VIRGINIA CPA ETHICS
2016 REQUIRED COURSE

ETHICS: GET INVESTED

Virginia Society of Certified Public Accountants
Introduction

➢ This is the only course content available authorized by the VBOA to fulfill your Virginia-specific Ethics requirement. While you’re waiting to get started, you can view the appendices online at vscpa.com/EthicsResources.
Learning Objectives

➢ Clarify the impact of VBOA statute changes
➢ Summarize CPE reciprocity and mobility
➢ Paraphrase the VBOA policy changes and their effects
➢ Apply the steps of the AICPA Code of Professional Conduct conceptual framework
➢ Recall the safeguards and threat assessment and how to employ them in everyday practice
➢ Understand the CPA’s obligation to protect a client or employer’s electronic data
➢ Recognize the importance of compliance with professional standards
Statute Changes for Firm Mobility

➢ Out-of-state firms that perform CPA services in Virginia must meet the same guidelines and regulations as Virginia-based firms. Section 54.1-4412.1 C.1., 2. “Licensing requirements for firms”
Impact of Statute Change

➢ Firm license is required for CPAs performing financial statement preparation services, even if the firm is not providing audits, reviews or compilations.

➢ Does not restrict a non-licensee from performing financial statement preparation services.
➢ Section 54.1-4400. “Definitions“

➢ Adds the preparation of financial statements as fourth primary service provided relative to public accounting

➢ Financial statement preparation services are covered in the accountancy statutes in the same manner as audit, review and compilation services
An engagement to prepare financial statements is a non-attest service and as such, the CPA is not required to make a determination regarding independence from the entity.

However, a firm license is required for CPAs performing financial statement preparation services, even if the firm is not providing audits, reviews, and compilations.

This does not restrict a non-licensee from performing financial statement preparation services.
Section 70 — SSARS 21

➢ If a firm does not provide any attest services but does provide preparation of financial statements under Section 70, that firm must apply for a waiver from Peer Review with the VBOA.

➢ A firm must comply with all components of the monitoring program in which it is enrolled, except that, depending on the facts and circumstances, the VBOA may waive the requirement for a peer review.
CPE Reciprocity

If a CPA holds a Virginia license and license of another state:

➢ If principal place of business is Virginia, then the CPA must comply with Virginia’s CPE requirements
CPE Reciprocity

If a CPA holds a Virginia license and license of another state:

➢ If principal place of business is a substantially equivalent jurisdiction, then the licensee must comply with that state’s CPE requirements as long as the license is active and in good standing

➢ Virginia allows for a “home-state exemption” based on principal place of business, but many states do not
For Ethics, if a CPA holds both a VA license and a license of another state:

*If Virginia is not the principal place of business in which CPA provides services using the CPA title, the Ethics course taken must be Virginia’s or that of the state in which the person holds a license.*
CPE Reciprocity Case Study

Does Maryland/D.C. Ethics course meet Virginia CPE requirements?
Dan Walker, CPA, is a sole practitioner whose residence and principal place of business is in Newburg, Md. Dan has an active Maryland license and also holds an active license in Virginia. Dan’s reputation and Internet presence have allowed his firm to attract clients outside of Maryland. He was recently engaged to perform an audit of the financial statements of Skymill, Inc., located in Dahlgren, Va., about eight miles from his office in Newburg. Field work begins on Dec. 12 which follows the week that Dan annually schedules 40 hours of CPE. As Dan sits in the Maryland Ethics class on Dec. 9, he suddenly wonders whether he needs a Virginia-specific Ethics course for his upcoming work in Virginia.
Case Study — Members in Business

Chip Newsom, CPA, resides in Washington, D.C., and is employed full time as the CFO for the American Bankers Association, located in Alexandria. He holds both an active Virginia CPA license and an active District of Columbia license, yet he does not display the certificates, nor has he ever indicated to anyone, in any way, that he holds such licenses. Chip is currently planning his CPE for 2016 and is concerned that he takes the proper Ethics course. As a resident of the District of Columbia, he prefers to take the Ethics course to meet the guidelines of the District.
Active — CPE Exempt Status

➤ **Requires** formal application to the VBOA, including:
  ➤ Employment status
  ➤ Job description
  ➤ Information about employer

➤ Attainment of status means NO CPE required, but must be CPE compliant before offering services if your circumstances change.
Active — CPE Exempt Status

➢ Updates:

➢ Grace period for becoming current on CPE has ended

➢ “Substantial” is considered as spending 5 percent or more of your work hours per month using accounting skills
VBOA Policy Changes

New Policies approved Dec. 11, 2015:

➢ VBOA Policy No. 2: Sponsors Providing Continuing Professional Education (CPE)

➢ VBOA Policy No. 4: Continuing Professional Education (CPE) Guidelines
VBOA Policy No. 2: Sponsors Providing Continuing CPE

➢ VSCPA contracted, through a competitive bid process

➢ Remember:

➢ All Ethics instructors must hold an active Virginia CPA license in good standing

➢ Ethics course providers must be pre-approved each year by the VBOA

➢ CPAs will not receive credit for Ethics CPE from a non-approved provider
VBOA Policy No. 4: CPE Guidelines

➢ Remember:

➢ CPAs encouraged to provide comments to VBOA on course content or instructors

➢ No changes in 120-hour requirement, CPE documentation standards, etc.
General Ethics

➢ The CPA credential implies:
  ➢ Objectivity
  ➢ Integrity
  ➢ Sound professional judgment

➢ Result:
  ➢ Public expectations of behavior
General Ethics

➢ Motivation for proper behavior:
  ➢ Laws, codes, rules, regulations, policies — being in compliance
  ➢ Toolkit for navigating gray area — doing what’s right/morally acceptable
Conceptual Framework Approach

➢ There couldn’t possibly be a one-size-fits-all solution for every situation.
➢ Therefore, professional judgment may be required.
Steps of the Conceptual Framework

Step 1: Identify Threats
- No Threats — Proceed

Step 2: Evaluate Threats
- Threats Not Significant — Proceed

Step 3: Identify Safeguards
- Existing
- New

Step 4: Evaluate Safeguards
- Threats Not at Acceptable Level — Stop
- Threats at Acceptable Level — Proceed
Important to Note

➢ The conceptual framework only applies when no guidance in the Code exists. It cannot be used to override existing requirements or prohibitions.

➢ When the member applies safeguards to eliminate or reduce significant threats to an acceptable level, it is necessary to document the identified threats and safeguards applied.

➢ Failure to prepare this documentation would be considered a violation of the “Compliance with Standards Rule.”
Conceptual Frameworks

➢ The Code provides conceptual frameworks for members in public practice and members in business designed to help members analyze relationships and circumstances applicable to their line of work.

➢ Examples of potential threats and safeguards applicable to each line of work are in the manual.
Case Studies

➢ Year-end audit with missing journal entry
➢ Free trip to NYC
➢ Input on creation of company policies
Robert Romeo, CPA, is completing a year-end audit and discovers that a journal entry was not made which, in his professional judgement, materially affects the presentation of the company’s financial statements.

Robert’s supervisor, Evan Williams, disagrees and does not want to make the client book the entry, stating that, in his opinion, it was a minor oversight and can be booked in the future reporting period. Who is correct, Robert or Evan?

The issue here is that the auditor's determination of materiality is a matter of professional judgement. Therefore, there is no clear cut answer. However, the conceptual framework can be applied to this fact pattern.
Jennifer Lambert, CPA, performs non-attest services for XYZ Company. She did an excellent job during the year and, as a result, XYZ Company wants to fly Jennifer to New York City to attend a Broadway show and a dinner, at which she will be given an award for providing XYZ Company with excellent service.

Should Jennifer accept the trip to New York City?

The issue here is that the Code does not contain dollar limitations regarding the point at which objectivity and/or independence might be impaired when accepting gifts or entertainment. Therefore, there is no clear cut answer. However, the conceptual framework can be applied to this fact pattern.
Members in Public Practice
Case Study No. 3

➢ Bobby Bass, CPA, performs attest services for XYZ Company. XYZ Company asks Bobby to help them create some new accounting policies, provide advice on the future strategic direction of the company and decide which recommendations, from an outside consultant that they recently hired, they should implement.

➢ The issue here is that the determination of whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment.
Robert Romeo, CPA, works for ABC Company, a widget manufacturer. He is going over a list of year-end closing entries and discovers that a journal entry was not made which, in his professional judgement, materially affects the presentation of the company’s financial statements. Robert’s supervisor, Evan Williams, disagrees and does not want to make the entry, stating that, in his opinion, it was a minor oversight and can be booked in the future reporting period.

Who is correct, Robert or Evan?

The issue here is that the determination of materiality is a matter of professional judgement. Therefore, there is no clear cut answer. However, the conceptual framework can be applied to this fact pattern.
Jennifer Lambert, CPA, is the CFO of ABC Company, which supplies widgets to XYZ Company. ABC did an excellent job during the year and, as a result, XYZ Company wants to fly Jennifer to New York City to attend a Broadway show and a dinner, at which ABC Company will be given an Outstanding Supplier Award.

Should Jennifer accept the trip to New York City?

The issue here is that the Code does not contain dollar limitations regarding the point at which objectivity and/or independence might be impaired when accepting gifts or entertainment. Therefore, there is no clear cut answer. However, the conceptual framework can be applied to this fact pattern.
Bobby Bass, CPA, is the Director of Accounting at ABC Company, a widget manufacturer. As a director, he is part of ABC Company’s bonus program. ABC Company is looking at revising this program to reduce costs such as the bonus program and has asked Bobby to put together a presentation containing the financial benefits of doing such.

How will Bobby ensure that he remains objective when putting together the presentation?

The conceptual framework can be applied to this fact pattern.
“It is especially ironic when senior teams gather for off-site retreats during which they golf, fly-fish, play tennis, and socialize, but during the meetings at those retreats question the need to address friendships on their employee survey.”

— Rodd Wagner and Jim Harter, from 12: The Elements of Great Managing
Navigating Workplace Friendships

➢ Remember that you’re part of a team
➢ Beware of conflicts of interest
➢ Keep competition in check
➢ Establish boundaries
Case Studies

➢ Trip to Paris
➢ CFO owes back taxes
Your CFO friend just got awarded Employee of the Year and the company is paying for her to go to Paris. The CFO is also the 401(k) trustee and fiduciary. The CFO distributes funds out of her account, which she uses as spending money on her trip. The CFO approves her own distribution. This transaction is not within the guidelines of the 401(k) plans as an acceptable disbursement or distribution.
Your CFO friend asks you, as part of the company services your firm provides, to prepare her tax return. You discover that the CFO has not filed her tax return for three years and owes $40,000 in back taxes.
Your CFO friend has asked to get together and wants to invite you, once again, to bid on work for her company.
Your CFO friend just got awarded Employee of the Year and the company is paying her to go to Paris. The CFO is also the 401(k) trustee and fiduciary. The CFO distributes funds out of her account, which she uses as spending money on her trip. The CFO approves her own distribution. This transaction is not within the guidelines of the 401(k) plans as an acceptable disbursement or distribution.
Members in Business
Case Study No. 2

Your CFO friend asks you to help her prepare her tax return. You discover that the CFO has not filed her tax return for three years and owes $40,000 in back taxes.
Members in Business
Case Study No. 3

Your CFO friend has asked to get together and wants to talk about a possible promotion.
Confidential Information in the Age of Social Media

“Who will people decide you are if all they know is what is on your social media page?”

— David Bednar
Confidential Information in the Age of Social Media

➢ Consider your content
➢ Be professional
➢ Don’t overshare information about yourself
➢ Don’t overshare information about others
➢ Keep use to a reasonable level
➢ Be honest
Case Studies

➢ Financial details in social media post
➢ Confidential information spilled over coffee
Case Study No. 1

A friend sends you a link to a social media discussion from your client’s (or employer’s) CFO who posted a request for help to reorganize his accounting department. He reveals financial results for his privately-held company in this discussion post.
Case Study No. 2

You overheard a teammate divulging confidential information about your client (or employer) with someone at the coffee shop. This information is potentially damaging to your client (or employer).
Trending Topics for 2016

➢ Personal information and privacy (data security)
➢ Compliance with professional standards
Confidential Client Information

➢ Rule 1.700.001 of the AICPA Code of Professional Conduct prohibits a member in public practice from “disclos[ing] any confidential client information without the specific consent of the client.”

➢ Rules 1.400.070 and 2.400.070 of the AICPA Code of Professional Conduct states:
“A member should maintain confidentiality of his or her employer’s or firm’s (employer) confidential information and should not use or disclose any confidential employer information obtained as a result of an employment relationship (for example, discussions with the employer’s vendors, customers, or lenders).”

➢ Laws regarding client information may be more stringent than the AICPA Code of Professional Conduct
Smaller businesses can prove attractive targets despite a relative lack of resources because of lax security practices.

Cost of combating cybercrime projected to exceed $2 trillion globally in 2016.
Cybersecurity and CPA Firms

➢ AICPA has developed Generally Accepted Privacy Principles (GAPP)
➢ GAPP governs procedures surrounding personal and confidential information
➢ There are 10 principles of GAPP
Confidential Information Disclosure

➢ Signed consent from clients required to release tax return information to third parties per IRS Sec. 7216

➢ Separate consent required for any other confidential information
Case Study

➤ Mortgage closing delayed by financial details
Mary, a CPA with the firm of Chihuahua & Labrador, received a call from her longtime client, Collie, who was exasperated trying to complete the final details for a mortgage closing that was to take place the next day for a new home he had purchased. The movers were all set to move his furniture, but the mortgage lender had come back with additional requests for information, without which the closing would be delayed. Collie indicated that he was out of town and did not have access to a fax or printer. Collie requested that Mary send the mortgage company the additional information requested (Latest W-2, paystub and 1040) as she has all his financial information at her office. Mary let him know that she is glad to send copies of these items but will need him to sign a Form 7216 so she can send it to the bank on his behalf. Collie indicates that he cannot get the form, sign it and send it back to her in time but he will have the bank call her to get the information as they have his signed authorization to obtain information on his behalf. Collie indicates to Mary that the bank’s “blanket authorization” should provide all the authorization she needs.
Mary is a CPA and Chief Financial Officer at Pit Bull Movers, a Virginia company. She received a call from Collie, who heads up sales for Hound Dog Movers in California, requesting confidential information on one of their customers. Collie proposes to Mary that Pit Bull enter into an agreement with Hound Dog so that they can mutually provide moving services for this customer, who would be a new customer for them. Hound Dog would handle the cross-country moving and Pit Bull would handle all local moving.
Data Breaches

What do you need to do if your company suffers a data breach?

➢ Determine breach type
➢ Report incident using appropriate channels discussed in IRS Publication 4557
➢ Follow extra reporting steps if you believe personal information has been compromised
Safeguarding Client Data

➢ Administrative activities
➢ Facilities security
➢ Personnel security
➢ Information systems security
➢ Computer systems security
➢ Media security
➢ Certifying information systems for use
Jim is a partner in the tax firm Collie, Husky & Shepherd, which has a total of 19 employees. They have prided themselves on embracing technology and staying current on trends. The budget for their Technology line item has increased from 1 percent years ago to 10 percent currently, which is a significant line item for their budget. Jim has refused to allow the firm to use any cloud-based technology solutions due to his view of the “cloud” as a nebulous being that would be easily hacked. As a result, they use only desktop applications, which limits their ability to work from other locations. However, he feels has decreased their ability to be hacked.
Jim is a manager in the company Collie, Husky & Shepherd, which has a total of 19 employees. They have prided themselves on embracing technology and staying current on trends. The budget for their Technology line item has increased from 1 percent years ago to 10 percent currently, which is a significant line item for their budget. Jim has refused to allow the company to use any cloud-based technology solutions due to his view of the “cloud” as a nebulous being that would be easily hacked. As a result, they use only desktop applications, which limits their ability to work from other locations. However, he feels has decreased their ability to be hacked.
Case Studies

➢ New partner doing first EBP audit
➢ Client won’t budge on audit fee
Case Study No. 1

John is with the firm of Smith, Thane & Lame in a small town in rural Virginia. John recently made partner and one of his duties as partner is to audit the EBP for one of the firm’s larger clients’ Mercantile and Merchants Department Store, which just recently hired its 100th employee. While John is an excellent auditor, he has never performed an employee benefit audit and the firm does not belong to an audit quality group.
Case Study No. 2

Mary is with the firm of Beagle & Norwich in the Northern Virginia area. Mary’s largest client (Maine Chow) has asked her to include in their audit for the firm an audit for the employee benefit plan as they are required to have the audit this year. Jim, the President of Maine Chow, has indicated to the auditor that he considers this audit a compliance nuisance and that he is not expecting this to be much of a cost increase over his current audit fee, as they have not budgeted for it. He says, “After all, it is just an audit of the retirement plan, and they only use low-cost index funds as the investments.” Jim says he is fine paying the going rate for the audit of his company but he expects a significantly reduced fee on the Employee Benefit audit. Mary does not want to lose Maine Chow as an audit client and indicates that she will ponder the matter and quickly suggests that perhaps she can get one of her less experienced auditors to perform the employee benefit audit.
Conclusion

Next steps:

✓ Complete evaluations that will be emailed to you
✓ Check the status of your CPA license (and firm license, if applicable) at the VBOA website
✓ Check your CPE information in the VBOA’s tracker
✓ Explore the revised AICPA Code of Professional Conduct
✓ Visit vscpa.com/EthicsResources for updates