax planning. This guidance is intended to clarify how those standards would apply across the spectrum of tax planning.

LICENSING AND DISCIPLINARY SYSTEMS WITHIN THE PROFESSION

1. The AICPA's disciplinary mechanisms include the Professional Ethics Division and a joint trial board.
 - a. The Professional Ethics Division investigates ethics violations. It imposes sanctions in less serious cases. For example, it may require an AICPA member to take additional CPE courses as a remedial measure.
 - b. More serious infractions come before a joint trial board panel, which can acquit, admonish (censure), suspend, or expel a member. It may also take such other disciplinary, remedial, or corrective action as it deems to be appropriate. The *CPA Letter* publishes information about suspensions and expulsions.
 - 1) A decision of a trial board panel may be appealed to the full trial board. The determination of this body is conclusive.

- 2) Upon the member's exhaustion of legal appeals, automatic expulsion without a hearing results when a member has been convicted of, or has received an adverse judgment for,
 - a) Committing a felony
 - b) Willfully failing to file a tax return
 - c) Filing a fraudulent tax return on the member's or a client's behalf
 - d) Aiding in preparing a fraudulent tax return for a client
 - 3) Automatic expulsion also occurs when a member's CPA certificate is revoked by action of any governmental agency, e.g., a state board of accountancy.
 - 4) Expulsion from the AICPA or a state society does not bar the individual from the practice of public accounting.
 - a) A valid state-issued license is required to practice.
 - b) Thus, violation of a state code of conduct promulgated by a board of accountancy is more serious than expulsion from the AICPA because it may result in revocation of the CPA certificate.
 - c. Joint Ethics Enforcement Program (JEEP)
 - 1) The AICPA and most state societies have agreements that permit referral of an ethics complaint either to the AICPA or to a state society.
 - 2) The AICPA handles matters of national concern, those involving two or more states, and those in litigation. JEEP also promotes formal cooperation between the ethics committees of the AICPA and of the state societies.
2. The SEC, IRS, and PCAOB may also discipline accountants.
- a. The SEC may seek an injunction from a court to prohibit future violations of the securities laws. Moreover, under its Rule of Practice 2(e), the SEC may conduct administrative proceedings that are quasi-judicial. Such hearings are before administrative law judges with limited discovery, relaxed evidentiary rules, and appeal only within the SEC.
 - 1) Such proceedings may result in suspension or permanent revocation of the right to practice before the SEC, including the right to sign any document filed by an SEC registrant. Sanctions are imposed if the accountant
 - a) Does not have the qualifications to represent others
 - b) Lacks character or integrity
 - c) Has engaged in unethical or unprofessional conduct
 - d) Has willfully violated, or willfully aided and abetted the violation of, the federal securities laws or their rules and regulations
 - 2) Suspension by the SEC may also result from
 - a) Conviction of a felony, or a misdemeanor involving moral turpitude
 - b) Revocation or suspension of a license to practice
 - c) Being permanently enjoined from violation of the federal securities acts
 - 3) Some Rule 2(e) proceedings have prohibited not only individuals but also accounting firms from accepting SEC clients.
 - 4) Under the Securities Law Enforcement Act of 1990, the SEC may impose civil penalties in administrative proceedings of up to \$100,000 for a natural person and \$500,000 for any other person. Furthermore, the SEC may order a violator to account for and surrender any profits from wrongdoing and may issue cease-and-desist orders for violations.
 - b. The IRS may prohibit an accountant from practicing before the IRS if the person is incompetent or disreputable or does not comply with tax rules and regulations. The IRS may also impose fines.
 - c. The PCAOB was established by the Sarbanes-Oxley Act of 2002.
 - 1) A firm's registration application must contain information about a firm's quality control and a description of all actions pending against it. This information may have a great effect on enforcement actions and potential punishments. Moreover, the firm must give consent to

- cooperate with PCAOB investigations.
- 2) The PCAOB has rule-making authority regarding quality control, ethics and auditing standards. These rules, especially those governing quality control, will have great relevance to enforcement actions.
 - 3) The PCAOB will inspect large firms annually and report violations to the SEC and state authorities. All attestation engagements, notably those in litigation, may be reviewed. The inspection also involves a quality control assessment. Furthermore, the inspection report must include the firm's response. The firm then has twelve months to correct the reported weaknesses.
 - 4) The PCAOB has substantially the same investigatory scope with respect to accountants as the SEC. The PCAOB may request that the SEC issue subpoenas to third parties, and it may deregister any uncooperative firm.
 - 5) The PCAOB has no injunctive power, but it may institute administrative proceedings. It may seek disassociation of a person from a registered firm, suspension (temporary or permanent) of the firm's registration, or a penalty of up to \$15 million. The extreme cases in which the harshest penalties may be imposed include repeated instances of negligent misconduct. By contrast, the SEC may impose the severest punishments when the firm has engaged in just one instance of highly unreasonable conduct.
 - 6) Sarbanes-Oxley requires each registered public accounting firm to report annually to the PCAOB. A firm also may be required to submit special (event-based) reports. The PCAOB has issued rules implementing these provisions.
 - a) Annual reports must provide information about such matters as (1) audit reports issued during the year, (2) disciplinary history of new members of the firm, and (3) fees billed.
 - b) Special reports must be filed within 30 days after reportable events, including the initiation of certain legal, administrative, or disciplinary actions against the firm or certain classes of individuals.
3. State boards of accountancy and state CPA societies also have codes of ethics and/or rules of conduct.
- a. State boards are governmental agencies that license CPAs to use the designation "Certified Public Accountant" and prohibit non-CPAs from performing the attest function. They can suspend or revoke licensure through administrative process, for example, in trial board hearings.
 - b. Requirements for licensure differ. In addition to passing the CPA examination, a candidate may need to satisfy educational, experience, and residency criteria that vary from state to state.
 - c. State CPA societies are voluntary, private organizations that can admonish, suspend, or expel members.
 - d. CPA examination questions will not test state disciplinary systems.
4. *AICPA membership requirements*
- a. You hold a valid and current CPA license and have passed either the Uniform CPA exam or the International Qualification Examination (IQEX).
 - b. Beginning January 1, 2013, individuals who have passed the CPA Examination before that date and possess a valid CPA certificate, but do not meet the 150 hour requirement, *AICPA membership requirements* will be eligible for membership if the state that issued the certificate enacts a 150-hour requirement.
 - c. You are individually, or as an employee of a firm, enrolled in an AICPA-approved practice-monitoring program.
 - 1) Peer review is a necessary part of the practice-monitoring requirement. A peer review of a firm enrolled in the AICPA Peer Review program may be performed by a review team organized by a firm engaged by the reviewed firm or a state CPA society. Also, an association of firms may be authorized to aid its members by

organizing review teams.

- 2) AICPA members in the practice of public accounting with a firm that is registered and inspected by the PCAOB may be associated with that firm only if it is enrolled in the Public Company Auditors' Forum Peer Review Program.

d. You must meet *continuing professional education (CPE)* requirements.

1) The basic standard is 120 hours (or equivalent) over a 3-year period, with a minimum of 20 hours per year. The program or other means of CPE compliance should be reasonably expected to maintain the member's competence in his/her area of practice or employment.

e. You pay dues.

f. You must conform with the bylaws and Conduct Rules.

NOTE: A CPA may not claim to be endorsed by the Institute. A member may, however, state that (s)he is a member.

QUICK QUIZ

Indicate whether each of the following statements is true or false.

1. A member may recommend a position that exploits the taxing authority's audit selection process.
2. A taxpayer has no obligation to pay more taxes than legally owed.
3. A taxpayer must explain all omissions on the return.
4. A member preparing a tax return cannot rely on information provided by the taxpayer without verification.
5. A member may use estimates from the taxpayer even if it is practicable to obtain exact data as long as the estimates are reasonable.
6. The member should inform the taxpayer upon becoming aware of an error in a previously filed return.
7. Tax advice must be in writing.

1. *False.* A member should not recommend a position that exploits the taxing authority's audit selection process or is advanced solely to gain leverage in the bargaining process. (SSTS No. 1)
2. *True.* A taxpayer has no obligation to pay more taxes than legally owed (the legal minimum). (SSTS No.1)
3. *False.* A taxpayer is not required to explain on the return the omission of an answer when reasonable grounds exist for the omission. (SSTS No.2)
4. *False.* A member preparing a tax return may rely without verification on information provided by the taxpayer or third parties. (SSTS No. 3)
5. *False.* Taxpayer estimates may be used only if (a) it is impracticable to obtain exact data, and (b) the estimates are reasonable. (SSTS No.4)
6. *True.* The member should inform the taxpayer upon becoming aware of an error in a previously filed return or that the taxpayer did not file a required form. (SSTS No.6)
7. *False.* Tax advice can be in any form. However, important, unusual, or complicated transactions should be in writing. (SSTS No. 7)

CASE STUDIES OF AICPA ETHICS VIOLATIONS*

1. THE CASE OF THE ALMOST STOLEN CLIENTS

RULES THAT APPLY:

AICPA Rule 502, *Advertising or Other Forms of Solicitation*

THE PLAYERS:

Respondent: Mr. Knotmee
Complaint Submitted by: The Firm

CASE DETAILS:

In a letter to the ICPAS**, The Firm indicated that Mr. Knotmee, a former employee, improperly solicited clients of The Firm after his departure. In particular, The Firm stated that:

- At time of Mr. Knotmee's termination, he was asked to return all copies of any client lists and information. However, he failed to comply with this request.
- Prior to Mr. Knotmee's termination, his personnel file disappeared, which contained the non-compete agreement.
- In a solicitation (marketing) letter, Mr. Knotmee claims to employ current employees of The Firm. However, these employees have stated that they indeed do not work for Mr. Knotmee.

The Firm disputed some of the claims that Mr. Knotmee made in his marketing letter. Among the disputed claims:

- Mr. Knotmee stated he was a consulting manager at The Firm. - The Firm argued that he was classified as staff.
- Mr. Knotmee stated that he parted company with The Firm on April 15, 20xx. - The Firm stated that Mr. Knotmee was terminated on March 31 on the same year and that the reasons Mr. Knotmee gave for his dismissal are not representative of reality.
- Mr. Knotmee stated that many of The Firm's associates worked in conjunction with Mr. Knotmee's company. - The Firm stated that there are NO employees at The Firm who work for Mr. Knotmee's company.
- In Mr. Knotmee's resume, he stated that he is a member of the AICPA. - The Firm knows this to be false.

The ICPAS contacted Mr. Knotmee to inform him of the complaint made by The Firm, and to request a meeting. In the meeting between Mr. Knotmee and the ICPAS, Mr. Knotmee conceded that he should not have claimed to be member of AICPA since he is not. He stated that it was an oversight and he did not attempt to deceive. He also was under the impression that it is the responsibility of The Firm to prove advertising material is false. The Ethics Committee informed him that it is the obligation of the member to verify his own advertising materials. Mr. Knotmee supported his fee claims by presenting invoices by The Firm and by other accounting firms. However, since that type of information is confidential, it could not be disclosed, otherwise it would violate another ethics rule (Rule 301).

Mr. Knotmee said that although he has no employees now except himself, the persons he listed on his solicitation letter would work with him on his request. Mr. Knotmee did not receive any clients from the marketing letter. He promised to refrain from soliciting The Firm's clients in the future.

CONCLUSION:

The ICPAS found prima facie evidence that Mr. Knotmee had violated Rule 502.

CORRECTIVE ACTION:

The ICPAS and the AICPA instructed Mr. Knotmee to immediately comply with the ICPAS Code of Professional Conduct, to take and pass the AICPA course, Professional Ethics for CPAs, and to submit evidence that he has passed course.

LESSONS LEARNED:

While we all like to make our resumes as informative as possible, make sure the information is correct, and that you don't pretend to be who you are not. Information that is false, misleading, or deceptive can get you into big trouble!

2. THE CASE OF THE HARMLESS MISTAKES RULES THAT APPLY:

THE PLAYERS:

Respondent: Mr. Happy
Complainant: Mr. Grumpus
Client: Company RED

CASE DETAILS:

In a letter to the ICPAS**, Mr. Grumpus indicated that Mr. Happy and his company billed excessively for work done for Company RED that was considered substandard because it contained errors in projected financial statements. Mr. Grumpus also claimed that the overly aggressive collections method that Mr. Happy used was of low professional conduct. Mr. Happy is a former employee of Mr. Grumpus and his company.

Mr. Happy responded via an interview with the ICPAS and indicated that the error in the projected financial statements was a failure to include the amount of interest expense in the determination of net income. Mr. Happy indicated that the mistake was in the software formula, causing the subtotal not to foot. Mr. Happy said that the error was immaterial. If materiality is based on projected revenue, the errors amounted to less than two percent for each of the three years in question. If it is based on percentage of error on net income, the errors amount to 40%, 15%, and 6% for the same years. Mr. Grumpus relied on the PPC Forecasts and Projections Guide in determining materiality issue. As stated in the PPC guide materiality could be as high as twice that used for the historical financial statements.

Mr. Happy also said that the projected financial statements were not relied upon and that the users were sophisticated financial professionals who caught the error and made manual and mental corrections to the statements. The error had no effect on the complainant's analysis of the projected venture and did not affect their conclusions about not pursuing the venture. The ICPAS investigator contacted Company RED and discovered that had the numbers been correct, the merger would not have been completed anyway due to seller related issues. Mr. Happy said that an offer to reissue the financial statements was made and that Company RED declined. The ICPAS investigator told Mr. Happy that he should have notified Company RED in writing to state that the financial statements should be reissued.

The second issue concerning unpaid fees are being contested by Company RED as being too high due to excessive hours and credits that have not been applied as stated. Mr. Happy has not issued the billing credit on the advice of legal counsel. The interest charges per the respondent and the complainant have been eliminated from the statements submitted. The ethics committee feels that at this point, the fees should be settled between the parties and will not be an issue in the ethics investigation.

CONCLUSION:

The case was closed with a determination that no violation of the Code of Professional Conduct occurred. In a letter to Mr. Happy, the committee suggested that as a protective measure, he should put in writing any offers to reissue financial reports should such circumstances arise in the future.

CORRECTIVE ACTION:

None.

LESSONS LEARNED:

While fee disputes are a common source of complaints to the Ethics Committee, they generally do not get involved in them. However in this case the Committee debated whether the work product was being relied on. The Committee determined that although the projection was materially flawed, the primary users had discovered the error and took the error into consideration during their negotiations. At this point, the projection was no longer being relied on.

If a document is in error and the accountant knows this, it is the accountant's responsibility to take all efforts to make all users aware of this, typically through recalling a report and reissuing. However, if the

report is not being relied on due to the "staleness" of the document, or the "special purpose" nature of the document having expired, there is no need to recall the report.

3. THE CASE OF THE INADEQUATE ACCOUNTANT

RULES THAT APPLY:

AICPA Rule 202, *Compliance with Standards*

AICPA Rule 203, *Accounting Principles*

THE PLAYERS:

Respondent: Mr. Indigo

Complainant: Mr. Whiner

Audited Party: Loser Township

CASE DETAILS:

Mr. Indigo performed an audit of the financial statements of the Loser Township for the year ended March 31, 20xx.

Mr. Whiner wrote in a letter to the ICPAS that Mr. Indigo's audit contained major deficiencies. The ICPAS notified Mr. Indigo of the complaint. The ICPAS Ethics Committee investigators met with Mr. Indigo at his office.

At the meeting, Mr. Indigo made the following statements:

- The Loser Township is one of three municipal clients. Their primary practice is in tax and monthly work.
- The firm has not completed a quality review as of yet. The review was scheduled for March 20xx, but was not started. None of the governmental audit work appears to follow yellow book standards. The firm has available to it, the AICPA audit guide Audits of State and Local Governmental Units and referred to it during the audit.
- The firm also utilized a PPC Guide on Auditor's Reports in drafting its report on the Loser Township financial statements.

The following deficiencies were discussed and noted at the meeting:

- The financial statements presented a prior year column that was also audited by Mr. Indigo. However, the auditor's opinion made no reference to the prior year. Other statements were inaccurate or missing.
- Based on review of the footnotes to the financial statements, the following notes were not present:
Reporting entity note;
 - Description of funds;
 - Detail on property tax recognition
 - Change of general fixed asset-shown as an exhibit not part of the notes;
 - Insurance coverage for cash and investment disclosure;
 - Disclosure on interfund transfers.
- The statements, including the footnotes, would not be a complete disclosure and, as such, are not "liftable" as presented.
- The following items were not present in the workpapers:
 - Assessment of Risk
 - Determination of Materiality
 - Evidence of Review
 - Evidence of Planning

CONCLUSION:

The committee found evidence that Mr. Indigo violated Rule 202 - Compliance with Standards, and Rule 203, *Accounting Principles*

CORRECTIVE ACTION:

The Committee instructed Mr. Indigo to comply immediately with professional standards applicable to professional service he performs. They also instructed him to complete 16 hours of specified CPE courses within one year, and show evidence of completion.

LESSONS LEARNED:

Don't try to do work that is unfamiliar or new to you. Accounting standards have become very complex and specialized. This accountant mainly did monthly and tax work, and only had a few municipal clients. In a case such as this, he may have been better off referring the municipal client to an auditor with more expertise in this field. Another option is to do a joint venture with another firm that has more experience. The corrective action in this case focused on trying to educate the member in the area in which he had some inadequacy. But remember that all the CPE in the world cannot take the place of experience.

*Special thanks to Dr. Howard A. Kanter of the DePaul University School of Accountancy and the ICPAS Ethics Committee for developing and maintaining the Ethics Case Studies.

** ICPAS refers to Illinois CPA Society.

CHAPTER 3 COLORADO ETHICS

LEARNING OBJECTIVES:

After studying this chapter you will be able to:

1. Outline the professional ethics and conduct for Colorado CPAs.
2. Summarize Colorado statutes, rules, and regulations regarding CPAs.

DEPARTMENT OF REGULATORY AGENCIES Board of Accountancy Certified Public Accountants 3 CCR 705-1 RULES OF THE STATE BOARD OF ACCOUNTANCY EFFECTIVE October 30, 2010 CHAPTER 1 - BOARD ORGANIZATION AND ADMINISTRATION

1.1 DEFINITIONS AND ABBREVIATIONS

- A. Active
The status of a Certificate Holder's certificate or a Firm's registration allowing the Certified Public Accountant (CPA) or Firm Registrant to use the CPA designation and to perform any service for which an Active CPA certificate or Firm registration is required pursuant to Section 12-2-120(6), C.R.S.
- B. AICPA Ethics Examination
Pursuant to Sections 12-2-109(1)(b) and 12-2-109(2)(b), C.R.S., the professional ethics course and examination shall mean *Professional Ethics: AICPA's Comprehensive Course*, a course of study concerning the subject of professional ethics and the related examination prepared and administered by the AICPA.
- C. AICPA
The American Institute of Certified Public Accountants
- D. AICPA Code of Professional Conduct
The Code of Professional Conduct issued by the AICPA
- E. Applicant
An Applicant is an individual who has submitted an application for an original, renewal, reinstated, reactivated, retired, or Inactive CPA certificate.
- F. Board The Colorado State Board of Accountancy
- G. Candidate
A Candidate is an individual who has submitted an application to sit for the Examination.
- H. Certificate Holder
A person granted a Colorado CPA certificate pursuant to the requirements in Article 2 of Title 12, C.R.S.
- I. Client
A person or entity that agrees with a Certificate Holder or a Firm to receive any Professional Service.
- J. Competence
The knowledge and ability to assure that the quality of the services rendered meets professional standards. It requires a Certificate Holder to (1) be responsible for assessing and evaluating whether the Certificate Holder's education, experience and judgment are adequate for the responsibility assumed, and (2) maintain a commitment to learning and professional improvement that continues throughout a Certificate Holder's professional life.
- K. Conflict of Interest

A conflict of interest arises if, when performing a professional service for a party, the Certificate Holder or Firm has another interest or relationship that threatens the Certificate Holder's or Firm's ability to perform the service objectively and free of bias or undue restriction.

L. Contingent Fee

A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specific finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of these Rules, fees are not regarded as being contingent if fixed by courts or governmental entities acting in a judicial or regulatory capacity, or in tax matters if determined based upon the results of judicial proceedings or the findings of governmental agencies acting in a judicial or regulatory capacity or there is a reasonable expectation of substantive review by a taxing authority.

M. CPE

Continuing professional education that satisfies the requirements of Section 12-2-119, C.R.S. and Chapter 7.

N. CR&R

CPE concerning Sections 12-2-101-132 and 13-90-107(1)(f), C.R.S. and Colorado State Board of Accountancy Rules and Regulations. In order to qualify as a CR&R course, the course must review and encourage compliance with Colorado statutes, rules and regulations regarding CPAs.

O. C.R.S.

The Colorado Revised Statutes

P. Due Care

The discharge of responsibilities to clients, employers and the public with diligence and competence which requires a Certificate Holder or Firm to (1) render services carefully and in a timely manner, (2) be thorough, (3) observe applicable technical and ethical standards, and (4) plan and supervise adequately any professional activity for which the Certificate Holder or Firm is responsible.

Q. Ethics CPE

CPE concerning professional ethical behavior in Regulatory Ethics or Behavioral Ethics as defined by the Fields of Study. For the purpose of CPE, Behavioral Ethics are not considered to be Personal Development.

R. Examination

The Uniform CPA Examination

S. Expired / Lapsed

The status of a Certificate Holder's certificate or Firm's registration following a failure to renew the certificate or registration by the expiration date. A Certificate Holder with a certificate in expired status is prohibited by law from holding out as a CPA and from performing any service for which an Active certificate is required pursuant to Section 12-2-120(6), C.R.S. A Firm Registrant is prohibited by law from holding out as a Firm composed of CPAs and from performing any service for which an Active registration is required pursuant to Section 12-2- 120(6), C.R.S.

T. Fields of Study

The *NASBA CPE Fields of Study*, incorporated by reference in Chapter 7

U. Financial Statements

Statements and disclosures related thereto that purport to show actual or anticipated financial position which relates to a point in time, or results of operations, cash flow, or changes in financial position which relate to a period of time, on the basis of U.S. GAAP or another comprehensive basis of accounting. The term includes specific elements, accounts, or items of such statements but does not include incidental financial data included in management advisory services reports to support recommendations to a client, nor does it include tax returns and supporting schedules.

V. Firm

A business entity composed of one or more CPAs engaged in the practice of public accounting as a domestic or foreign partnership, single owner professional corporation or single member limited

liability company, corporation, professional corporation, registered limited liability partnership, limited liability limited partnership, limited partnership, limited liability company or professional limited liability company.

W. GAAP

Generally Accepted Accounting Principles

X. GAAS

Generally Accepted Auditing Standards

Y. He, His, Him Masculine pronouns when used also include the feminine.

Z. Holding Out

Except as provided in Section 12-2-121(2)(a), C.R.S., any activity by an individual or entity that informs or implies to others an Active status as a Colorado Certificate Holder or Firm Registrant. This includes, but is not limited to, any oral or written representation, such as business cards or letterhead, resumes, biographies, the display of a certificate evidencing a CPA designation, or the listing as a Colorado Certificate Holder or Firm Registrant in directories or on the Internet.

AA. Inactive

The status of a certificate following the Certificate Holder's request that the Board transfer the certificate status to Inactive.

AB. Independence

The absence of relationships that impair or appear to impair a Certificate Holder's objectivity in performing an engagement in which the Certificate Holder or Firm will issue an attestation report or opinion other than a report in which a lack of independence is disclosed.

AC. Integrity

An element of character fundamental to professional recognition which requires a Certificate Holder to (1) be honest and candid within the constraints of client confidentiality, (2) observe both the form and the spirit of technical and ethical standards, and (3) keep service and the public trust above personal gain or advantage. It is the quality from which the public trust derives and the benchmark against which a Certificate Holder must ultimately test all decisions. It can accommodate the inadvertent error and the honest difference of opinion. It cannot accommodate deceit or subordination of principle.

AD. Joint Standards

The *Joint AICPA / NASBA Statement on Standards for Continuing Professional Education (CPE) Programs* incorporated by reference in Chapter 7

AE. NASBA

The National Association of State Boards of Accountancy

AF. Objectivity

A principle that requires a Certificate Holder or Firm to (1) be impartial, intellectually honest and free of conflicts of interest, (2) protect the integrity of their work regardless of service or capacity, and (3) avoid any subordination of their judgment.

AG. Peer Review

A study, appraisal, or review by an independent CPA or Firm of one or more aspects of the professional work of another CPA or of a registered partnership, corporation, or limited liability company that issues attest or compilation reports and acceptance of the CPA's or Firm's Peer Review documents by the sponsoring organization's report acceptance body as defined in the Board-approved Peer Review standards described in Chapter 8.

AH. Practice of Public Accounting

Performing for a client or offering to perform for a client or potential client, one or more kinds, or any combination of services involving the use of accounting or attestation skills, including the issuance of reports on financial statements, or of one or more types of management advisory or consulting services, or the preparation of tax returns, or the furnishing of tax advice.

AI. Practice Privilege / Mobility

The privilege for a CPA or Firm whose principal place of business is located in another jurisdiction to practice public accounting pursuant to, and subject to, the conditions contained in

Section 12-2-121(2), C.R.S. and Chapter 11.

- AJ. Principal Place of Business
The office location designated by a CPA or Firm
- AK. Professional Services
Any service performed or offered to be performed by a Certificate Holder, Firm or a holder of a Practice Privilege while holding out as a CPA or Firm.
- AL. Reactivation
The process by which an Inactive or Retired status certificate is returned to Active status
- AM. Registrant
A Firm engaged in the practice of public accounting granted registration pursuant to the requirements in Article 2 of Title 12, C.R.S.
- AN. Reinstatement
The process by which a CPA certificate that has expired is returned to Active, Inactive, or Retired status or by which a Firm registration that has expired is returned to Active status.
- AO. Renewal
The process of applying to retain a CPA certificate in an Active, Inactive, or Retired status every two years in accordance with the schedule established by the Division of Registrations pursuant to Sections 12-2-108 (3), C.R.S. and 24-34-102, C.R.S. or of applying to retain a Firm registration every three years pursuant to Section 12-2-117(2.2), C.R.S.
- AP. Reporting Period
A two-year period from January 1 of the even-numbered year through December 31 of the odd-numbered year immediately preceding the expiration date of a certificate during which the Certificate Holder shall complete CPE.
- AQ. Retired
The status of a certificate following the Board's approval of a Certificate Holder's application to transfer the certificate status to Retired.
- AR. Substantial Equivalency
A determination by the Board or its designee that the education, examination, and experience requirements contained in the statutes and administrative rules of another jurisdiction are comparable to, or exceed the education, examination, and experience requirements contained in the *AICPA /NASBA Uniform Accountancy Act (UAA)* or that an individual CPA's education, examination, and experience qualifications are comparable to or exceed the education, examination, and experience requirements contained in the UAA. In ascertaining substantial equivalency as used in these Rules, the Board shall take into account the qualifications without regard to the sequence in which experience, education, or examination requirements were attained.

12 MEETINGS

- A. Meetings of the Board shall be held at intervals necessary to transact business or upon the call of the chair or request by a majority of the members.
- B. The election of a chair, as required by Section 12-2-104(1)(a), C.R.S., shall be held annually.
- C. The chair shall preside at all meetings and shall perform such other duties as the Board may direct. In the absence or inability of the chair to act, the vice chair will preside over the meeting. In the absence or inability of the vice chair to act, a majority of the members attending a duly called meeting shall appoint a member to preside.
- D. The Board shall follow *Robert's Rules of Order Newly Revised*, to the extent that the rules do not conflict with state or federal statutes or rules, in the conduct of its business.
- E. Except as otherwise provided by law, all regular meetings of the Board are open to the public, who may, at the discretion of the Board, participate in any one of the following ways: (1) by requesting in writing to the Board that they be included on the agenda; (2) by written invitation of the Board; (3) by verbal invitation of the Board to members of the audience at a Board meeting. The Board may establish a time limit for presentations by the public, and the presiding

officer may exclude from the meeting room any person who is disruptive, abusive, or disorderly.

1.3 CONFERRING WITH BOARD MEMBERS

In the event any person contacts a Board member regarding any matter applicable to the Colorado Accountancy Act, Article 2 of Title 12, C.R.S. or these Rules, any expression of opinion by that Board member will be exclusively his opinion and will in no way commit the Board. All requests for the Board to consider an issue shall be directed to the Board's Program Director.

1.4 COMMITTEES

The Board may appoint such committees as it deems necessary to effectively administer, implement and carry out the provisions of the Colorado Accountancy Act and these Rules. Board committees shall be guided and assisted administratively by the Board's staff. The action of a committee shall be deemed to be the action of the Board only when that action is adopted and ratified by the Board.

15 NOTICES FROM CERTIFICATE HOLDERS AND FIRM REGISTRANTS

A. Certificate Holder Address and Name Changes

1. Certificate Holders shall inform the Board of any name, address, telephone, or email change within 30 days of the change. The Board will not change a Certificate Holder's information without explicit notification in a manner prescribed by the Board.

2. The Board requires one of the following forms of documentation to change a Certificate Holder's name or social security number:

- a. marriage license;
- b. divorce decree;
- c. court order; or
- d. a driver's license or social security card with a second form of identification may be acceptable at the discretion of the Division of Registrations.

B. Firm Registration Changes

1. The partner, shareholder, or member designated by the Firm pursuant to Section 12-2-117(2)(a)(III), C.R.S. shall notify the Board, in a manner prescribed by the Board, within 30 days of any change including the:

- a. location or addition/deletion of places of business or termination of a Firm;
- b. composition or structure of the Firm;
- c. name of the Firm;
- d. responsible party for the Firm; and
- e. names of any partner, principal, shareholder, or member.

C. Renewal Notices to Certificate Holders and Firm Registrants

1. The Board sends notices for renewal of certificates and registrations according to a schedule established and in a manner approved by the Division of Registrations pursuant to Section 24-34-102(8), C.R.S. to the last address furnished to the Board and there is a 60 day grace period from the expiration date of the CPA certificate or Firm registration within which to pay the renewal fee, plus a late fee.
2. Failure to receive a renewal notice does not relieve the Certificate Holder or the Registrant of the obligation to pay the renewal fee and submit appropriate documentation in support of the renewal application such as CPE and Peer Review requirements as listed in Chapters 6, 7, and 8.
3. Pursuant to Section 12-2-123.5, C.R.S., Certificate Holders and Registrants are not excused of their obligation to respond to Board communications due to a failure to properly notify the Board of any changes.

1.6 GENERAL INFORMATION CONCERNING CPA CERTIFICATES

Every certificate, while it remains in the possession of the Certificate Holder, shall be preserved by the

holder, but such certificate shall, nevertheless, always remain the property of the Board. In the event that the certificate is suspended or revoked, it shall be delivered by the Certificate Holder to the Board.

CHAPTER 2 - EDUCATION REQUIREMENTS FOR EXAMINATION AND CERTIFICATION

2.1 GENERAL INFORMATION

- A. Conversion of quarter hours to semester hours. For purposes of these Rules, three quarter hours shall be equivalent to two semester hours unless otherwise specified.
- B. Transcripts. The Applicant's claim to college or university credits for eligibility for examination and certification must be confirmed by an official transcript of credit forwarded by the institution to the Board's office or its designee.

2.2 ACCREDITED COLLEGE OR UNIVERSITY

- A. A college or university will be considered to be an "accredited college or university" under Sections 12-2-109(1)(a)(I) and (c) and 12-2-109(2)(a)(I), C.R.S., if the college or university is accredited by one of the six accrediting agencies or its successor agency as follows: Middle States Association of Colleges and Schools, North Central Association of Colleges and Schools, New England Association of Schools and Colleges, Northwest Commission of Schools and Colleges, Southern Association of Colleges and Schools, and Western Association of Schools and Colleges.
- B. Upon request of an institution or Applicant, the Board may approve an Applicant's coursework from a college or university that does not meet the requirements of this Chapter 2 if either can provide satisfactory documentation that the coursework would be accepted by a regionally accredited college or university as noted above.
- C. In the matter of colleges or universities located outside the United States or its territories, the Board may also request that the Applicant submit his transcript to an evaluation service that is a member of the National Association of Credential Evaluation Services (NACES) for assistance in either evaluating or in determining whether the coursework would be the equivalent of a concentration in accounting.

2.3 APPROVED ACCOUNTING PROGRAM

If the college or university is accredited, it will be deemed to have fulfilled the requirements of Section 12-2-112, C.R.S.

2.4 EDUCATION REQUIREMENTS FOR EXAMINATION

- A. Persons who meet the education requirements described in Rule 2.5.A. and B. are eligible to sit for the Examination.
- B. After July 1, 2015, persons who meet the education requirements described in Rule 2.6 are eligible to sit for the Examination.

2.5 EDUCATION REQUIREMENTS FOR CERTIFICATION PRIOR TO JULY 1, 2015 – CONCENTRATION IN ACCOUNTING OR THE EQUIVALENT

- A. These education requirements apply to persons who receive their baccalaureate degree and otherwise complete the following education requirements before July 1, 1993 and who apply for certification prior to July 1, 2015.
 - 1. At least 27 semester hours (40 quarter hours) in accounting subjects of which 21 semester hours (32 quarter hours) must be in specialized accounting courses such as cost accounting, tax, intermediate accounting, accounting theory and advanced accounting. At least three of the 27 semester hours (four quarter hours of the 40 quarter hours) must be in auditing and must address GAAS. To receive credit for accounting related coursework, the transcripts must indicate an accounting program code, or the Applicant must furnish other information to demonstrate an accounting related course.
 - 2. At least 21 semester hours (32 quarter hours) in related courses in other areas of business

administration such as business law, management, marketing, statistics, business communications, economics and finance. No more than six semester hours (nine quarter hours) shall be in any one area.

3. The courses required by Paragraphs (1) and (2) above shall be taken at or acceptable for transfer by colleges and universities with approved accounting programs defined in Rule 2.3.

B. These education requirements apply to persons who receive their baccalaureate degree and otherwise complete the following education requirements after June 30, 1993 and who apply for certification prior to July 1, 2015.

1. A baccalaureate degree from an accredited college or university described in Rule 2.2.
2. At least 27 semester hours (40 quarter hours) in accounting subjects of which at least three hours (four quarter hours) must be in auditing and the hours in auditing must address GAAS. To receive credit for accounting related coursework, the transcripts must indicate an accounting program code, or the Applicant must furnish other information to demonstrate an accounting related course. At least 21 semester hours (32 quarter hours) must be in upper-division accounting courses such as:
 - Accounting Ethics
 - Accounting Information Systems o Accounting Research and Analysis
 - Accounting Theory
 - Financial Accounting and Reporting of Business Organizations
 - Financial Accounting and Reporting for Government and Not-for-Profit Entities
 - Financial Statement Analysis
 - Fraud Examination
 - Internal Controls and Risk Assessment
 - Managerial or Cost Accounting
 - Taxation
 - Tax Research and Analysis
 - Other areas as approved by the Board
3. At least 21 semester hours (32 quarter hours) in related courses in other areas of business administration such as those listed below. No more than six semester hours (nine quarter hours) shall be in any one area.
 - Behavior of Organizations, Groups and Persons
 - Business Communications
 - Business Ethics
 - Business Law
 - Computer Information Systems
 - Economics
 - Finance
 - Legal and Social Environment of Business
 - Management
 - Marketing
 - Quantitative Applications in Business
 - Statistics
 - Other areas as approved by the Board

4. The courses required by Paragraphs (2) and (3) above shall be taken at or acceptable for transfer by colleges and universities with approved accounting programs described in Rule 2.3.

2.6 EDUCATION REQUIREMENTS FOR CERTIFICATION ON AND AFTER JULY 1, 2015

These education requirements apply to persons who apply for certification on or after July 1, 2015.

- A. A baccalaureate degree plus an additional 30 semester hours (45 quarter hours) of non-duplicative study or a higher degree.

- B. Completion of the additional 30 semester hours (45 quarter hours) within five years of passing the Examination.
- C. At least 27 semester hours (40 quarter hours) must be in upper-division accounting courses such as those courses described in Rule 2.5.B.2. Six semester hours (eight quarter hours) must be in auditing, of which three semester hours (four quarter hours) must address GAAS. The remaining three semester hours (four quarter hours) may be in advanced auditing or a subset of basic auditing such as fraud or information technology auditing. Three semester hours (four quarter hours) must be in a separate accounting ethics course. All courses must be designated by an accounting program code.
- D. At least 27 semester hours (40 quarter hours) must be in upper-division business courses of which three semester hours (four quarter hours) must be in business, technical, or accounting communications. Other areas in business administration may be in the areas described in Rule 2.5.B.3. No more than nine semester hours (14 quarter hours) in any one area may count towards this requirement. However, semester hours above the nine-hour maximum may count toward the total 150 semester hour requirement.
- E. The courses required by Paragraphs (C) and (D) above shall be taken at or acceptable for transfer by one or more colleges or universities with approved accounting programs as defined in Rule 2.3.
- F. Examination review courses will not be accepted toward the required accounting or business course credit.
- G. A maximum of six semester hours (nine quarter hours) will be accepted for independent studies and internships. If the college or university accepts these courses or activities as meeting the requirement of the degree, they must be reflected on the official transcript by an accounting program code. The Board may ask for additional information before accepting these types of courses.

2.7 EDUCATION IN LIEU OF EXPERIENCE UNDER SECTION 12-2-109(1)(c), C.R.S.

These education requirements apply to persons who choose the education in lieu of experience option to qualify for certification and who apply for certification prior to July 1, 2015.

- A. A baccalaureate degree plus an additional 30 semester hours (45 quarter hours) of non-duplicative study or a master's degree or other higher degree;
- B. At least 45 semester hours (60 quarter hours) in accounting subjects (combination of undergraduate and graduate coursework) in such areas as elementary accounting, accounting theory, accounting practice, managerial accounting, cost accounting, tax accounting, not-for-profit accounting, auditing, governmental accounting and accounting related computer and information systems. Of the 45 semester hours (60 quarter hours), at least six semester hours (eight quarter hours) must be in auditing. In order to receive credit for accounting related computer and information systems coursework, the transcript must indicate an accounting program code, or the Applicant may furnish other information to indicate an accounting related course.
- C. At least 36 semester hours (48 quarter hours) of courses in business administration which may be in areas such as upper-division economics, the legal and social environment of business, business law, marketing, finance, management, organizational, group and individual behavior, quantitative applications in business and upper division written communication. No more than nine semester hours (14 quarter hours) shall be in any one area.
- D. The courses required by Paragraphs (B) and (C) above shall be taken at or acceptable for transfer by one or more colleges or universities with approved accounting programs as defined in Rule 2.3.
- E. Three semester hours (four quarter hours) of auditing required in Paragraph (B) must address GAAS. The remaining three semester hours (four quarter hours) may be in advanced auditing or a subset of basic auditing such as fraud or information technology auditing.

CHAPTER 3 - EXAMINATION REQUIREMENTS

3.1 APPLICATIONS

Application to sit for the Examination shall be made in a manner prescribed by the Board or its designee. An application is deemed complete at the time all required information and fees are received. The Board or its designee will not consider or review incomplete applications.

3.2 EXAMINATION ELIGIBILITY

A Candidate may be eligible to sit for the Examination after earning a baccalaureate degree demonstrating the completion of 120 semester hours as defined in Chapter 2.

3.3 OFFICIAL TRANSCRIPTS

A Candidate must supply an official transcript to the Board or its designee when applying to sit for the Examination. An additional official transcript may be required at the time the Candidate applies for certification. These official transcripts must be sent from the granting institution directly to the Board or its designee. The Board will accept an official transcript from the Candidate if the transcript has been provided in an official envelope sealed by the granting institution.

3.4 WITHDRAWALS

Where a Candidate for examination or re-examination fails to request in writing the withdrawal of his application 30 days or more prior to the date fixed by the Board for the Examination as provided in Section 12-2-106(2), C.R.S., Examination fees will be forfeited unless the failure was due to the health condition of the Candidate or a member of his immediate family or the death of an immediate family member (substantiated by a physician's statement or death certificate) or if the Candidate enters military service and is unable to sit for the Examination or for other good cause deemed adequate by the Board.

3.5 CANDIDATE CONDUCT DURING EXAMINATION

The Candidate shall conduct himself in a manner which does not violate the standards of test administration.

3.6 CONDITIONING REQUIREMENTS

A. Granting of Credit

1. Candidates are allowed to sit for each section of the Examination individually and in any order.
2. Candidates retain credit for any section(s) passed for eighteen months, without having to attain a minimum score on failed sections and without regard to whether they have taken other sections. Candidates are not allowed to retake a failed section(s) within the same examination window.
3. Candidates must pass all four sections of the Examination within a "rolling" eighteen-month period, which begins on the date that the first passed section is taken.
4. In the event all four sections of the Examination are not passed within the rolling eighteen-month period, credit for any section(s) passed outside the eighteen-month period will expire and the section(s) must be retaken.
5. Written requests for exceptions to the requirements set forth above may be granted at the discretion of the Board for individual hardship or other good cause demonstrated in a timely manner.

3.7 EXAMINATION WINDOW

The Examination window refers to a three-month period in which Candidates have an opportunity to take the Examination. The window is composed of two months in which the Examination is available to be taken and one month in which the Examination will not be offered while routine maintenance is performed and the Examination is refreshed. Thus, Candidates will be able to test two out of the three months within an Examination window.

3.8 NOTICE TO SCHEDULE (NTS)

- A. After a Candidate has been determined eligible to take any section of the Examination and the Candidate has paid the required fee, the Board's designee will send the Candidate an NTS for the Candidate to take the section or sections of the Examination.
- B. The Candidate will have six months from the date of the NTS to take the Examination section for which the Candidate is eligible.
- C. A Candidate who fails to take the approved Examination section within six months must reapply to the Board's designee for establishment of new eligibility.

3.9 EXAMINATION MORE THAN 10 YEARS PRIOR TO THE APPLICATION DATE

If an Applicant applies for licensure with Examination scores obtained more than 10 years prior to the application receipt date, the Applicant shall:

- A. Obtain and supply proof of completing 80 hours of CPE taken within two years of the application receipt date. No education in Personal Development, as defined by the Fields of Study, may be counted toward the 80 hours. In addition the Applicant must complete and pass the AICPA Ethics Examination and obtain two hours of CR&R.; or,
- B. Supply the Board with proof of three years of experience as defined in Chapter 4 within the five years of application receipt date.

CHAPTER 4 - EXPERIENCE REQUIREMENT FOR CERTIFICATION

The following requirements apply to Applicants who seek to qualify for certification pursuant to Sections 12-2-108 and 12-2-109, C.R.S.

4.1 GENERAL EXPERIENCE AND VERIFICATION REQUIREMENTS

- A. An Applicant may be issued a CPA certificate when the Applicant has obtained one year of work experience except as described in Rule 2.7. This work experience shall include a minimum of 1,800 verified qualifying work hours which shall be:
 - 1. any combination of full-time or part-time work, including academic internships, for one or more employers that extends over a period of not less than one year and not more than three years;
 - 2. acquired prior to the date the Applicant applies for certification; and
 - 3. obtained no more than five years immediately preceding the date the application is received by the Board or its designee.
- B. The work experience must involve the application of appropriate technical and behavioral standards, such as the standards contained in the *AICPA Code of Professional Conduct*, U.S. GAAP, U.S. GAAS, *Statements on Standards for Attestation Engagements* (SSAE), *Statements on Standards for Accounting and Review Services* (SSARS), *Statements on Standards for Tax Services* (SSTS), *Statements on Standards for Management Consulting Services*, or other such standards as determined by the Board.
- C. Verified qualifying work hours shall mean hours spent primarily applying the standards described in Rule 4.1.B. Holidays, vacations, and family/employee sick leave shall not be included as verified qualifying work hours. Clerical experience shall not count toward qualifying work hours. Clerical experience includes, but is not limited to, mere data entry, mathematical calculations, account analysis of information already recorded and merely recording information in the general ledger.
- D. Comparable work experience not specifically addressed by these Rules may be considered by the Board.
- E. Verifier shall mean an Active status CPA licensed in a U.S. jurisdiction or an individual holding an Active certificate or designation from an organization that has entered into an active Mutual Recognition Agreement (MRA) with the U.S. International Qualifications Appraisal Board (IQAB). The Verifier must attest to having direct knowledge of the work performed by the Applicant during the entire work period being verified. Such verification must include periodic review and evaluation of the Applicant's work.

- F. The Applicant shall submit a certificate of experience from all of the relevant employers including details of the work experience and verification in a manner prescribed by the Board or its designee. Certificates of experience for part-time work shall contain a record of the actual part-time hours the Applicant has worked for each week of part-time employment. The certificate of experience and all additional details shall be signed by the Verifier.
- G. The Board reserves the option to request and review information regarding the work experience submitted, including evidence of experience with the standards described in Rule 4.1.B, work papers, reports, syllabus, course materials and/or time records. The Board may also require interviews with Applicants.

4.2 EXPERIENCE IN PUBLIC ACCOUNTING

Qualifying public accounting experience, for purposes of this Rule, shall consist of performing services for a client or potential client, including but not limited to any combination of services involving the use of accounting or attestation skills, the issuance of reports on financial statements, management advisory or consulting services, preparation of tax returns, or furnishing of advice on tax matters. Such work shall consist of employment by a CPA or Firm performing services primarily involving the application of the standards described in Rule 4.1.B.

4.3 EXPERIENCE IN INDUSTRY

Qualifying industry experience shall consist of performing services, including for an employer, primarily involving the application of the standards described in Rule 4.1.B. Such services may include, but are not limited to, internal audit, installation of internal control systems, preparation of financial statements, management advisory or consulting services, preparation of tax returns, or the furnishing of advice on tax matters.

4.4 EXPERIENCE IN GOVERNMENT

Qualifying government experience shall consist of employment by a federal, state, or local government entity. Such work shall consist of employment performing services primarily involving the application of the standards described in Rule 4.1.B. Such services may include, but are not limited to, internal or external audit, installation of internal control systems, preparation of financial statements, management advisory or consulting services, preparation of tax returns, or the furnishing of advice on tax matters.

4.5 EXPERIENCE IN ACADEMIA

- A. Qualifying academic experience consists of teaching in the accounting discipline for academic credit at a regionally accredited college or university. The teaching must include at least two different upper-division courses involving the standards described in Rule 4.1.B. One year of experience shall consist of no less than 12 semester hours or the equivalent in quarter hours. Courses outside the field of accounting shall not count toward the experience requirement. Such non-qualifying courses include, but are not limited to, business law, finance, computer applications, personnel management, marketing, economics and statistics.
- B. In addition to a certificate of experience, the Applicant must submit with the application a letter from each institution where the qualifying hours were taught, signed by the dean or department head at that institution. The letter must state: (a) the number of credit hours which the Applicant taught for the relevant years; (b) the names and academic level of the courses taught; and (c) a course description. The Verifier shall be the department chair or a faculty member who also shall be a CPA described in Rule 4.1.E.

CHAPTER 5 - CERTIFICATION BY RECIPROCITY

5.1 APPLICANTS HOLDING A CPA CERTIFICATE FROM ANOTHER U.S. JURISDICTION

- A. The Board may issue a CPA certificate to a holder of a certificate, license or permit in Active

status issued by another U.S. licensing jurisdiction provided the Applicant:

1. meets the Substantial Equivalency requirements defined in Chapter 1;
2. attests to having completed at least 80 hours of CPE within two years immediately preceding the application receipt date; and
3. also completes and passes the AICPA Ethics Examination and two hours of CR&R within two years immediately preceding the application receipt date.

B. An Applicant who holds a certificate, license or permit from another U.S. licensing jurisdiction based upon passage of the Examination but who does not hold a license to practice shall not be eligible for reciprocity.

C. The Board may rely on NASBA, the AICPA or other professional bodies deemed acceptable to the Board for evaluation of other jurisdictions' CPA qualification requirements in making Substantial Equivalency determinations.

5.2 INTERNATIONAL APPLICANTS HOLDING A CERTIFICATE OR DESIGNATION FROM AN ORGANIZATION THAT HAS ENTERED INTO A MUTUAL RECOGNITION AGREEMENT (MRA) WITH THE U.S. INTERNATIONAL QUALIFICATIONS APPRAISAL BOARD (IQAB)

A. The Board recognizes the IQAB, a joint body of NASBA and the AICPA, which is charged with:

1. evaluating the professional credentialing process of CPAs, or their equivalents, from other countries; and
2. negotiating principles of reciprocity agreements with the appropriate professional and governmental organizations of other countries seeking recognition as having requirements substantially equivalent to the requirements for the U.S. CPA certificate.

B. The Board may issue a CPA certificate to an individual holding an Active certificate or designation from an organization that has entered into a MRA with the IQAB, provided that the Applicant:

1. passes the International Qualifications Examination (IQEX) or the Uniform CPA Examination;
2. has one year of work experience in accordance with the requirements of Chapter 4; and
3. completes and passes the AICPA Ethics Examination and two hours of CR&R within two years immediately preceding the application receipt date.

5.3 INTERNATIONAL APPLICANTS WITH EDUCATION OBTAINED OUTSIDE THE U.S. AND NOT HOLDING A CERTIFICATE OR DESIGNATION FROM AN ORGANIZATION THAT HAS ENTERED INTO A MRA WITH THE IQAB

A. The Board may issue a CPA certificate to an Applicant who obtained education outside the U.S. or its territories and who does not hold a certificate or designation from an organization that has entered into a MRA with the IQAB, provided that the Applicant:

1. passes the Examination;
2. meets the education requirements of Chapter 3 based upon evaluation by an evaluation service that is a member of NACES that the coursework is equivalent to the education requirements set forth in Chapter 2;
3. meets the experience requirements of Chapter 4; and
4. completes and passes the AICPA Ethics Examination and two hours of CR&R within two years immediately preceding the application receipt date.

B. The Board may rely on the IQAB, NASBA, the AICPA or other bodies deemed acceptable to the Board for evaluation of foreign credentials in making Substantial Equivalency determinations.

CHAPTER 6 - CERTIFICATE STATUS AND MAINTENANCE

6.1 INTRODUCTION

This Chapter sets forth the requirements, including CPE requirements, for a Certificate Holder to renew, reactivate or reinstate a certificate, and to obtain a Retired or Inactive status certificate. For the CPE standards, see Chapter 7. It is the responsibility of the Certificate Holder to complete the renewal

process every two years.

6.2 APPLICATION FOR BOARD ACTION

A Certificate Holder or a person wishing the Board to take any action regarding the status of a certificate shall apply in a manner prescribed by the Board.

6.3 ACTIVE CERTIFICATE

An Active certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in an Active status.

- A. Within six months of the date the Board grants an initial certificate, the Certificate Holder shall complete two hours of CR&R.
- B. After initial certification, a Certificate Holder shall complete ten hours of CPE during each full quarter remaining in the reporting period, of which no more than 20 percent shall be in Personal Development, as defined by the Fields of Study. At least two hours of CPE must be in Ethics, which may be satisfied by CR&R if taken as described in Rule 6.3.A.
- C. As a condition for the renewal of an Active status certificate, each Certificate Holder shall complete a total of 80 hours of CPE during the reporting period. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics, of which up to two hours may be in CR&R.
- D. Any course previously used to meet the education requirements for examination or certification shall not be reported for subsequent CPE credit. A CPE course that was taken prior to certification, but within the reporting period, may be eligible for CPE credit upon initial renewal if it was not used to meet the education requirements for initial certification.

6.4 INACTIVE CERTIFICATE

An Inactive certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in an Inactive status.

A. Transfer of a Certificate to Inactive Status

To transfer a certificate from Active to Inactive status, a Certificate Holder shall submit notice in a manner prescribed by the Board of the Certificate Holder's request to transfer to Inactive status.

B. Conditions of an Inactive Certificate

1. Inactive Certificate Holders are not required to comply with CPE requirements for the period during which the certificate is Inactive.
2. Inactive status must be indicated by the word "Inactive" (e.g., Inactive CPA, Inactive Certified Public Accountant) if the Certificate Holder uses the CPA designation in any manner.
3. A Certificate Holder with a certificate in Inactive status is prohibited by law from Holding Out as an Active CPA and from performing any service for which an Active certificate is required pursuant to Section 12-2-120(6), C.R.S.

6.5 RETIRED STATUS CERTIFICATE

A Retired certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in a Retired status.

A. Transfer of a Certificate to Retired Status

1. To transfer a certificate from Active, Inactive or Expired status to Retired status a Certificate Holder shall submit an application, in a manner prescribed by the Board, to transfer to Retired status.
2. A Certificate Holder shall be at least 55 years old and have held an Active certificate in good standing from any state(s), as state is defined in Section 12-2-102(5), C.R.S., for a total of at least 15 years.

- B. Conditions of a Retired Certificate
1. A Retired Certificate Holder is not required to comply with CPE requirements for the period during which the certificate is in Retired status.
 2. Retired status must be indicated by the word "Retired" (e.g., Retired CPA, Retired Certified Public Accountant) if the Certificate Holder uses the CPA designation in any manner.
 3. Retired Certificate Holders are prohibited from performing any service for which an Active certificate is required pursuant to Section 12-2-120(6), C.R.S.
- C. Exceptions
- The Board in its discretion may grant exceptions to the requirements in this Chapter for reasons of individual hardship or other good cause.

6.6 REACTIVATION OF AN INACTIVE OR RETIRED STATUS CERTIFICATE

- A. Conditions of Reactivation: Inactive or Retired Less Than Two Years
- When a certificate has been in Inactive or Retired status less than two years, it may be reactivated provided the Certificate Holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics of which two hours must be in CR&R.
- B. Conditions of Reactivation: Inactive or Retired Two Years or More
- When a certificate has been in Inactive or Retired status for two years or more, it may be reactivated provided the Certificate Holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No CPE in Personal Development, as defined by the Fields of Study, shall be counted toward the 80 hours. The CPE must include the completion of the AICPA Ethics Examination and two hours of CR&R.
- C. Notwithstanding the requirements described in Rule 6.6.A. and B. above, if the Retired status certificate to be reactivated was in expired status at the time the Certificate Holder obtained his Retired status certificate, the Certificate Holder shall meet the requirements for Reinstatement to an Active certificate in Rule 6.7 based on the period the certificate was expired.

6.7 REINSTATEMENT OF AN EXPIRED CERTIFICATE

- A. Conditions of Reinstatement: Expired Less Than Two Years
1. When a certificate has been expired for less than two years, it may be reinstated in an Active status provided the Certificate Holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics of which two hours must be in CR&R.
 2. When a certificate has been expired for less than two years, it may be reinstated in an Inactive status provided the Certificate Holder completes two hours of CPE in CR&R within the two years immediately preceding the application receipt date.
- B. Conditions of Reinstatement: Expired Two Years or More and Less Than Six Years
- When a certificate has been expired for two years or more and less than six years, it may be reinstated in an Active or Inactive status provided the Certificate Holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No CPE in Personal Development, as defined by the Fields of Study, shall be counted toward the 80 hours. The CPE must include the completion of the AICPA Ethics Examination and two hours of CR&R. When the Certificate Holder provides satisfactory evidence of completing the conditions of this Paragraph (B), it will be deemed that continued professional competency has been demonstrated.
- C. Conditions of Reinstatement: Expired Six Years or More
- When a certificate has been expired for six years or more, it may be reinstated in an Active or Inactive status provided the Certificate Holder satisfies the conditions set forth in either Paragraph (1) or (3) of this Rule 6.7.C.

- 1 Within two years immediately preceding the application receipt date, the Certificate Holder shall:
 - a. Complete a total of 80 hours of CPE. No CPE in Personal Development, as defined by the Fields of Study, may be counted toward the 80 hours. The CPE must include the completion of the AICPA Ethics Examination and two hours of CR&R, and
 - b. Obtain experience or education according to one of the following conditions:
 - (1) one year of experience as provided in Chapter 4; or
 - (2) a post-baccalaureate degree with a concentration in accounting obtained from an accredited college or university, as defined by Section 12-2-102(1), C.R.S.
- 2 When the Applicant provides satisfactory evidence of completing the requirements of Rule 6.7.C.1. it will be deemed that continued professional competency has been demonstrated.
- 3 The Certificate Holder may also reinstate a certificate expired six years or more by satisfying the same conditions as an Applicant for initial certification, including passing the Examination, meeting the education and experience requirements as established by statute and Board Rules and completing the AICPA Ethics Examination.

6.8 CPE REQUIRED AFTER REACTIVATION OR REINSTATEMENT TO ACTIVE STATUS

- A. When a certificate is reactivated or reinstated to Active status, the CPE required for the next renewal is 10 hours for each full quarter remaining in the reporting period in which the certificate was reinstated or reactivated. No more than 20 percent of the CPE shall be in Personal Development, as defined by the Fields of Study. Two hours of CPE must be in Ethics, which may not be in CR&R.
- B. Any course used for reactivation or reinstatement to Active status may not be used to satisfy the requirements of this Rule 6.8.

CHAPTER 7 - CONTINUING PROFESSIONAL EDUCATION (CPE)

7.1 INTRODUCTION

All Certificate Holders should participate in learning activities that maintain and/or improve their professional competence. A Certificate Holder's field of employment does not limit the need for CPE. Certificate Holders performing Professional Services need to have a broad range of knowledge, skills and abilities. Thus, the concept of professional competence should be interpreted broadly. Accordingly, acceptable CPE encompasses programs that contribute to the development and maintenance of both technical and non-technical professional skills. It is the responsibility of Certificate Holders to be aware of and comply with all CPE requirements described in Chapters 6 and 7.

7.2 CPE STANDARDS

Certificate Holders, program sponsors and program developers must follow the *Joint AICPA / NASBA Statement on Standards for Continuing Professional Education (CPE) Programs*, which were in effect, July 14, 2006. This Rule does not include later amendments to or editions of the Joint Standards.

7.3 SUBJECT MATTER

The following are acceptable subjects for CPE courses as defined by the *NASBA CPE Fields of Study*, which were in effect, July 14, 2006.

- Accounting
- Accounting (Governmental)
- Administrative Practice
- Auditing
- Auditing (Governmental)
- Behavioral Ethics o Business Law
- Business Management and Organization

- Communications o Computer Science o Economics
- Finance
- Management Advisory Services
- Marketing
- Mathematics
- Personal Development
- Personnel/HR
- Production
- Regulatory Ethics
- Social Environment of Business
- Specialized Knowledge and Applications
- Statistics
- Taxes

This Rule does not include later amendments to or editions of the Fields of Study.

7.4 AVAILABILITY OF MATERIALS INCORPORATED BY REFERENCE

The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, Colorado 80202, (303) 894-7800, or accountancy@dora.state.co.us to examine the Joint Standards and Fields of Study, incorporated by reference in Rules 7.2 and 7.3 respectively. Copies of these materials may also be examined at any state publications depository library.

7.5 CPE RECORDS RETENTION

As set forth in the Joint Standards, the Certificate Holder is responsible for accurate reporting and documentation of all CPE hours completed. Certificate Holders must retain appropriate documentation for a minimum of five years from the end of the year in which the CPE was completed. Appropriate documentation includes:

1. name and contact information of CPE program sponsor,
2. participant's name,
3. title of program
4. field of study
5. date(s) the program was offered or completed,
6. location of program,
7. type of instruction/delivery method,
8. number of CPE credits completed, and
9. certificate of completion or other verification supplied by the CPE program sponsor (for additional examples of acceptable evidence of completion, see the Joint Standards Section 200.11).

7.6 HARDSHIP EXCEPTIONS

A Certificate Holder seeking an exception to the CPE requirements must submit a written request and evidence of good cause to the Board. The Board shall decide on a case-by-case basis whether good cause has been demonstrated to make an exception to the CPE requirements in accordance with Section 12-2-119(8), C.R.S.

7.7 CPE COMMITTEE

- A. The Board may appoint a committee that may audit the CPE records of Certificate Holders on a sample or complete basis to verify compliance with the requirements described in Chapters 6 and 7.
- B. Upon notice from the Board, a Certificate Holder shall provide all documents and information requested regarding CPE compliance in a manner prescribed by the Board within 30 days of the Board's notice.

7.8 FAILURE TO COMPLY WITH CPE REQUIREMENTS

A.If the Board finds that a Certificate Holder has failed to comply with the CPE requirements, the Certificate Holder shall have 30 days from the mailing of the notice of such finding to:

1. provide further evidence that the hours completed meet the CPE requirements established by these Rules;
2. provide documentation described in Rule 7.5, of having completed additional CPE hours during the reporting period; or
3. cure the deficiency by completing the required number of CPE hours. Such hours shall be counted only toward curing the deficiency and shall not be counted toward the CPE requirements for a subsequent reporting period.

B.If the Board finds that a Certificate Holder has failed to comply with the CPE requirements, the Board may include the Certificate Holder in the CPE audit of a subsequent reporting period.

CHAPTER 8 - PEER REVIEW REQUIREMENT

8.1INTRODUCTION

In the interest of public protection, the Board requires all CPAs and Firms issuing attest and/or compilation reports to be enrolled in and undergo Peer Review at least every three years. Upon renewal of an Active certificate or Firm registration, all Certificate Holders and Firms, except those exempt from Peer Review described in Rule 8.3., must attest to having undergone a Peer Review during the previous renewal period. This shall include providing the date of the acceptance letter of the Peer Review and the name of the Peer Review Firm as well as whether the Peer Review resulted in a report rating of fail, pass with deficiencies or pass.

8.2 PEER REVIEW PROGRAM STANDARDS

- A. To the extent not otherwise inconsistent with these Rules, the Board hereby adopts and incorporates by reference the *AICPA Standards for Performing and Reporting on Peer Reviews*, effective for Peer Reviews commencing on or after January 1, 2009. These rules do not include later amendments to or editions of these standards. The *AICPA Standards for Performing and Reporting on Peer Reviews* are available by contacting the AICPA at 1211 Avenue of the Americas, New York, New York, 10036-8775 or by contacting the Board's Program Director at 1560 Broadway, Suite 1350, Denver, Colorado 80202, (303) 894-7800.
- B. Peer review sponsoring organizations shall include those approved by the AICPA's Peer Review Board and other such organizations approved by the Board which adhere to the Peer Review standards defined in Paragraph (A) above.
- C. The Firm, entity, or individual selected to conduct a Peer Review must be approved to conduct the Peer Review by the AICPA's Peer Review Board-approved sponsoring organization or other such organizations approved by the Board.
- D. Any Peer Review performed in accordance with the standards defined in Paragraph (A) must be submitted to an approved Peer Review sponsoring organization for acceptance.
- E. Based upon the Peer Review outcome as stated in the acceptance letter from the authorized Peer Review program administrator, the Board, or its authorized appointee may impose remedial actions, including specified CPE courses that the Certificate Holder or Board-designated individuals of a Firm must complete as a condition for continued registration under this Chapter.
- F. The Board may take disciplinary action against a Certificate Holder or Firm who fails or does not comply with any remedial action mandated in accordance with Paragraph (E) above.
- G. No Certificate Holder or Firm shall be required to become a member of any Peer Review sponsoring organization.

8.3 EXEMPTION FROM PEER REVIEW

A Certificate Holder or Firm who does not issue attest or compilation reports is exempt from the Peer Review requirements of this Chapter.

8.4 RETENTION OF DOCUMENTS RELATING TO PEER REVIEWS

- A. Certificate Holders and Firms subject to Peer Review shall maintain all documentation necessary to establish that all Peer Reviews conformed to Peer Review standards. The documentation maintained by the Certificate Holder or Firm shall include the following:
1. Documentation of Peer Review Firm qualifications;
 2. Copies of all Peer Review reports;
 3. All correspondence that indicates the Certificate Holder's or Firm's concurrence or non-concurrence with the results of the Peer Review; and
 4. All proposed remedial actions and all information relevant to those remedial actions, including the implementation of the remedial actions.
- B. The documents described in Paragraph 8.4.A. above shall be retained in the office of the Certificate Holder or Firm until the completion of the two most recent succeeding Peer Reviews or for a period of five years, whichever is later and shall be made available to the Board upon its request.

8.5 SUBMISSION OF PEER REVIEW REPORTS

- A. If and when a complaint is filed and/or initiated by the Board against a Certificate Holder or Firm, and at the time the Board requests a response, the Certificate Holder or Firm will be required to submit the following documents related to its most recent Peer Review or what the Board determines to be the equivalent:
1. Peer Review report;
 2. letter of response;
 3. acceptance letter;
 4. letter signed by the reviewed Certificate Holder or Firm accepting the Peer Review documents with the understanding that the reviewed Certificate Holder or Firm agrees to take certain actions; and
 5. letter notifying the reviewed Certificate Holder or Firm that certain required actions have been completed.
- B. A Certificate Holder or Firm who receives a Peer Review report rating of fail, a rating of pass with deficiency(ies) following a rating of fail, or a second consecutive rating of pass with deficiency(ies) must notify the Board in writing of such finding(s) within 45 days of the issuance of the report(s), including providing a copy of the report(s).

8.6 FACILITATED STATE BOARD ACCESS

The Board may use the Facilitated State Board Access (FSBA) system maintained by the AICPA for accessing Peer Review documents when and if necessary.

8.7 CHANGE OF FIRM REGISTRATION STATUS – PEER REVIEW STATUS

In the event a Certificate Holder's or Firm's practice is sold, dissolved or merged with the practice of one or more other Certificate Holders or Firms, determination of successor or predecessor Firm(s) Peer Review year-end(s) and other Peer Review due date(s), if any, will be made in accordance with the Board-approved sponsoring organization's guidance.

8.8 CONFIDENTIALITY OF PEER REVIEW INFORMATION

Peer reviewers shall not disclose or use for their own benefit any confidential client information which comes to their attention from Certificate Holders or Firms in carrying out their responsibilities, except that they may furnish such information in response to a formal request from an investigative or disciplinary body established by law or formally recognized by the Board.

8.9 PEER REVIEW PROGRAM OVERSIGHT

- A. The Board may establish a committee to oversee Peer Review sponsoring organizations' administration of their Peer Review programs. The committee may consist of up to five members appointed by the Board.
- B. A committee member may serve up to a three-year term, except that the terms of those first appointed shall be arranged so that to the extent possible, an equal number of members will rotate off annually.
- C. The committee may fill vacancies occurring during a term for the unexpired term with members approved by the Board.
- D. Each committee member must hold a current Colorado CPA certificate or a current CPA certificate from another substantially equivalent jurisdiction.
- E. Each committee member must have received a Peer Review report with a rating of pass on the most recently accepted Peer Review for himself or his Firm.
- F. No committee member may be a member of any state board of accountancy or one of its committees or perform any enforcement-related work for a state board.
- G. Committee responsibilities may include but are not limited to:
 - 1. Recommending to the Board the approval of sponsoring organizations, Peer Review programs and Peer Review standards.
 - 2. Monitoring and assessing the effectiveness of the sponsoring organizations, Peer Review programs and Peer Review standards.
 - 3. Reporting to the Board whether sponsoring organizations are administering and facilitating their Peer Review programs in conformity with the Board-approved Peer Review standards in all material respects.

8.10 EFFECTIVE DATE

- A. These Peer Review requirements shall be effective for Certificate Holders and Firms upon renewal of CPA certificates and Firm registrations in 2014. At that time, and for all future renewals, Certificate Holders and Firms will be required to attest to having complied with the requirements of this Chapter and either (1) undergone a minimum of one Peer Review within three years prior to the renewal or (2) have not issued attest or compilation reports subject to Peer Review.
- B. A Certificate Holder's or Firm's due date for its initial Peer Review is 18 months from the date it enrolled in a Board-approved Peer Review program or should have enrolled, whichever date is earlier.

CHAPTER 9 - RULES OF PROFESSIONAL CONDUCT CODE OF PROFESSIONAL CONDUCT PREAMBLE

Authority

The Rules of Professional Conduct are promulgated under the authority granted by 12-2-104(1)(c), C.R.S. to establish and maintain high standards of Competence and Integrity in the public accounting profession. The Rules of Professional Conduct apply with equal force to all Certificate Holders under this article, except where the wording of a specific rule indicates otherwise.

Principles

Integrity, Objectivity, Independence, Due Care and Competence are the Principles upon which the Board's Rules of Professional Conduct are based. They express the profession's recognition of its responsibilities to the public, to clients, and to colleagues and guide Certificate Holders in the performance of their professional responsibilities. They express the basic tenets of ethical and professional conduct and call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage. The Principles are not rules, rather they represent the policies or guidelines used by the Board in promulgating the Rules of Professional Conduct.

Responsibilities

As professionals, Certified Public Accountants perform an essential role in society. Consistent with that role, Colorado Certificate Holders have responsibilities to all those who use their Professional Services. Certificate Holders also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all Certificate Holders are required to maintain and enhance the tenets of the profession.

The Public Interest

A distinguishing mark of the profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the Objectivity and Integrity of CPAs to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on CPAs. The public interest is defined as the collective well being of the community of people and institutions the profession serves. In discharging their professional responsibilities, Certificate Holders may encounter conflicting pressures from among each of those groups. In resolving those conflicts, Certificate Holders should act with Integrity, guided by the precept that when Certificate Holders fulfill their responsibility to the public, clients' and employers' interests are best served.

Those who rely on CPAs expect them to discharge their responsibilities with Integrity, Objectivity, Due Care, and a genuine interest in serving the public. Certificate Holders are expected to offer and provide services and enter into fee arrangements in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct.

All who accept a Colorado certificate of Certified Public Accountant commit themselves to honor the public trust. In return for the faith that the public reposes in them, Certificate Holders should continually seek to demonstrate their dedication to professional excellence.

Applicability

Title 12, Article 2 of the C.R.S., requires that Certificate Holders adhere to the Rules of

Professional Conduct. Certificate Holders must be prepared to justify departures from those Rules.

The Rules of Professional Conduct that follow apply to all professional services performed except (a) where the wording of the rule indicates otherwise and (b) that a Certificate Holder who is practicing outside the United States will not be subject to discipline for departing from any of the rules stated herein as long as the Certificate Holder's conduct is in accord with the rules of the organized accounting profession in the country in which the Certificate Holder is practicing. However, where a Certificate Holder's name is associated with Financial Statements under circumstances that would entitle the reader to assume that United States practices were followed, the Certificate Holder must comply with the requirements of Rules 9.2, 9.5 and 9.6.

9.1 DEFINITIONS

A. Integrity

An element of character fundamental to professional recognition which requires a Certificate Holder to (1) be honest and candid within the constraints of client confidentiality, (2) observe both the form and the spirit of technical and ethical standards and (3) keep service and the public trust above personal gain or advantage. It is the quality from which the public trust derives and the benchmark against which a Certificate Holder must ultimately test all decisions. It can accommodate the inadvertent error and the honest difference of opinion. It cannot accommodate deceit or subordination of principle.

B. Objectivity

A principle that requires a Certificate Holder to (1) be impartial, intellectually honest, and free of conflicts of interest, (2) protect the integrity of their work regardless of service or capacity and (3) avoid any subordination of their judgment.

C. Independence

The absence of relationships that impair or appear to impair a Certificate Holder's objectivity in performing an engagement in which the Certificate Holder or the Certificate Holder's Firm will issue an attestation report or opinion other than a report in which a lack of independence is disclosed.

D. Due Care

The discharge of responsibilities to clients, employers and the public with diligence and competence which requires a Certificate Holder or Firm to (1) render services carefully and in a timely manner, (2) be thorough, (3) observe applicable technical and ethical standards, and (4) plan and supervise adequately any professional activity for which the Certificate Holder or Firm is responsible.

E. Competence

The knowledge and ability to assure that the quality of the services rendered meets professional standards. It requires a Certificate Holder to (1) be responsible for assessing and evaluating whether the Certificate Holder's education, experience and judgment are adequate for the responsibility assumed, and (2) maintain a commitment to learning and professional improvement that continues throughout a Certificate Holder's professional life.

F. Contingent Fee

A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specific finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of these Rules, fees are not regarded as being contingent if fixed by courts or governmental entities acting in a judicial or regulatory capacity, or in tax matters if determined based upon the results of judicial proceedings or the findings of governmental agencies acting in a judicial or regulatory capacity or there is a reasonable expectation of substantive review by a taxing authority.

G. Other Professional Standards

For the purpose of these Rules, Other Professional Standards shall include, but are not limited to:

1. Statements on Standards for Consulting Services
2. Statements on Standards for Tax Services
3. Statements on Standards for Accounting and Review Services
4. Statements on Standards for Attestation Engagements
5. Statements on Standards for Valuation services.

The statements in this Rule 9.1.G. were issued by the AICPA and in effect as of January 1, 2009.

This Rule does not include later amendments to or editions of the professional standards.

Copies of professional standards may be inspected in the offices of the Board during regular business hours. The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, CO 80202 to examine the professional standards.

9.2 INDEPENDENCE

When a Certificate Holder or Firm performs Professional Services requiring Independence, they shall conform to the Independence standards established by the AICPA and in effect as of September 1, 2002, whether or not the individual CPA or Firm are members of the AICPA. When the Certificate Holder or Firm performs services regulated by the U.S. Securities and Exchange Commission (SEC) or the General Accounting Office (GAO), they also shall conform to the independence standards established by those bodies for those services and in effect as of August 15, 2003. This rule does not include later amendments to or editions of the AICPA, SEC or GAO standards.

9.3 INTEGRITY AND OBJECTIVITY

A. Certificate Holders shall perform all professional services with integrity and objectivity. They shall not knowingly misrepresent facts or subordinate their judgment to others.

Misrepresentations of fact or subordination of judgment include, but are not limited to:

- a. Knowingly making, permitting, or directing another to make false and misleading entries in an entity's financial statements or records.

- b. Misrepresenting or failing to disclose material facts to an external or internal auditor, or accountant.
- c. Taking a position in a tax return or advising a tax client to take a position that does not have a realistic possibility of being sustained on its merits in an administrative or judicial review unless the position is not frivolous and is adequately disclosed all as provided in the professional standards entitled, "Statement on Standards for Tax Services."

B. Subordination of judgment or principle. When disagreements and disputes arise in the course of employment of a Certificate Holder related to the recording of transactions or preparing financial statements, a Certificate Holder

1. Shall determine whether (a) the entry or the failure to record a transaction in the records, or (b) the financial statement presentation or the nature or omission of disclosure in the financial statements, as proposed, represents the use of an acceptable alternative and does not materially misrepresent the facts.
 - a. If, after appropriate research or consultation, the Certificate Holder concludes that the matter has authoritative support or does not result in a material misrepresentation, the Certificate Holder need do nothing further.
 - b. If the Certificate Holder concludes that the matter results in a material misrepresentation or misstatement, the Certificate Holder shall make any concerns known to the appropriate higher level(s) of management within the organization (for example, the supervisor's immediate superior, senior management, the audit committee or equivalent, the board of directors, the company's owners). Certificate Holders shall document their understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.
 - i. If, after discussing their concerns with the appropriate person(s) in the organization, the Certificate Holder concludes that appropriate action was not taken, they must assess their continuing relationship with the employer.
 - ii. Certificate Holders also must assess any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's (former employer's) external accountant.

9.4 RECEIPT OF COMMISSIONS AND CONTINGENT FEES

- A. Permitted Commission Arrangements. Certificate Holders who hold themselves out to the public as CPAs and who are not otherwise prohibited by this rule from receiving a commission shall disclose to the recipient of the services or the buyer of the product, in writing, the nature, amount and source of any commission prior to performing the services or making the referral or sale that generates the commission.
- B. Prohibition on Commissions and Contingent Fees. When Certificate Holders or Firms perform an audit or review of a Financial Statement, or a compilation of a Financial Statement when Certificate Holders do not disclose a lack of independence; or an examination of prospective financial information, they shall not:
 1. For a commission, recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, or
 2. Perform for a contingent fee any professional services for, or receive such a fee from, a client. This prohibition on commissions and contingent fees shall apply during fee period in which Certificate Holders are engaged to perform any of the services listed above and the period covered by any Financial Statements involved in such listed services.
- C. Contingent Fees in Tax Matters. Certificate Holders may not prepare an original or amended tax return or claim for refund for a contingent fee. For purposes of this rule, fees are not regarded as

contingent if fixed by courts or other public authorities, or if based on the results of judicial proceedings or the findings of governmental agencies. A fee is considered to be based on the findings of a governmental agency if, at the time of a fee arrangement, Certificate Holders can demonstrate a reasonable expectation of substantive consideration by an agency with respect to the Certificate Holder's client. In the case of the preparation of an original tax return, such expectation is not deemed reasonable.

9.5 PROFESSIONAL COMPETENCE AND COMPLIANCE WITH APPLICABLE TECHNICAL STANDARDS

A Certificate Holder shall comply with the following:

A General Standards

1. Professional Competence - Undertake only those professional services that the Certificate Holder or the Certificate Holder's Firm can reasonably expect to complete with professional competence.
2. Due Care - Exercise due care in the performance of professional services.
3. Planning and Supervision - Adequately plan and supervise the performance of professional services.
4. Sufficient Relevant Data -- Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

B Auditing Standards

A Certificate Holder shall not permit the Certificate Holder's name to be associated with Financial Statements in such a manner as to imply that the Certificate Holder is acting as an independent public accountant unless the Certificate Holder has complied with the applicable auditing standards. Applicable auditing standards shall include those defined as generally accepted auditing standards by the AICPA, such as Statements on Auditing Standards and Government Auditing Standards as promulgated by the United States General Accounting Office or standards of any successor organizations, including interpretations. Departures from these standards must be justified by those who do not follow them.

C Accounting Principles

If Financial Statements or other financial data contain any material departure from an accounting principle(s) promulgated by the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB), their predecessor entities and other entities having similar generally recognized authority or jurisdiction to establish such principle(s), a Certificate Holder shall not:

1. Express an opinion or state affirmatively that the Financial Statements or other financial data, of any entity are presented in conformity with generally accepted accounting principles, or
2. State that the Certificate Holder is not aware of any material modifications that should be made to such statements or data for them to be in conformity with generally accepted accounting principles.

If, however, the statements or data contain such a departure and the Certificate Holder can demonstrate that unusual circumstances would have caused the Financial Statements to be otherwise misleading, the Certificate Holder can comply with this rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

D. Prospective Financial Information

Certificate Holders shall not permit their name to be used in conjunction with any prospective financial information in a manner that may lead to the belief that the Certificate Holders vouch for the achievability of the prospective financial information. Certificate Holders should be guided by standards in this area promulgated by the AICPA or by other entities having similar generally recognized authority or jurisdiction over the service provided. Departures from applicable standards must be justified by those who do not follow them.

E. Other Attestation Standards

Certificate Holders shall not permit their name to be associated with assertions or conclusions about the reliability of a written representation of another party unless they have complied with the Statements on Standards for Attestation Engagements (SSAE) promulgated by the AICPA or by other entities having similar generally recognized authority or jurisdiction over the service provided.

9.6 OTHER PROFESSIONAL STANDARDS

In performing tax services, accounting, review and compilation services, attestation engagements, personal financial planning, business valuation, litigation support and expert witness services, and consulting services, a Certificate Holder shall conform with Rule 9.5.A., Other Professional Standards applicable to such services as promulgated by the AICPA, and any other rules established or incorporated by reference by the Board. For purposes of this rule, Other Professional Standards are considered to be defined by Statements on Standards for Consulting Services, Statements on Standards for Tax Services, Statements on Standards for Accounting and Review Services, Statements on Responsibilities in Personal Financial Planning Practice and Statements on Standards for Attestation Engagements, all of which have been issued by the AICPA and incorporated by reference in this Chapter 9.

9.7 CONFIDENTIAL CLIENT AND EMPLOYER INFORMATION

- A. In General. Certificate Holders shall not disclose or use for their own benefit any confidential information pertaining to a client or the employer of the Certificate Holder, which information is obtained in the course of employment or performing Professional Services. This rule shall not in any way be construed to relieve Certificate Holders of their obligations under Rule 9.5. Information obtained as part of a proposed acquisition or in evaluating the acquisition or merger of an accounting practice shall not be disclosed or used to the Certificate Holders' benefit.
- B. Exceptions. Rule 9.7.A shall not apply:
 - 1. If information is disclosed with the specific consent of the client or the employer of the Certificate Holder.
 - 2. If information is disclosed pursuant to a subpoena or summons issued with respect to the Certificate Holder or an entity with which the Certificate Holder is associated, where the subpoena or summons has been determined to be legally enforceable; or if information is disclosed to permit a Certificate Holder's compliance with applicable laws and government regulations.
 - 3. If information is disclosed as part of the public record in a civil law suit (legal action) between the Certificate Holder and the client or employer.
 - 4. If information is disclosed in the course of a Peer Review of a Certificate Holder's Professional Services. Professional practice reviewers shall not disclose any confidential client information which comes to their attention from Certificate Holders in carrying out their responsibilities, except that they may furnish such information in response to a formal request from an investigative or disciplinary body of the kind referred to in Rule 9.7.B.5.
 - 5. If information is disclosed as part of the process of initiating a complaint with, or responding to an inquiry made by the Board and the disclosure to the Board is in accordance with the C.R.S. regarding accountant-client privilege or the client waives the privilege; or if information is disclosed as part of the process of initiating a complaint with or responding to an investigative or disciplinary body established by law or formally recognized by the Board. Members of the Board shall not disclose any confidential client information that comes to their attention from Certificate Holders in disciplinary proceedings or otherwise in carrying out their responsibilities.
 - 6. If information is disclosed as part of an acquisition or merger or proposed acquisition or merger of an accounting practice.

9.8 ISSUING COPIES OF REPORTS - TAX RETURNS OR OTHER DOCUMENTS

- A. Upon request and reasonable notice, a Certificate Holder shall furnish to a client or former client

a copy of any report, tax return or other document issued by the Certificate Holder to or for such client during the previous five years. Unpaid fees do not constitute justification for withholding copies of these items.

B.If a client, including a former client, requests copies of reports and tax returns previously issued by the Certificate Holder under this Rule 9.8, a fee may be collected for the copying. Such fee should be set to reflect the reasonable cost of providing the copies.

9.9 CLIENT RECORDS

A. Client records are:

- 1.Accounting or other records belonging to, obtained from, or on behalf of, the client, that the Certificate Holder removed from the client's premises or received for the client's account.
- 2.Certificate Holder's workpapers or records that contain data which should properly be reflected in the client's books and records, including, but not limited to:
 - a. Adjusting, closing, combining, or consolidating journal entries.
 - b. Information normally contained in the books of original entry and general ledgers or subsidiary ledgers, such as accounts receivable, job cost and equipment ledgers or similar types of depreciation records.
- 3.Computer files that include client information normally contained in the books of original entry and general ledgers or subsidiary ledgers.

B Obligation to retain, return and provide client records:

1. A Certificate Holder must retain copies of documentation of work performed, including issued reports and tax returns, for a period of five years. If original client records or copies of client records are retained by the Certificate Holder, they must also be retained for a period of five years.
2. A Certificate Holder must return client records upon request and reasonable notice from the client or former client. If the records cannot be returned to the client promptly, the Certificate Holder shall immediately notify the client of the date the records will be returned.
3. A Certificate Holder shall not retain a client's records in an attempt to force payment of any kind.
4. Upon completion of an engagement wherein the client's records have been returned to the client, duplicate records requested by the client shall be furnished to the client upon reasonable notice for a reasonable fee. Such fee should be set to reflect the reasonable cost of providing the copies.
5. Upon request, a Certificate Holder must provide to the client a copy of any computer files that constitute client records, without password protection and with the name of the software used to manage the accounting information. The Certificate Holder is under no obligation to provide the client or former client with a copy of any computer code, application program or instructions for the software used to assemble the data.

C Workpapers belonging to the Certificate Holder.

1. A Certificate Holder is not required to furnish to the client or former client any workpapers developed by the Certificate Holder incident to the performance of the engagement, that do not result in changes to the client's records or are not in themselves part of the records ordinarily maintained by a client.
2. Certificate Holder's workpapers are considered to be solely the property of the Certificate Holder and are not the property of the client. For example, the Certificate Holder may make extensive analyses of inventory or other accounts as part of the selective audit procedures. These analyses are considered to be a part of the Certificate Holder's workpapers, even if client personnel at the request of the Certificate Holder have prepared the analyses. Only to the extent these analyses result in changes to the client's records would the Certificate Holder be required to furnish the details from the workpapers in support of the journal entries recording the changes, unless the journal entries themselves contain all necessary details.

3. If an engagement is terminated prior to the completion of work, and the Certificate Holder's work product has neither been issued nor paid for by the client, the work product is solely and exclusively the property of the Certificate Holder.

9.10 ACTING THROUGH OTHERS

Certificate Holders shall not knowingly permit others to carry out on their behalf, either with or without compensation, acts, which, if carried out by the Certificate Holders, would place them in violation of the Rules of Professional Conduct. Similarly, in supervising subordinates, a Certificate Holder shall not accept or condone conduct in violation of the Rules of Professional Conduct.

9.11 SOLICITATION

A Certificate Holder shall not solicit an engagement to perform professional services by any direct personal communication if:

- A. The communication contains false, misleading, or deceptive statements that (1) create false or unjustified expectations; (2) imply an ability to influence any court, tribunal, regulatory agency, or similar body or official; (3) contain a representation of unrealistic future fees; or (4) contain a representation likely to be misunderstood by a reasonable person.
- B. The communication creates or uses coercion, duress, compulsion, intimidation, threats, overreaching, vexatious or harassing conduct, or untruthful statements about the professional work product or competence of other Certificate Holders.

9.12 PRACTICE NAMES

- A. A Firm registered by the Board in compliance with Section 12-2-117, C.R.S. may use the name(s) of current, retired or deceased owners, either alone or with other descriptive terms, in its name.
- B. A Certificate Holder or Firm registered by the Board in compliance with Section 12-2-117, C.R.S. may use an assumed or trade name if it is in compliance with Colorado Law, is not misleading, and clearly indicates that the individual or entity is engaged in the Practice of Public Accounting as defined in Chapter 1.
- C. The designation "and company" or "and associates" will not be considered misleading when used in a practice name only when a Certificate Holder or Firm, registered by the Board in compliance with Section 12-2-117, C.R.S., has employees, professional associates, or contractual relationships with other professionals.

9.13 OFFERING SERVICES VIA THE INTERNET

Any Certificate Holder or Firm licensed or registered by the Colorado Board and offering to or performing Professional Services via the internet shall include the following information on the internet:

1. Name of the Certificate Holder or Firm licensed by the Colorado State Board of Accountancy;
2. Principal place of business
3. Business telephone number; and
4. Colorado certificate number and/or Colorado Firm registration number.

9.14 DISCLOSURE BY CERTIFICATE HOLDERS AND FIRMS

A. A Certificate Holder or Firm, as defined in Chapter 1, shall notify the Board within forty-five days of any of the following events relating to the Certificate Holder or the Firm:

1. Imposition of discipline, including, but not limited to, censure, reprimand, sanction, probation, civil penalty, fine, consent decree or order, suspension, revocation, or modification of a license, certificate, permit or practice rights by:
 - a. The U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), or the Internal Revenue Service (IRS) by the Director of the Office of Professional Responsibility.
 - b. Another state board of accountancy for any cause other than failure to pay a professional

license fee by the due date or failure to meet the CPE requirements of another state board of accountancy.

- c. Any other federal or state agency regarding the Certificate Holder's conduct while rendering professional services.
 - d. Any federal or state taxing, insurance or securities regulatory authority.
 - e. Any foreign authority or credentialing body that regulates the practice of accountancy.
- 2. Notice of disciplinary charges filed by the SEC, PCAOB, IRS, or another state board of accountancy, or a federal or state agency concerning the practice of accountancy, or a foreign authority or credentialing body that regulates the practice of accountancy.
 - 3. Initiation of a civil proceeding or an alternative dispute resolution proceeding by a governmental entity relating to an audit report for a public or non-public company.
 - 4. Judgment, settlement or resolution of a civil proceeding or an alternative dispute resolution proceeding by a governmental entity relating to an audit report for a public or non-public company.
 - 5. Initiation of an administrative proceeding or disciplinary proceeding by any federal state, or non-U.S. agency, board, or administrative or licensing authority or any professional association or entity regarding an audit report for a public or non-public company.
 - 6. Decision, judgment, settlement or resolution of an administrative proceeding or disciplinary proceeding by any federal, a state or non-U.S. agency, board, or administrative or licensing authority or any professional association or entity regarding an audit report for a public or non-public company.
 - 7. Any judgment, award or settlement of a civil action or arbitration proceeding of \$150,000 or more in which the Certificate Holder or Firm was a party if the action or proceeding included any allegation of gross negligence, violation of specific standards of practice, fraud, or misappropriation of funds in the Practice of Public Accounting or during employment.
 - 8. A criminal charge against or a conviction of the Certificate Holder, deferred prosecution, or a plea of guilty or *nobo contendere* to a crime by the Certificate Holder if the crime is:
 - a. a felony under the laws of the United States or of any state of the United States or any foreign jurisdiction; or
 - b. a misdemeanor when an essential element of the misdemeanor is dishonesty or fraud.

B. The Certificate Holder designated by a partnership, professional corporation, or limited liability company as responsible for notifying the Board, pursuant to section 12-2-117(2)(a)(iii), C.R.S., shall be the Certificate Holder responsible for notifying the Board of the reportable event regarding the Firm.

1A Firm shall notify the Board only when such reportable event directly involves the Firm's Practice of Public Accounting in the State of Colorado.

C. The notice to the Board shall include the following information regarding the reportable event:

- 1. If the reportable event is a disciplinary proceeding, alternative dispute resolution proceeding, administrative proceeding or civil action by any governmental entity or professional association or entity, the name of the agency, its jurisdiction, the case name, the docket or proceeding or case number by which it is designated, a description of the matter or a copy of the document initiating the action or proceeding and, and, if the matter has been adjudicated or settled, a copy of the consent decree, order or decision.
- 2. If the reportable event is a criminal conviction, charge or plea, the court, its jurisdiction, the case name, the case number, and a description of the matter or a copy of the indictment or charges, and, if the Certificate Holder has been convicted, acquitted, or entered a plea of guilty or *nobo contendere*, a copy of the judgment of conviction.
- 3. If the reportable event concerns a civil action or arbitration proceeding, the court or arbiter, the jurisdiction, the case name, the case number, a description of the matter or a copy of the complaint, and a copy of the verdict, the court or arbitration decision, or, if settled, the court's order of dismissal.

D. During the pendency of a reportable event, the reporting Certificate Holder or Firm may submit

- a written explanatory statement to be included in the Board's records.
- E. Documents provided to the Board shall be closed to public inspection if federal statute or regulation or state statute so provides.
- F. This rule shall apply to any reportable event that occurs on or after the Rule's effective date.

CHAPTER 10 - DECLARATORY ORDERS

SECTION 24-4-105(II), C.R.S

- 10.1** Any person, as defined in Section 12-2-102(3), C.R.S., may petition the Board for a declaratory order to terminate controversies or to remove uncertainties as to the applicability to the petitioner of any statutory provisions or of any rule or order of the Board.
- 10.2** The Board will determine, in its discretion and without notice to petitioner, whether to rule upon any such petition. If the Board determines that it will not rule upon such a petition, the Board shall promptly notify the petitioner of its action and state the reasons for such action.
- 10.3** In determining whether to rule upon a petition filed pursuant to this Chapter, the Board will consider the following matters, among others:
- A. Whether a ruling on the petition will terminate a controversy or remove uncertainties as to the applicability to petitioner of any statutory provision, rule, or order of the Board.
 - B. Whether the petition involves any subject, question or issue which is the subject of a formal or informal matter or investigation currently pending before the Board or a court involving one or more of the petitioners.
 - C. Whether the petition involves any subject, question or issue which is the subject of a formal or informal matter or investigation currently pending before the Board or a court but not involving any petitioner.
 - D. Whether the petition seeks a ruling on a moot or hypothetical question or will result in an advisory ruling or opinion.
 - E. Whether the petitioner has some other adequate legal remedy, other than an action for declaratory relief pursuant to Rule 57, Colorado Rules of Civil Procedure, which will terminate the controversy or remove any uncertainty as to the applicability to the petitioner of the statute, rule or order in question.
- 10.4** Any petition filed pursuant to this Chapter shall set forth the following:
- A. The name and address of the petitioner and whether the petitioner holds a certificate issued pursuant to Section 12-2-101, C.R.S. et seq.
 - B. The statute, rule or order to which the petition relates.
 - C. A concise statement of all of the facts necessary to show the nature of the controversy or uncertainty and the manner in which the statute, rule or order in question applies or potentially applies to the petitioner.
- 10.5** If the Board determines that it will rule on the petition, the following procedures shall apply:
- A. The Board may rule upon the petition based solely upon the facts presented in the petition. In such a case:
 - 1. Any ruling of the Board will apply only to the extent of the facts presented in the petition and any amendment to the petition.
 - 2. The Board may order the petitioner to file a written brief, memorandum or statement of position.
 - 3. The Board may set the petition, upon due notice to the petitioner, for a non-evidentiary hearing.
 - 4. The Board may dispose of the petition on the sole basis of the matters set forth in the petition.

5. The Board may request the petitioner to submit additional facts, in writing. In such event, such additional facts will be considered as an amendment to the petition.
6. The Board may take administrative notice of facts pursuant to the Administrative Procedure Act Section 24-4-105(8), C.R.S. and may utilize its experience, technical competence and specialized knowledge in the disposition of the petition.
7. If the Board rules upon the petition without a hearing, it shall promptly notify the petitioner of its decision.

B. The Board may, in its discretion, set the petition for hearing, upon due notice to petitioner, for the purpose of obtaining additional facts or information or to determine the truth of any facts set forth in the petition or to hear oral arguments on the petition. The notice to the petitioner setting such hearing shall set forth, to the extent known, the factual or other matters into which the Board intends to inquire. For the purpose of such a hearing, to the extent necessary, the petitioner shall have the burden of proving all of the facts stated in the petition, all of the facts necessary to show the nature of the controversy or uncertainty and the manner in which the statute, rule or order in question applies or potentially applies to the petitioner and any other facts the petitioner desires the Board to consider.

10.6 The parties to any proceeding pursuant to this Chapter shall be the Board and the petitioner. Any other person may seek leave of the Board to intervene in such a proceeding, and leave to intervene will be granted at the sole discretion of the Board. A petition to intervene shall set forth the same matters as required by Rule 10.4. Any reference to a "petitioner" in this Chapter also refers to any person who has been granted leave to intervene by the Board.

10.7 Any declaratory order or other order disposing of a petition pursuant to this Chapter shall constitute agency action subject to judicial review pursuant to Section 24-4-108, C.R.S.

CHAPTER 11 - PRACTICE PRIVILEGE / MOBILITY

SECTION 12-2-121(2), C.R.S.

11.1 SCOPE OF THE PRACTICE PRIVILEGE

An out-of state individual or Firm who qualifies for the Practice Privilege under Rule 11.2 shall be deemed to have all the privileges of a Certificate Holder or Firm without the need to obtain a Colorado certificate or Firm registration. Such an individual or Firm is subject to the requirements in Section 12-2-121(2)(c), C.R.S., and may use the title "certified public accountant," the abbreviation "CPA," "CPAs," or "CPA Firm," pursuant to Section 12-2-115(4), C.R.S.

11.2 REQUIREMENTS

A. Practice Privilege requirements

1. An individual whose principal place of business is not in this state shall be presumed to have qualifications substantially equivalent to this state's requirements and shall have all the privileges of a Certificate Holder without the need to obtain a certificate under Section 12-2-108, C.R.S., if:
 - a. The individual holds a valid CPA certificate from any U.S. jurisdiction which the NASBA national qualification appraisal service has verified to be substantially equivalent to the CPA licensure requirements of the *AICPA/NASBA Uniform Accountancy Act (UAA)*; or
 - b. The individual holds a valid CPA certificate from any U.S. jurisdiction which the NASBA national qualification appraisal service has not verified to be substantially equivalent with the CPA licensure requirements of the UAA, but such individual obtains from the NASBA national qualification appraisal service verification that such individual's CPA qualifications are substantially equivalent to the CPA licensure requirements of the UAA. Any individual who has passed the Examination and

holds a valid CPA certificate issued by any other jurisdiction prior to January 1, 2012, shall be exempt from the education requirements in the UAA.

2. Pursuant to Section 12-2-106(5), C.R.S. and notwithstanding any other provision of law, an individual who offers or renders Professional Services, whether in person, or by mail, telephone or electronic means shall be granted Practice Privilege in this jurisdiction. No notice or other submission shall be required of any such individual.
 3. For purposes of this Chapter, "valid CPA certificate" means a current certificate or license allowing an individual to engage in the practice of public accounting in that jurisdiction and to hold himself out as a CPA in the jurisdiction that issued the certificate or license.
- B. Firm registration not required
Pursuant to Section 12-2-121(2)(a), C.R.S., any foreign partnership, corporation, limited partnership, limited liability limited partnership, or limited liability company engaging in the practice of accounting in this jurisdiction through a holder of a Practice Privilege shall not be required to register with the Board, notwithstanding Section 12-2-117, C.R.S.
- C. Contact information required
Any person authorized to use the title "certified public accountant" or the abbreviation "CPA" shall provide contact information to clients pursuant to Section 12-2-115(2), C.R.S.

11.3 DISCIPLINE FOR HOLDERS OF THE PRACTICE PRIVILEGE

A. Practice Privilege Holders

The Board may revoke, suspend, fine, issue a Letter of Admonition, place on probation, impose other conditions or limitations or deny the Practice Privilege to any Practice Privilege holder for the following grounds:

1. Fraud or deceit in qualifying for the Practice Privilege,
2. Fraud or negligence in the practice of public accounting in Colorado or any other jurisdiction,
3. Fraud in the filing of or failure to file his own income tax returns,
4. Violation of any provision of Article 2 of Title 12, C.R.S. applicable to the Practice Privilege, of any final rule or regulation promulgated by the Board applicable to the Practice Privilege or of any valid agency order,
5. Violation of a Rule of Professional Conduct promulgated by the Board under the authority granted by Article 2 of Title 12, C.R.S.,
6. Conviction of a felony under the laws of any jurisdiction or of the United States. A plea of guilty or a plea of *nobo contendere* accepted by the court shall be considered as a conviction,
7. Conviction of any crime, an element of which is dishonesty or fraud, under the laws of any jurisdiction or of the United States. A plea of guilty or a plea of *nobo contendere* accepted by the court shall be considered as a conviction,
8. Cancellation, revocation, suspension, limitation of the right to practice, any other form of discipline or refusal to renew authority to practice as a CPA in any jurisdiction,
9. Suspension, revocation or any limitation of the right to practice before any jurisdiction or federal agency for improper conduct or willful violation of the rules or regulations of such jurisdiction or federal agency,
10. Providing public accounting services to the public without qualifying for the Practice Privilege under Section 12-2-121(2), C.R.S.,
11. Assuming or using the title or designation "certified public accountant" or the abbreviation "CPA," or any other title, designation, words, letters, abbreviation, sign, card or device tending to indicate that such person is a CPA unless such person holds an Active certificate as a Colorado CPA or qualifies for the Practice Privilege,
12. An act or omission which fails to meet U.S. GAAP or GAAS,
13. Habitual intemperance with respect to or excessive use of any habit-forming drug, any controlled substance as defined in Section 12-22-303 (7), C.R.S. or any alcoholic beverage, any of which renders him unfit to practice public accounting,

14. Failure to retain records of the work performed for each client in Colorado for a period of five years or as required by law.

B.If an individual Practice Privilege holder's certificate, license or permit to practice as a CPA is limited or subjected to any form of discipline or denial by a federal agency or foreign jurisdiction while he or she is exercising the Practice Privilege in Colorado, or if the Firm's certificate, license, permit or registration is limited or subjected to any form of discipline or denial by another jurisdiction, the Practice Privilege holder shall notify the Board, in a manner prescribed by the Board, of the limitation or discipline by the other jurisdiction within seven business days of the action taken by the other jurisdiction.

RULES OF THE COLORADO STATE BOARD OF ACCOUNTANCY
EFFECTIVE JANUARY 1, 2010
CHAPTER 1
ORGANIZATION AND ADMINISTRATION

1.1 DEFINITIONS.

- A. AICPA. American Institute of Certified Public Accountants.
- B. Board. The Colorado State Board of Accountancy.
- C. Client. A client means a person or entity that agrees with a certificate holder to receive any professional service.
- D. Examination. The Uniform CPA Examination.
- E. Financial Statements. Statements and footnotes related thereto that purport to show actual or anticipated financial position which relates to a point in time, or results of operations, cash flow, or changes in financial position which relate to a period of time, on the basis of generally accepted accounting principles or another comprehensive basis of accounting. The term includes specific elements, accounts or items of such statements, but does not include incidental financial data included in management advisory services reports to support recommendations to a client, nor does it include tax returns and supporting schedules.
- F. He, His, Him. Masculine pronouns when used also include the feminine and the neuter.
- G. NASBA. National Association of State Boards of Accountancy.
- H. Practice of Public Accounting. Offering to perform or the performance by a certificate holder or a holder of a practice privilege, for a client or potential client, one or more kinds of services involving the use of accounting or auditing skills, including the issuance of reports on financial statements, or of one or more types of management advisory or consulting services, or the preparation of tax returns or the furnishing of advice on tax matters.
- I. Practice Privilege. The privilege for an out-of-state CPA or CPA Firm to practice public accounting pursuant to, and subject to the conditions contained in, Section 12-2-121(2), C.R.S.
- J. Principal Place of Business. The office location designated by the out-of-state CPA for purposes of substantial equivalency.
- K. Professional Ethics Course and Examination. Pursuant to Section 12-2-109(1)(b). C.R.S., the professional ethics course and examination shall mean a course of study concerning the subject of professional ethics and the related examination prepared and administered by the AICPA.
- L. Professional Services. Any services performed or offered to be performed by a certificate holder or a holder of a practice privilege for a client in the course of the practice of public accounting.
- M. Certificate Holder. A person granted a Colorado Certified Public Accountant certificate pursuant to the requirements in Article 2 of Title 12, C.R.S.
- N. Registrant. A firm engaged in the practice of public accounting granted registration pursuant to the requirements in Article 2 of Title 12, C.R.S.
- O. Firm. A firm shall mean a business entity composed of a Certified Public Accountant(s) engaged in the practice of public accounting as a domestic or foreign partnership, single owner professional corporation or single member limited liability company, corporation, professional corporation, registered limited liability partnership, limited liability limited partnership, limited partnership or limited liability company.
- P. Holding Out. Any action initiated by a certificate holder or holder of a practice privilege that informs others of the holder's status as a CPA in Colorado. This includes, but is not limited to, any oral or written representation, such as business cards or letterhead, the display of a certificate evidencing a CPA designation, the listing as a CPA in Colorado directories or on the Internet.
- Q. Employment. Includes the formal relationship between an employer and employee and any

other relationship created between public accounting professionals through a contract or a written or oral agreement to perform public accounting services.

- R. Substantial Equivalency. A determination by the Board of Accountancy or its designee that the education, examination and experience requirements contained in the statutes and administrative rules of another jurisdiction are comparable to, or exceed the education, examination and experience requirements contained in the Uniform Accountancy Act or that an individual CPA's education, examination and experience qualifications are comparable to or exceed the education, examination and experience requirements contained in the Uniform Accountancy Act. In ascertaining substantial equivalency as used in these rules, the Board shall take into account the qualifications without regard to the sequence in which experience, education, or examination requirements were attained.
- S. Other Professional Standards. For the purpose of these Rules, other Professional Standards shall include, but are not limited to:
1. Statements on Standards for Consulting Services
 2. Statements on Standards for Tax Services
 3. Statements on Standards for Accounting and Review Services
 4. Statements on Standards for Attestation Engagements
 5. Statements on Standards for Valuation Services

The statements at 1.1.S (1-5) were issued by the AICPA and in effect as of January 1, 2009. This Rule does not include later amendments to or editions of the professional standards. Copies of professional standards may be inspected in the offices of the Board during regular business hours. The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, CO 80202 to examine the professional standards.

- T. AICPA's Code of Professional Conduct. The Code of Professional Conduct issued by the AICPA and in effect as of January 1, 2009. This Rule does not include later amendments to or editions of the AICPA's Code of Professional Conduct. Copies of the AICPA's Code of Professional Conduct may be inspected in the offices of the Board during regular business hours. The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, CO 80202 to examine the AICPA's Code of Professional Conduct.
- U. Auditing Standards. Generally accepted auditing standards issued by the AICPA, the Public Company Accounting Oversight Board (PCAOB) and government auditing standards issued by the United States Government Accountability Office (GAO) and in effect as of January 1, 2009. This Rule does not include later amendments to or editions of the auditing standards. Copies of the auditing standards may be inspected in the offices of the Board during regular business hours. The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, CO 80202 to examine the auditing standards.
- V. Accounting Principles. Generally accepted accounting principles determined by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB), and the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in effect as of January 1, 2009. This Rule does not include later amendments to or editions of the accounting standards setting forth the accounting principles. Copies of the standards setting forth the accounting principles may be inspected in the offices of the Board during regular business hours. The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, CO 80202 to examine the standards setting forth the accounting principles.

Copies of the above referenced publications may also be viewed at the following locations:

- > Denver Public Library (Central Branch)
- > Any State publication depository
- > Colorado Society of CPAs.

1.2 MEETINGS.

- A. Meetings of the Board shall be held at intervals necessary to transact the business of the Board

- or upon the call of the president or request by a majority of the members.
- B. The election of a president, as required by 12-2-104(1)(a), C.R.S., shall be held annually in August.
 - C. The president shall preside at all meetings and shall perform such other duties as the Board may direct. In the absence or inability of the president to act, a majority of the members attending a duly called meeting shall appoint a member to preside.
 - D. The Board shall follow Robert's Rules of Order, to the extent that the rules do not conflict with state or federal statutes or rules, in the conduct of its business.
 - E. Except as otherwise provided by law, all regular meetings of the Board are open to the public, who may, at the discretion of the Board, participate in any one of the following ways: (1) by requesting in writing to the Board that they be included on the agenda; (2) by written invitation of the Board; (3) by signing a register to be available in the board meeting room on the day of the meeting and indicating thereon those areas of the agenda on which they wish to speak; (4) by verbal invitation of the Board to members of the audience at a board meeting. The Board may establish a time limit for presentations by the public, and the presiding officer may exclude from the meeting room any person who is disruptive, abusive or disorderly.

1.3 CONFERRING WITH BOARD MEMBERS.

In the event any person contacts a Board member regarding any matter applicable to the Colorado Accountancy Law or the rules, any expression of opinion by that Board member will be exclusively his opinion and will in no way commit the Board.

1.4 COMMITTEES.

The Board may appoint such committees as it deems necessary to effectively administer, implement and carry out the provisions of these rules. The committees shall be guided and assisted administratively by the Board's staff. The action of the committee shall be deemed to be the action of the Board only when that action is adopted and ratified by the Board.

1.5 NOTICES.

A. Certificate Holders

A certificate holder shall notify the Board, in writing, within 30 days of any change of status (active or inactive), change of address (business or residence) or employment.

- B. The partner, shareholder, or member designated by the firm pursuant to 12-2-117(2)(a)(III) shall notify the board, in writing, within 30 days of any change in the identities and numbers of partners, shareholders, members, managers or officers, or the location or addition/ deletion of places of business or termination of a firm.

C. Renewal Notices

The Board mails applications for renewal of certificates and registrations according to a schedule established by the Division of Registrations pursuant to section 24-34-102(8), C.R.S. to certificate holders and registrants at the last address furnished to the Board. Failure to receive such a notice does not relieve the certificate holder or the registrant of the obligation to pay the renewal fee and submit appropriate documentation in support of the renewal application such as continuing education requirements. Pursuant to section 24-34-102(8), C.R.S., there is a 60 day grace period from the expiration date of the certificate within which to pay the renewal fee, plus penalty. Additional information about current renewal cycles and expiration dates is available on the board website.

1.6 GENERAL INFORMATION CONCERNING CPA CERTIFICATES.

- A. Every certificate, while it remains in the possession of the holder, shall be preserved by him, but such certificate shall nevertheless always remain the property of the Board. In the event that the certificate is suspended or revoked, it shall be delivered by the holder to the

Board.

- B. In the case of the loss of a certificate originally issued by the Board, a duplicate will be issued upon written request and payment of a fee.
- C. Requests for reissuance of a certificate because of a change of name shall be made on a form prescribed by the Board, accompanied by the appropriate fee, the original certificate and a copy of the document legalizing the name change.

CHAPTER 2
EDUCATIONAL REQUIREMENTS FOR EXAMINATION AND CERTIFICATION
C.R.S., 12-2-108, 12-2-109, 12-2-111, 12-2-112 and 12-2-113

2.1 GENERAL INFORMATION.

- A. Conversion of quarter hours to semester hours. For purposes of these rules, 3 quarter hours shall be equivalent to 2 semester hours.
- B. Transcripts. The applicant's claim to college or university credits must be confirmed by an official transcript of credit forwarded by the institution to the Board's office.

2.2 ACCREDITED COLLEGE OR UNIVERSITY.

- A. A college or university will be considered to be an "accredited college or university" under 12-2-109(1)(a)(I) and (c), C.R.S., if the college or university is accredited by one of the six accrediting agencies or its successor agency as follows: Middle States Association of Colleges and Schools, North Central Association of Colleges and Schools, New England Association of Schools and Colleges, Northwest Association of Schools and Colleges, Southern Association of Colleges and Schools and Western Association of Schools and Colleges.
- B. If the college or university does not meet the requirements set forth in 2.2(A) the board may investigate and may accredit such college or university upon request of that institution and/or applicant. For this purpose, the board shall apply the criteria for accreditation used by any one of the six regional accrediting agencies or its successor agency as noted in 2.2(A). In the matter of colleges or universities located outside the United States or its territories, the Board may also request that the candidate submit his transcript to a generally accepted evaluation service that is a member of the National Association of Credential Evaluation Services (NACES) for assistance in either evaluating accreditation of the college or university or in determining whether the coursework would be the equivalent of a concentration in accounting.
- C. If the college or university is not accredited by one of the six regional accrediting agencies as noted in 2.2(A), the board may accept the degree if the candidate can provide satisfactory documentation that the degree would be accepted into a graduate program at a college or university accredited by one of the six regional accrediting agencies as noted in 2.2(A); or can provide satisfactory documentation that the coursework from the non-accredited college or university would be accepted for credit at an accredited college or university accredited by one of the six regional accrediting agencies as noted in rule 2.2(A).

2.3 APPROVED ACCOUNTING PROGRAM.

- A. If the college or university is accredited as provided in rule 2.2, it will be deemed to have fulfilled the requirements of 12- 2-112, C.R.S.
- B. The Board may consider study in any school if the applicant can provide evidence that such study would be acceptable for credit by a college or university whose accounting program has been approved by the Board as described in rule 2.2(C).

2.4:2 CONCENTRATION OR THE EQUIVALENT IN ACCOUNTING UNDER 12-2-109(1)(a)(I).

These education requirements apply to persons who received their baccalaureate degree and otherwise

completed the following education requirements before July 1, 1993 and who apply for certification after July 31, 1991.

- A. At least 27 semester hours in accounting subjects, at least 3 semester hours of which must be in auditing. No more than 3 semester hours may be in accounting related computer and information systems. To receive credit for accounting related computer and information systems coursework, the transcripts must indicate an accounting program code, or the applicant must furnish other information to demonstrate an accounting related course.
- B. At least 21 semester hours in related courses in other areas of business administration such as business law, management, marketing, statistics, business communications, economics and finance. No more than 6 semester hours shall be in any one area.
- C. The courses required by paragraphs (A) and (B) above shall be taken at or acceptable for transfer by schools with approved accounting programs as set forth in rule 2.3.
- D. The three semester hours of auditing required in paragraph (A) must address the generally accepted auditing standards (GAAS) as defined in rule 1.1Q.

2.4:3 CONCENTRATION IN ACCOUNTING OR THE EQUIVALENT UNDER 12-2-109(1)(a)(I).

These education requirements apply to persons who receive their baccalaureate degree and otherwise complete the following education requirements after June 30, 1993.

- A. At least 27 semester hours in accounting subjects of which 21 semester hours must be in specialized accounting courses such as cost accounting, tax, intermediate accounting, accounting theory and advanced accounting. At least 3 of the 27 semester hours must be in auditing. To receive credit for accounting related coursework, the transcripts must indicate an accounting program code, or the applicant must furnish other information to demonstrate an accounting related course.
- B. At least 21 semester hours in related courses in other areas of business administration such as business law, management, marketing, statistics, business communications, economics and finance. No more than 6 semester hours shall be in any one area.
- C. The courses required by paragraphs (A) and (B) above shall be taken at or acceptable for transfer by schools with approved accounting programs as set forth in rule 2.3.
- D. The three semester hours of auditing required in paragraph (A) must address the generally accepted auditing standards (GAAS) as defined in rule 1.1Q.

2.5 EDUCATION IN LIEU OF EXPERIENCE UNDER 12-2-109(1)(c).

These education requirements apply to persons who choose the education in lieu of experience option to qualify for certification.

- A. A baccalaureate degree plus an additional 30 semester hours of non-duplicative study or a master's degree or other higher degree;
- B. At least 45 semester hours in accounting subjects (combination of undergraduate and graduate coursework) in such areas as elementary accounting, accounting theory, accounting practice, managerial accounting, cost accounting, tax accounting, not-for-profit accounting, auditing, governmental accounting and accounting related computer and information systems. Of the 45 semester hours, at least 6 semester hours must be in auditing. In order to receive credit for accounting related computer and information systems coursework, the transcripts must indicate an accounting program code, or the applicant may furnish other information to indicate an accounting related course.
- C. At least 36 semester hours of courses in business administration which may be in areas such as upper division economics; the legal and social environment of business; business law; marketing; finance; management; organizational, group and individual behavior; quantitative applications in business; and upper division written communication. No more than 9 semester hours shall be in any one area.

- D. The courses required by paragraphs (B) and (C) above shall be taken at or acceptable for transfer by one or more schools with approved accounting programs as defined in rule 2.3.
- E. The three semester hours of auditing required in paragraph (A) must address the generally accepted auditing standards (GAAS) as defined in rule 1.1Q. The remaining three hours may be in advanced auditing or a subset of basic auditing such as fraud auditing.

2.6 RECIPROCITY -- EQUIVALENT EDUCATION QUALIFICATION.

Pursuant to 12-2-113, C.R.S., the Board may accept 5 years experience as a certified public accountant in public practice in a jurisdiction other than Colorado as the equivalent of the education requirement of rule 2.4, if the applicant meets all other requirements including the experience requirements as defined in Chapter 4 of these rules.

CHAPTER 3 EXAMINATIONS AND RE-EXAMINATIONS C.R.S., 12-2-106, 12-2-108, 12-2-109, and 12-2-111

3.1 EXAMINATION APPLICATIONS.

Application for the examination shall be made on forms prescribed by the Board. An application is deemed complete at the time all supporting documents and fees are received.

3.3 OFFICIAL TRANSCRIPTS.

Candidates who will complete their education within 60 days after the date of examination as provided in 12-2-111(4), C.R.S., must submit a partial transcript at the time the application is submitted and shall have a final and complete official transcript forwarded from the institution to the Board or its designee as soon as possible after completion. Grades for the examination will not be released until the final transcript has been received. If the final transcripts are not received within six months of the date of the examination, the applicant's grades will be void.

3.4 WITHDRAWALS

Where a candidate for examination or re-examination fails to request in writing the withdrawal of his application 30 days or more prior to the date fixed by the Board for the examination as provided in 12-2-106(2), C.R.S., examination fees will be forfeited unless the failure was due to the sickness of the candidate or a member of his immediate family or the death of an immediate family member (substantiated by a physician's statement or death certificate) or if the candidate enters military service and is unable to sit for the examination or for other good cause deemed adequate by the Board.

3.5 RULES OF CONDUCT FOR EXAMINEES.

Examinees shall conduct themselves in a manner which does not violate the standards of test administration which will be provided prior to the examination.

3.7 CONDITIONING REQUIREMENTS

A. Granting of Credit

1. Candidates are allowed to sit for each section of the Uniform CPA Examination individually, and in any order.
2. Candidates retain credit for any section(s) passed for eighteen months, without having to attain a minimum score on failed sections and without regard to whether they have taken other sections. Candidates are not allowed to retake a failed section(s) within the same examination window.¹
3. Candidates must pass all four sections of the Uniform CPA Examination within a "rolling" eighteen-month period, which begins on the date that the first section(s) passed is taken.
4. In the event all four sections of the Uniform CPA Examination are not passed within the

rolling eighteen-month period, credit for any section(s) passed outside the eighteen-month period will expire and that section(s) must be retaken.

1 An examination window refers to a three-month period in which candidates have an opportunity to take the CPA Examination (comprised of two months in which the examination is available to be taken and one month in which the examination will not be offered while routine maintenance is performed and the item bank is refreshed). Thus, candidates will be able to test two out of the three months within an examination window.

B. Transitioning

1. Candidates who have earned conditional credits on the paper-and-pencil Uniform CPA Examination, as of January 1, 2004, will be given credits for the corresponding sections of the computer-based CPA examination as follows:

Paper-and-Pencil Examination	Computer-Based Examination
Auditing	Auditing & Attestation
Financial Accounting & Reporting	Financial Accounting &
Accounting & Reporting (ARE)	Regulation
Business Law & Professional	Business Environment &

2. Candidates who have attained conditional status as of January 1, 2004 are allowed a transition period of six examination opportunities, limited to a three-year period commencing January 1, 2004, to complete any remaining sections of the CPA Examination. This provision is intended to assure that those candidates who have attained conditional status prior to the implementation of computer-based testing (CBT) are not disadvantaged by the change.
3. If a candidate, who has attained conditional status as of January 1, 2004, does not pass all remaining sections during the transition period, those credits earned under the paper-and-pencil examination will expire and the candidate will lose credit for the sections earned under the paper-and-pencil examination. However, any section passed during the transition period is subject to the granting of credit provisions of the computer-based examination as indicated in rule 3.7 (a). The exception is that a previously conditioned candidate will not lose credit for a section of the computer-based CPA Examination that is passed during the transition period, even though more than eighteen months may have elapsed from the date the section is passed, until the end of the transition period.

3.11 FOREIGN COUNTRY RECIPROCITY APPLICATION REQUIREMENTS -- Pursuant to Section 12-2-113(1)(c), C.R.S.

A. In order to obtain a Colorado certificate, except as provided in paragraph B below, applicants from all foreign countries, including those who hold a certificate, license or degree in a foreign country which constitutes a recognized qualification for the practice of public accounting in a foreign country, are required to: 1) pass the U.S. Uniform CPA Examination; 2) meet the education and the ethics examination requirements of Section 12-2-109(1)(b), C.R.S. (see Rules 1.1 H and 2.4:2 and 3); and 3) meet the experience requirements of Sections 12-2-108 and 109, C.R.S. (see Chapter 4 Rules). The Board may waive one or more of these stated requirements upon the presentation by the applicant of acceptable evidence that they possess comparable qualifications to that of a certified public accountant in this state.

B. In order to obtain a Colorado certificate, applicants who hold a certificate recognized by the International Qualifications Appraisal Board (IQAB), of The National Association of State Boards of Accountancy (NASBA) will not be required to pass the U.S. Uniform CPA Examination. These applicants will be required to meet the ethics requirements of Section 12-2-109(1)(B), (see Rule 1.1 H) and will have to

include evidence showing compliance with the experience requirements of Sections 12-2-108 and 109, (see Chapter 4 Rules) as part of their application.

3.12 NOTICE TO SCHEDULE.

- A. After a candidate has been determined eligible to take any section of the Uniform CPA Examination and the candidate has paid the required examination fee, the board's designee will send and the candidate will receive a notice to schedule for the candidate to take the section or sections of the Uniform CPA Examination at a board approved testing center.
- B. The candidate will have six months from the date of the notice to schedule to take the examination section for which the candidate is eligible.
- C. A candidate who fails to take the approved examination section within six months must reapply to the board for establishment of new eligibility

CHAPTER 4 EXPERIENCE REQUIREMENT C.R.S. 12-2-108 and 109

The following requirements apply to persons who choose the experience option to qualify for certification pursuant to sections 12-2-108(1)(c) and 12-2-109(1)(a)(II), C.R.S. Rule 4.1 A sets forth the standards for qualifying experience doing public accounting work as an employee of a Certified Public Accountant or a firm of Certified Public Accountants. Rules 4.1 B, C, D and E set forth standards for qualifying equivalent experience. Rule 4.2 sets forth general requirements applicable to Rules 4.1 A, B, C and D.

4.1 Experience

A. Public Accounting Experience

1. No person may be issued a certificate of Certified Public Accountant, except as set forth in Rule 2.5, unless that person has obtained one year of work experience, including a minimum of 1,800 qualifying work hours, as an employee of a Certified Public Accountant. The qualifying work must be under the direct supervision of a Certified Public Accountant with an active certificate during the period of supervision and shall be obtained as follows:

- a. Public accounting work for purposes of this section shall mean the performance of any combination of services involving the use of accounting, auditing or attestation skills, one or more types of consulting services, the preparation of tax returns, or the furnishing of advice on tax matters.
- b. Only public accounting work performed for the clients of the Certified Public Accountant or for clients of the firm of Certified Public Accountants is qualifying experience. The work must involve the application of appropriate technical and behavioral standards such as the standards contained in the Code of Professional Conduct, Generally Accepted Auditing Standards (GAAS), Statements on Standards for Attestation Engagements (SSAE), Statements on Standards for Accounting and Review Services (SSARS), the Statement on Standards for Tax Services (AICPA), or the Statements on Standards for Management Consulting Services (AICPA).

B. Internal Audit Experience

1. The requirement also may be met by one year of work experience, including a minimum of 1,800 qualifying work hours, where the applicant's work includes no other function but internal audit in an internal audit group and where the job function of the internal auditor meets the definitions set forth in the Codification of Statements on Auditing Standards issued by the AICPA. The qualifying work must be under the direct supervision of a Certified Public Accountant with an active certificate during the period of supervision and under the direct supervision of the auditee's external, independent auditors. Qualification under this paragraph requires a minimum of 80 hours of auditing work on at least one annual audit. The

qualifying work must meet the following standards:

- a. The work must regularly involve the exercise of independent, objective and impartial judgment and the application of appropriate technical and behavioral standards;
- b. The work must involve an independent appraisal function and the internal auditor must be independent of the activities audited; and,
- c. The work must be of a type and at a level equivalent to that performed in the public accounting practice of a Certified Public Accountant or a firm of Certified Public Accountants.

C. Other Equivalent Experience

1. The requirement also may be met by one year of work experience, including a minimum of 1,800 qualifying work hours, providing qualifying accounting services for an entity other than the employer of the applicant or any related entities (except as described in Rule 4.1 B) and must be under the direct supervision of a Certified Public Accountant with an active certificate during the period of supervision who is employed by the same employer as the applicant. The qualifying work must meet the following standards:

- a. The work must regularly involve the exercise of objective and impartial judgment and the application of appropriate technical and behavioral standards;
- b. The work must be of an independent aspect, in fact and appearance, comparable to that required in connection with commercial, financial audit relationships. Independent aspect, under this subsection, is defined by AICPA professional audit literature; and, specifically involves experience gained while working for an entity, in which there is no financial interest owned, or management control exercisable by the applicant's employer.
- c. The work must be of a type and at a level equivalent to that performed in the public accounting practice of a Certified Public Accountant or a firm of Certified Public Accountants as described in any of the following:
 - i. Tax experience which is comparable to that set forth in the Statement on Standards for Tax Services (AICPA).
 - ii. Audit, or other attestation experience, must meet the Generally Accepted Auditing Standards (GAAS) General and Field Standards or the Statements on Standards for - Attestation Engagements (SSAE). The applicant must participate in the preparation of a written opinion which meets the Generally Accepted Auditing Standards (GAAS) Reporting Standards or equivalent standards.
 - iii. Consulting services must meet the standards set forth in the Statements on Standards for Management Consulting Services (AICPA).
 - iv. Accounting and review services must meet standards set forth in the Statements on Standards for Accounting and Review Services (SSARS).

D. Experience Gained Under Alternative Supervision

1. The requirement also may be met by one year of work experience, including a minimum of 1,800 qualifying work hours, supervised by a Certified Public Accountant with an active certificate, who has been engaged to supervise the applicant's work product for the work performed for the applicant's clients. The qualifying work must meet the following standards:

- a. The work must be limited to services involving the use of accounting skills, one or more types of consulting services, the preparation of tax returns, or the furnishing of advice on tax matters;

- b. Only accounting work performed for an applicant's clients is qualifying experience. The work must regularly involve the exercise of independent, objective and impartial judgment and the application of appropriate technical and behavioral standards such as the standards contained in the Code of Professional Conduct, the Statements on Standards for Accounting and Review Services (SSARS), the Statements on Standards for Attestation Engagements (SSAE), the Statement on Standards for Tax Services (AICPA), and the Statements on Standards for Management Consulting Services (AICPA); and,
- c. The supervision must be at a level comparable to that in certified public accounting.

2. A written agreement, relative to the provisions in Rule 4.1(D)(1)(a), (b) and (c) above, between the applicant and the supervisor, must be prepared prior to the commencement of the work to be supervised. This agreement must define the type of work to be supervised; the process by which the supervised work will be selected and the assurance that the supervised work will involve the same degree of planning, review and supervision as that present in the public accounting practice of a Certified Public Accountant or firm of Certified Public Accountants. Prior to the commencement of the supervision, the applicant may present a copy of the written agreement to the Board for pre-approval of the terms contained therein. A copy of the executed agreement must accompany the application for certification.

E. Five in Ten Year Reciprocity

1. The Board may issue a Certified Public Accountant certificate to a holder of a certificate, license or permit issued by another U.S. licensing jurisdiction after the applicant:
 - a. Has passed the examination required for issuance of the applicant's certification with grades which would have been passing grades at the time in this state;
 - b. Has five years of experience practicing public accounting as a Certified Public Accountant in another U.S. licensing jurisdiction or in a country recognized by the International Qualifications Appraisal Board (IQAB) of NASBA within the ten years immediately preceding the application; and,
 - c. Has completed a minimum of 100 hours of continuing professional education, with a minimum of 40 hours completed in the two years immediately preceding application to this state.

4.2 GENERAL EXPERIENCE REQUIREMENTS

A. The following requirements are applicable to Rule 4.1 A, B, C and D above:

1. The experience must be under the direct supervision, including direction and review of a Certified Public Accountant who holds an active certificate during the time of supervision and who is employed by the same employer as the applicant except in the case of the external independent auditors as set forth in Rule 4.1 B, or the alternative supervision as set forth in Rule 4.1 D.

Contract work, shared employee and leased employee relationships may qualify under the definition of accounting work as an employee of, and under the direct supervision of, a Certified Public Accountant.

- a. Exceptions to the requirement for the direct supervisor to hold an active certificate may be made for reasons of individual hardship or other good cause.

2. The experience must be verified by the Certified Public Accountant directly supervising the applicant on forms prescribed by the Board.

3. The "one year of work experience" is defined as no less than 2,080 employment hours (not applicable to Rule 4.1 D) and may be any combination of full-time or part-time employment for one or more employers. 2,080 employment hours must include a minimum of 1,800 qualifying work hours. The "qualifying work hours" are defined as hours spent performing functions associated with the standards set forth under Rules 4.1 A, B, C and D. Holidays, vacations, family/employee sick leave and hours spent attending in-firm training and/or other continuing education courses shall not be included as qualifying work

hours but may be a part of the 2,080 employment hours. Only the 1,800 qualifying work hours requirement is applicable to Rule 4.1

4. The one year work experience must be gained over a minimum 12-month period of employment. The one year of experience in the contractual relationship set forth in Rule 4.1 D must be gained over a minimum period of 12 months. The experience can be gained over more than a 12-month period of employment or contractual relationship, provided that the other requirements of this section are also met.

5. The qualifying experience must be obtained no more than five years prior to or subsequent to passing the examination. Exceptions may be made for reasons of individual hardship or other good cause.

B. The following definitions apply to all sections of Chapter 4:

1. Direct Supervision requires the supervisory Certified Public Accountant to be involved in the planning, direction and review of the qualifying work.
2. Objective and Impartial Judgment requires one to apply one's own judgment instead of subordinating it to that of another.

CHAPTER 5
CERTIFICATE STATUS AND MAINTENANCE
Sections 12-2-108, 12-2-115.5, 12-2-119(5), 12-2-122.5, 12-2-123,
and 24-34-102(8)(d), C.R.S.

5.1 INTRODUCTION

Chapter 5 sets forth the requirements, including continuing professional education (CPE), for a certificate holder to renew, reactivate or reinstate a certificate, and to obtain a retired or inactive status certificate. For CPE standards, see Chapter 6. It is the responsibility of the certificate holder to complete the renewal process every two years and the responsibility of the firm registrant to complete the renewal process every three years.

5.2 DEFINITIONS

- A. CPE. Continuing professional education that satisfies the requirements of Chapter 6 of the Board's Rules.
- B. Active. The status of a certificate holder's certificate or a firm's registration allowing the CPA or firm registrant to use the CPA designation and to perform any service for which an active CPA certificate or firm registration is required pursuant to Section 12-2-120(6), C.R.S.
- C. Inactive. The status of a certificate holder's certificate following the certificate holder's request that the Board transfer their status to inactive. An inactive certificate holder is not required to comply with continuing education requirements for the period during which the certificate is inactive. A certificate holder with a certificate in inactive status is prohibited by law from holding out as a CPA and from performing any service for which an active certificate is required pursuant to Section 12-2-120(6), C.R.S.
- D. Retired. The status granted to an eligible certificate holder who elects not to receive any earned compensation, including director's fees, for professional services, as defined in Rule 1.1.L, or for performance of any service involving the use of accounting or auditing skills. Retired status must be indicated by the word "retired" if the certificate holder uses the CPA designation in any manner. Retired certificate holders are prohibited from performing any service for which an active certificate is required pursuant to Section 12-2-120(6), C.R.S.
- E. Expired. The status of a certificate holder's certificate or firm's registration following a failure to renew the certificate or registration by the expiration date. A certificate holder with a certificate in expired status is prohibited by law from holding out as a CPA and from performing any service for which an active certificate is required pursuant to Section 12-2-120(6), C.R.S. A firm registrant is prohibited by law from holding out as a firm composed of CPAs and from performing any service for which an active registration is required pursuant to Section 12-2-120(6), C.R.S.

- F. Good Standing. The certificate holder is not suspended, on probation, or subject to any practice restriction or limitation.
- G. Renewal. The process of applying to retain a certificate in an active, inactive or retired status every two years in accordance with the schedule established by the Division of Registrations pursuant to Sections 12-2-108 (3) and 24- 34-102, C.R.S. or of applying to retain a firm registration every three years pursuant to Section 12-2-117(1), C.R.S.
- H. Reactivation. The process by which an inactive or retired status certificate is returned to active status.
- I. Reinstatement. The process by which a certificate that has expired is returned to active or inactive status or by which a firm registration that has expired is returned to active status.
- J. Reporting Period. A two-year period from January 1 of the even-numbered year through December 31 of the odd-numbered year immediately preceding the expiration date of a certificate during which the certificate holder shall complete CPE.
- K. Joint Standards. The Joint AICPA/NASBA Statement on Standards for Continuing Professional Education (CPE) Programs, incorporated by reference in Rule 6.2.
- L. Fields of Study. The NASBA CPE Fields of Study, incorporated by reference in Rule 6.3.

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CR&R. CPE concerning Sections 12-2-101-132 and 13-90-107(1)(f), C.R.S. and Colorado State Board of Accountancy Rules and Regulations. In order to qualify as a CR&R course, the course must review and encourage compliance with Colorado statutes, rules and regulations regarding CPAs.

- M. Ethics. CPE concerning professional ethical behavior in Regulatory Ethics or Behavioral Ethics, as defined by the Fields of Study.

5.3 APPLICATION FOR BOARD ACTION

A certificate holder or a person wishing the Board to take any action regarding the status of a certificate shall apply on a form and in a manner prescribed by the Board.

5.4 ACTIVE CERTIFICATE

An active certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in an active status.

A. Conditions of Renewal

As a condition for the renewal of an active status certificate, each certificate holder shall complete a total of 80 hours of CPE during the reporting period. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics, of which up to two hours may be in CR&R.

B. Conditions of Renewal after Initial Certification

A certificate holder who obtains initial Colorado certification during a reporting period shall complete ten hours of CPE during each full quarter remaining in the reporting period, of which no more than 20 percent shall be in Personal Development, as defined by the Fields of Study. Within six months of the date the Board grants an initial certificate, the certificate holder shall complete two hours of CR&R.

5.5 INACTIVE CERTIFICATE

An inactive certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in an inactive status.

A. Conditions of Transferring a Certificate to Inactive Status

To transfer a certificate from active to inactive status, a certificate holder shall submit written notice by first class mail to the Board of the certificate holder's request to transfer to inactive status.

B. Conditions of Renewal of an Inactive Certificate

Inactive certificate holders are not required to comply with CPE requirements for the period during which the certificate is inactive. A certificate holder with a certificate in inactive status is prohibited by law from holding out as a CPA and from performing any service for which an active certificate is required pursuant to

5.6 RETIRED STATUS CERTIFICATE

A retired certificate expires and shall be renewed every even-numbered year, according to the schedule established by the Division of Registrations pursuant to Section 24-34-102, C.R.S., to maintain the certificate in a retired status. Retired certificate holders are not required to comply with CPE requirements for the period during which the certificate is in retired status.

A. Conditions for a Retired Status Certificate

1. To be eligible for a retired status certificate, a certificate holder shall satisfy the following conditions:
 - a. The certificate holder shall hold a Colorado certified public accountant certificate, which may be in active, inactive or expired status, at the time of the application for a retired status certificate.
 - b. The certificate holder shall be at least 55 years old and have held a certificate in good standing from any state, as state is defined in Section 12-2-102(5), C.R.S., for a total of 15 years.
 - c. The certificate holder no longer receives any earned compensation, including director's fees, for professional services, as defined in Rule 1.1.L, or for performance of any types of services involving the use of accounting or auditing skills for the certificate holder's employer.
2. Retired certificate holders are prohibited from performing any service for which an active certificate is required pursuant to Section 12-2-120(6), C.R.S.

B. Restriction upon Earned Compensation

1. A certificate holder who holds a retired status certificate shall not receive any earned compensation, including director's fees, for professional services, as defined in Rule 1.1.L, or for performance of any types of services involving the use of accounting or auditing skills for the certificate holder's employer as long as the certificate remains in retired status.
2. A certificate holder who holds a retired status certificate may perform volunteer accounting-related services for which the retired certificate holder receives no direct or indirect compensation, provided the retired certificate holder does not sign any documents related to such services as a certified public accountant.

C. Permitted Titles

A certificate holder granted retired status may be styled and known as a "retired certified public accountant" or "retired C.P.A."

D. Exceptions

The Board in its discretion may grant exceptions to the requirements set forth in paragraphs A.1 and B of Rule 5.6 for reasons of individual hardship or other good cause.

5.7 REACTIVATION

A. Conditions of Reactivation: Inactive or Retired Less Than Two Years

When a certificate has been in inactive or retired status less than two years, it may be reactivated provided the certificate holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics. Two hours of CPE must be in CR&R.

B. Conditions of Reactivation: Inactive or Retired Two Years or More

When a certificate has been in inactive or retired status for two years or more, it may be reactivated provided the certificate holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No CPE in Personal Development, as defined by the Fields of Study, shall be counted toward the 80 hours. The CPE must include the completion of the AICPA ethics course as defined in Rule 1.1.K and two hours of CR&R.

5.8 REINSTATEMENT

A. Conditions of Reinstatement: Expired Less Than Two Years

When a certificate has been expired for less than two years, it may be reinstated provided the certificate holder completes a total of 80 hours of CPE within the two years immediately preceding the application

receipt date. No more than 16 hours may be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics. Two hours of CPE must be in CR&R.

B. Conditions of Reinstatement: Expired Two Years or More and Less Than Six Years

When a certificate has been expired for two years or more and less than six years, it may be reinstated provided the certificate holder completes a total of 80 hours of CPE within the two years immediately preceding the application receipt date. No CPE in Personal Development, as defined by the Fields of Study, shall be counted toward the 80 hours. The CPE must include the completion of the AICPA ethics course as defined in Rule 1.1.K and two hours of CR&R. When the certificate holder provides satisfactory evidence of completing the conditions of this paragraph, it will be deemed that continued professional competency has been demonstrated.

C. Conditions of Reinstatement: Expired Six Years or More

When a certificate has been expired for six years or more, it may be reinstated provided the certificate holder satisfies the conditions set forth in either paragraph 1 or paragraph 3 of this Rule 5.8.C.

1. Within two years immediately preceding the application receipt date, the certificate holder shall satisfy the following conditions:

- a. The certificate holder shall complete a total of 80 hours of CPE. No CPE in Personal Development, as defined by the Fields of Study, may be counted toward the 80 hours. The CPE must include the completion of the AICPA ethics course as defined in Rule 1.1.K and two hours of CR&R, and
- b. The certificate holder shall also obtain experience or education according to one of the following conditions:
 - (1) one year of experience as provided in Chapter 4 of the Board's Rules, but excluding the independence requirement;
 - (2) a post-baccalaureate degree with a concentration in accounting obtained from an accredited college or university, as defined by Section 12-2-102(1), C.R.S.; or
 - (3) one year of teaching experience as a professor of accounting employed full time in an accredited college or university, as defined by Section 12-2-102(1), C.R.S.

2. When the applicant provides satisfactory evidence of completing the requirements of Rule 5.8.C.1, it will be deemed that continued professional competency has been demonstrated.

3. The certificate holder may also obtain a certificate by satisfying the same conditions as an applicant applying for initial certification, including passing the Uniform CPA Examination, meeting the education and experience requirements as established by statute and Board rules, and completing the AICPA ethics course as defined in Rule 1.1.K.

5.9 CPE REQUIRED AFTER REINSTATEMENT OR REACTIVATION

When a certificate is reinstated or reactivated to active status, the CPE required for the next renewal is 10 hours for each full quarter remaining in the reporting period in which the certificate was reinstated or reactivated. No more than 20 percent of the CPE shall be in Personal Development, as defined by the Fields of Study. Four hours of CPE must be in Ethics, of which up to two hours may be in CR&R.

5.10 CHANGE OF ADDRESS OR NAME BY A CERTIFICATE HOLDER OR FIRM REGISTRANT

A certificate holder or firm registrant shall notify the Board, in a manner prescribed by the Board, of a change of address or name within 30 days of the change. Failure to notify the Board of a change of address or name shall not excuse the certificate holder or firm registrant from renewing a certificate or firm registration by the date established for renewal or from responding to a Board communication sent pursuant to Section 12-2-123.5, C.R.S.

5.11 EFFECTIVE DATE

The revisions to Chapter 5 adopted by the Board on October 28, 2009, shall take effect on January 1, 2010.

CHAPTER 6
CONTINUING PROFESSIONAL EDUCATION
Sections 12-2-119 and 12-2-123, C.R.S.

6.1 INTRODUCTION

All CPAs should participate in learning activities that maintain and/or improve their professional competence. A CPA's field of employment does not limit the need for Continuing Professional Education ("CPE"). CPAs performing professional services need to have a broad range of knowledge, skills, and abilities. Thus, the concept of professional competence should be interpreted broadly. Accordingly, acceptable CPE encompasses programs contributing to the development and maintenance of both technical and non-technical professional skills. It is the responsibility of the certificate holder to be aware of and comply with all CPE requirements set forth in Chapters 5 and 6 of these rules.

6.2 CPE STANDARDS

Certificate holders, program sponsors, and program developers must follow the Joint AICPA/NASBA Standards for Continuing Professional Education (CPE) Programs, which were in effect July 14, 2006 ("Joint Standards"). This rule does not include later amendments to or editions of the Joint Standards.

6.3 SUBJECT MATTER

The following are acceptable subjects for CPE courses as defined by the NASBA CPE Fields of Study, which were in effect July 14, 2006 ("Fields of Study"):

Accounting	Behavioral Ethics
Accounting (Governmental)	Communications
Auditing	Personnel/HR
Auditing (Governmental)	Personal Development
Administrative Practice	Computer Science
Social Environment of Business	Economics
Regulatory Ethics	Mathematics
Business Law	Production
Business Management and Organization	Specialized Knowledge and Applications
Finance	Statistics
Management Advisory Services	Taxes
Marketing	

This rule does not include later amendments to or editions of the Fields of Study.

6.4 AVAILABILITY OF MATERIALS INCORPORATED BY REFERENCE

The public should contact the Board's Program Director at 1560 Broadway, Suite 1350, Denver, Colorado 80202, (303) 894- 7800, or_accountancy@dora.state.co.us to examine the Joint Standards and Fields of Study, incorporated by reference in Rules 6.2 and 6.3 respectively. Copies of these materials may also be examined at any state publications depository library.

6.5 CPE RECORDS RETENTION

As set forth in the Joint Standards, the certificate holder is responsible for accurate reporting and documentation of all CPE hours completed. Certificate holders must retain appropriate documentation for a minimum of five years from the end of the year in which the CPE was completed. Appropriate documentation includes:

1. name and contact information of CPE program sponsor,
2. title and description of content,
3. date(s) of program,

4. location of program,
5. number of CPE credits completed, and
6. certificate of completion or other verification supplied by the CPE program sponsor (for additional examples of acceptable evidence of completion, see the Joint Standards Section 200.11).

6.6 HARDSHIP EXCEPTIONS

A certificate holder seeking an exception to the CPE requirements must submit a written request and evidence of good cause to the Board. The Board shall decide on a case-by-case basis whether good cause has been demonstrated to make an exception to CPE requirements in accordance with Section 12-2-119(8), C.R.S.

6.7 CPE COMMITTEE

- A. The Board may appoint a committee that may audit the CPE records of certificate holders on a sample or complete basis to verify compliance with the requirements set forth in Chapters 5 and 6.
- B. Upon notice from the Board, a certificate holder shall provide all documents and information requested regarding CPE compliance within 60 days of the Board's notice.

6.8 FAILURE TO COMPLY WITH CPE REQUIREMENTS

- A. If the Board finds that a certificate holder has failed to comply with the CPE requirements set forth in Chapters 5 and 6, the certificate holder shall have 90 days from the mailing of the notice of such finding to:
 1. provide further evidence that the hours completed meet the CPE requirements established by these rules;
 2. provide documentation of having completed additional CPE hours during the reporting period; or
 3. cure the deficiency by completing the required number of CPE hours. Such hours shall be counted only toward curing the deficiency and shall not be counted toward the CPE requirements for a subsequent reporting period.
- B. If the Board finds that a certificate holder has failed to comply with the CPE requirements set forth in Chapters 5 and 6, the Board may include the certificate holder in the CPE audit of a subsequent reporting period.

6.9 EFFECTIVE DATE

The revisions to Chapter 6 adopted by the Board on October 28, 2009, shall take effect on January 1, 2010.

CODE OF PROFESSIONAL CONDUCT PREAMBLE

Authority

The Rules of Professional Conduct are promulgated under the authority granted by 12-2-104(1)(c), C.R.S. to establish and maintain high standards of competence and integrity in the public accounting profession. The Rules of Professional Conduct apply with equal force to all certificate holders under this article, except where the wording of a specific rule indicates otherwise.

Principles

Integrity, Objectivity, Independence, Due Care and Competence are the Principles upon which the Board's Rules of Professional Conduct are based. They express the profession's recognition of its responsibilities to the public, to clients, and to colleagues and guide certificate holders in the performance of their professional responsibilities. They express the basic tenets of ethical and professional conduct and call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage. The Principles are not rules, rather they represent the policies or guidelines used by the Board in promulgating the Rules of

Professional Conduct.

Responsibilities

As professionals, Certified Public Accountants perform an essential role in society. Consistent with that role, Colorado certificate holders have responsibilities to all those who use their professional services. Certificate holders also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all certificate holders are required to maintain and enhance the tenets of the profession.

The Public Interest

A distinguishing mark of the profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well being of the community of people and institutions the profession serves.

In discharging their professional responsibilities, certificate holders may encounter conflicting pressures from among each of those groups. In resolving those conflicts, certificate holders should act with integrity, guided by the precept that when certificate holders fulfill their responsibility to the public, clients' and employers' interests are best served.

Those who rely on Certified Public Accountants expect them to discharge their responsibilities with integrity, objectivity, due care, and a genuine interest in serving the public. Certificate holders are expected to offer and provide services and enter into fee arrangements in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct.

All who accept a Colorado certificate of Certified Public Accountant commit themselves to honor the public trust. In return for the faith that the public reposes in them, certificate holders should continually seek to demonstrate their dedication to professional excellence.

Applicability

Title 12, Article 2 of the Colorado Revised Statutes (Accountant Law) requires that certificate holders adhere to the Rules of Professional Conduct. Certificate holders must be prepared to justify departures from those Rules.

The Rules of Professional Conduct that follow apply to all professional services performed except (a) where the wording of the rule indicates otherwise and (b) that a certificate holder who is practicing outside the United States will not be subject to discipline for departing from any of the rules stated herein as long as the certificate holder's conduct is in accord with the rules of the organized accounting profession in the country in which the certificate holder is practicing. However, where a certificate holder's name is associated with financial statements under circumstances that would entitle the reader to assume that United States practices were followed, the certificate holder must comply with the requirements of Rules 7.2, 7.5 and 7.6.

CHAPTER 7 RULES OF PROFESSIONAL CONDUCT

7.1 DEFINITIONS.

A. Integrity

An element of character fundamental to professional recognition which requires a certificate holder to (1) be honest and candid within the constraints of client confidentiality, (2) observe both the form and the spirit of technical and ethical standards and (3) keep service and the public trust above personal gain and advantage. It is the quality from which the public trust derives and the benchmark against which a certificate holder must ultimately test all decisions. It can accommodate the inadvertent error and the honest difference of opinion. It cannot accommodate deceit or subordination of principle.

- B. Objectivity** A principle that requires a certificate holder to (1) be impartial, intellectually honest, and free of conflicts of interest, (2) protect the integrity of their work regardless of service or capacity and (3) avoid any subordination of their judgment.
- C. Independence** The absence of relationships that impair or appear to impair a certificate holder's objectivity in performing an engagement in which the certificate holder or the certificate holder's firm will issue an attestation report or opinion other than a report in which a lack of independence is disclosed.
- D. Due Care** The discharge of responsibilities to clients, employers and the public with diligence and competence which requires a certificate holder to (1) render services carefully and in a timely manner, (2) be thorough, (3) observe applicable technical and ethical standards, and (4) plan and supervise adequately any professional activity for which the certificate holder is responsible.
- E. Competence** The knowledge and ability to assure that the quality of the services rendered meets professional standards. It requires a certificate holder to (1) be responsible for assessing and evaluating whether the certificate holder's education, experience and judgment are adequate for the responsibility assumed, and (2) maintain a commitment to learning and professional improvement that continues throughout a certificate holder's professional life.
- F. Contingent** A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specific finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. Solely for purposes of this section, fees are not regarded as being contingent if fixed by courts or governmental entities acting in a judicial or regulatory capacity, or in tax matters if determined based upon the results of

7.2 INDEPENDENCE.

When a certificate holder or registered firm performs professional services requiring independence, they shall conform to the independence standards established by the AICPA and in effect as of September 1, 2002, whether or not the individual CPA or firm are members of the AICPA. When the certificate holder or registered firm performs services regulated by the US Securities and Exchange Commission (SEC) or the General Accounting Office (GAO), they also shall conform to the independence standards established by those bodies for those services and in effect as of August 15, 2003. This rule does not include later amendments to or editions of the AICPA, SEC or GAO standards.

7.3 INTEGRITY AND OBJECTIVITY.

- A. Certificate holders shall perform all professional services with integrity and objectivity. They shall not knowingly misrepresent facts or subordinate their judgment to others.
 - 1. Misrepresentations of fact or subordination of judgment include, but are not limited to:
 - a. Knowingly making, permitting, or directing another to make false and misleading entries in an entity's financial statements or records.
 - b. Misrepresenting or failing to disclose material facts to an external or internal auditor, or accountant.
 - c. Taking a position in a tax return or advising a tax client to take a position that does not have a realistic possibility of being sustained on its merits in an administrative or judicial review unless the position is not frivolous and is adequately disclosed all as provided in the professional standards entitled, "Statement on Standards for Tax Services."
- B. Subordination of judgment or principle. When disagreements and disputes arise in the course of employment of a certificate holder related to the recording of transactions or preparing financial statements,

a certificate holder:

1. Shall determine whether (a) the entry or the failure to record a transaction in the records, or (b) the financial statement presentation or the nature or omission of disclosure in the financial statements, as proposed, represents the use of an acceptable alternative and does not materially misrepresent the facts.
 - a. If, after appropriate research or consultation, the certificate holder concludes that the matter has authoritative support or does not result in a material misrepresentation, the certificate holder need do nothing further.
 - b. If the certificate holder concludes that the matter results in a material misrepresentation or misstatement, the certificate holder shall make any concerns known to the appropriate higher level(s) of management within the organization (for example, the supervisor's immediate superior, senior management, the audit committee or equivalent, the board of directors, the company's owners). Certificate holders shall document their understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.
 - i. If, after discussing their concerns with the appropriate person(s) in the organization, the certificate holder concludes that appropriate action was not taken, they must assess their continuing relationship with the employer.
 - ii. Certificate holders also must assess any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's (former employer's) external accountant.

7.4 RECEIPT OF COMMISSIONS AND CONTINGENT FEES.

- A. Permitted Commission Arrangements. Certificate holders who hold themselves out to the public as certified public accountants and who are not otherwise prohibited by this rule from receiving a commission shall disclose to the recipient of the services or the buyer of the product, in writing, the nature, amount and source of any commission prior to performing the services or making the referral or sale that generates the commission.
- B. Prohibition on Commissions and Contingent Fees. When certificate holders or their firms perform an audit or review of a financial statement or a compilation of a financial statement when certificate holders do not disclose a lack of independence; or an examination of prospective financial information, they shall not:
 1. For a commission, recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, or
 2. Perform for a contingent fee any professional services for, or receive such a fee from, a client. This prohibition on commissions and contingent fees shall apply during the period in which certificate holders are engaged to perform any of the services listed above and the period covered by any financial statements involved in such listed services.
- C. Contingent Fees in Tax Matters. Certificate holders may not prepare an original or amended tax return or claim for refund for a contingent fee. For purposes of this rule, fees are not regarded as contingent if fixed by courts or other public authorities, or if based on the results of judicial proceedings or the findings of governmental agencies.

A fee is considered to be based on the findings of a governmental agency if, at the time of a fee arrangement, certificate holders can demonstrate a reasonable expectation of substantive consideration by an agency with respect to the certificate holder's client. In the case of the preparation of an original tax return, such expectation is not deemed reasonable.

7.5 PROFESSIONAL COMPETENCE AND COMPLIANCE WITH APPLICABLE TECHNICAL STANDARDS.

A certificate holder shall comply with the following:

- A. General Standards

1. Professional Competence -- Undertake only those professional services that the certificate holder or the certificate holder's firm can reasonably expect to complete with professional competence.
2. Due Care -- Exercise due care in the performance of professional services.
3. Planning and Supervision -- Adequately plan and supervise the performance of professional services.
4. Sufficient Relevant Data -- Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

B. Auditing Standards

A certificate holder shall not permit the certificate holder's name to be associated with financial statements in such a manner as to imply that the certificate holder is acting as an independent public accountant unless the certificate holder has complied with the applicable auditing standards. Applicable auditing standards shall include those defined as generally accepted auditing standards by the AICPA, such as Statements on Auditing Standards and Government Auditing Standards as promulgated by the United States General Accounting Office or standards of any successor organizations, including interpretations. Departures from these standards must be justified by those who do not follow them.

C. Accounting Principles

If financial statements or other financial data contain any material departure from an accounting principle(s) promulgated by the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB), their predecessor entities and other entities having similar generally recognized authority or jurisdiction to establish such principle(s), a certificate holder shall not:

1. Express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or
2. State that the certificate holder is not aware of any material modifications that should be made to such statements or data for them to be in conformity with generally accepted accounting principles. If, however, the statements or data contain such a departure and the certificate holder can demonstrate that unusual circumstances would have caused the financial statements to be otherwise misleading, the certificate holder can comply with this rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

D. Prospective Financial Information

Certificate holders shall not permit their name to be used in conjunction with any prospective financial information in a manner that may lead to the belief that the certificate holders vouch for the achievability of the prospective financial information. Certificate holders should be guided by standards in this area promulgated by the AICPA or by other entities having similar generally recognized authority or jurisdiction over the service provided. Departures from applicable standards must be justified by those who do not follow them.

E. Other Attestation Standards

Certificate holders shall not permit their name to be associated with assertions or conclusions about the reliability of a written representation of another party unless they have complied with the Statements on Standards for Attestation Engagements (SSAE) promulgated by the AICPA or by other entities having similar generally recognized authority or jurisdiction over the service provided.

7.6 OTHER PROFESSIONAL STANDARDS.

In performing tax services, accounting, review and compilation services, attestation engagements, personal financial planning, business valuation, litigation support and expert witness services and consulting services, a certificate holder shall conform with Rule 7.5.A, Other Professional Standards applicable to such services as promulgated by the AICPA and any other rules established or incorporated by reference by the Board. For purposes of this rule, Other Professional Standards are considered to be defined by

Statements on Standards for Consulting Services, Statements on Standards for Tax Services, Statements on Standards for Accounting and Review Services, Statements on Responsibilities in Personal Financial Planning Practice and Statements on Standards for Attestation Engagements, all of which have been issued by the AICPA and incorporated by reference at Board Rule 1.1.O

7.7 CONFIDENTIAL CLIENT AND EMPLOYER INFORMATION.

- A. In General. Certificate holders shall not disclose or use for their own benefit any confidential information pertaining to a client or the employer of the certificate holder, which information is obtained in the course of employment or performing professional services. This rule shall not in any way be construed to relieve certificate holders of their obligations under Rule 7.5. Information obtained as part of a proposed acquisition or in evaluating the acquisition or merger of an accounting practice shall not be disclosed or used to the certificate holders' benefit.
- B. Exceptions. Rule 7.7(A) shall not apply:
 - 1. If information is disclosed with the specific consent of the client or the employer of the certificate holder.
 - 2. If information is disclosed pursuant to a subpoena or summons issued with respect to the certificate holder or an entity with which the certificate holder is associated, where the subpoena or summons has been determined to be legally enforceable; or if information is disclosed to permit a certificate holder's compliance with applicable laws and government regulations.
 - 3. If information is disclosed as part of the public record in a civil law suit (legal action) between the certificate holder and the client or employer.
 - 4. If information is disclosed in the course of a peer review of a certificate holder's professional services. Professional practice reviewers shall not disclose any confidential client information which comes to their attention from certificate holders in carrying out their responsibilities, except that they may furnish such information in response to a formal request from an investigative or disciplinary body of the kind referred to in Rule 7.7(B)(5).
 - 5. If information is disclosed as part of the process of initiating a complaint with, or responding to an inquiry made by the Board and the disclosure to the board is in accordance with the Colorado revised statutes regarding accountant-client privilege or the client waives the privilege; or if information is disclosed as part of the process of initiating a complaint with or responding to an investigative or disciplinary body established by law or formally recognized by the Board. Members of the Board shall not disclose any confidential client information that comes to their attention from certificate holders in disciplinary proceedings or otherwise in carrying out their responsibilities.
 - 6. If information is disclosed as part of an acquisition or merger or proposed acquisition or merger of an accounting practice.

7.8 ISSUING COPIES OF REPORTS, TAX RETURNS OR OTHER DOCUMENTS.

- A. Upon request and reasonable notice, a certificate holder shall furnish to a client or former client a copy of any report, tax return or other document issued by the certificate holder to or for such client during the previous five years. Unpaid fees do not constitute justification for withholding copies of these items.
- B. If a client, including a former client, requests copies of reports and tax returns previously issued by the certificate holder under this Rule 7.8, a fee may be collected for the copying. Such fee should be set to reflect the reasonable cost of providing the copies.

7.9 CLIENT RECORDS.

- A. Client records are:

1. Accounting or other records belonging to, obtained from, or on behalf of, the client, that the certificate holder removed from the client's premises or received for the client's account.
 2. Certificate holder's workpapers or records that contain data which should properly be reflected in the client's books and records, including, but not limited to:
 - a. Adjusting, closing, combining, or consolidating journal entries.
 - b. Information normally contained in the books of original entry and general ledgers or subsidiary ledgers, such as accounts receivable, job cost and equipment ledgers or similar types of depreciation records.
 3. Computer files that include client information normally contained in the books of original entry and general ledgers or subsidiary ledgers.
- B. Obligation to retain, return and provide client records:
1. A certificate holder must retain copies of documentation of work performed, including issued reports and tax returns, for a period of five years. If original client records or copies of client records are retained by the certificate holder, they must also be retained for a period of five years.
 2. A certificate holder must return client records upon request and reasonable notice from the client or former client. If the records cannot be returned to the client promptly, the certificate holder shall immediately notify the client of the date the records will be returned.
 3. A certificate holder shall not retain a client's records in an attempt to force payment of any kind.
 4. Upon completion of an engagement wherein the client's records have been returned to the client, duplicate records requested by the client shall be furnished to the client upon reasonable notice for a reasonable fee. Such fee should be set to reflect the reasonable cost of providing the copies.
 5. Upon request, a certificate holder must provide to the client a copy of any computer files that constitute client records, without password protection and with the name of the software used to manage the accounting information. The certificate holder is under no obligation to provide the client or former client with a copy of any computer code, application program or instructions for the software used to assemble the data.
- C. Workpapers belonging to the Certificate Holder.
1. A certificate holder is not required to furnish to the client or former client any workpapers developed by the certificate holder incident to the performance of the engagement, that do not result in changes to the client's records or are not in themselves part of the records ordinarily maintained by a client.
 2. Certificate holder's workpapers are considered to be solely the property of the certificate holder and are not the property of the client. For example, the certificate holder may make extensive analyses of inventory or other accounts as part of the selective audit procedures. These analyses are considered to be a part of the certificate holder's workpapers, even if client personnel at the request of the certificate holder have prepared the analyses. Only to the extent these analyses result in changes to the client's records would the certificate holder be required to furnish the details from the workpapers in support of the journal entries recording the changes, unless the journal entries themselves contain all necessary details.
 3. If an engagement is terminated prior to the completion of work, and the certificate holder's work product has neither been issued nor paid for by the client, the work product is solely and exclusively the property of the certificate holder.
- D. Peer Review – Retention of records.

For the purpose of clarifying Section 12-2-123(1)(q), C.R.S., professional standards issued by the AICPA shall be used to determine the period of time for record retention as it relates to the peer review process.

7.10 ACTING THROUGH OTHERS.

Certificate holders shall not knowingly permit others to carry out on their behalf, either with or without compensation, acts, which, if carried out by the certificate holders, would place them in violation of the Rules of Professional Conduct. Similarly, in supervising subordinates, a certificate holder shall not accept or condone conduct in violation of the Rules of Professional Conduct.

7.11 SOLICITATION.

A certificate holder shall not solicit an engagement to perform professional services by any direct personal communication if:

- A. The communication contains false, misleading, or deceptive statements that (1) create false or unjustified expectations; (2) imply an ability to influence any court, tribunal, regulatory agency, or similar body or official; (3) contain a representation of unrealistic future fees; or (4) contain a representation likely to be misunderstood by a reasonable person.
- B. The communication creates or uses coercion, duress, compulsion, intimidation, threats, overreaching, vexatious or harassing conduct, or untruthful statements about the professional work product or competence of other certificate holders.

7.12 PRACTICE NAMES.

- A. A public accounting firm registered by the Board in compliance with Section 12-2-117, C.R.S. may use the name(s) of current, retired or deceased owners, either alone or with other descriptive terms, in its name.
- B. A certificate holder or public accounting firm registered by the Board in compliance with Section 12-2-117, C.R.S. may use an assumed or trade name if it is in compliance with Colorado Law, is not misleading, and clearly indicates that the individual or entity is engaged in providing accounting services as defined in Rule 1.1 F.
- C. The designation "and company" or "and associates" will not be considered misleading when used in a practice name only when a certificate holder or public accounting firm, registered by the Board in compliance with Section 12-2-117, C.R.S., has employees, professional associates, or contractual relationships with other professionals.

7.13 OFFERING SERVICES VIA THE INTERNET

Any CPA or CPA firm licensed or registered by the Colorado board and offering to or performing professional services via the Internet shall include the following information on the Internet:

- 1. Name of individual CPA or CPA firm licensed by the Colorado State Board of Accountancy;
- 2. Principal place of business
- 3. Business telephone number; and
- 4. Colorado certificate number and/or Colorado firm registration number.

7.14 DISCLOSURE BY CERTIFICATE HOLDERS AND FIRMS

A. A certificate holder, as defined in Rule 1.1.J, or a firm, as defined in Rule 1.1.L, shall notify the Board within forty-five (45) days of any of the following events relating to the certificate holder or the firm:

- 1. Imposition of discipline, including, but not limited to, censure, reprimand, sanction, probation, civil penalty, fine, consent decree or order, suspension, revocation, or modification of a license, certificate, permit or practice rights by:
 - a. The U.S. Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), or the Internal Revenue Service (IRS) by the Director of the Office of Professional Responsibility.
 - b. Another state board of accountancy for any cause other than failure to pay a professional license fee by the due date or failure to meet the continuing professional education requirements of another state board of accountancy.
 - c. Any other federal or state agency regarding the certificate holder's conduct while rendering professional services.

- d. Any federal or state taxing, insurance or securities regulatory authority.
 - e. Any foreign authority or credentialing body that regulates the practice of accountancy.
- 2. Notice of disciplinary charges filed by the SEC, PCAOB, IRS, or another state board of accountancy, or a federal or state agency concerning the practice of accountancy, or a foreign authority or credentialing body that regulates the practice of accountancy.
- 3. Initiation of a civil proceeding or an alternative dispute resolution proceeding by a governmental entity relating to an audit report for a public or non-public company.
- 4. Judgment, settlement or resolution of a civil proceeding or an alternative dispute resolution proceeding by a governmental entity relating to an audit report for a public or non-public company.
- 5. Initiation of an administrative proceeding or disciplinary proceeding by any federal state, or non-U.S. agency, board, or administrative or licensing authority or any professional association or entity regarding an audit report for a public or non-public company.
- 6. Decision, judgment, settlement or resolution of an administrative proceeding or disciplinary proceeding by any federal, a state or non-U.S. agency, board, or administrative or licensing authority or any professional association or entity regarding an audit report for a public or non-public company.
- 7. Any judgment, award or settlement of a civil action or arbitration proceeding of \$150,000 or more in which the certificate holder or the firm was a party if the action or proceeding included any allegation of gross negligence, violation of specific standards of practice, fraud, or misappropriation of funds in the practice of public accounting or during employment.
- 8.. A criminal charge against or a conviction of the certificate holder, deferred prosecution, or a plea of guilty or nolo contendere to a crime by the certificate holder if the crime is:
 - a. a felony under the laws of the United States or of any state of the United States or any foreign jurisdiction; or
 - b. a misdemeanor when an essential element of the misdemeanor is dishonesty or fraud.
- B. The certificate holder designated by a partnership, professional corporation, or limited liability company as responsible for notifying the Board, pursuant to section 12-2-117(2)(a)(iii), C.R.S., shall be the certificate holder responsible for notifying the Board of the reportable event regarding the firm.
 - 1. A firm shall notify the Board only when such reportable event directly involves the firm's practice of public accounting in the State of Colorado.
- C. The notice to the Board shall include the following information regarding the reportable event:
 - 1. If the reportable event is a disciplinary proceeding, alternative dispute resolution proceeding, administrative proceeding or civil action by any governmental entity or professional association or entity, the name of the agency, its jurisdiction, the case name, the docket or proceeding or case number by which it is designated, a description of the matter or a copy of the document initiating the action or proceeding and, and, if the matter has been adjudicated or settled, a copy of the consent decree, order or decision.
 - 2. If the reportable event is a criminal conviction, charge or plea, the court, its jurisdiction, the case name, the case number, and a description of the matter or a copy of the indictment or charges, and, if the certificate holder has been convicted, acquitted, or entered a plea of guilty or nolo contendere, a copy of the judgment of conviction.
 - 3. If the reportable event concerns a civil action or arbitration proceeding, the court or arbiter, the jurisdiction, the case name, the case number, a description of the matter or a copy of the complaint, and a copy of the verdict, the court or arbitration decision, or, if settled, the court's order of dismissal.
- D. During the pendency of a reportable event, the reporting certificate holder or firm may submit a written explanatory statement to be included in the Board's records.
- E. Documents provided to the Board shall be closed to public inspection if federal statute or regulation or state statute so provides.

- F. This rule shall apply to any reportable event that occurs on or after the rule's effective date.

CHAPTER 8
DECLARATORY ORDERS
C.R.S., 24-4-105(II)

8.1 Any person, as defined in C.R.S., 12-2-102(3), may petition the Board for a declaratory order to terminate controversies or to remove uncertainties as to the applicability to the petitioner of any statutory provisions or of any rule or order of the Board.

8.2 The Board will determine, in its discretion and without notice to petitioner, whether to rule upon any such petition. If the Board determines that it will not rule upon such a petition, the Board shall promptly notify the petitioner of its action and state the reasons for such action.

8.3 In determining whether to rule upon a petition filed pursuant to this rule, the Board will consider the following matters, among others:

- A. Whether a ruling on the petition will terminate a controversy or remove uncertainties as to the applicability to petitioner of any statutory provision or rule or order of the Board.
- B. Whether the petition involves any subject, question or issue which is the subject of a formal or informal matter or investigation currently pending before the Board or a court involving one or more of the petitioners.
- C. Whether the petition involves any subject, question or issue which is the subject of a formal or informal matter or investigation currently pending before the Board or a court but not involving any petitioner.
- D. Whether the petition seeks a ruling on a moot or hypothetical question or will result in an advisory ruling or opinion.
- E. Whether the petitioner has some other adequate legal remedy, other than an action for declaratory relief pursuant to rule 57, C.R.C.P., which will terminate the controversy or remove any uncertainty as to the applicability to the petitioner of the statute, rule or order in question.

8.4 Any petition filed pursuant to this rule shall set forth the following:

- A. The name and address of the petitioner and whether the petitioner holds a certificate issued pursuant to C.R.S., 12-2-101, et seq.
- B. The statute, rule or order to which the petition relates.
- C. A concise statement of all of the facts necessary to show the nature of the controversy or uncertainty and the manner in which the statute, rule or order in question applies or potentially applies to the petitioner.

8.5 If the Board determines that it will rule on the petition, the following procedures shall apply:

- A. The Board may rule upon the petition based solely upon the facts presented in the petition. In such a case:
 - 1. Any ruling of the Board will apply only to the extent of the facts presented in the petition and any amendment to the petition.
 - 2. The Board may order the petitioner to file a written brief, memorandum or statement of position.
 - 3. The Board may set the petition, upon due notice to the petitioner, for a non-evidentiary hearing.
 - 4. The Board may dispose of the petition on the sole basis of the matters set forth in the petition.
 - 5. The Board may request the petitioner to submit additional facts, in writing. In such event, such additional facts will be considered as an amendment to the petition.
 - 6. The Board may take administrative notice of facts pursuant to the Administrative Procedure Act (C.R.S., 24-4- 105(8)) and may utilize its experience, technical competence and specialized knowledge in the disposition of the petition.
 - 7. If the Board rules upon the petition without a hearing, it shall promptly notify the petitioner of its decision.

B. The Board may, in its discretion, set the petition for hearing, upon due notice to petitioner, for the purpose of obtaining additional facts or information or to determine the truth of any facts set forth in the petition or to hear oral argument on the petition. The notice to the petitioner setting such hearing shall set forth, to the extent known, the factual or other matters into which the Board intends to inquire. For the purpose of such a hearing, to the extent necessary, the petitioner shall have the burden of proving all of the facts stated in the petition, all of the facts necessary to show the nature of the controversy or uncertainty and the manner in which the statute, rule or order in question applies or potentially applies to the petitioner and any other facts the petitioner desires the Board to consider.

8.6 The parties to any proceeding pursuant to this rule shall be the Board and the petitioner. Any other person may seek leave of the Board to intervene in such a proceeding, and leave to intervene will be granted at the sole discretion of the Board. A petition to intervene shall set forth the same matters as required by section 8.4 of this rule. Any reference to a "petitioner" in this rule also refers to any person who has been granted leave to intervene by the Board.

8.7 Any declaratory order or other order disposing of a petition pursuant to this rule shall constitute agency action subject to judicial review pursuant to C.R.S., 24-4-108.

CHAPTER 9

SUBSTANTIAL EQUIVALENCY

C.R.S., 12-2-121(2)

9.1 SCOPE OF THE PRACTICE PRIVILEGE

A. An individual who qualifies for the practice privilege under section 9.2 of these rules shall be deemed to have all the privileges of a licensee of this state without the need to obtain a Colorado license. Such an individual and the firm that employs the individual are subject to the requirements in section 12-2-121(2)(c), C.R.S., and may use the title "certified public accountant" or the abbreviation "C.P.A.", pursuant to section 12-2-121(2)(b)(II), C.R.S.

9.2 REQUIREMENTS

A. Practice privilege requirements

1. An individual whose principal place of business is not in this state shall be presumed to have qualifications substantially equivalent to this state's requirements and shall have all the privileges of licensees of this state without the need to obtain a certificate under section 12-2-108, C.R.S., if:

- A. The individual holds a valid license as a certified public accountant from any state which the NASBA national qualification appraisal service has verified to be in substantial equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act; or
- B. The individual holds a valid license as a certified public accountant from any state or jurisdiction of the United States, which the NASBA national qualification appraisal service has not verified to be in substantial equivalence with the CA licensure requirements of the AICPA/NASBA Uniform Accountancy Act but such individual obtains from the NASBA national qualification appraisal service verification that such individual's CPA qualifications are substantially equivalent to the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act. Any individual who passed the uniform CPA examination and holds a valid license issued by any other state prior to January 1, 2012, shall be exempt from the education requirement in the uniform accountancy act.

2. To section 12-2-106(5), C.R.S. and notwithstanding any other provision of law, an individual who offers or renders professional services, whether in person, or by mail, telephone, or electronic means, under this section shall be granted practice privileges in this state and no notice or other submission shall be provided by any such individual.

3. For purposes of this section, "valid license" means a current certificate or license allowing an individual to engage in the practice of public accounting in that state and to hold himself out as a "CPA" in the state that

issued the certificate or license.

B. Firm registration not required

Pursuant to section 12-2-121, C.R.S., any foreign partnership, corporation, limited partnership, limited liability limited partnership, or limited liability company engaging in the practice of accounting in this state through a holder of a practice privilege shall not be required to register with the board, notwithstanding section 12-2-117, C.R.S.

C. Contact information required

Any person authorized to use the title "certified public accountant" or the abbreviation "C.P.A." shall provide contact information to clients pursuant to section 12-2-115(2), C.R.S.

9.3 DISCIPLINE FOR HOLDERS OF THE PRACTICE PRIVILEGE

A. Individual Privilege Holders

The Board may revoke, suspend, fine, censure, issue a Letter of Admonition, place on probation, impose other conditions or limitations, or deny the practice privilege to any individual for the following grounds:

1. Fraud or deceit in qualifying for the practice privilege;
2. Fraud or negligence in the practice of public accounting in Colorado or any other state,
3. Fraud in the filing of or failure to file his or her own income tax returns;
4. Violation of any provision of Article 2 of Title 12, C.R.S applicable to the practice privilege, of any final rule or regulation promulgated by the Board applicable to the practice privilege, or of any valid agency order;
5. Violation of a rule of professional conduct promulgated by the Board under the authority granted by Article 2 of Title 12, C.R.S.;
6. Conviction of a felony under the laws of any state or of the United States. A plea of guilty or a plea of nolo contendere accepted by the court shall be considered as a conviction;
7. Conviction of any crime, an element of which is dishonesty or fraud, under the laws of any state or of the United States. A plea of guilty or a plea of nolo contendere accepted by the court shall be considered as a conviction;
8. Cancellation, revocation, suspension, limitation of right to practice, any other form of discipline, or refusal to renew authority to practice as a certified public accountant or a public accountant in any state;
9. Suspension, revocation, or any limitation of the right to practice before any state or federal agency for improper conduct or willful violation of the rules or regulations of such state or federal agency;
10. Providing public accounting services to the public without qualifying for the practice privilege under Section 12-2-121(2), C.R.S.
11. Assuming or using the title or designation 'certified public accountant' or the abbreviation 'C.P.A.', or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that such person is a certified public accountant unless such person holds an active certificate as a Colorado certified public accountant or qualifies for the practice privilege;
12. An act or omission which fails to meet generally accepted accounting principles or generally accepted auditing standards in the profession;
13. Habitual intemperance with respect to or excessive use of any habit-forming drug, any controlled substance as defined in Section 12-22-303 (7), C.R.S., or any alcoholic beverage, any of which renders him or her unfit to practice public accounting;
14. Failure to retain records of the work performed for each client in Colorado for a period of five years.

B. If an individual practice privilege holder's certificate, license or permit to practice as a CPA is limited or subjected to any form of discipline or denial by a foreign jurisdiction while he or she

is exercising the practice privilege in Colorado, or if the CPA firm's certificate, license, permit or registration is limited or subjected to any form of discipline or denial by another jurisdiction, the practice privilege holder shall notify the Board of the limitation or discipline by the other state jurisdiction within seven (7) days of the action taken by the other jurisdiction.

GLOSSARY

ACCEPTABLE LEVEL

A level where a reasonable and informed third party would likely conclude, weighing all specific facts and circumstances, that compliance with the rules is not compromised.

ATTEST ENGAGEMENT

An engagement in which a practitioner will issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion of another party. This engagement requires independence.

ATTEST ENGAGEMENT TEAM

Participants in the engagement, including partners who perform concurring or second reviews and all employees and contractors retained by the firm, but excluding specialists.

AUDIT COMMITTEE

Selected members of a client's board of directors whose responsibilities include helping auditors to remain independent of management.

CLIENT

Any person or entity, other than the member's employee, that engages a member or a member's firm to perform professional services.

CLOSE RELATIVES

Parents, siblings, or nondependent children.

CONFIDENTIAL CLIENT INFORMATION

Client information that may not be disclosed without the specific consent of the client except under authoritative professional or legal investigation

CORPORATE GOVERNANCE

The system of checks and balances designed to ensure that corporate managers are just as vigilant on behalf of long-term shareholder value as they would be if it was their own money at risk. It is also the process whereby shareholders—the actual owners of any publicly traded firm—assert their ownership rights, through an elected board of directors and the CEO and other officers and managers they appoint and oversee.

COVERED MEMBER

1. An individual on the attest engagement team or who is able to influence the engagement.

2. A partner or manager who provides at least 10 hours of nonattest services to a client.
3. A partner in the office where the lead engagement partner primarily practices in relation to the engagement, (4) the firm (including its benefit plans), and (5) an entity that can be controlled by the foregoing parties.

DEONTOLOGY (KANTIAN ETHICS)

The concept of duty and the rightness of acts. It emphasizes maxims, duties, rules, and principles that are so important that they should be followed whatever the consequences.

DIRECT FINANCIAL INTEREST

The ownership of stock or other equity shares by members or their immediate family.

ETHICAL DILEMMA

A situation in which a decision must be made about the appropriate behavior.

ETHICS

Standards of professional conduct and business practices adhered to by professionals in order to enhance their profession and maximize idealism, justice and fairness when dealing with the public, clients and other members of their profession.

FINANCIAL INSTITUTION

An entity that normally makes loans to the public.

FIRM

A form of organization permitted by law or regulation that is consistent with the resolutions of the AICPA's Council and practices public accounting. The term "firm" includes the individual partners thereof except for the purposes of Rule 101, *Independence*.

IMMEDIATE FAMILY

A covered member's spouse, equivalent of a spouse, or dependents.

INDEPENDENCE OF MIND

The state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

INDEPENDENCE IN APPEARANCE

The avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest

engagement team had been compromised.

INDEPENDENCE IN FACT

The auditor's ability to take an unbiased viewpoint in the performance of professional services.

INDEPENDENCE STANDARDS BOARD (ISB)

An autonomous private-sector body established under an agreement between the SEC and the AICPA to provide a conceptual framework for independence issues related to audits of public companies. The ISB dissolved around 2001 (ISB existed 1997-2001).

INDIRECT FINANCIAL INTEREST

A close, but not direct, ownership relationship between the auditor and the client; an example is the ownership of stock by a member's grandparent.

INDIVIDUAL IN A POSITION TO INFLUENCE THE ATTEST ENGAGEMENT

One who (1) evaluates the attest engagement partner or recommends his/her compensation; (2) directly supervises or manages that partner, including all levels above such supervisor or manager; (3) consults with the engagement team about technical or industry-related issues; or (4) participates in or oversees quality control for the engagement, including all senior levels.

INSTITUTE

The American Institute of Certified Public Accountants (AICPA).

INTERNAL CONTROL REPORT

A report on the company's internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act. For example, the report must include a statement of management's responsibility for internal control.

INTERPRETATIONS

The means used to explain the application of the spirit of a Principle or Rule to specific situations in which the Principle or Rule may not be sufficiently clear or explicit.

JOINT CLOSELY HELD INVESTMENT

An investment in any entity or property by the member and (1) the client, (2) the client's officers or directors, or (3) an owner who can exercise significant influence if the investment permits such parties to control the entity or property.

KEY POSITION

One in which an individual is primarily responsible for significant accounting functions supporting material financial statement components or for the preparation of the statements. A

key position is also one able to influence financial statement content, for example, director, CEO, CFO, general counsel, chief accountant, director of internal audit, or treasurer.

LAWS

Bodies of rules governing members of a community, state, organization, professional, etc ... and enforced by authority or compelling legislation.

MEMBER

A member, associate member, or international associate of the AICPA.

MORAL

An accepted rule or standard of human behavior.

NORMAL LENDING PROCEDURES, TERMS, AND REQUIREMENTS

Those reasonably comparable with those for similar loans to others from the financial institution in the period when a commitment was made for a loan to a covered member.

OBJECTIVITY

A state of mind, a quality that lends itself to a member's services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest.

PERIOD OF THE PROFESSIONAL ENGAGEMENT

The period that starts at the earlier of when the member signs an initial engagement letter to perform attest services or begins to perform. It continues for the entire professional relationship; it does not end with the issuance of a report and start again with the next year's engagement. This period ends with the later of notification by the member or client or by issuance of a report.

PRINCIPLES

Broad guidelines for behavior and are not intended to be specific. Principles cover the concepts of responsibilities to the public, integrity, objectivity and independence, professional due care, as well as to whom the principles apply.

PRIVILEGED INFORMATION

Client information that the professional cannot be legally required to provide; information that an accountant obtains from a client is confidential but not privileged.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

(www.pcaobus.com) established in 2002 as a result of the Sarbanes-Oxley Act, a private sector, non-profit corporation set up to oversee the audits of public companies and ensure that

accountancy firms should no longer derive non-audit revenue streams, such as consultancy, from their audit clients.

RULES

Enforceable guidelines that govern all services performed by the CPA in the practice of public accounting.

SAFEGUARDS

Actions or other measures to eliminate threats or reduce them to acceptable levels.

SARBANES-OXLEY (SOX) ACT

Wide-ranging U.S. corporate reform legislation, coauthored by the Democrat in charge of the Senate Banking Committee, Paul Sarbanes, and Republican Congressman Michael Oxley. The Act, which became law in July 2002, lays down stringent procedures regarding the accuracy and reliability of corporate disclosures, places restrictions on auditors providing non-audit services and obliges top executives to verify their accounts personally. Section 409 is especially tough and requires that companies must disclose information on material changes in the financial condition or operations of the issuer on a rapid and current basis.

SPECIAL PURPOSE ENTITIES (SPES)

A type of corporate entity or limited partnership created for a specific transaction or business, especially one unrelated to a company's main business. Their losses and risks generally aren't recorded on a company's balance sheet.

THREAT

The risk that relationships or circumstances could compromise a member's compliance with the rules.

UTILITARIANISM (TELEOLOGICAL ETHICS)

The promotion that the best long-term interest of everyone concerned should be the moral standard. One should take those actions that lead to the greatest balance of good versus bad consequences.