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Ethically Speaking

U.S. Government Accountability Office (GAO)

In August 2011, the GAO issued an Internet version of the [2011 Yellow Book](#). The revised Yellow Book includes significant revisions to the independence standards, including the incorporation of a conceptual framework approach to analyzing independence issues.

The effective date for financial audits and attestation engagements is for periods ending on or after December 15, 2012. However, certain of the independence requirements should be implemented by auditors as of January 1, 2012. For example, the revised nonaudit services requirements apply to the period of the professional engagement and *the period covered by the financial statements*. Therefore, auditors will need to conform to the 2011 Yellow Book independence standards, including application of the conceptual framework approach, the nonaudit services requirements, and the

Ethically Speaking

Standard Setting Projects-Recently Adopted

Registration for a live [Understanding the new AICPA Ethics Interpretations, Rulings and Definitions](#) webcast is now available. The webcast will take place on October 21 from 2 p.m. to 4 p.m. EST. Topics that will be discussed include current projects of the Professional Ethics Executive Committee (PEEC) and recently adopted ethics standards, as well as those that are out for exposure.

Confidential Client Information

The [February 28, 2011](#), exposure draft contained a proposed definition of *confidential client information* that is substantially the same as that exposed in the [September 2009 exposure draft](#). The definition of *confidential client information* was adopted with minor revisions by PEEC in August 2011 and will be effective on November 30, 2011. At the same time, the PEEC adopted a related revision to [Ethics Ruling No. 2](#), "Disclosure of Client Information to Third Parties," of ET section 391, *Ethics Rulings on Responsibilities to Clients* (AICPA, *Professional Standards*, ET sec. 391 par. .003-.004). The ruling requires that a member obtain the client's consent, preferably in writing, before disclosing confidential client information to a third party or using such information for the member's own purposes when such information results in disclosure to others.

To facilitate members' and other users' understanding of these revisions, the Professional Ethics Division issued a [nonauthoritative table](#) that supplements Ethics Ruling No. 2 and the definition of *confidential client information*. The nonauthoritative table provides examples of (a) three categories of information that a member may be asked to provide to third parties or that the member may wish to use for his or her own purposes and (b) how to treat such information. These categories are (1) client information that is available to the public, (2) client information that is not available to the public, and (3) other information in the member's possession.

Client Affiliates

The [February 28, 2011](#), exposure draft also contained proposed Interpretation No. 101-18, "Application of the Independence Rules to Affiliates," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .20).

PEEC adopted [Interpretation No. 101-18](#) with some revisions in August 2011, and the interpretation will be effective for engagements covering periods beginning on or after January 1, 2014, with early implementation permitted.

The interpretation requires that the independence requirements should be applied to interests and relationships that a member and firm have with affiliates of a *financial statement attest client*, a term defined in the interpretation. The interpretation identifies 10 types of entities that should be considered affiliates of a financial statement attest client. These affiliates can be broken down into two main groups: traditional entities, such as subsidiaries and parents, and nontraditional entities, such as unregistered investment companies and benefit plans and sponsors.

new documentation requirements, beginning on January 1, 2012 (calendar year 2012 audits).

The Governmental Audit Quality Center (GAQC) is developing a Yellow Book Independence Toolkit for NonAudit Services to assist practitioners in understanding and applying the new and revised independence standards in the 2011 Yellow Book, specifically the new documentation requirements. The toolkit will be released in early November and is available to all members of the AICPA via the GAQC's website. Nonmembers may purchase the toolkit by visiting www.cpa2biz.com.

In addition, registration for a live webcast discussing the Yellow Book Independence Revisions will be available on the GAQC Website after November 1st. The webcast will take place on November 18, 2011.

Ethical Tax Standards

[Revised U.S. Treasury Department Circular No. 230](#), went into effect on August 2, 2011. The revised regulations modify the general standards of practice before the IRS and the standards with respect to preparing tax returns. As adopted, these standards provide, among other things, new rules governing the oversight of an additional category of individuals: registered tax return preparers. Registered tax return preparers may only prepare, or assist in preparing, all or substantially all of a tax return or claim for refund if they obtain a Preparer Tax Identification Number and meet other requirements, such as passing a written examination (currently under development at the time of this writing).

The interpretation requires that when a client is a financial statement attest client, members should apply the independence provisions of the AICPA Code that are applicable to the financial statement attest client to its affiliates. However, the interpretation contains four exceptions to this requirement.

From an international convergence perspective, the interpretation goes beyond the International Ethics Standards Board for Accountants' (IESBA) "related entity" requirements for private entities that only extend to entities over which an audit or a review client has direct or indirect control. PEEC believed that it was appropriate to scope in additional entities and provide guidance beyond that provided by the IESBA because of the diverse and sometimes complex organizational structures that exist in the United States. The interpretation also extends the independence requirements for clients whose financial statements are compiled by a member when the member's compilation report does not disclose a lack of independence.

Adjunct Faculty Member

The [February 28, 2011](#), exposure draft also contained proposed interpretation No. 101-19, "Permitted Employment With Client Educational Institution," under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .21)

PEEC adopted [Interpretation No. 101-19](#) in August 2011, and the interpretation will be effective on November 30, 2011. The interpretation allows a partner or professional employee of a CPA firm to serve as an adjunct faculty member of an education institution (for example, a college or university) that is also an attest client of the CPA firm, if certain safeguards are met.

Modified Application of Independence to Statements on Standards for Attestation Engagements (SSAEs)

The [February 28, 2011](#), exposure draft also contained proposed revisions to Interpretation No. 101-11, "Modified Application of Rule 101 for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements," under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .13).

PEEC adopted the revisions to [Interpretation No. 101-11](#) in August 2011, and the interpretation will be effective on November 30, 2011. The interpretation allows members to apply a modified approach to independence to all SSAE engagements that require independence or when the compilation report does not disclose a lack of independence.

Foreign Component Accountant and Foreign Network Firm

The [February 28, 2011](#), exposure draft also contained proposed revisions to the "Applicability" section of the AICPA Code, which were adopted by PEEC in August 2011 and are effective on November 30, 2011. The revised "[Applicability](#)" section provides that members will not be in violation of the AICPA Code when a foreign component accountant (FCA) or foreign network firm is not in compliance with the AICPA Code, provided that the FCA or foreign network firm, at a minimum, is in compliance with the IESBA Code. The U.S. auditor and U.S. network firm must still comply with the AICPA Code.

Public Interest Entity

The [February 28, 2011](#), exposure draft also contained a proposed revision to the definition of a [public interest entity](#) contained in paragraph .20 of ET section 100-1, *Conceptual Framework for AICPA Independence Standards*

This standard also imposes, through Section 10.36(b), responsibility on a practitioner who has “principal authority and responsibility” for overseeing the tax practice to make sure that he or she has adequate procedures in place to ensure compliance with Circular 230. Otherwise, the practitioner may be subject to discipline.

Ethics Hotline

The AICPA Ethics Hotline provides non-authoritative guidance to members on questions related to ethics, including independence. Each year, staff members respond to more than 4,000 inquiries. The Ethics Hotline is open from 9 a.m. to 5 p.m. ET on weekdays. A staff member can be reached via email at ethics@aicpa.org or via phone at (888) 777-7077, option 6 followed by option 1.

Other Resources

The Independence and Ethics Developments--2011/12 Audit Risk Alert will be available to pre-order later this month. This publication focuses on recent developments in independence and ethics requirements for accountants and auditors. To order this publication, visit www.cpa2biz.com or call the AICPA Service Operations Center at 888.777.7077 (refer to product no. 0224711).

The [Ethics Division website](#) has been redesigned, and new content is added regularly. Information regarding the activities of PEEC can be found under “[Community](#),” and numerous tools and aids issued by the division or others can be found under “[Resources](#).” Articles, past copies of this newsletter, recently issued division documents, and disciplinary reports can be found under “[News & Publications](#).”

(AICPA, *Professional Standards*), which was adopted by PEEC in August 2011 and is effective on November 30, 2011.

Definition of Member in Business

The [April 4, 2011](#), exposure draft contained a proposed new definition of a *member in business* that was adopted by PEEC in August 2011 and is effective on November 30, 2011. A *member in business* is defined as a member engaged on a contractual or volunteer basis in an executive, a staff, a governance, an advisory, or an administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, or regulatory or professional bodies. This does not include a member while engaged in the practice of public accounting.

Promoting or Marketing Professional Services

The [April 4, 2011](#), exposure draft also contained proposed Interpretation No. 501-10, “False, Misleading, or Deceptive Acts in Promoting or Marketing Professional Services,” under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .11), which is applicable to members in business.

PEEC adopted [Interpretation No. 501-10](#) in August 2011, and it is effective on November 30, 2011. The interpretation states that a member in business would be considered to have committed an act discreditable if the member promotes or markets his or her abilities to provide professional services or makes claims about his or her experience or qualifications in a manner that is false, misleading, or deceptive.

Confidential Information Obtained From Employment

The [April 4, 2011](#), exposure draft also contained proposed Interpretation No. 501-9, “Confidential Information Obtained From Employment or Volunteer Activities,” under Rule 501 (AICPA, *Professional Standards*, ET sec. 501 par. .10), which applies to all members. [Interpretation No. 501-9](#) was adopted by PEEC in August 2011 and is effective on November 30, 2011.

The interpretation states that a member would be considered to have committed an act discreditable if the member discloses or uses any confidential employer information acquired as a result of employment or volunteer relationships without the proper authority or specific consent of the employer or organization for whom the member may work in a volunteer capacity, unless there is a legal or professional responsibility to use or disclose such information. *Confidential employer information* is any proprietary information pertaining to the employer or any organization for whom the member may work in a volunteer capacity that is not known to be available to the public and is obtained as a result of such relationships.

Exposure Draft

The Professional Ethics Division issued an exposure draft dated [September 23, 2011](#), and comments are requested no later than November 23, 2011.

The exposure draft contains clarifications to Interpretation No. 501-1, “Response to Requests by Clients and Former Clients for Records,” under Rule 501 (AICPA, *Professional Standards*, ET sec. 501 par. .02), that describe a member’s responsibilities with respect to electronic records and that propose to add a provision that failure to comply with the more restrictive provisions of authoritative regulatory bodies, such as a state board’s more restrictive requirement on withholding certain documents due to unpaid client fees, would constitute a violation of the interpretation. It also proposes to add a new category of documents--a member’s work products--to address

Future Meetings

November 2-3, 2011 (San Diego)
January 30-31, 2012 (TBD)
April 30-May1, 2012 (TBD)
August 7-8, 2012 (TBD)
November 5-6, 2012 (TBD)

Interested parties are encouraged to attend the open meetings in person. Furthermore, the Professional Ethics Division maintains an open phone line, so that interested parties can observe PEEC's public meetings via telephone. Anyone interested in attending a meeting in person or via conference call should contact Ellen Gorla at egoria@aicpa.org.

- [Agenda](#) materials are available online approximately one week before the meeting.
- [Minutes](#) of past meetings are also available online.

engagement deliverables.

The exposure draft also contains a proposed revision to Interpretation No. 203-1 "Departures From Established Accounting Principles," under Rule 203, *Accounting Principles* (AICPA, *Professional Standards*, ET sec. 203 par. .02), that clarifies that a member would not be in violation of Rule 203 when preparing or reporting on financial statements that have been prepared using a financial reporting framework that is not promulgated by a body designated by Council to establish such principles.

In addition, PEEC is proposing new Interpretation No. 203-5, "Financial Statements Prepared Pursuant to Financial Reporting Frameworks Not Promulgated by Bodies Designated by Council," that describes the types of financial reporting frameworks that a member may report on that are not promulgated by a Council-designated body.

The exposure draft also proposes to delete two ethics rulings that would no longer be applicable because of the revised guidance.

Standard Setting Projects--Pending

Interpretation No. 101-3: Establishing or Maintaining Internal Control

The [February 28, 2011](#), exposure draft contained proposed revisions to Interpretation No. 101-3, "Performance of Nonattest Services," under Rule 101 (AICPA, *Professional Standards*, ET sec. 101 par. .05).

One of the proposed revisions to this interpretation relates to a general activity that would impair a member's independence: establishing or maintaining internal controls, including performing ongoing monitoring activities for a client. PEEC recognized that an inconsistency existed within the current interpretation in that certain bookkeeping and other nonattest services permitted under the interpretation could be viewed as maintaining internal controls for the client and, as such, may appear to be prohibited by the general activity.

In addition, the proposal replaces the term *management functions* with *management responsibilities* because PEEC believed that it is clearer, and PEEC proposes certain revisions to reflect this change, such as incorporating a description of the term *management responsibilities*, as well as additional examples of management responsibilities.

Another proposed revision to the interpretation may be viewed as more restrictive. Specifically, PEEC proposed to include a requirement that members evaluate the significance of the management participation threat created by performing separate evaluations on the client's internal control system. PEEC believed that an inconsistency in the interpretation exists by prohibiting a member from performing ongoing monitoring procedures for a client while permitting separate evaluations because, depending on the scope or extent of the controls being tested and the frequency of the separate evaluations, the member may be performing services equivalent to ongoing monitoring procedures. Accordingly, PEEC proposed that the significance of the threat created by performing separate evaluations should be evaluated and safeguards should be applied when necessary to eliminate the threat or reduce it to an acceptable level.

Update

PEEC's Study Group continues to study certain issues raised during the comment process and plans to present a revised interpretation to PEEC on November 2, 2011.

One of the issues that the Study Group is working on is whether preparing financial statements or converting the client's financial statements from cash to the accrual basis as part of the attest engagement should be considered part of the attest engagement or, rather, a nonattest service subject to the general requirements of Interpretation No. 101-3, which would be consistent with the GAO's position in its revised Yellow Book.

Another issue that the Study Group is discussing is whether PEEC should consider incorporating an enhanced documentation requirement that would require the member to document his or her assessment that the client has the skills, knowledge, or experience to oversee the nonattest service, consistent with the revised Yellow Book requirement.

PEEC also asked the Study Group to pursue the notion of the cumulative effect that nonattest services could have on a member's independence (that is, in the aggregate) and to incorporate language in the interpretation that would require members to consider threats and safeguards in such situations.

Members in Business--Financial Interests

The [April 4, 2011](#), exposure draft also contained proposed Interpretation No. 501-10, "Financial Interests," which applies to members in business.

This interpretation addresses threats to integrity and objectivity that a member in business may face due to the member or his or her family member's financial interest in, or other relationship with, the employer. The proposed interpretation is not intended to create new requirements or bar members in business from having financial interests in an employer but, rather, to provide guidance to members in business on evaluating potential threats to their integrity and objectivity and applying appropriate safeguards, when necessary.

Update

Based upon feedback received during the comment process, PEEC agreed that, rather than issue the interpretation, the guidance in the interpretation should be clarified and made more concise, or possibly, the relevant threats should be added to the conceptual framework for members in business. PEEC directed the task force to reconsider the proposed interpretation and present its recommendations at PEEC's November meeting. PEEC also agreed that the interpretation should be placed under Rule 102, *Integrity and Objectivity* (AICPA, *Professional Standards*, ET sec. 102), due to the fact that the interpretation deals with threats to integrity and objectivity.

Ethics Codification

PEEC continues to make progress on its Ethics Codification project. The primary focus of this initiative is to improve the AICPA Code, so that members and others can apply the rules and reach the right conclusions more easily. To achieve this, PEEC will restructure the AICPA Code into topical areas, edit the AICPA Code using consistent drafting and style conventions, and revise certain provisions (primarily independence) to reflect the conceptual framework approach.

One of the other aspects of the Ethics Codification is that it will be structured into two distinctive parts. Part 1 will apply to members in the practice of public accounting, and part 2 will apply to members in business. Structuring the AICPA Code this way will allow members to focus in on their ethical obligations, given their area of practice.

Draft content can be found in [appendix 1](#) of the May 2011 and [appendix 12](#) of

the August 2011 PEEC agendas. The November 2011 PEEC agenda will also contain additional draft content.

The codification will also be pilot tested prior to exposure by a broad group of users, including state CPA society representatives, various regulators, and AICPA members.

If you have a question or comment about the codification project, please e-mail PEEC staff member Ellen Gorla at egoria@aicpa.org.

Other Projects

A complete list of the [projects](#) that PEEC plans to undertake during the next three years and a list of all PEEC [exposure drafts](#) are available online.

Faces of PEEC

Thomas Volturo



Tom joined PEEC in 2010 as one of the three public members of the committee. Tom is the executive vice president for administration and finance at Rogers State University and university liaison with the Oklahoma State Ethics Commission. Prior to this, Tom was the vice president for fiscal affairs and auxiliary enterprises at East Central University in Ada, OK, and served over 20 years in the State Auditor and Inspector's Office in various capacities.

Tom was a member of the Oklahoma Accountancy Board (OAB), from 2003 to 2011 and served on a variety of board committees, such as executive, audit, budget, rules, legislative, peer review, enforcement, and personnel. He has served as chairman of the board, vice chairman, and secretary. He was the first public member to serve as chairman of the board since inception of the OAB.

Tom is a member of the Oklahoma Higher Education Employee Insurance Board and has served as chairman and secretary. He is a member of the Oklahoma Association of College and University Business Officers, having been involved with the association since 1998. Tom was appointed in March 2010 and is serving on the Cameron University School of Business Advisory Board.

Tom has also served as a commission member on the Oklahoma Archives and Records Commission for four years and on the Oklahoma State Insurance Fund's Board of Managers, now known as CompSource, for eight years on numerous committees and a term as chairman.

He received a bachelor of science degree in business administration from Oklahoma State University and an associate degree in business from St. Gregory's College, Shawnee, OK.