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AICPA PROFESSIONAL
STANDARDS

VOLUME 2

**ETHICS
BYLAWS**

AS OF SEPTEMBER 1, 1975

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA PROFESSIONAL
STANDARDS

VOLUME 2

**ETHICS
BYLAWS**

AS OF SEPTEMBER 1, 1975

Published for the
American Institute of
Certified Public Accountants
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HOW TO USE THIS VOLUME

Scope of This Volume . . .

This volume, which is a reprint of volume 2, the looseleaf edition of *AICPA Professional Standards*, contains Concepts of Professional Ethics, Rules of Conduct, Interpretations of Rules of Conduct, Ethics Rulings, and the Bylaws of the American Institute of Certified Public Accountants.

How This Volume Is Arranged . . .

The contents of this volume are arranged as follows:

Code of Professional Ethics

- Concepts of Professional Ethics
- Rules of Conduct: Definitions and Applicability
- Independence, Integrity and Objectivity
- Competence and Technical Standards
- Responsibilities to Clients
- Responsibilities to Colleagues
- Other Responsibilities and Practices

Bylaws

- Name and Purpose
- Admission to Membership and Association
- Organization and Procedure
- Financial Management and Controls
- Meetings of Institute and Council
- Election of Council, Board of Directors, and Officers of the Institute
- Termination of Membership and Disciplinary Sanctions
- Amendments
- General

How to Use This Volume . . .

The arrangement of material in this volume is indicated in the general table of contents at the front of the volume. There is a detailed table of contents covering the material within each major division.

The major divisions are divided into sections, each with its own section number. Each paragraph within a section is decimally numbered. For example, ET section 101.04 refers to the fourth paragraph of section 101, *Independence*.

The Rules of Conduct, Interpretations of Rules of Conduct, and Ethics Rulings related to the same subjects have been assembled within the major divisions of the Ethics part of the volume. Related Interpretations of Rules of Conduct have section numbers which are the same as the numbers of the Rules of Conduct to which they relate.

A separate topical index is provided for the Ethics part of the volume.

The Bylaws of the AICPA and related Implementing Resolutions of Council are assembled within the major divisions by section number. For example, BL section 250, *International Associates*, is followed by BL section 250R, *Implementing Resolution under Section 2.5, International Associates*.

In BL section 900, *General*, the following sections are included:

Objectives of the American Institute of Certified Public Accountants

A Description of the Professional Practice of Certified Public Accountants

The Bylaws division is also provided with a separate topical index.

The topical indexes use the key word method to facilitate reference to the pronouncements. The indexes are arranged alphabetically by topic, with references to section and paragraph numbers, which appear at the foot of each page. Each index is identified as either the ET Index or the BL Index to indicate the major division.

➤ *The next page is 4269.* ←

CODE OF PROFESSIONAL ETHICS

Introduction

There are four categories of ethical standards. They are described in the following paragraphs.

The first, *Concepts of Professional Ethics*, is a philosophical essay approved by the professional ethics division. The essay suggests behavior which CPAs should strive for beyond the minimum level of acceptable conduct set forth in the Rules of Conduct and is not intended to establish enforceable standards.

The second category, *Rules of Conduct*, consists of enforceable ethical standards and required the approval of the membership before the Rules became effective. The same is true of the Bylaws of the Institute.

The third category, *Interpretations of Rules of Conduct*, consists of interpretations which have been adopted, after exposure to state societies and state boards, by the professional ethics division's executive committee to provide guidelines as to the scope and application of the Rules but are not intended to limit such scope or application. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing.

The fourth category, *Ethics Rulings*, consists of formal rulings made by the professional ethics division's executive committee after exposure to state societies and state boards. These rulings summarize the application of Rules of Conduct and Interpretations to a particular set of factual circumstances. Members who depart from such rulings in similar circumstances will be requested to justify such departures.

Publication of an Interpretation or Ethics Ruling in *The Journal of Accountancy* constitutes notice to members. Hence the publication date of the notice, unless a later date is specifically indicated, constitutes the effective date of the pronouncement. The professional ethics division will take into consideration the time that would have been reasonable for the member to comply with the pronouncement.

A member should also consult, if applicable, the ethical standards of his state CPA society, state board of accountancy, the Securities and Exchange Commission, and any other governmental agency which may regulate his client's business or use his report to evaluate the client's compliance with applicable laws and related regulations.

➤→ The next page is 4271. ←➤

ET Section 50**CONCEPTS OF PROFESSIONAL
ETHICS**

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ET Section 51

Introduction

A man should *be* upright; not be *kept* upright.
MARCUS AURELIUS

- .01 A distinguishing mark of a professional is his acceptance of responsibility to the public. All true professions have therefore deemed it essential to promulgate codes of ethics and to establish means for ensuring their observance.
- .02 The reliance of the public, the government and the business community on sound financial reporting and advice on business affairs, and the importance of these matters to the economic and social aspects of life impose particular obligations on certified public accountants.
- .03 Ordinarily those who depend upon a certified public accountant find it difficult to assess the quality of his services; they have a right to expect, however, that he is a person of competence and integrity. A man or woman who enters the profession of accountancy is assumed to accept an obligation to uphold its principles, to work for the increase of knowledge in the art and for the improvement of methods, and to abide by the profession's ethical and technical standards.
- .04 The ethical Code of the American Institute emphasizes the profession's responsibility to the public, a responsibility that has grown as the number of investors has grown, as the relationship between corporate managers and stockholders has become more impersonal and as government increasingly relies on accounting information.
- .05 The Code also stresses the CPA's responsibility to clients and colleagues, since his behavior in these relationships cannot fail to affect the responsibilities of the profession as a whole to the public.
- .06 The Institute's Rules of Conduct set forth minimum levels of acceptable conduct and are mandatory and enforceable. However, it is in the best interests of the profession that CPAs strive for conduct beyond that indicated merely by prohibitions. Ethical conduct, in the true sense, is more than merely abiding

by the letter of explicit prohibitions. Rather it requires unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

- .07 The conduct toward which CPAs should strive is embodied in five broad concepts stated as affirmative Ethical Principles:

Independence, integrity and objectivity. A certified public accountant should maintain his integrity and objectivity and, when engaged in the practice of public accounting, be independent of those he serves.

Competence and technical standards. A certified public accountant should observe the profession's technical standards and strive continually to improve his competence and the quality of his services.

Responsibilities to clients. A certified public accountant should be fair and candid with his clients and serve them to the best of his ability, with professional concern for their best interests, consistent with his responsibilities to the public.

Responsibilities to colleagues. A certified public accountant should conduct himself in a manner which will promote cooperation and good relations among members of the profession.

Other responsibilities and practices. A certified public accountant should conduct himself in a manner which will enhance the stature of the profession and its ability to serve the public.

- .08 The foregoing Ethical Principles are intended as broad guidelines as distinguished from enforceable Rules of Conduct. Even though they do not provide a basis for disciplinary action, they constitute the philosophical foundation upon which the Rules of Conduct are based.

- .09 The following discussion is intended to elaborate on each of the Ethical Principles and provide rationale for their support.

➡ *The next page is 4291.* ←

ET Section 52**Independence, Integrity
and Objectivity**

A certified public accountant should maintain his integrity and objectivity and, when engaged in the practice of public accounting, be independent of those he serves.

- .01 The public expects a number of character traits in a certified public accountant but primarily integrity and objectivity and, in the practice of public accounting, independence.

Independence has always been a concept fundamental to the accounting profession, the cornerstone of its philosophical structure. For no matter how competent any CPA may be, his opinion on financial statements will be of little value to those who rely on him—whether they be clients or any of his unseen audience of credit grantors, investors, governmental agencies and the like—unless he maintains his independence.

- .02 Independence has traditionally been defined by the profession as the ability to act with integrity and objectivity.
- .03 Integrity is an element of character which is fundamental to reliance on the CPA. This quality may be difficult to judge, however, since a particular fault of omission or commission may be the result either of honest error or a lack of integrity.
- .04 Objectivity refers to a CPA's ability to maintain an impartial attitude on all matters which come under his review. Since this attitude involves an individual's mental processes, the evaluation of objectivity must be based largely on actions and relationships viewed in the context of ascertainable circumstances.
- .05 While recognizing that the qualities of integrity and objectivity are not precisely measurable, the profession nevertheless constantly holds them up to members as an imperative. This is done essentially by education and by the Rules of Conduct which the profession adopts and enforces.
- .06 CPAs cannot practice their calling and participate in the world's affairs without being exposed to situations that involve the possibility of pressures upon their integrity and objectivity. To define and proscribe all such situations would be im-

practicable. To ignore the problem for that reason, however, and to set no limits at all would be irresponsible.

- .07 It follows that the concept of independence should not be interpreted so loosely as to permit relationships likely to impair the CPA's integrity or the impartiality of his judgment, nor so strictly as to inhibit the rendering of useful services when the likelihood of such impairment is relatively remote.
- .08 While it may be difficult for a CPA always to appear completely independent even in normal relationships with clients, pressures upon his integrity or objectivity are offset by powerful countervailing forces and restraints. These include the possibility of legal liability, professional discipline ranging up to revocation of the right to practice as a CPA, loss of reputation and, by no means least, the inculcated resistance of a disciplined professional to any infringement upon his basic integrity and objectivity. Accordingly, in deciding which types of relationships should be specifically prohibited, both the magnitude of the threat posed by a relationship and the force of countervailing pressures have to be weighed.
- .09 In establishing rules relating to independence, the profession uses the criterion of whether reasonable men, having knowledge of all the facts and taking into consideration normal strength of character and normal behavior under the circumstances, would conclude that a specified relationship between a CPA and a client poses an unacceptable threat to the CPA's integrity or objectivity.
- .10 When a CPA expresses an opinion on financial statements, not only the fact but also the appearance of integrity and objectivity is of particular importance. For this reason, the profession has adopted rules to prohibit the expression of such an opinion when relationships exist which might pose such a threat to integrity and objectivity as to exceed the strength of countervailing forces and restraints. These relationships fall into two general categories: (1) certain financial relationships with clients and (2) relationships in which a CPA is virtually part of management or an employee under management's control.
- .11 Although the appearance of independence is not required in the case of management advisory services and tax practice, a CPA is encouraged to avoid the proscribed relationships with clients regardless of the type of services being rendered. In any event, the CPA, in all types of engagements, should refuse to

subordinate his professional judgment to others and should express his conclusions honestly and objectively.

- .12 The financial relationships proscribed when an opinion is expressed on financial statements make no reference to fees paid to a CPA by a client. Remuneration to providers of services is necessary for the continued provision of those services. Indeed, a principal reason for the development and persistence in the professions of the client-practitioner relationship and of remuneration by fee (as contrasted with an employer-employee relationship and remuneration by salary) is that these arrangements are seen as a safeguard of independence.
- .13 The above reference to an employer-employee relationship is pertinent to a question sometimes raised as to whether a CPA's objectivity in expressing an opinion on financial statements will be impaired by his being involved with his client in the decision-making process.
- .14 CPAs continually provide advice to their clients, and they expect that this advice will usually be followed. Decisions based on such advice may have a significant effect on a client's financial condition or operating results. This is the case not only in tax engagements and management advisory services but in the audit function as well.
- .15 If a CPA disagrees with a client on a significant matter during the course of an audit, the client has three choices—he can modify the financial statements (which is usually the case), he can accept a qualified report or he can discharge the CPA. While the ultimate decision and the resulting financial statements clearly are those of the client, the CPA has obviously been a significant factor in the decision-making process. Indeed, no responsible user of financial statements would want it otherwise.
- .16 It must be noted that when a CPA expresses an opinion on financial statements, the judgments involved pertain to whether the results of operating decisions of the client are fairly presented in the statements and not on the underlying wisdom of such decisions. It is highly unlikely therefore that being a factor in the client's decision-making process would impair the CPA's objectivity in judging the fairness of presentation.
- .17 The more important question is whether a CPA would deliberately compromise his integrity by expressing an unqualified opinion on financial statements which were prepared in such a way as to cover up a poor business decision by the

client and on which the CPA has rendered advice. The basic character traits of the CPA as well as the risks arising from such a compromise of integrity, including liability to third parties, disciplinary action and loss of right to practice, should preclude such action.

- .18 Providing advice or recommendations which may or may not involve skills logically related to a client's information and control system, and which may affect the client's decision-making, does not in itself indicate lack of independence. However, the CPA must be alert to the possibility that undue identification with the management of the client or involvement with a client's affairs to such a degree as to place him virtually in the position of being an employee, may impair the appearance of independence.
- .19 To sum up, CPAs cannot avoid external pressures on their integrity and objectivity in the course of their professional work, but they are expected to resist these pressures. They must, in fact, retain their integrity and objectivity in all phases of their practice and, when expressing opinions on financial statements, avoid involvement in situations that would impair the credibility of their independence in the minds of reasonable men familiar with the facts.
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➤ *The next page is 4311.* ←

ET Section 53**Competence and Technical Standards**

A certified public accountant should observe the profession's technical standards and strive continually to improve his competence and the quality of his services.

- .01 Since accounting information is of great importance to all segments of the public, all CPAs, whether in public practice, government service, private employment or academic pursuits, should perform their work at a high level of professionalism.
- .02 A CPA should maintain and seek always to improve his competence in all areas of accountancy in which he engages. Satisfaction of the requirements for the CPA certificate is evidence of basic competence at the time the certificate is granted, but it does not justify an assumption that this competence is maintained without continuing effort. Further, it does not necessarily justify undertaking complex engagements without additional study and experience.
- .03 A CPA should not render professional services without being aware of, and complying with, the applicable technical standards. Moreover, since published technical standards can never cover the whole field of accountancy, he must keep broadly informed.
- .04 Observance of the rule on competence calls for a subjective determination by a CPA with respect to each engagement. Some engagements will require a higher level of knowledge, skill and judgment than others. Competence to deal with an unfamiliar problem may be acquired by research, study or consultation with a practitioner who has the necessary competence. If a CPA is unable to gain sufficient competence through these means, he should suggest, in fairness to his client and the public, the engagement of someone competent to perform the needed service, either independently or as an associate.
- .05 The standards referred to in the rules are elaborated and refined to meet changing conditions, and it is each CPA's responsibility to keep himself up to date in this respect.

➤➤➤ *The next page is 4321.* ←←←

ET Section 54***Responsibilities to
Clients***

A certified public accountant should be fair and candid with his clients and serve them to the best of his ability, with professional concern for their best interests, consistent with his responsibilities to the public.

- .01 As a professional person, the CPA should serve his clients with competence and with professional concern for their best interests. He must not permit his regard for a client's interest, however, to override his obligation to the public to maintain his independence, integrity and objectivity. The discharge of this dual responsibility to both clients and the public requires a high degree of ethical perception and conduct.
- .02 It is fundamental that the CPA hold in strict confidence all information concerning a client's affairs which he acquires in the course of his engagement. This does not mean, however, that he should acquiesce in a client's unwillingness to make disclosures in financial reports which are necessary to fair presentation.
- .03 Exploitation of relations with a client for personal advantage is improper. For example, acceptance of a commission from any vendor for recommending his product or service to a client is prohibited.
- .04 A CPA should be frank and straightforward with clients. While tact and diplomacy are desirable, a client should never be left in doubt about the CPA's position on any issue of significance. No truly professional man will subordinate his own judgment or conceal or modify his honest opinion merely to please. This admonition applies to all services including those related to management and tax problems.
- .05 When accepting an engagement, a CPA should bear in mind that he may find it necessary to resign if conflict arises on an important question of principle. In cases of irreconcilable difference, he will have to judge whether the importance of the matter requires such an action. In weighing this question, he can feel assured that the practitioner who is independent, fair and candid is the better respected for these qualities and will not lack opportunities for constructive service.

➤ *The next page is 4331.* ←

ET Section 55

Responsibilities to Colleagues

A certified public accountant should conduct himself in a manner which will promote cooperation and good relations among members of the profession.

- .01 The support of a profession by its members and their cooperation with one another are essential elements of professional character. The public confidence and respect which a CPA enjoys is largely the result of the cumulative accomplishments of all CPAs, past and present. It is, therefore, in the CPA's own interest, as well as that of the general public, to support the collective efforts of colleagues through professional societies and organizations and to deal with fellow practitioners in a manner which will not detract from their reputation and well-being.
- .02 Although the reluctance of a professional to give testimony that may be damaging to a colleague is understandable, the obligation of professional courtesy and fraternal consideration can never excuse lack of complete candor if the CPA is testifying as an expert witness in a judicial proceeding or properly constituted inquiry.
- .03 A CPA has the obligation to assist his fellows in complying with the Code of Professional Ethics and should also assist appropriate disciplinary authorities in enforcing the Code. To condone serious fault can be as bad as to commit it. It may be even worse, in fact, since some errors may result from ignorance rather than intent and, if let pass without action, will probably be repeated. In situations of this kind, the welfare of the public should be the guide to a member's action.
- .04 While the Code proscribes certain specific actions in the area of relationships with colleagues, it should be understood that these proscriptions do not define the limits of desirable intraprofessional conduct. Rather, such conduct encompasses the professional consideration and courtesies which each CPA would like to have fellow practitioners extend to him.

- .05 It is natural that a CPA will seek to develop his practice. However, in doing so he should not seek to displace another accountant in a client relationship, or act in any way that reflects negatively on fellow practitioners.
- .06 A CPA may, of course, provide service to those who request it, even though they may be served by another practitioner in another area of service, or he may succeed another practitioner at a client's request. In such circumstances it is desirable before accepting an engagement that the CPA who has been approached should advise the accountant already serving the client. Such action is indicated not only by considerations of professional courtesy but by good business judgment.
- .07 A client may sometimes request services requiring highly specialized knowledge. If the CPA lacks the expertise necessary to render such services, he should call upon a fellow practitioner for assistance or refer the entire engagement to another. Such assistance or referral brings to bear on the client's needs both the referring practitioner's knowledge of the client's affairs and the technical expertise of the specialist brought into the engagement. The rules encourage referrals by helping to protect the client relationships of the referring practitioner.
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➤ *The next page is 4341.* ←

ET Section 56

Other Responsibilities and Practices

A certified public accountant should conduct himself in a manner which will enhance the stature of the profession and its ability to serve the public.

- .01 In light of the importance of their function, CPAs and their firms should have a keen consciousness of the public interest and the needs of society. Thus, they should support efforts to achieve equality of opportunity for all, regardless of race, religious background or sex, and should contribute to this goal by their own service relationships and employment practices.
- .02 The CPA is a beneficiary of the organization and character of his profession. Since he is seen as a representative of the profession by those who come in contact with him, he should behave honorably both in his personal and professional life and avoid any conduct that might erode public respect and confidence.
- .03 Solicitation to obtain clients is prohibited under the Rules of Conduct because it tends to lessen the professional independence toward clients which is essential to the best interests of the public. It may also induce an unhealthy rivalry within the profession and thus lessen the cooperation among members which is essential to advancing the state of the art of accounting and providing maximum service to the public.
- .04 Advertising, which is a form of solicitation, is also prohibited because it could encourage representations which might mislead the public and thereby reduce or destroy the profession's usefulness to society. However, a CPA should seek to establish a reputation for competence and character, and there are many acceptable means by which this can be done. For example, he may make himself known by public service, by civic and political activities, and by joining associations and clubs. It is desirable for him to share his knowledge with interested groups by accepting requests to make speeches and write articles. Whatever publicity occurs as a natural by-product of such activities is entirely

proper. It would be wrong, however, for the CPA to initiate or embellish publicity.

- .05 Promotional practices, such as solicitation and advertising, tend to indicate a dominant interest in profit. In his work, the CPA should be motivated more by desire for excellence in performance than for material reward. This does not mean that he need be indifferent about compensation. Indeed, a professional man who cannot maintain a respectable standard of living is unlikely to inspire confidence or to enjoy sufficient peace of mind to do his best work.
- .06 In determining fees, a CPA may assess the degree of responsibility assumed by undertaking an engagement as well as the time, manpower and skills required to perform the service in conformity with the standards of the profession. He may also take into account the value of the service to the client, the customary charges of professional colleagues and other considerations. No single factor is necessarily controlling.
- .07 Clients have a right to know in advance what rates will be charged and approximately how much an engagement will cost. However, when professional judgments are involved, it is usually not possible to set a fair charge until an engagement has been completed. For this reason CPAs should state their fees for proposed engagements in the form of estimates which may be subject to change as the work progresses.
- .08 Other practices prohibited by the Rules of Conduct include using any firm designation or description which might be misleading, or practicing as a professional corporation or association which fails to comply with provisions established by Council to protect the public interest.
- .09 A member, while practicing public accounting, may not engage in a business or occupation which is incompatible therewith. While certain occupations are clearly incompatible with the practice of public accounting, the profession has never attempted to list them, for in most cases the individual circumstances indicate whether there is a problem. For example, there would be a problem of incompatibility if a practicing CPA were to sell insurance or securities because these occupations involve solicitation and promotional activities which might be used to promote a public accounting practice. Moreover, they might, under some circumstances, jeopardize the CPA's independence.

- .10 Paying a commission is prohibited in order to eliminate the temptation to compensate anyone for referring a client. Receipt of a commission is proscribed since practitioners should look to the client, and not to others, for compensation for services rendered. The practice of paying a fee to a referring CPA irrespective of any service performed or responsibility assumed by him is proscribed because there is no justification for a CPA to share in a fee for accounting services where his sole contribution was to make a referral.
- .11 Over the years the vast majority of CPAs have endeavored to earn and maintain a reputation for competence, integrity and objectivity. The success of these efforts has been largely responsible for the wide public acceptance of accounting as an honorable profession. This acceptance is a valuable asset which should never be taken for granted. Every CPA should constantly strive to see that it continues to be deserved.
-

ET Section 90

**RULES OF CONDUCT:
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ET Section 91**Definitions**

**Effective March 1,
1973, unless other-
wise indicated**

- .01 The following definitions of terminology are applicable wherever such terminology is used in the Rules and Interpretations.
- .02 **Client.** The person(s) or entity which retains a member or his firm, engaged in the practice of public accounting, for the performance of professional services.
- .03 **Council.** The Council of the American Institute of Certified Public Accountants.
- .04 **Enterprise.** Any person(s) or entity, whether organized for profit or not, for which a CPA provides services.
- .05 **Firm.** A proprietorship, partnership, or professional corporation or association engaged in the practice of public accounting, including individual partners or shareholders thereof.
- .06 **Financial statements.** Statements and footnotes related thereto that purport to show financial position which relates to a point in time or changes in financial position which relate to a period of time, and statements which use a cash or other incomplete basis of accounting. Balance sheets, statements of income, statements of retained earnings, statements of changes in financial position, and statements of changes in owners' equity are financial statements.
- .07 Incidental financial data included in management advisory services reports to support recommendations to a client, and tax returns and supporting schedules do not, for this purpose, constitute financial statements; and the statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.
- .08 **Institute.** The American Institute of Certified Public Accountants.

- .09 **Interpretations of Rules of Conduct.** Pronouncements issued by the division of professional ethics to provide guidelines as to the scope and application of the Rules of Conduct.
- .10 **Member.** A member, associate member, or international associate of the American Institute of Certified Public Accountants.
- .11 **Practice of public accounting.** Holding out to be a CPA or public accountant and at the same time performing for a client one or more types of services rendered by public accountants. The term shall not be limited by a more restrictive definition which might be found in the accountancy law under which a member practices.
- .12 **Professional services.** One or more types of services performed in the practice of public accounting.
-

»»»→ *The next page is 4381.* ←«««

ET Section 92***Applicability of Rules***

**Effective March 1,
1973, unless other-
wise indicated**

- .01 The Institute's Code of Professional Ethics derives its authority from the bylaws of the Institute which provide that the Trial Board may, after a hearing, admonish, suspend, or expel a member who is found guilty of infringing any of the bylaws or any provisions of the Rules of Conduct.¹
- .02 The Rules of Conduct which follow apply to all services performed in the practice of public accounting including tax and management advisory services except (a) where the wording of the rule indicates otherwise and (b) that a member who is practicing outside the United States will not be subject to discipline for departing from any of the rules stated herein so long as his conduct is in accord with the rules of the organized accounting profession in the country in which he is practicing. However, where a member's name is associated with financial statements in such a manner as to imply that he is acting as an independent public accountant and under circumstances that would entitle the reader to assume that United States practices were followed, he must comply with the requirements of Rules 202 and 203.
- .03 A member may be held responsible for compliance with the Rules of Conduct by all persons associated with him in the practice of public accounting who are either under his supervision or are his partners or shareholders in the practice.
- .04 A member engaged in the practice of public accounting must observe all the Rules of Conduct. A member not engaged in the practice of public accounting must observe only Rules 102 and 501 since all other Rules of Conduct relate solely to the practice of public accounting.
- .05 A member shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the member, would place him in violation of the Rules of Conduct.

¹ Bylaw Section 7.4. [BL section 740.]

ET Section 100

INDEPENDENCE, INTEGRITY AND OBJECTIVITY

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ET Section 101***Independence***

**Effective March 1,
1973, unless other-
wise indicated**

.01 Rule 101—Independence. A member or a firm of which he is a partner or shareholder shall not express an opinion on financial statements of an enterprise unless he and his firm are independent with respect to such enterprise. Independence will be considered to be impaired if, for example:

- A. During the period of his professional engagement, or at the time of expressing his opinion, he or his firm
 - 1. Had or was committed to acquire any direct or material indirect financial interest in the enterprise; or
 - 2. Had any joint closely held business investment with the enterprise or any officer, director or principal stockholder thereof which was material in relation to his or his firm's net worth; or
 - 3. Had any loan to or from the enterprise or any officer, director or principal stockholder thereof. This latter proscription does not apply to the following loans from a financial institution when made under normal lending procedures, terms and requirements:
 - (a) Loans obtained by a member or his firm which are not material in relation to the net worth of such borrower.
 - (b) Home mortgages.
 - (c) Other secured loans, except loans guaranteed by a member's firm which are otherwise unsecured.
- B. During the period covered by the financial statements, during the period of the professional engagement or at the time of expressing an opinion, he or his firm
 - 1. Was connected with the enterprise as a promoter, underwriter or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee; or
 - 2. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had a direct or material indirect financial interest in the enterprise; or was

a trustee for any pension or profit-sharing trust of the enterprise.

The above examples are not intended to be all-inclusive.

Interpretations under Rule 101—Independence

.02 101-1—Directorships. Members are often asked to lend the prestige of their name as a director of a charitable, religious, civic or other similar type of nonprofit organization whose board is large and representative of the community's leadership. An auditor who permits his name to be used in this manner would not be considered lacking in independence under Rule 101 so long as he does not perform or give advice on management functions, and the board itself is sufficiently large that a third party would conclude that his membership was honorary.

.03 101-2—Retired partners and firm independence. A retired partner having a relationship of a type specified in Rule 101 with a client of his former firm would not be considered as impairing the firm's independence with respect to the client provided that he is no longer active in the firm, that the fees received from such client do not have a material effect on his retirement benefits and that he is not held out as being associated with his former partnership.

.04 101-3—Accounting services. Members in public practice are sometimes asked to provide manual or automated bookkeeping or data processing services to clients who are of insufficient size to employ an adequate internal accounting staff. Computer systems design and programming assistance are also rendered by members either in conjunction with data processing services or as a separate engagement. Members who perform such services and who are engaged in the practice of public accounting are subject to the bylaws and Rules of Conduct.

On occasion members also rent "block time" on their computers to their clients but are not involved in the processing of transactions or maintaining the client's accounting records. In such cases the sale of block time constitutes a business rather than a professional relationship and must be considered together with all other relationships between the member and his client to

determine if their aggregate impact is such as to impair the member's independence.

When a member performs manual or automated bookkeeping services, concern may arise whether the performance of such services would impair his audit independence—that the performance of such basic accounting services would cause his audit to be lacking in a review of mechanical accuracy or that the accounting judgments made by him in recording transactions may somehow be less reliable than if made by him in connection with the subsequent audit.

Members are skilled in, and well accustomed to, applying techniques to control mechanical accuracy, and the performance of the record-keeping function should have no effect on application of such techniques. With regard to accounting judgments, if third parties have confidence in a member's judgment in performing an audit, it is difficult to contend that they would have less confidence where the same judgment is applied in the process of preparing the underlying accounting records.

Nevertheless, a member performing accounting services for an audit client must meet the following requirements to retain the appearance that he is not virtually an employee and therefore lacking in independence in the eyes of a reasonable observer.

1. The CPA must not have any relationship or combination of relationships with the client or any conflict of interest which would impair his integrity and objectivity.

2. The client must accept the responsibility for the financial statements as his own. A small client may not have anyone in his employ to maintain accounting records and may rely on the CPA for this purpose. Nevertheless, the client must be sufficiently knowledgeable of the enterprise's activities and financial condition and the applicable accounting principles so that he can reasonably accept such responsibility, including, specifically, fairness of valuation and presentation and adequacy of disclosure. When necessary, the CPA must discuss accounting matters with the client to be sure that the client has the required degree of understanding.

3. The CPA must not assume the role of employee or of management conducting the operations of an enterprise. For example, the CPA shall not consummate transactions, have custody of assets or exercise authority on behalf of the client. The client must prepare the source documents on all transactions in sufficient detail to identify clearly the nature and amount of such transactions and maintain an accounting control over data

processed by the CPA such as control totals and document counts. The CPA should not make changes in such basic data without the concurrence of the client.

4. The CPA, in making an examination of financial statements prepared from books and records which he has maintained completely or in part, must conform to generally accepted auditing standards. The fact that he has processed or maintained certain records does not eliminate the need to make sufficient audit tests.

When a client's securities become subject to regulation by the Securities and Exchange Commission or other federal or state regulatory body, responsibility for maintenance of the accounting records, including accounting classification decisions, must be assumed by accounting personnel employed by the client. The assumption of this responsibility must commence with the first fiscal year after which the client's securities qualify for such regulation.

.05 101-4—Effect of family relationships on independence. Rule of Conduct 101 proscribes relationships which impair a member's independence through direct financial interests, material indirect financial interests, or other involvements. Relationships which arise through family bloodlines and marriage give rise to circumstances that may impair a member's independence.

1. *Financial and business relationships ascribed to the member.* It is well accepted that the independence of a member may be impaired by the financial interests and business relationships of the member's spouse, dependent children, or any relative living in a common household with or supported by the member. The financial interests or business relationships of such family, dependents or relatives in a member's client are ascribed to the member; in such circumstances the independence of the member or his firm would be impaired under Rule 101.

2. *Financial and business relationships that may be ascribed to the member.*

Close Kin

Family relationships may also involve other circumstances in which the appearance of independence is lacking. However, it is not reasonable to assume that all kinships, per se, will impair the appearance of independence since some kinships are too remote. The following guidelines to the effect of kinship on the appearance of independence have evolved over the years:

A presumption that the appearance of independence is impaired arises from a significant financial interest, investment, or business relationship by the following close kin in a member's client: non-dependent children, brothers and sisters, grandparents, parents, parents-in-law, and the respective spouses of any of the foregoing.

If the close kin's financial interest in a member's client is material in relationship to the kin's net worth, a third party could conclude that the member's objectivity is impaired with respect to the client since the kinship is so close. In addition, financial interests held by close kin may result in an indirect financial interest being ascribed to the member.

The presumption that the appearance of independence is impaired would also prevail where a close kin has an important role or responsible executive position (e. g., director, chief executive or financial officer) with a client.

Geographical separation from the close kin and infrequent contact may mitigate such impairment except with respect to:

- a. a partner working on the engagement or located in the office responsible for the engagement,
- b. a partner in the same office or one who maintained close personal relationships with partners working on the engagement,
- c. a partner who, as a result of his administrative or advisory positions, is involved in the engagement, or
- d. a staff member participating on the engagement or located in the office responsible for the engagement.

If a member does not or could not reasonably be expected to have knowledge of the financial interests, investments and business relationships of his close kin, such lack of knowledge would preclude an impairment of objectivity and appearance of independence.

3. *Financial and business relationships that are not normally ascribed to the member.*

Remote Kin

A presumption that the appearance of independence is impaired would not normally arise from the financial interests and business relationships of remote kin: uncles, aunts, cousins, nephews, nieces, other in-laws, and other kin who are not close.

The financial interests and business relationships of these remote kin are not considered either direct or indirect interests

ascribed to the member. However, the presumption of no impairment with remote kin would be negated if other factors indicating a closeness exist, such as living in the same household with the member, having financial ties, or jointly participating in other business enterprises.

Summary

Members must be aware that it is impossible to enumerate all circumstances wherein the appearance of a member's independence might be questioned by third parties because of family relationships. In situations involving the assessment of relationships with both close and remote kin, members must consider whether geographical proximity, strength of personal and other business relationships and other factors—when viewed together with financial interests in question—would lead a reasonable observer to conclude that the specified relationships pose an unacceptable threat to the member's objectivity and appearance of independence.

➤→ *The next page is 4421.* ←➤

ET Section 102***Integrity and
Objectivity***

**Effective March 1,
1973, unless other-
wise indicated**

.01 Rule 102—Integrity and objectivity. A member shall not knowingly misrepresent facts, and when engaged in the practice of public accounting, including the rendering of tax and management advisory services, shall not subordinate his judgment to others. In tax practice, a member may resolve doubt in favor of his client as long as there is reasonable support for his position.

➤➤➤→ *The next page is 4431.* ←➤➤➤

ET Section 191***Ethics Rulings on Independence,
Integrity and Objectivity***

Effective date March
1, 1973, unless other-
wise indicated

1. Acceptance of a Gift

.001 *Question*—Would the independence of a member's firm be considered to be impaired if an employee or partner accepts a gift or other unusual consideration from a client?

.002 *Answer*—If an employee or partner accepts more than a token gift from a client, even with the knowledge of the member's firm, the appearance of independence may be lacking.

2. Association Membership

.003 *Question*—If a member joined a trade association which is a client, would the independence of the member's firm be considered to be impaired with respect to the association?

.004 *Answer*—Independence of the member's firm would not be considered to be impaired provided he did not serve in any capacity equivalent to that of a member of management.

3. Member as Cosigner of Checks

.005 *Question*—A member has been requested to accept the responsibility in emergency situations of cosigning checks with a designated employee of a client. Would the independence of the member's firm be considered to be impaired under these circumstances?

.006 *Answer*—Independence of the member's firm would be considered to be impaired since such activities are management functions.

4. Payroll Preparation Services

.007 *Question*—A member's firm performs payroll preparation services for its clients. A single bank account in the firm's name is used to clear all checks. Individual employee checks are cosigned by a member of the firm as well as by an officer of each of the respective clients. The clients reimburse the firm

for the net amount of the payrolls. Would the independence of the member's firm be considered to be impaired with respect to clients who avail themselves of this service?

.008 *Answer*—Independence of the member's firm would be considered to be impaired because the service does not conform to the requirements of Interpretation 101-3.

5. Member as Bookkeeper

.009 *Question*—A client plans to process receipts, disbursements, and other documents of original entry and to transmit this raw data to a member's firm for further processing, either on a computer or manually, into a general ledger and other statistical reports. Would the independence of the member's firm be considered to be impaired under these circumstances?

.010 *Answer*—If the services performed conform to the requirements of Interpretation 101-3, independence of the member's firm would not be considered to be impaired.

6. Member's Spouse as Bookkeeper of Client

.011 *Question*—The spouse of a member is employed as a bookkeeper by an audit client. Would the independence of the member's firm be considered to be impaired under these circumstances?

.012 *Answer*—Independence of the member's firm would not necessarily be considered to be impaired. The performance of write-up work within the requirements of Interpretation 101-3, would not necessarily impair his independence if done by the member himself. Therefore, the spouse of a member could perform the same functions as the member without impairing the independence of the member's firm. If, however, the spouse's scope of responsibilities or activities extends beyond the bookkeeping function into areas of accounting or management decisions, independence of the member's firm would be considered to be impaired.

7. Member as Contract Bookkeeper

.013 *Question*—A member proposes to enter into contract with a client to supervise office personnel on a monthly fee basis, approve vouchers for payment, and prepare monthly and quarterly operating reports. Would the independence of the member's firm be considered to be impaired with respect to the client?

.014 *Answer*—Independence of the member's firm would be considered to be impaired since management functions are being performed.

8. Member Providing Accounting and Management Advisory Services

.015 *Question*—A member has provided extensive accounting and management advisory services for a client. In that connection, the member has attended board meetings, interpreted financial statements, forecasts and other analyses, counseled on potential expansion plans, and counseled on negotiations with bankers. Would the independence of the member's firm be considered to be impaired under these circumstances?

.016 *Answer*—The services described are those often provided by members for clients. If the services performed conform to the requirements of Interpretation 101-3, independence of the member's firm would not be considered to be impaired.

9. Member as Representative of Creditors' Committee

.017 *Question*—A member has been asked to perform the following functions for a creditors' committee in control of a debtor corporation which will continue to operate under its existing management subject to extension agreements:

- a. Cosign checks issued by the debtor corporation.
- b. Cosign purchase orders in excess of established minimum amounts.
- c. Exercise general supervision to insure compliance with budgetary controls and pricing formulas established by management, with the consent of the creditors, as part of an overall program aimed at the liquidation of deferred indebtedness.

Would the independence of the member's firm be considered to be impaired with respect to the debtor corporation?

.018 *Answer*—Independence of the member's firm would be considered to be impaired under each of the three situations described since these are management functions.

10. Member as Legislator

.019 *Question*—A member is an elected legislator in a local government. The city manager, who is responsible for all administrative functions, is also an elected official. Would the independence of the member's firm be considered to be impaired with respect to the governmental entity?

.020 *Answer*—Independence of the member's firm would be considered to be impaired if the member served as an elected

legislator in a municipal body at the same time his firm is engaged as auditor for the body, even though the city manager is an elected official rather than an appointee of the legislature.

11. Member as Executor or Trustee

.021 *Question*—A member has been asked to serve as an executor and trustee of the estate of an individual who owns the majority of the stock of a closely held corporation. Would the independence of the member's firm be considered to be impaired under these circumstances?

.022 *Answer*—The mere designation of a member to become executor or trustee would not impair independence of the member's firm. Actual service in either capacity, however, would impair independence.

12. Member as Trustee

.023 *Question*—A tax exempt charitable foundation is the sole beneficiary of the estate of the foundation's deceased organizer. If a member becomes a trustee of the foundation, would the independence of the member's firm be considered to be impaired with respect to (1) the foundation and (2) the estate?

.024 *Answer*—If a member accepted the invitation to become a trustee of the foundation, independence of the member's firm would be considered to be impaired with respect to both the foundation and the estate.

13. Member as Bank Stockholder

.025 *Question*—A member in public practice holds a stock interest in a bank. Would the independence of the member's firm be considered to be impaired with respect to a client which has borrowings with the bank?

.026 *Answer*—The member's stock ownership in the bank creates an indirect financial interest with respect to the bank's customers. To the extent that such an indirect financial interest is not material, independence of the member's firm would not be considered to be impaired.

14. Member on Board of Directors of United Fund

.027 *Question*—A member serves as a director and assistant treasurer of a local United Fund, which operates as a federated fund-raising organization from which the Boy Scouts and the Legal Aid Society receive funds. Would the independence of

the member's firm be considered to be impaired with respect to the local Boy Scout council and Legal Aid Society?

.028 *Answer*—Independence of the member's firm would not be considered to be impaired provided that the United Fund does not exercise managerial control over the independent groups participating in the fund-raising organization.

15. Retired Partner as Director

.029 *Question*—A member has withdrawn from his firm after an association of several years and has become an officer and director of several corporations audited by the firm. The member proposes to maintain an office in the firm's suite, to receive phone calls through the switchboard and to perform services for the firm for which he would be compensated on an hourly basis. Would the independence of the member's former firm be considered to be impaired with respect to the clients in which the member is an officer and director?

.030 *Answer*—Independence of the member's former firm would be considered to be impaired since it appears the member is still closely associated with the firm.

16. Member on Board of Directors of Nonprofit Social Club

.031 *Question*—A member serves on the board of directors of a nonprofit social club. Would the independence of the member's firm be considered to be impaired with respect to the club?

.032 *Answer*—Independence of the member's firm would be considered to be impaired since the board of directors has the ultimate responsibility for the affairs of the club. The exception in Interpretation 101-1 was intended primarily to cover those situations in which a member lends his name to some worthy cause without assuming important administrative or financial responsibilities.

17. Member as Stockholder in Country Club

.033 *Question*—A member belongs to a country club in which membership requirements involve the acquisition of a pro rata share of equity or debt securities. Would the independence of the member's firm be considered to be impaired with respect to the country club?

.034 *Answer*—Independence of the member's firm would not be considered to be impaired since membership in such a club is essentially a social matter. Accordingly, such equity or debt ownership is not considered to be a direct financial interest

within the meaning of Rule 101. However, the member should not take part in the management of the club.

18. Member as City Council Chairman

.035 *Question*—A member is the chairman of a city council. Would the independence of the member's firm be considered to be impaired with respect to state governmental agencies and other governments within the state?

.036 *Answer*—Independence of the member's firm would not be considered to be impaired with respect to any governmental unit except those under the council's control.

19. Member on Deferred Compensation Committee

.037 *Question*—A member has been invited by a client to serve on a committee which administers the client's deferred compensation program. Service on this committee will entail general supervisory services but will not involve participation in company management. Would the independence of the member's firm be considered to be impaired under these circumstances?

.038 *Answer*—Independence of the member's firm would be considered to be impaired since service on a committee of this type would be participation, even though minor, in management functions. The member could render helpful consulting assistance without joining the committee.

20. Member Serving on Governmental Advisory Unit

.039 *Question*—A member serves on a citizens' committee which is studying possible changes in the form of a county government he audits. The member also serves on a committee appointed to make a study of the financial status of a state. Would the independence of the member's firm be considered to be impaired with respect to a county which is in that state?

.040 *Answer*—Independence of the member's firm would not be considered to be impaired with respect to the county through the member's service on either committee.

21. Member as Director of Retirement and Profit-Sharing Trust

.041 *Question*—A member has been asked to serve in the dual capacity of director of an enterprise and auditor of the financial statements of that enterprise's profit-sharing and retirement trust. Would the independence of the member's firm be considered to be impaired with respect to the trust?

.042 *Answer*—Independence of the member's firm would be considered to be impaired with respect to the enterprise's profit-sharing and retirement trust since as director of the enterprise, the member would be involved in management functions.

22. Family Relationship, Brother

.043 *Question*—A brother of a member is a stockholder and one of three vice presidents of a closely held corporation. The member is a partner in a CPA firm in the same locale. Would the independence of the member's firm be considered to be impaired with respect to this corporation because of the member's relationship with its officer-stockholder?

.044 *Answer*—The appearance of independence is lacking since the relationships between the member and his brother are presumed to be so close as to suggest that the member may not be objective in his examination.

23. Family Relationship, Uncle by Marriage

.045 *Question*—The wife of a member has an uncle by marriage. Personal contacts with the uncle are infrequent (approximately once a year). The uncle owns one-third of a company and serves as one of its officers. Would the independence of the member's firm be considered to be impaired with respect to the company?

.046 *Answer*—In the absence of special circumstances, the appearance of independence would not be lacking since the family relationship is sufficiently remote.

24. Family Relationship, Father

.047 *Question*—The father of a member serves on a school board. Would the independence of the member's firm be considered to be impaired with respect to the school district?

.048 *Answer*—The appearance of independence would be lacking with respect to any period during which the member's father served on the school board since the relationship between father and son is presumed to be so close as to suggest that the member may not be objective in his examination.

25. Family Relationship, Son

.049 *Question*—The son of a member is a director of a savings and loan association. The member's firm has been asked to audit the financial statements of the association. The son is a practicing attorney, and there is no financial relationship between father and son. Would the independence of the member's

firm be considered to be impaired under these circumstances?

.050 *Answer*—The appearance of independence would be lacking with respect to any period during which the member's son served as a director of a client since the relationship between father and son is presumed to be so close as to suggest that the member may not be objective in his examination.

26. Family Relationship, Son

.051 *Question*—A member purchased stock in a client public corporation and created a trust as an educational fund for his minor son. The trust securities were not material to the member, but were material in relation to the son's personal net worth. Would the independence of the member's firm be considered to be impaired with respect to the client corporation?

.052 *Answer*—Independence of the member's firm would be considered to be impaired since the stock would be considered a direct financial interest and, consequently, materiality is not a factor.

27. Family Relationship, Spouse as Trustee

.053 *Question*—The spouse of a member is a trustee of certain trusts. Would the independence of the member's firm be considered to be impaired with respect to an audit client if the trust purchased shares of that client?

.054 *Answer*—The control of the trust by a spouse has consistently been imputed to the other spouse for purposes of the independence rule. Accordingly, purchase by the trust of shares in an audit client would cause the independence of the member's firm to be considered to be impaired.

28. Cash Account with Brokerage Client

.055 *Question*—A member's partners and staff have cash accounts with a brokerage client. Would the independence of the member's firm be considered to be impaired?

.056 *Answer*—Independence of the member's firm would not be considered to be impaired if partners and staff had cash accounts with the brokerage firm since no extension of credit is involved. In the event a member or his firm becomes indebted to the brokerage firm or becomes a creditor of the brokerage firm, by leaving funds or securities on deposit, the independence of the the member's firm becomes questionable.

29. Member as Bondholder

.057 *Question*—A member's firm audits the financial statements of a municipal authority. The outstanding bonded indebtedness

of this municipal authority amounts to \$2,500,000. Members of the CPA firm own \$25,000 of the bonds. Would the independence of the member's firm be considered to be impaired with respect to the authority?

.058 *Answer*—Independence of the member's firm would be considered to be impaired since the members have a direct financial interest in that authority. Because the interest is direct, materiality is not an issue.

30. Financial Interest by Employee

.059 *Question*—A professional employee of a member's firm owns stock in an audit client. Would the independence of the member's firm be considered to be impaired with respect to this client?

.060 *Answer*—The appearance of independence of the member's firm would be considered to be impaired if the professional staff employee of the member's firm was either involved in the engagement or located in the office of the firm participating in a significant portion of the audit. An employee of a member's firm who is not in such circumstances might have an immaterial financial interest in the audit client of his firm without impairing the appearance of independence of his firm.

31. Financial Interest in Co-Op Apartment

.061 *Question*—A member's firm has been retained as the auditors of a cooperative apartment house. The owner of each unit has a vote in the co-op. Would the independence of the member's firm be considered to be impaired with respect to the co-op if one of its partners took an apartment in it?

.062 *Answer*—Independence of the member's firm would not be considered to be impaired under the circumstances, provided the terms of the partner's lease were comparable with the terms of the leases of the other occupants and the partner did not serve as an officer or otherwise participate in the management of the cooperative.

32. Mortgage Loan to Member's Corporation

.063 *Question*—A member is president and substantial stockholder of a company which is indebted to a savings and loan association on a loan secured by a first mortgage on a company building. Would the independence of the member's firm be considered to be impaired with respect to the savings and loan association?

.064 *Answer*—Independence of the member's firm would not be considered to be impaired provided the mortgage loan was made under normal lending procedures and requirements of the savings and loan association. However, the member is cautioned that state and federal agencies regulating the savings and loan association may have regulations to the contrary.

33. Retirement Plan Offer

.065 *Question*—A member has been offered the opportunity to join in a client employee benefit plan. Would the independence of the member's firm be considered to be impaired under these circumstances?

.066 *Answer*—Independence of the member's firm would be considered to be impaired if he accepted the "employee" designation for the purpose of entering the client's employee benefit plan.

34. Member as Auditor of Common Trust Funds

.067 *Question*—A large bank having a number of common trust funds has requested a member's firm to audit the financial statements of one of the funds. Would the independence of the member's firm be considered to be impaired with respect to the fund if (1) a partner had an immaterial financial equity interest in the bank or (2) the firm had a revolving loan agreement with the bank pursuant to which seasonal financings were made?

.068 *Answer*—(1) The audit of the common trust funds of the bank would involve auditing the trusteeship and custodianship activities and responsibilities of the bank. With respect to independence, no significant difference exists between the bank and the common trust funds which it maintains. Therefore, if a partner of the firm owns stock in the bank, he and the firm would have a direct financial interest in the bank and independence would be considered to be impaired with respect to the bank's common trust funds without regard to materiality of the equity interest.

(2) Whether under the revolving loan agreement the independence of the member's firm would be considered to be impaired would be determined by the criteria set forth in Rule 101 A.3 of the Code of Professional Ethics.

35. Stockholder in Mutual Funds

.069 *Question*—A member owns shares in a regulated mutual investment fund which holds shares of stock in clients of the member's firm. Would the independence of the member's

firm be considered to be impaired with respect to the client enterprises whose stock is held by the fund?

.070 *Answer*—Securities of the member's clients held by the mutual fund in question represent indirect financial interests of the member in securities of his clients. However, this indirect interest through ownership of mutual fund securities by a member would not normally be considered to impair the independence of the member's firm since investment decisions are management functions of the mutual fund over which the member has no influence. If the portfolio of the mutual fund was heavily invested in a client's securities, such indirect financial interest of the member could become material and impair the independence of the member's firm.

36. Stockholder in Investment Club

.071 *Question*—A member owns a one-tenth interest in an investment club. Would the independence of the member's firm be considered to be impaired with respect to a client in which the investment club holds shares?

.072 *Answer*—Independence of the member's firm would be considered to be impaired since the ownership of stock in a client through an investment club is considered a direct financial interest. Under these circumstances materiality is not an issue.

37. Retired Partner as Co-Trustee

.073 *Question*—A member's firm is negotiating a merger with another partnership. The senior partner of the latter will not become a partner of the new firm but will serve it as a consultant to facilitate the orderly transition of the clients from his former firm to the new firm. The payout of his partnership equity will be fixed and paid out over a ten-year period, unrelated to future profits. The consultant serves as a co-trustee of an estate which has a material interest in a client corporation. Would the independence of the member's new firm be considered to be impaired with respect to that client?

.074 *Answer*—Independence of the member's new firm would not be considered to be impaired since the consultant is not a partner in the new firm, does not participate in its activities, and does not share in its profits.

38. Member as Co-Fiduciary with Client Bank

.075 *Question*—A member serves with a client bank in a co-fiduciary capacity with respect to an estate or trust. Would the

independence of the member's firm be considered to be impaired with respect to the bank or its trust department?

.076 *Answer*—Independence of the member's firm would not be considered to be impaired provided the assets in the estate or trust were not material in relation to the total assets of the bank and/or trust department.

39. Member as Stock Transfer Agent and/or Registrar

.077 *Question*—Would the independence of a member's firm be considered to be impaired with respect to an audit client for whom the member serves as an officially appointed stock transfer agent and/or registrar?

.078 *Answer*—Independence of the member's firm would be considered to be impaired under Rule 101 B.1 since the functions performed by the member as transfer agent and/or registrar would be considered equivalent to that of a member of management or of an employee. Functions such as distribution of dividends and warrants and the legal transfer of the shares of outstanding capital stock would cause the independence of the member's firm to be considered to be impaired.

40. Controller Entering Public Practice

.079 *Question*—A controller of a client of a member's firm wishes to enter public practice. Arrangements have been made for him to join the firm's staff, with a view toward ultimate partnership. Prior to employment with the firm, he will have severed all connections with the client and will have disposed of all financial interests. He would have no responsibilities for the current audit of his former employer's financial statements. Would the independence of the member's firm be considered to be impaired under these circumstances?

.080 *Answer*—Independence of the member's firm would not be considered to be impaired under these circumstances because precautions are being taken to maintain the firm's independence for the period covered by the financial statements. The other precautions taken by the firm appear to assure compliance with both the letter and the spirit of Rule 101.

41. Member as Auditor of Mutual Insurance Company

.081 *Question*—A member's firm has been asked to serve as auditors for a mutual insurance company which has been funding a retirement plan for the firm's employees. Contributions

made by the firm are invested and managed by the insurance company in a pooled separate account for this and similar contracts. Would the independence of the member's firm be considered to be impaired under these circumstances?

.082 *Answer*—Independence of the member's firm would not be considered to be impaired if such funds held for the benefit of their employees are not material in relation to the net worth of the insurance company.

42. Members as Life Insurance Policy Holders

.083 *Question*—A member's firm has been asked to serve as auditors for a stock life insurance company which underwrites group term life insurance policies for the firm's partners, payable to the designated beneficiaries, not the firm. The proceeds would very likely constitute a significant part of each partner's estate. Would the independence of the member's firm be considered to be impaired under these circumstances?

.084 *Answer*—The firm's independence would not be considered to be impaired so long as the amount at risk is not material to the insurance company's underwriting activities.

43. Member's Employee as Treasurer of a Client

.085 *Question*—Would the independence of a member's firm be considered to be impaired if an employee serves as treasurer of a client which is a charitable organization?

.086 *Answer*—Independence of the member's firm would be considered to be impaired since management functions are involved.

44. Past Due Billings

.087—.088 [Deleted pending consideration of proposed revisions by the Executive Committee of the AICPA's Professional Ethics Division.]

45. Past Due Billings: Client in Bankruptcy

.089 *Question*—A client in bankruptcy had not met his obligations in regard to amounts due the member's firm for services rendered prior to the effective date of the bankruptcy. Would the independence of the member's firm be considered to be impaired with respect to the client as "debtor in possession" or as a trustee in bankruptcy because of the existing claims against the bankrupt estate?

.090 *Answer*—Independence of the member's firm would not be considered to be impaired with respect to the client as "debtor

in possession" or as the trustee since, under these circumstances, the member's claim against the client for unpaid fees is fixed as of the date of filing of the petition of bankruptcy.

46. Member as General Counsel

.091—.092 [Superseded by Ethics Ruling No. 51.]

47. Member as Auditor of Mutual Fund and Shareholder of Investment Adviser/Manager

.093 *Question*—A member is a shareholder of a mutual fund's investment adviser/manager. Would the independence of the member's firm be considered to be impaired with respect to the mutual fund?

.094 *Answer*—Independence of the member's firm would be considered to be impaired with respect to the mutual fund because the investment adviser, though usually a separate business entity, is responsible under contract for various management functions of the fund. Further, its fees are normally a function of fund net asset value. Conversely, if the member is a shareholder in the mutual fund, the independence of the member's firm would not be considered to be impaired with respect to the fund's investment adviser since the value of the fund is dependent upon the investment management advice of the adviser, not on his financial position.

48. Faculty Member as Auditor of a Student Fund

.095 *Question*—A tenured member on the faculty of a university is asked to audit the financial statements of the Student Senate Fund. The university has the following connections with this fund:

1. The basic faculty-administration-student relationship.
2. It acts as a collection agent for student fees and remits them to the Student Senate.
3. It requires that a member of the administration approve Student Senate checks by signing them.

Would the independence of the member's firm be considered to be impaired under these circumstances? Would independence be considered to be impaired if the member was in public practice and served as a part-time faculty member?

.096 *Answer*—Under either situation posed, independence of the member's firm would be considered to be impaired with respect

to the Student Senate Fund since the member would be auditing several of the management functions performed by the university, his employer.

49. Investor and Investee Companies

.097 Question—Investor and Investee Companies are audited by A and B, respectively. Investor Company owns 20 per cent of the common stock of Investee Company and accounts for its investment on the equity method. Obviously, A must be independent of Investor Company and B independent of Investee Company.

1. Must A be independent of Investee Company?
2. Must B be independent of Investor Company?

.098 Answer—If the Investor Company's investment in Investee Company or the increase in equity in the investment constitutes more than a few per cent of the assets or operations of Investor Company, A should be independent of Investee Company and B should be independent of Investor Company.

A 20 per cent investment, in the absence of evidence to the contrary, enables Investor to exercise significant influence over Investee. Although full consolidation of Investee Company would not be appropriate, the impact of the equity method of accounting on income, net assets and net worth of Investor Company would be the same as if Investee Company were an unconsolidated subsidiary or majority owned affiliate. Therefore, an investment by A in Investee Company would have many of the same characteristics as would a direct financial interest in a subsidiary of Investor Company. Further, such an investment by A could affect his judgment as to the acceptability of B's report on Investee Company. An investment by Auditor B in Investor Company could jeopardize his independence as to Investee Company because the financial results of Investee Company directly affect the financial statements of Investor Company.

50. Family Relationship, Brother-in-law

.099 Question—The brother of a member's spouse is a chief financial officer of a closely held corporation. The member is a partner in a CPA firm located in the same geographical area. The member and his spouse have frequent social contacts with the brother and jointly own a summer vacation home. Would the independence of the member's firm be considered to be impaired with respect to this corporation?

.100 *Answer*—Interpretation 101-4 states in part that a presumption that the appearance of independence is impaired would not normally arise from the financial and business relationships of remote kin who are not close. Based on the circumstances described, however, the relationship between the member and the brother-in-law is considered to be so close that the presumption of no impairment with such remote kin is negated and independence would appear to be impaired.

51. Member Providing Legal Services

.101 *Question*—A member in public practice who is also an attorney has been asked to provide legal services to a client for whom he also serves as auditor. Would the independence of the member be considered to be impaired with respect to the client?

.102 *Answer*—Rule of Conduct 101 and related pronouncements prohibit a member from expressing an opinion on the financial statements of a client the member also serves in any capacity having the appearance of being equivalent to any management function. The rule thus prohibits an auditor from serving as an officer, director or employee regardless of the actual responsibility of those positions. Independence of the member would be considered to be impaired if the legal services rendered result in undue identification with the management of the client or involvement with a client's affairs to such a degree as to place him virtually in the position of being an employee. Further, since the designation "general counsel" would appear to describe an ongoing state of such prohibited management equivalency to an objective observer, a member identified as "general counsel" cannot be considered to be independent.

ET Section 200

COMPETENCE AND TECHNICAL STANDARDS

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➡ The next page is 4561. ←

ET Section 201

Competence

Effective March 1,
1973, unless other-
wise indicated

- .01 Rule 201—Competence.** A member shall not undertake any engagement which he or his firm cannot reasonably expect to complete with professional competence.

Interpretation under Rule 201—Competence

- .02 201-1—Competence.** A member who accepts a professional engagement implies that he has the necessary competence to complete the engagement according to professional standards, applying his knowledge and skill with reasonable care and diligence, but he does not assume a responsibility for infallibility of knowledge or judgment.

Competence in the practice of public accounting involves both the technical qualifications of the member and his staff and his ability to supervise and evaluate the quality of the work performed. Competence relates both to knowledge of the profession's standards, techniques and the technical subject matter involved, and to the capability to exercise sound judgment in applying such knowledge to each engagement.

The member may have the knowledge required to complete an engagement professionally before undertaking it. In many cases, however, additional research or consultation with others may be necessary during the course of the engagement. This does not ordinarily represent a lack of competence, but rather is a normal part of the professional conduct of an engagement.

However, if a CPA is unable to gain sufficient competence through these means, he should suggest, in fairness to his client and the public, the engagement of someone competent to perform the needed service, either independently or as an associate.

➤➤➤→ *The next page is 4571.* ←➤➤➤

ET Section 202

Auditing Standards

Effective March 1,
1973, unless other-
wise indicated

- .01 Rule 202—Auditing standards.** A member shall not permit his name to be associated with financial statements in such a manner as to imply that he is acting as an independent public accountant unless he has complied with the applicable generally accepted auditing standards¹ promulgated by the Institute. Statements on Auditing Procedure² issued by the Institute's committee on auditing procedure are, for purposes of this rule, considered to be interpretations of the generally accepted auditing standards, and departures from such statements must be justified by those who do not follow them.

Interpretation under Rule 202—Auditing Standards

- .02 202-1—Unaudited financial statements.** Rule 202 does not preclude a member from associating himself with the unaudited financial statements of his clients. The Rule states in part that "A member shall not permit his name to be associated with financial statements in such a manner as to imply that he is acting as an independent public accountant unless he has complied with the *applicable* (Italics provided) generally accepted auditing standards promulgated by the Institute."

In applying this provision to situations in which a member's name is associated with unaudited financial statements, it is necessary to recognize that the standards were specifically written to apply to audited financial statements. The fourth reporting standard, however, was made sufficiently broad to be applicable to unaudited financial statements as well.

The fourth reporting standard states in part:

" . . . In *all* cases where an auditor's name is associated with financial statements, the report should contain a clear-cut

¹ Ten generally accepted auditing standards are listed in Appendix A.

² Statements on Auditing Procedure, which were codified in Statement on Auditing Standards No. 1, are now issued as Statements on Auditing Standards by the auditing standards executive committee, the senior technical committee of the Institute designated to issue pronouncements on auditing matters and the successor body to the Institute's committee on auditing procedure. [See Volume 1, AICPA Professional Standards.]

indication of the character of the auditor's examination, *if any*, and the degree of responsibility he is taking." (Italics provided)

Those sections of *Statements on Auditing Standards* and related guides which deal with unaudited financial statements provide guidance to members associated with such statements. [See AU section 516.]

➤→ *The next page is 4581.* ←➤

ET Section 203**Accounting Principles**

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 203—Accounting principles. A member shall not express an opinion that financial statements are presented in conformity with generally accepted accounting principles if such statements contain any departure from an accounting principle promulgated by the body designated by Council¹ to establish such principles which has a material effect on the statements taken as a whole, unless the member can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading. In such cases his report must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

Interpretations under Rule 203—Accounting principles

.02 203-1—Departures from established accounting principles. Rule 203 was adopted to require compliance with accounting principles promulgated by the body designated by Council to establish such principles. There is a strong presumption that adherence to officially established accounting principles would in nearly all instances result in financial statements that are not misleading.

However, in the establishment of accounting principles it is difficult to anticipate all of the circumstances to which such principles might be applied. This rule therefore recognizes that upon occasion there may be unusual circumstances where the literal application of pronouncements on accounting principles would have the effect of rendering financial statements misleading. In such cases, the proper accounting treatment is that which will render the financial statements not misleading.

The question of what constitutes unusual circumstances as referred to in Rule 203 is a matter of professional judgment in-

¹ See Appendix B.

volving the ability to support the position that adherence to a promulgated principle would be regarded generally by reasonable men as producing a misleading result.

Examples of events which may justify departures from a principle are new legislation or the evolution of a new form of business transaction. An unusual degree of materiality or the existence of conflicting industry practices are examples of circumstances which would not ordinarily be regarded as unusual in the context of Rule 203.

.03 203-2—Status of FASB interpretations. Council is authorized under Rule 203 to designate a body to establish accounting principles and has designated the Financial Accounting Standards Board as such body. Council also has resolved that FASB Statements of Financial Accounting Standards, together with those Accounting Research Bulletins and APB Opinions which are not superseded by action of the FASB, constitute accounting principles as contemplated in Rule 203.

In determining the existence of a departure from an accounting principle established by a Statement of Financial Accounting Standards, Accounting Research Bulletin or APB Opinion encompassed by Rule 203, the division of professional ethics will construe such Statement, Bulletin or Opinion in the light of any interpretations thereof issued by the FASB.

➤➤➤→ *The next page is 4591.* ←➤➤➤

ET Section 204

Forecasts

Effective March 1,
1973, unless other-
wise indicated

- .01 Rule 204—Forecasts.** A member shall not permit his name to be used in conjunction with any forecast of future transactions in a manner which may lead to the belief that the member vouches for the achievability of the forecast.

Interpretation under Rule 204—Forecasts

- .02 204-1—Forecasts.** Rule 204 does not prohibit a member from preparing, or assisting a client in the preparation of, forecasts of the results of future transactions. When a member's name is associated with such forecasts, there shall be the presumption that such data may be used by parties other than the client. Therefore, full disclosure must be made of the sources of the information used and the major assumptions made in the preparation of the statements and analyses, the character of the work performed by the member, and the degree of the responsibility he is taking.
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»»»→ *The next page is 4601.* ←«««

ET Section 291***Ethics Rulings on Competence
and Technical Standards***

Effective date March
1, 1973, unless other-
wise indicated

1. Association of Name with Unaudited Statements Where Member is Not Independent

.001 *Question*—A member in the practice of public accounting is a minority stockholder, officer, and director of a corporation for which his firm performs management and accounting services. As a corporate officer, the member has prepared financial statements for the corporation for presentation to a bank. The accounting firm was paid for the member's services in connection with the preparation of the statements, and the bank was made aware that the statements were not audited. What are the ethical considerations?

.002 *Answer*—Section 516 of Statement on Auditing Standards 1 [AU section 516, Volume 1, AICPA PROFESSIONAL STANDARDS.] provides that when a CPA submits to his client or another unaudited financial statements which he has prepared, he is deemed to be associated with the statements. This association is deemed to exist even though the CPA does not append his name to the financial statements.

The member, as an officer, can prepare the statements for the corporation. But because he is also engaged in public practice and the corporation is a client of his firm, he should disclaim an opinion as he is lacking in independence. The financial statements should also be marked "Unaudited—see accompanying disclaimer of opinion." (Section 517 of Statement on Auditing Standards 1.) [AU section 517.]

2. Opinion by Member Not in Public Practice

.003 *Question*—A member has become an employee of a corporation with extensive outside interests. The employer asks the member to perform examinations of these corporate interests and to express an opinion for internal purposes only. Would there be any violation of the Code if these examinations were made and an opinion were expressed by the member?

.004 *Answer*—The member is not in practice as a public accountant and may perform services required by his employer, including performing an examination of outside corporate interests. He may use his CPA designation in his internal reports if his status as an employee is made clear. The internal reports should be issued on his employer's letterhead and should make no reference to generally accepted auditing standards. If the internal reports are made available to third parties, the member should use only his title as an employee and omit any reference to his CPA designation.

3. Controller, Preparation of Financial Statements

.005 *Question*—A corporation which employs a member as controller is audited by a firm of CPAs. The controller examines the financial statements of a subsidiary corporation. Can the outside firm accept the controller's opinion or report on these financial statements as one meeting the requirements of generally accepted auditing standards?

.006 *Answer*—It could not, since, as an employee of the corporation, the controller cannot express an independent opinion on financial statements of the subsidiary.

4. Two-Year Opinion—Prior Year Previously Unaudited

.007 *Question*—A member was engaged for one fiscal year to prepare unaudited financial statements. He was engaged by the same client for the following fiscal year to perform an audit in accordance with generally accepted auditing standards. May he express an unqualified opinion on the statements of income and changes in financial position for the two fiscal years?

.008 *Answer*—Nothing would prevent the member from expressing such an unqualified opinion provided he carried out necessary audit procedures. The fact that the member had originally disclaimed an opinion on the preceding year's financial statements because they were unaudited would not preclude him from subsequently expressing an opinion on the audited statements for that year.

In performing his audit for the current year, it is assumed that the member made his audit in conformity with generally accepted auditing standards and performed all auditing procedures considered necessary in the circumstances including observation of the taking of the physical inventory. He would then be able to express an unqualified opinion on the balance sheet at the close of the current year.

For example, even though the member did not observe the taking of the physical inventories at the beginning of the current year and at the beginning of the preceding year, he may be able to satisfy himself as to such prior inventories through appropriate procedures (see section 331.13 of Statement on Auditing Standards No. 1). [AU section 331.13.] If he can satisfy himself as to the prior inventories and if he audits the statements of income and changes in financial position for the preceding year in accordance with generally accepted auditing standards, he should be able to express an unqualified opinion on those statements for the two years. The member is not required to disclose that he did not observe the taking of the earlier inventories although he may wish to do so. [AU section 509.12.]

If the member is not able to satisfy himself as to the inventory at the beginning of the current year and the inventory enters materially into the determination of results of operations and changes in financial position, he would be unable to express an opinion on the statements of income and changes in financial position for the current year. His report on the financial statements for that year would follow the illustration in section 542.05 of Statement on Auditing Standards No. 1. [AU section 542.05.]

It is assumed the member has been able to satisfy himself as to the consistency of the application of generally accepted accounting principles (see section 420 of Statement on Auditing Standards No. 1). [AU section 420.]

5. Unaudited Interim Financial Statements

.009 *Question*—Unaudited interim reports issued by clients sometimes contain the auditor's name listed on the cover or elsewhere along with the company's officers, board of directors, and legal counsel. Would this listing constitute an "association" of a member's name with financial statements as that term is used in Rule 202 of the Code of Professional Ethics?

.010 *Answer*—Yes, such a listing would be considered an "association" of a member's name with the accompanying financial statements as that term is used in Rule 202. Accordingly, in such circumstances, each financial statement in such a report should be marked "unaudited."

The auditor should also be aware that section 516.04 of Statement on Auditing Standards 1 [AU section 516.04.] states that a disclaimer of opinion should accompany unaudited financial statements with which the CPA is associated. Accordingly, he may suggest to his client that wording such as the following be

included in the interim report: "The financial information included in this interim report has been prepared by management without audit by independent public accountants who do not express an opinion thereon. Semiannual (annual) reports will contain audited financial statements."

The member should have a clear understanding with his client with respect to issuance of interim reports which display the name of the member's firm along with unaudited financial statements, and he should not permit his name to be associated with the financial statements in a manner which might lead a reader to believe that the auditor is assuming some degree of responsibility for the unaudited statements.

6. Letterhead

.011 *Question*—A member performs accounting services on a gratis basis for a private club of which he is treasurer. His firm does no work for the club. Would it be proper for him to issue financial statements in connection with his accounting services for the club on his firm letterhead with a disclaimer for lack of independence?

.012 *Answer*—It would be preferable for the stationary of the club to be used for presentation of the financial statements with an indication that the auditor is acting as treasurer. However, should he use his firm's letterhead, section 517 of Statement on Auditing Standards 1 [AU section 517.] is applicable.

7. Non-CPA Partner

.013 *Question*—May a member who is in partnership with non-CPAs sign reports with the firm name and below it affix his own signature with the designation "Certified Public Accountant"?

.014 *Answer*—This would not be improper, provided it is clear that the partnership itself is not being held out as composed entirely of CPAs.

ET Section 301

Confidential Client Information

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 301—Confidential client information. A member shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client.

This rule shall not be construed (a) to relieve a member of his obligation under Rules 202 and 203, (b) to affect in any way his compliance with a validly issued subpoena or summons enforceable by order of a court, (c) to prohibit review of a member's professional practices as a part of voluntary quality review under Institute authorization or (d) to preclude a member from responding to any inquiry made by the ethics division or Trial Board of the Institute, by a duly constituted investigative or disciplinary body of a state CPA society, or under state statutes.

Members of the ethics division and Trial Board of the Institute and professional practice reviewers under Institute authorization shall not disclose any confidential client information which comes to their attention from members in disciplinary proceedings or otherwise in carrying out their official responsibilities. However, this prohibition shall not restrict the exchange of information with an aforementioned duly constituted investigative or disciplinary body.

Interpretation under Rule 301—Confidential client information

.02 301-1—Confidential information and technical standards. The prohibition against disclosure of confidential information obtained in the course of a professional engagement does not apply to disclosure of such information when required to properly discharge the member's responsibility according to the profession's standards. The prohibition would not apply, for example, to disclosure, as required by Section 561 of Statement

on Auditing Standards No. 1 [AU section 561], of subsequent discovery of facts existing at the date of the auditor's report which would have affected the auditor's report had he been aware of such facts.

➤ *The next page is 4681.* ←

ET Section 302***Contingent Fees***

**Effective March 1,
1973, unless other-
wise indicated**

.01 Rule 302—Contingent fees. Professional services shall not be offered or rendered under an arrangement whereby no fee will be charged unless a specified finding or result is attained, or where the fee is otherwise contingent upon the findings or results of such services. However, a member's fees may vary depending, for example, on the complexity of the service rendered.

Fees are not regarded as being contingent if fixed by courts or other public authorities or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

»»»→ *The next page is 4691.* ←«««

ET Section 391

Ethics Rulings on Responsibilities to Clients

Effective date March
1, 1973, unless other-
wise indicated

1. Computer Processing of Clients' Returns

.001 *Question*—May a member make use of an outside service bureau for the processing of clients' tax returns? The member's firm would control the input of information and the computer service would perform the mathematical computations and print the return. Is there any violation of the confidential relationship in the fact that client information leaves the member's office?

.002 *Answer*—A member may utilize outside services to process tax returns. He must take all necessary precautions to be sure that the use of outside services does not result in the release of confidential information.

2. Distribution of Client Information to Trade Associations

.003 *Question*—A member's firm is requested by a trade association to supply profit and loss percentages taken from the reports of the accountants' clients. The association would distribute them to its members. May the firm comply with the request?

.004 *Answer*—Rule 301 would not be violated if the firm has the clients' permission to distribute the figures.

3. Information to Successor Accountant About Tax Return Irregularities

.005 *Question*—A member withdrew from an engagement on discovering irregularities in his client's tax return. May he reveal to the successor accountant why the relationship was terminated?

.006 *Answer*—Rule 301 is not intended to help an unscrupulous client cover up illegal acts or otherwise hide information by changing CPAs. If the member is contacted by the successor he should, at a minimum, suggest that the successor ask the client to permit the member to discuss all matters freely with the successor. The successor is then on notice of some conflict. Because of the serious legal implications, the member should seek legal advice as to his status and obligations in the matter.

4. Prior Client Relationship

.007 *Question*—A member's firm was replaced after 20 years as auditors of an international union. The firm was then retained by certain members of local unions who brought suit against the international union charging misuse of funds, mismanagement, etc. The member's firm was asked to examine the records of the international union for a period which included part of the period during which it served as the international's auditors. Would the special examination violate Rule 301 because of the former client relationship?

.008 *Answer*—There appears to be such a serious conflict of interest that the member's firm should not accept the engagement.

5. Records Retention Agency

.009 *Question*—May a member use a records-retention agency to store his clients' records, working papers, and so forth?

.010 *Answer*—There is no objection to the use of such a records center. However, responsibility for preserving the confidential nature of the records rests with the member.

6. Revealing Client Information to Competitors

.011 *Question*—A municipality in a particular state enforces a personal property tax on business inventories, fixtures and equipment, and machinery by retaining a firm of CPAs to examine the books and records of the businesses to be sure the proper amount has been declared. In the course of its engagement, the CPA firm will examine sales, purchases, gross profit percentages, and inventories as well as fixed asset accounts. A member serving one of the companies involved objects to these procedures on the ground that information gathered from the books and records of his client could be inadvertently conveyed to competitors by employees of the CPA firm doing the audit. Is such an engagement ethically proper?

.012 *Answer*—It would be proper for a member's firm to perform such services. It should be emphasized to everyone concerned that Rule 301 prohibits members from revealing to others any confidential information obtained in their professional capacity.

7. Revealing Names of Employer's Clients

.013 *Question*—A staff member wishes to submit his resume to another firm. May he include as part of his experience the names of companies for which he performed audits?

.014 *Answer*—The mere engagement of a member's firm is often a confidential matter between accountant and client. Unless

the company is publicly held, a member should not reveal the fact that he had served on an assignment without the client's permission.

8. Fee as Percentage of Bond Issue

.015 *Question*—Is it proper for a member to determine his fee for services rendered in connection with a bond issue as a percentage of the total amount of the bond issue?

.016 *Answer*—The member's fee for services rendered in connection with a bond issue should not be based upon the percentage of the total amount of the issue since that amount is often, in part, influenced by the findings of the member. Furthermore, the receipt of a fee by a member in connection with such work should not be contingent upon whether or not the bond issue is sold.

The member's fee should be related to services rendered and should not be determined by his findings or the results of his findings.

9. Finder's Fee

.017 *Question*—Would the occupation of finder for a client in the acquisition of another company be considered incompatible with public accounting? If a member may serve as finder, would he violate Rule 302 by charging a fee contingent upon the acquisition and based on a percentage of the acquisition price?

.018 *Answer*—The occupation of finder is not incompatible with public accounting. Rule 302, which prohibits a member from rendering a service for a fee contingent upon the results of such service, would prohibit such fee arrangements. The receipt of a fee should be determined by the service to be rendered and should not depend on whether or not the sale takes place; nor should the amount of the fee be based on a percentage of the acquisition price.

10. Fee as Expert Witness

.019 *Question*—May a member, as an expert witness in a damage suit, receive compensation based on the amount awarded the plaintiff?

.020 *Answer*—Such an agreement would violate Rule 302, which prohibits contingent fees. Compensation for expert testimony may be at a standard per diem rate for such services or at a fixed sum previously agreed upon.

11. Fee Contingent on Mortgage Commitment

.021 *Question*—A member provides accounting services in connection with construction projects financed primarily by FHA-insured mortgages. His fee for such services is determined as a fixed percentage of the mortgage commitment finally granted by FHA. Prior to such commitment the member would have offered advisory accounting services. If no commitment was granted, no fee would be charged for advisory services. Is this arrangement permissible?

.022 *Answer*—A fee based on the percentage of a mortgage obtained would be a contingent fee, for the amount of the commitment could vary directly with the results of the member's services.

12. Fee as a Percentage of Tax Savings

.023 *Question*—May a member base his fee for preparing a tax return on how much in taxes he can save his client?

.024 *Answer*—Basing a fee for preparing a tax return on the amount saved in taxes would be a violation of Rule 302. A properly prepared return results in a proper tax liability, and there is no basis for computing a saving. To make a fee contingent upon the amount of taxes saved presumes a tax liability has been established which an accountant is attempting to reduce, whereas all persons concerned with the preparation of a tax return should attempt to determine only the correct tax liability. A member who computes his fee in the manner suggested in the question would also violate Rule 501.

13. Contingent Fees to Fire Adjuster

.025 *Question*—A member's client is a public fire adjuster who assists insured persons in negotiating settlements of fire losses with insurance companies. The adjuster's fee is based on a percentage of the recovery. In negotiating such settlements, the adjuster needs financial statements for a three-year period, prepared without audit from the books and records of the insured. Could the member provide such services for a fee which would be a percentage of the fee received by the adjuster?

.026 *Answer*—Since the fee is dependent upon the amount of the settlement, it is a contingent fee in violation of Rule 302.

ET Section 400

RESPONSIBILITIES TO COLLEAGUES

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➤➤➤ → *The next page is 4751.* ← ➤➤➤

ET Section 401***Encroachment***

**Effective March 1,
1973, unless other-
wise indicated**

.01 Rule 401—Encroachment. A member shall not endeavor to provide a person or entity with a professional service which is currently provided by another public accountant except:

1. He may respond to a request for a proposal to render services and may furnish service to those who request it. However, if an audit client of another independent public accountant requests a member to provide professional advice on accounting or auditing matters in connection with an expression of opinion on financial statements, the member must first consult with the other accountant to ascertain that the member is aware of all the available relevant facts.

2. Where a member is required to express an opinion on combined or consolidated financial statements which include a subsidiary, branch or other component audited by another independent public accountant, he may insist on auditing any such component which in his judgment is necessary to warrant the expression of his opinion.

A member who receives an engagement for services by referral from another public accountant shall not accept the client's request to extend his service beyond the specific engagement without first notifying the referring accountant, nor shall he seek to obtain any additional engagement from the client.

Interpretations under Rule 401—Encroachment

.02 401-1—Relations with clients also served by other public accountants. The unsolicited sending to clients of firm literature or invitations to seminars which cover services that are currently being rendered to the client by another public accountant is considered a violation of Rule 401.

.03 401-2—Reliance on work of others. Rule 401 makes clear that it is not improper for a member expressing his opinion on combined or consolidated financial statements to insist on

auditing such components as are necessary in his judgment to comply with Section 543 of Statement on Auditing Standards No. 1. [AU section 543.]

The auditor's exercise of judgment in this regard is subject to review. Insistence upon auditing an unreasonably large portion of the financial statements may lead to the conclusion that the auditor's judgment was a part of a plan or design to solicit an engagement, which action would be a violation of Rule 401 against encroachment.

➤➤➤→ *The next page is 4761.* ←➤➤➤

ET Section 402***Offers of Employment***

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 402—Offers of employment. A member in public practice shall not make a direct or indirect offer of employment to an employee of another public accountant on his own behalf or that of his client without first informing such accountant. This rule shall not apply if the employee of his own initiative or in response to a public advertisement applies for employment.

➤➤➤→ *The next page is 4771.* ←➤➤➤

ET Section 491***Ethics Rulings on
Responsibilities
to Colleagues***

Effective date March
1, 1973, unless indi-
cated otherwise

1. Audits of Bank Customers

.001 *Question*—A member's firm has been requested by a commercial bank to audit certain records of borrowers and potential borrowers. The bank has requested that the firm bill the borrowers directly for services rendered. In some cases the borrower has had a continuing relationship with other public accountants. May the firm undertake such engagements?

.002 *Answer*—There is nothing unethical in a member's examining the records of a bank's customer at the bank's request. The member should be careful to observe professional courtesies, particularly when the borrower already has a CPA. Such CPA should be put on notice that at the bank's request the member is going to do some professional work for his client.

2. Bond Issue

.003 *Question*—May a member's firm accept a consulting assignment from a municipal government in connection with a bond issue when the firm believes the assignment may lead to an eventual request by the municipality to perform the annual audit, a service currently rendered by another accounting firm?

.004 *Answer*—As long as the member's firm does not solicit the audit engagement, it could accept a consulting assignment from a municipality audited by another CPA. But the member's firm, when it is requested to perform consulting services for a municipality, should inform the auditors of the municipality as a professional courtesy.

3. Consulting Engagement

.005 *Question*—A member gave advice on a tax question to a client that he had served for the past ten years. The client, with the approval of the member, submitted the question to another CPA firm which concurred with the member's advice on the tax question and subsequently sent a general client memorandum dealing with taxes to the member's client. Has the second CPA firm violated Rules 401 and 502 of the Code?

.006 *Answer*—Yes, since at the conclusion of an engagement that is clearly a consulting engagement for a specific question, the client relationship ceases particularly if the client is being served on a regular basis by another accountant.

4. Successor Partnership

.007 *Question*—Three months after withdrawing from an accounting partnership, a former partner asks the firm to make available to him the working papers and tax files of a client of the partnership which the former partner has been asked to serve. Assuming that there had been no contact by the withdrawing partner with the client, is the former partner encroaching on the practice of the firm? Is the firm obligated to furnish working papers and tax files relating to the client of the former partner?

.008 *Answer*—Clients have the right to choose whether to retain the partnership or to be served by the withdrawn partner, and no time limit can reasonably be set to their making this choice, assuming that there is no contractual relationship between the partnership and the former partner which would preclude his undertaking such work. With regard to the availability of the working papers, they are the property of the partnership and although not required to do so by the Code of Professional Ethics the partnership would normally be expected to make them accessible to the successor accountant to serve the best interests of the client.

5. Tax Committee Chairman

.009 *Question*—May an Institute member not in public practice serve as chairman of a taxation committee of his trade association? The committee, which includes another CPA and an attorney, offers tax advice to members of the association.

.010 *Answer*—A member not in public practice may serve in such voluntary capacity as long as the advice is given without charge by the individuals, the committee or the association and is freely available as a service to all association members.

6. Distribution of Memorandum to Apartment Owners of Client

.011 *Question*—A member retained by a cooperative apartment complex sends a memorandum concerning tax assessments to all apartment owners in the cooperative, many of whom may be clients of other CPAs. Does distribution of this memorandum constitute a violation of Rules 401 and 502?

.012 *Answer*—Since the cooperative is the client of the member, it would be proper for the member to distribute a memorandum containing needed tax information to apartment owners in the cooperative.

7. Employment Ads: "Help Wanted" for Firm

.013 *Question*—A member's firm ran a classified ad offering employment in accounting and directed applicants to write to a box number. Does such an ad constitute a violation of Rule 402, prohibiting offers of employment to employees of other public accountants without first informing such accountants?

.014 *Answer*—The ad does not violate Rule 402 because the Rule does not apply if the employee of his own initiative or in response to a public advertisement applies for employment.

ET Section 500

OTHER RESPONSIBILITIES AND PRACTICES

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➤➤➤→ *The next page is 4831.* ←➤➤➤

ET Section 501

Acts Discreditable

Effective March 1,
1973, unless other-
wise indicated

- .01 **Rule 501—Acts discreditable.** A member shall not commit an act discreditable to the profession.

Interpretations under Rule 501—Acts Discreditable

- .02 **501-1—Client's records and accountant's workpapers.** Retention of client records after a demand is made for them is an act discreditable to the profession in violation of Rule 501. The fact that the statutes of the state in which a member practices may specifically grant him a lien on all client records in his possession does not change the ethical standard that it would be a violation of the Code to retain the records to enforce payment.

A member's working papers are his property and need not be surrendered to the client. However, in some instances a member's working papers will contain data which should properly be reflected in the client's books and records but which for convenience have not been duplicated therein, with the result that the client's records are incomplete. In such instances, the portion of the working papers containing such data constitutes part of the client's records, and copies should be made available to the client upon request.

If a member is engaged to perform certain work for a client and the engagement is terminated prior to the completion of such work, the member is required to return or furnish copies of only those records originally given to the member by the client.

Examples of working papers that are considered to be client's records would include:

- a. Worksheets in lieu of books of original entry (e. g., listings and distributions of cash receipts or cash disbursements on columnar working paper).
- b. Worksheets in lieu of general ledger or subsidiary ledgers, such as accounts receivable, job cost and equipment ledgers or similar depreciation records.

- c. All adjusting and closing journal entries and supporting details. (If the supporting details are not fully set forth in the explanation of the journal entry, but are contained in analyses of accounts in the accountant's working papers, then copies of such analyses must be furnished to the client.)
- d. Consolidating or combining journal entries and worksheets and supporting detail used in arriving at final figures incorporated in an end product such as financial statements or tax returns.

Any working papers developed by the member incident to the performance of his engagement which do not result in changes to the clients' records or are not in themselves part of the records ordinarily maintained by such clients, are considered to be solely "accountant's working papers" and are not the property of the client, e. g. :

The member may make extensive analyses of inventory or other accounts as part of his selective audit procedures. Even if such analyses have been prepared by client personnel at the request of the member, they nevertheless are considered to be part of the accountant's working papers.

Only to the extent such analyses result in changes to the client's records would the member be required to furnish the details from his working papers in support of the journal entries recording such changes unless the journal entries themselves contain all necessary details.

Once the member has returned the client's records to him or furnished him with copies of such records and/or necessary supporting data, he has discharged his obligation in this regard and need not comply with any subsequent requests to again furnish such records.

If the member has retained in his files copies of a client's records already in possession of the client, the member is not required to return such copies to the client.

➤→ *The next page is 4841.* ←➤

ET Section 502

Solicitation and Advertising

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 502—Solicitation and advertising. A member shall not seek to obtain clients by solicitation. Advertising is a form of solicitation and is prohibited.

Interpretations under Rule 502—Solicitation and advertising

.02 502-1—Announcements and press releases: Changes in firm status. Announcements are permitted to inform clients and others of changes in partnership status or location of the firm. Thus announcements may be issued on changes in partners, firm mergers, changes in telephone number, the opening of new offices and office relocations.

Announcements may be mailed to clients and individuals other than clients, such as lawyers and bankers, with whom professional contacts are maintained. Announcements may not contain material that tends to deprecate other firms.

Announcements sent to nonclients as described above:

1. Should be confined to objective statements of fact and should not promote the firm through self-laudatory statements of accomplishment.

2. Should not refer to fields of specialization or contain statements as to the expertise of the firm or its members.

3. Should not give information not specifically related to the change, such as prior affiliations, the total number of partners, employees, offices, clients, etc.

Press releases announcing changes in the partnership status of the firm or its locations are permitted with the following limitations:

1. They should be distributed to the news media only once.

2. They should be distributed only within the geographic area in which the member maintains a bona fide office and to which the facts are relevant or significant.

3. The content is governed by the same criteria as announcements to nonclients.

.03 502-2—Office premises. Listing of the firm name in lobby directories of office buildings and on entrance doors solely for the purpose of enabling interested parties to locate an office is permissible. The listing should be in good taste and modest in size.

The indication of a specialty such as “income tax” in such listing constitutes advertising.

.04 502-3—Directories: telephone, classified and trade association. A listing in a telephone, trade association, membership or other classified directory shall not:

1. Appear in a box or other form of display, or in a type or style which differentiates it from other listings in the same directory.

2. Appear in more than one place in the same classified directory.

3. Appear under a heading other than “Certified Public Accountant” or “Public Accountant” where the directory is classified by type of business occupation or service.

4. Be included in the yellow pages or business section of a telephone directory unless the member maintains a bona fide office in the geographic area covered. Determination of what constitutes an “area” shall be made by referring to the positions taken by state CPA societies in the light of local conditions.

Such listing may:

1. Include the firm name, partners’ names, professional title (CPA), address and telephone number.

2. Be included under both the geographical and alphabetic section where the directory includes such sections.

.05 502-4—Business stationery. A member’s stationery should be in keeping with the dignity of the profession and not list any specialty.

The stationery may include the firm name, address and telephone number, names of partners, names of deceased partners and their years of service, names of professional staff when preceded by a line to separate them from the partners, and cities

in which other offices and correspondents or associates are located. Membership in the Institute or state CPA society or associated group of CPA firms whose name does not indicate a specialty may also be shown. In the case of multi-office firms, it is suggested that the words "offices in other principal cities" (or other appropriate wording) be used instead of a full list of offices. Also it is preferable to list only the names of partners resident in the office for which the stationery is used.

- .06 502-5—Business cards.** Business cards may be used by partners, sole practitioners and staff members. They should be in good taste and should be limited to the name of the person presenting the card, his firm name, address and telephone number(s), the words "Certified Public Accountant(s)," or "CPA" and such words as "partner," "manager" or "consultant" but without any specialty designation.

Members not in the practice of public accounting may use the title "Certified Public Accountant" or "CPA" but shall not do so when engaged in sales promotion, selling or similar activities.

- .07 502-6—Help wanted advertisements.** A member shall not include his name in help-wanted or situations-wanted display advertising on his own behalf or that of others in any publication. In display advertising, the use of a telephone number, address, or newspaper box number is permissible.

In classified advertisements other than display, the member's name should not appear in boldface type, capital letters or in any other manner which tends to distinguish the name from the body of the advertisement.

- .08 502-7—Firm publications.** Newsletters, bulletins, house organs, recruiting brochures and other literature prepared and distributed by a firm for the information of its staff and clients serve a useful purpose. The distribution of such material outside the firm must be properly controlled and should be restricted to clients and individuals, such as lawyers and bankers, with whom professional contacts are maintained. Copies may also be supplied to job applicants, to students considering employment interviews, to nonclients who specifically request them and to educators.

If requests for multiple copies are received and granted, the member and his firm are responsible for the distribution by the party to whom they are issued.

No firm publication should contain comments that are derogatory to other firms. In addition, if it is likely that non-

clients or the general public will have access to the material, care must be exercised not to include aggrandizing statements.

- .09 502-8—Newsletters and publications prepared by others.** A member shall not permit newsletters, tax booklets or similar publications to be imprinted with his firm's name if they have not been prepared by his firm.
- .10 502-9—Responsibility for publisher's promotional efforts.** It is the responsibility of a member to see that the publisher or others who promote distribution of his writing observe the boundaries of professional dignity and make no claims that are not truthful and in good taste. The promotion may indicate the author's background including, for example, his education, professional society affiliations and the name of his firm, the title of his position and principal activities therein. Subjective designations or statements which proclaim the author as an expert in any specialty may not be used. Repetition of credits in a series of articles in the public press could be construed to be a violation of Rule 502.
- .11 502-10—Information to the media.** A member shall not directly or indirectly cultivate publicity which advertises his or his firm's professional attainments or services. He may respond factually if approached by the press for information concerning his firm, but he should not use press inquiries as a means of aggrandizing himself or his firm or of advertising professional attainments or services. When interviewed by a writer or reporter, he is charged with the knowledge that he cannot control the journalistic use of any information he may give and should notify the reporter of the limitations imposed by professional ethics. A member may give information to the reporter or writer about his firm, such as its size, number of partners and employees, location, etc. He should not make statements to the writer or reporter as to comparative size with other firms or other statements that would tend to aggrandize his firm at the expense of other professionals.

Technical research reports and studies on accounting and related business subjects may be distributed to the media provided such material does not contain information about the firm or its members beyond the authorship credits permitted in Interpretation 502-9. Authorship may be credited to individual member(s) or to the firm.

Press releases and public statements made by members or firms enunciating a policy or position related to the practice of

public accounting or addressed to a subject of public interest are permitted.

Publicity arising out of the member's involvement in public service activities is not considered advertising provided the publicity is not initiated by the member.

In any material released to the public the member shall confine himself to statements concerning the subject of the release, shall not promote himself or his firm through self-laudatory statements of accomplishments, or make statements that tend to deprecate other members.

.12 502-11—Participation in educational seminars. Participation by members in programs of educational seminars, either in person or through audiovisual techniques, on matters within the field of competence of CPAs is in the public interest and is to be encouraged. Such seminars should not be used as a means of soliciting clients. Therefore, certain restraints must be observed to avoid violation of the spirit of Rule 502 which prohibits solicitation and advertising. For example, a member or his firm should not:

1. Send announcements of a seminar to nonclients or invite them to attend. However, educators may be invited to attend to further their education.
2. Sponsor, or convey the impression that he is sponsoring, a seminar which will be attended by nonclients. However, a member or his firm may conduct educational seminars solely for clients and those serving his clients in a professional capacity, such as bankers and lawyers.

In addition, when a seminar is sponsored by others and attended by nonclients, a member or his firm should not:

1. Solicit the opportunity to appear on the program.
2. Permit the distribution of publicity relating to the member or his firm in connection with the seminar except as permitted under Interpretation 502-9.
3. Distribute firm literature which is not directly relevant to a subject being presented on the program by the member or persons connected with his firm.

.13 502-12—Solicitation of former clients. Offers by a member to provide services after a client relationship has been clearly terminated, either by completion of a nonrecurring engagement or by direct action of the client, constitute a violation of Rule 502 prohibiting solicitation.

- .14 502-13—Soliciting work from other practitioners.** Rule 502 does not prohibit a member in the practice of public accounting from informing other practitioners of his availability to provide them or their clients with professional services. Because advertising comes to the attention of the public, such offers to other practitioners must be made in letter form or by personal contact.
- .15 502-14—Fees and professional standards.** The following statement is required to be published with the Code of Professional Ethics pursuant to the Final Judgment in the court decision referred to below:

The former provision of the Code of Professional Ethics prohibiting competitive bidding, Rule 3.03, was declared null and void by the United States District Court for the District of Columbia in a consent judgment entered on July 6, 1972, in a civil antitrust suit brought by the United States against the American Institute. In consequence, no provision of the Code of Professional Ethics now prohibits the submission of price quotations for accounting services to persons seeking such services; and such submission of price quotations is not an unethical practice under any policy of the Institute. To avoid misunderstanding, it is important to note that otherwise unethical conduct (e.g., advertising, solicitation, or substandard work) is subject to disciplinary sanctions regardless of whether or not such unethical conduct is preceded by, associated with, or followed by a submission of price quotations for accounting services. Members of the Institute should also be aware that neither the foregoing judgment nor any policy of the Institute affects the obligation of a certified public accountant to obey applicable laws, regulations or rules of any state or other government authority.

- .16 502-15—Requirements by governmental units or public fund grant program recipients for multiple proposals for services.** A member may notify a governmental unit or any public fund grant recipient which is subject to legal requirement to obtain multiple proposals before awarding an agency or grant-related contract for accounting or other services of his interest in being included among those from whom specific proposals will be requested. However, such expressions of interest may not be promotional in nature or advertise professional attainments and services.

➡ *The next page is 4871.* ←

ET Section 503

Commission

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 503—Commission. A member shall not pay a commission to obtain a client, nor shall he accept a commission for a referral to a client of products or services of others. This rule shall not prohibit payments for the purchase of an accounting practice or retirement payments to individuals formerly engaged in the practice of public accounting or payments to their heirs or estates.

Interpretation under Rule 503—Commissions

.02 503-1—Fees in payment for services. Rule 503, which prohibits payment of a commission to obtain a client, was adopted to avoid a client's having to pay fees for which he did not receive commensurate services. However, payment of fees to a referring public accountant for professional services to the successor firm or to the client in connection with the engagement is not prohibited.

»»»→ *The next page is 4881.* ←«««

ET Section 504

Incompatible Occupations

Effective March 1,
1973, unless other-
wise indicated

.01 Rule 504—Incompatible occupations. A member who is engaged in the practice of public accounting shall not concurrently engage in any business or occupation which impairs his objectivity in rendering professional services or serves as a feeder to his practice.

Interpretation under Rule 504—Incompatible Occupations

.02 504-1—Incompatible occupations. Engaging concurrently with the practice of public accounting in any business or occupation inconsistent with the member's responsibilities under the AICPA Code of Professional Ethics would constitute involvement in an incompatible occupation prohibited by Rule 504.

The above proscription would apply to any business or occupation which:

- (a) detracts from the public image of the profession, as for example, on moral or legal grounds, or involves conduct which would constitute an act discreditable to the profession, or,
- (b) impairs the member's objectivity in rendering professional services to his clients, or,
- (c) serves as a feeder to the member's public accounting practice, or,
- (d) requires extensive personal solicitation or promotional activities which may readily be identified with the member or his public accounting practice, or,
- (e) inherently involves responsibilities which are likely to conflict with the member's responsibility to others arising out of the client-CPA relationship.

➤➤➤→ *The next page is 4891.* ←➤➤➤

ET Section 505

Form of Practice and Name

Effective March 1,
1973, unless other-
wise indicated

- .01 Rule 505—Form of practice and name.** A member may practice public accounting, whether as an owner or employee, only in the form of a proprietorship, a partnership or a professional corporation whose characteristics conform to resolutions of Council. (See Appendix C.)

A member shall not practice under a firm name which includes any fictitious name, indicates specialization or is misleading as to the type of organization (proprietorship, partnership or corporation). However, names of one or more past partners or shareholders may be included in the firm name of a successor partnership or corporation. Also, a partner surviving the death or withdrawal of all other partners may continue to practice under the partnership name for up to two years after becoming a sole practitioner.

A firm may not designate itself as "Members of the American Institute of Certified Public Accountants" unless all of its partners or shareholders are members of the Institute.

Interpretation under Rule 505—Form of practice and name

- .02 505-1—Investment in commercial accounting corporation.** A member in the practice of public accounting may have a financial interest in a commercial corporation which performs for the public services of a type performed by public accountants and whose characteristics do not conform to resolutions of Council, provided such interest is not material to the corporation's net worth, and the member's interest in and relation to the corporation is solely that of an investor.

»»»→ *The next page is 4901.* ←«««

ET Section 591***Ethics Rulings on Other Responsibilities and Practices***

Effective date March 1, 1973, unless otherwise indicated

1. Retention of Records

.001—.002 [Superseded by Interpretation 501-1.]

2. Fees: Collection of Notes Issued in Payment

.003 *Question*—A member's firm made arrangements with a bank to collect notes issued by a client in payment of fees due, and so advised the delinquent client. Is this procedure ethical?

.004 *Answer*—The procedure followed does not violate any provision of the Code.

3. Employment by Non-CPA Firm

.005 *Question*—Members are sometimes employed by accounting firms made up of noncertified practitioners. Such firms, particularly in states which have accountancy laws that regulate only the use of the CPA designation and not the practice of accounting, may not be subject to rules of conduct. These firms sometimes advertise, solicit clients, and engage in other unprofessional activities. While it is clear that a member could not be a partner of a firm which does not abide by the profession's standards, may he be an employee of such a firm?

.006 *Answer*—The Code does not explicitly forbid the employment of members by public accounting firms which do not observe ethical standards. However, a member so employed may not in any way hold out that he is a CPA, or permit the use of his title in any of the activities of the noncertified firm. It would clearly be a violation for the member to sign an audit report using his professional designation.

4. Association Employee

.007 *Question*—A member is employed by a trade association and is paid a fixed salary for supervising the retail bookkeeping service department. This department offers bookkeeping serv-

ices to the individual members of the association who subscribe to the service. The association freely asks its members to subscribe to the service, without mention of the fact that the department is run by a CPA. Would the member in question be violating the rules against advertising, solicitation, and encroachment?

.008 *Answer*—The member would not be violating Rules 402 and 501 if he is merely an employee of the association, maintains no public accounting practice, and is not represented to the members as a CPA.

5. Association as an Agent

.009 *Question*—May a member retained by a trade association permit the association to offer his services to its members?

.010 *Answer*—This would be indirect solicitation in violation of Rule 502. The Code section on applicability of rules states that a member shall not permit others to carry out on his behalf, either with or without compensation, acts which, if carried out by the member, would place him in violation of the Rules of Conduct.

6. Associations, Speaking Engagements

.011 *Question*—May a member send letters to trade associations offering to speak at their meetings on subjects of general interest on which he is well informed?

.012 *Answer*—Addresses by members before business groups are highly desirable, but such addresses should be delivered in response to unsolicited invitations or through arrangement by state or national organizations of professional accountants. A member's direct solicitation of opportunities to speak before meetings of trade associations attended by nonclients would violate Rule 502 prohibiting advertising and solicitation.

7. Trading Pool

.013 *Question*—A member has been asked to join an organization of businessmen and professionals whose purpose is to serve

as a trading pool or exchange for products and services. Members receive an organization directory classified by the products and services they offer. May a member join such an organization?

.014 *Answer*—Rule 502 prohibits a member from joining this organization or being listed in its directory since the specific purpose of membership is the offering of services. Moreover, the barter arrangement on which the organization is based could lead to solicitation of engagements.

8. Change of Control of Client Company

.015 *Question*—A member states that control of a client company has been obtained by a second company which is served by another accounting firm. Would there be any violation of Rule 502 if the member communicated with the holding company and the accounting firm in an effort to retain his client?

.016 *Answer*—The member would be free to do so because of the existing client relationship.

9. Charity Solicitation by Phone

.017 *Question*—When making community-wide solicitations by telephone on behalf of a charity, may a member caller identify himself by name, CPA title, and firm name?

.018 *Answer*—When making charitable solicitations by telephone or by letter to nonclients, a member should not identify his firm or profession but should make the solicitation as one neighbor or citizen to another.

10. Church Bulletin

.019 *Question*—May a member offer in a church bulletin to prepare without charge federal and state income tax returns of all persons agreeing to contribute to the church's emergency fund?

.020 *Answer*—Such an offer would be an attempt to obtain clients by solicitation and consequently would be a violation of Rule 502. The offer would also be a violation of Rule 401, forbidding encroachment upon the practice of another public accountant, if any parishioners were already so served.

11. Attorney, Clients

.021 *Question*—A law firm which has employed a member for a number of years to prepare tax returns for its clients has discontinued his services. May the member notify the law firm's clients whose returns he prepared in prior years of the availability of his services in the coming year?

.022 *Answer*—The taxpayers for whom the member prepared returns were clients of the law firm, and the member would be precluded from offering his services to them by Rule 502 prohibiting solicitation.

12. Confirmation Requests

.023 *Question*—Does Rule 502 prohibit a member from enclosing with confirmation requests a copy of "Please Check Your Account," an AICPA pamphlet that urges creditors to acknowledge confirmation requests?

.024 *Answer*—Enclosing the pamphlet with confirmation requests is permitted even if the confirmation request includes the name and address of the firm. However, the member's firm would not be permitted to imprint its name on the pamphlet itself.

13. Confirmation Stickers

.025 *Question*—A bank lends money to a corporation, taking its receivables as assignment for the loan. The bank periodically confirms some of the receivables by negative confirmation requests furnished by its independent auditors. The member's firm has no control over the use of its confirmation stickers by the bank. The return address for the negative requests is a post office box number jointly controlled by the bank and the member's firm. The corporation has no independent auditor, and the firm has no business dealings with it. Is it proper for the member's firm to permit its negative confirmations to be used by the bank to check a customer's receivables?

.026 *Answer*—The practice is permissible as long as there is a measure of control by the member's firm over the use of its confirmation stickers and the replies received. Abandonment of control of the use of negative stickers would not be in accordance with good audit procedures, and it could also lead the member's firm into the realm of advertising or solicitation.

14. Estate Planning

.027 *Question*—A member has been asked by a corporation which is engaged in the sale of life insurance and estate planning services to obtain from the books of the customers of the corporation the basic data needed to draft estate plans. May the member accept the engagement?

.028 *Answer*—The member may accept the engagement. However, he should avoid advertising and solicitation and, in any contact with a client of another CPA, be circumspect in his contact.

15. Golf Outing

.029 *Question*—Is it proper for a member's firm to invite its alumni to a golf outing if some alumni hold positions of responsibility with clients of other CPAs?

.030 *Answer*—An invitation to an alumni outing is not soliciting or advertising. This applies whether the alumnus is an employee of another accounting firm or whether he is employed by a firm which is a client of another accounting firm.

16. Letter on Behalf of Client

.031 *Question*—A member's client is interested in acquiring a controlling interest in a bank, but he does not want his name associated with initial inquiries. He has asked the member to mail a request for preliminary discussions to persons who might be interested in the client's offer. The letter of inquiry would read, "I have a client who is interested in acquiring . . ." When an addressee responds to the request, he will be contacted by the client. Would the rules against solicitation and encroachment prohibit the member from making such a mailing?

.032 *Answer*—A member may start negotiations on behalf of his client by means of a letter of specific inquiry mailed to a selected list of candidates who might be interested in the client's offer. However, Rules 401 and 502 prohibit a member from writing numerous letters to businessmen, attorneys, bankers, etc., to inquire whether certain businesses or types of businesses are for sale.

17. Letterhead for Estate Practice

.033 *Question*—A member has rendered accounting services in connection with estate planning, together with an attorney and two insurance underwriters—each billing and being paid separately for services. The insurance underwriters wish to prepare a letterhead for estate practice use and for solicitation of clients. They have suggested, since legal and accounting services are recognized as a necessary adjunct to this type of practice, that the attorney's and the CPA's names be displayed on the letterhead, with titles. Would this violate the Code?

.034 *Answer*—The suggested letterhead, which would be used in soliciting and promoting business, would place the member in violation of Rule 502.

18. Letterhead for Promotional Material

.035 *Question*—A member has developed a chart for quickly figuring self-employment tax which he would like to sell to other

accountants. May he use his own letterhead showing him to be a CPA and a member of the American Institute?

.036 *Answer*—There is no objection to the proposed promotion of the chart providing, however, this circulation is limited to practicing public accountants.

19. Mailings to Accountants

.037 *Question*—May a member write to other accountants in public practice announcing his availability as a tax consultant?

.038 *Answer*—If addressed to other practitioners, the letter would not violate Rule 502 on solicitation.

20. Trade Association Analysis

.039 *Question*—A trade association has engaged a member to perform an analysis of specific problems affecting members of the association. The results of his analysis, bearing his firm's name, will be reproduced by the association and distributed to its members. Would Rule 502 prohibit such distribution?

.040 *Answer*—Rule 502 should not be interpreted to preclude an association from distributing to its members the results of an analysis it had engaged a member to perform. It would also be permissible for the member to be identified in the report with his firm affiliation. His report is interpretive, and a reader would be entitled to know by whom it was prepared.

21. Trade Association Survey

.041 *Question*—A trade association engaged a member's firm to conduct a survey. The association mailed a questionnaire to its members with a covering letter to request that replies be sent to the member's firm, which is mentioned by name. Does Rule 502 prohibit the accounting firm from being thus identified?

.042 *Answer*—In requesting from its members information which could be considered confidential, it would be proper for the association to identify the member's firm to whom replies should be directed.

22. Management Consultant

.043 *Question*—A management consultant wishes to offer a comprehensive financial service to gas stations. He has asked a member whether he would prepare an income statement for individual stations in connection with this service. May the member accept this proposal?

.044 *Answer*—The preparation of an income statement apparently would be an integral part of the services rendered by

the consultant in advising his clients on the profitable management of their stations. Since the consultant presumably would solicit engagements, he would be offering the statement preparation services of the accounting firm to his clients in violation of Rule 502.

23. Tax Work Obtained Through Bookkeeper

.045 *Question*—A bookkeeping company has asked a member to prepare tax returns on the basis of work sheets provided for the company by its customers. May the member enter into such an agreement?

.046 *Answer*—The member could not properly enter into such an agreement. The bookkeeping service would obtain customers by advertising and solicitation. The member would indirectly receive the benefit of such activities. The member must not do through others what he is directly prohibited from doing by Rule 502.

24. Advertising on Tax Broadcast

.047 *Question*—Is it proper for members to participate during tax season in commercially sponsored radio and/or television programs on tax information?

.048 *Answer*—If advertising on tax information programs is on behalf of the sponsors and not the individuals who appear on the programs (or their firms), members may participate in such programs. Identification of the member may include his name, CPA status, professional society activities and firm affiliation.

25. Alumni Magazine Announcement

.049 *Question*—May a member permit his college alumni magazine to report that he has opened offices as “an Accountant and Tax Consultant”?

.050 *Answer*—Alumni magazines serve a special purpose, and reporting in them that an alumnus has entered into practice is not considered advertising. However, the designation of the specialty “Tax Consultant” is clearly prohibited by Interpretation 502-1.

26. Brochure Showing Use of Equipment

.051 *Question*—A computer manufacturer wishes to publish a series of brochures showing the use made of its equipment by individual CPA firms. Each booklet would feature a specific application by a particular firm which would be identified. Would such a program violate Rule 502?

.052 *Answer*—If the distribution of the brochures is limited to other practitioners, Rule 502 would not be violated.

27. Client Publishing Article on Member's Software Program

.053 *Question*—A member's firm has designed a software program utilizing forms and equipment of a client who is a computer manufacturer. The client wishes to publish an article about the system in its house organ. May the member consent to publication of such an article?

.054 *Answer*—The member may consent to publication provided the article does not aggrandize the firm and the house organ is distributed only to the client's personnel.

28. Business Card on Newsletter

.055 *Question*—Would a member be in compliance with Interpretation 502-8 if he attached his business card to a newsletter prepared by an outside agency?

.056 *Answer*—Attaching his business card to a newsletter prepared by an outside agency would be in compliance with Interpretation 502-8 provided authorship is clearly indicated.

29. Computer Print-Out

.057 *Question*—A member's firm has prepared a computer program for one of its clients which projects the tax effects of certain real estate investments the client is offering to its customers. The client has preprinted, on the program print-out sheets, a legend indicating that the program was prepared by the firm. Is it proper for the name of the member's firm to appear on the ledger sheets which are widely distributed by the client to its customers?

.058 *Answer*—A member's firm should not permit its name to be used to promote a commercial product of a client. In addition, use of the firm's name in this instance could lend an unwarranted credibility to the projection.

30. Charitable Contribution

.059 *Question*—May a member's firm or individual member be listed as a contributor to a charitable, civic, cultural, or educational organization?

.060 *Answer*—Accounting firms or individual members who have contributed to such organizations may be included in a list of contributors. The CPA designation may be given after the individual member's name, but not after firm names. Members may not have their firm affiliations shown.

31. Congratulatory Message

.061 *Question*—A member's firm has been requested to buy space, in the form of a congratulatory message, in the printed program of a club's charity dance. May the firm name be included in the message without CPA designation, address or telephone number?

.062 *Answer*—The member's firm cannot buy space where the firm's name appears. The firm's name without the CPA designation can be included in a list of donors.

32. Copyright for Wheel Computer and Tax Withholding Tables

.063 *Question*—A member has designed and copyrighted a wheel computer for the computation of lapsed time. If patent and copyright laws require that the name of the person to whom the copyright or patent is issued appear on the item, may he also show his CPA title?

The member has also designed a set of tax withholding tables which will be copyrighted. May he use his title for this purpose, and can he market the tables by direct mail from his office under a trade name?

.064 *Answer*—Under Interpretation 502-9 it would be permissible for the member to use his CPA title on both the wheel computer and the tax withholding tables. However, the use of the CPA title places restrictions on the manner in which the items can be promoted. Advertising material must be in good taste and should not show the practitioner's office address to avoid "feeding" his practice, a violation of Rule 504.

33. Course Instructor

.065 *Question*—What responsibility does a member have for the information included in advertising material used to promote an adult education tax course which he has been asked to conduct?

.066 *Answer*—He has the same responsibility that the author of an article has for the publisher's promotional efforts (see Interpretation 502-9). It is of value to prospective students to know the instructor's background—degrees he holds, professional society affiliations, and the name of his firm. However, the member has the responsibility to ascertain that all promotional efforts are within the bounds of professional dignity.

34. Course Promotional Circular

.067 *Question*—Two members who are establishing a course in federal income taxation wish to send circulars soliciting enroll-

ments. May they use their names and CPA designations in these mailings?

.068 *Answer*—The members may use their CPA designations but they should not show their firm's name or business address on the letterhead of the course. In fact, all activities of the course should be clearly distinguished from the member's accounting practice.

35. CPA-Author Credits

.069 *Question*—What information may appear on the cover of a book written by a member?

.070 *Answer*—A member may be identified on the cover of a book by name and CPA designation. The firm with which he is associated should not appear on the cover but may be noted in the front matter of the book. When authorship is attributed to a member's firm, the firm name may appear on the cover only if distribution conforms with the limitations imposed by Interpretation 502-7.

36. CPA-Author of Book Review

.071 *Question*—A member who has been requested by a publisher to review a tax record and travel expense booklet submits a favorable review of the booklet. Would it be proper for him to permit the publisher to reproduce his letter, which was written on the member's letterhead, and distribute it as part of the sales promotion for the booklet?

.072 *Answer*—The use of a member's name in a commercial venture of this nature would violate Rule 502.

37. CPA-Authored Articles

.073 *Question*—A member has been asked to deliver a paper before a meeting of a trade association. In his speech he refers to other studies prepared by his firm which relate to the subject under discussion. May he distribute copies of studies prepared by his firm or make such studies available at the meeting? All studies contain a dignified reference to the authors and their firm affiliation.

.074 *Answer*—A member may distribute copies of his speech to those attending the meeting as well as copies of studies or other materials prepared by his firm which are directly related to the subject of the speech. He may comply with requests for such studies and other materials after the meeting.

38. CPA Title, Controller of Bank

.075 *Question*—A member not in public practice is controller of a bank. May the member permit the bank to use his CPA title on bank stationery and in paid advertisements listing the officers and directors of the bank?

.076 *Answer*—The use of the CPA title on bank stationery by a member not in public practice is proper. It would also be proper for the CPA title of the member to appear in paid advertisements of the bank that list the officers and directors.

39. CPA Title Imprinted on Checks

.077 *Question*—May a member have his name and CPA title imprinted on his business checks? May his name and CPA title be imprinted along with his wife's name on their personal joint checking account?

.078 *Answer*—There is no objection to a member imprinting his name and CPA title on his business checks. A member should not use his CPA title on personal checks or other documents which bear no relation to his professional practice. Members are encouraged to use the CPA title—but primarily on occasions where their professional qualifications have some relationship to the material with which their names are associated.

40. CPA Title in Campaign for School Board Membership

.079 *Question*—A member intends to file for election to a local school board. May he use his CPA title in campaign literature?

.080 *Answer*—A member might properly substantiate his claim of worthiness for public office by using his professional designation on stationery, campaign cards, and window posters in connection with his campaign.

41. CPA Title in Lecture Ad

.081 *Question*—A member not in public practice is employed as an account executive with an investment firm and delivers investment lectures which are announced in press releases in local newspapers. May he use his CPA title in the newspaper announcements?

.082 *Answer*—A member who is not in public practice and who is not engaged in an occupation in which he performs services of a type performed by public accountants may use his CPA title in announcements of lectures which are of an educational nature.

42. CPA Title in Political Endorsement

.083 *Question*—A member has been asked to write to other practitioners a letter of political endorsement on his CPA stationery. May he do so?

.084 *Answer*—Issuance of such a letter would constitute neither solicitation nor improper advertising so long as distribution is limited to other practitioners. Members are encouraged to take an active part in all types of civic affairs, including politics.

43. CPA Designation in Speaker's Qualifications

.085 *Question*—May a member's name, professional designation, and firm affiliation be given in an advertisement to promote attendance at courses or meetings attended by nonpractitioners at which the member is an instructor or speaker?

.086 *Answer*—The principles given in Interpretation 502-9, although relating to the authorship of articles and books, would also apply to members who are instructors or speakers before mixed groups. That is, background information about the author may be given, but he is responsible for seeing to it that the promotional material keeps within the bounds of professional dignity.

44. CPA Designation of Speaker Named in Tax Forum Ad

.087 *Question*—An advertisement for a tax forum conducted by a securities firm listed a member among the lecturers, showing his professional designation and firm affiliation. Is this a violation of Rule 502?

.088 *Answer*—This advertisement does not violate Rule 502 since the member appears to have a reputation in the tax field and is in the same position as an author whose book is advertised by his publisher.

45. CPA Title on Agency Letterhead

.089—.090 [Superseded by Ethics Ruling No. 171.]

46. CPA Title on Employment Agency Letterhead

.091 *Question*—A nonpracticing member established an employment agency for accountants. His stationery carries his CPA title. Is this a violation of the Code?

.092 *Answer*—There would be no violation since the member is not in the practice of public accounting.

47. Low-Income Taxpayers

.093 *Question*—An all-volunteer not-for-profit corporation, which prepares returns for low-income taxpayers without fee, wishes to advertise its services and use the CPA designation of its officers on its letterhead. Is such advertising and use of a CPA title proper?

.094 *Answer*—The corporation, which is similar to a legal aid society, is unique in that it renders professional services without fee to clients who would not normally be able to engage the services of a certified public accountant. It would be proper for the organization to advertise its services to alert low-income taxpayers of its existence, its purpose to help them, and the location of its offices. In addition, the CPA designation of officers of the organization without mention of the accounting firms with which they are affiliated might appear on its letterhead to indicate their general qualifications and professional association.

48. CPA Title on Public Official's Match Folders

.095 *Question*—After election to public office, a member continued to maintain his accounting practice. Thereafter he authorized distribution of match folders bearing the legend "Drive Safely," together with his name, professional designation, and state office. Is this a violation?

.096 *Answer*—Members are encouraged to run for public office and to use their professional designation in campaign literature. But a member who continues to maintain a public accounting practice should not use his public office to advertise his professional services or attainments.

49. CPA Designation on Research Reports

.097 *Question*—May a member, not in public practice, who is employed as a stock research analyst use his CPA title on his business cards and research reports?

.098 *Answer*—The member may use his CPA title on his business cards in accordance with Interpretation 502-5 since he is not in public practice. However, he should not use his CPA designation on his stock research reports since it might lend unwarranted credibility to the financial information the reports contain.

50. Data Processing Program Ad in Technical Publications

.099 *Question*—A member's firm wishes to advertise in technical publications a data processing program it has developed.

The ad would show a telephone number, address or box number, but the firm's name would not appear. Would Rule 502 permit such an ad?

.100 *Answer*—Since computer programming is a type of professional service offered by many CPA firms and Rule 502 applies to all services of a type performed by public accountants, a member's firm would not be permitted to advertise the availability of such services even if the firm's name does not appear. However, such services could be offered in letter form to other practitioners.

51. Directories in Elevator

.101 *Question*—A member's firm, which occupies four floors of a building housing other general business tenants, designates the departments located on each floor on illuminated floor directories in the elevator cars. These elevator floor designations read: "Management Services Department," "Audit Managers," "Tax Department," etc. Is this proper?

.102 *Answer*—Because the firm occupies four floors of a building and must direct visitors to the appropriate floor, the designation of specialized services as described is not a violation of Interpretation 502-2.

52. Directory, Alphabetical

.103 *Question*—May a member's firm whose title consists of a first name and a surname list itself in an alphabetical directory under both the first letter of its first name and first letter of its surname? May it do this in the classified directory as well?

.104 *Answer*—Rule 502 and Interpretation 502-3 specifically prohibit more than one listing of any nature in a classified telephone directory. A member's firm, on the other hand, may have more than one listing in an alphabetical directory.

53. Directory, Chamber of Commerce Buyers' Guide

.105 *Question*—May members who belong to a local chamber of commerce have their names listed in the classified section of the membership directory? The directory, entitled *Buyers' Guide*, is circulated extensively.

.106 *Answer*—Interpretation 502-3 permits this type of listing provided that the names of all members of the chamber or association appear and listings are not obtained by the payment of a special fee.

54. Directory, Trade Association

.107 *Question*—Members whose firms are members of an organization for the education of those responsible for the operation of jointly trustee employee benefit plans have been asked whether they wish to be listed in a directory of firms providing technical and professional assistance to joint trusts. May members consent to the listing of their firm's name?

.108 *Answer*—Rule 502 would prohibit a member's firm from permitting its name to be listed in a directory of a professional organization which is a partial listing of members able to render services to other members.

Such a directory could inform the membership of the organization of the availability of the services of accounting firms by a notice such as the following:

Also, there are a number of other consultant members who—in consideration of professional codes in certain fields, such as public accounting and law—requested that their names be omitted.

55. Directory Listing, Bank Auditors

.109 *Question*—A publisher wishes to compile a directory list of CPAs who do bank accounting or auditing work, or who give tax advice or prepare tax returns for banks. Would it be proper for a member to be listed in such a directory?

.110 *Answer*—Such a listing would constitute advertising of professional services or attainments in violation of Rule 502. The listing would violate the principle that a member may not carry out through others that which he is prohibited from doing directly.

56. Directory Listing, Change in Telephone Number Announcements

.111 *Question*—A member states that there will be a change in his telephone number—both exchange and number will be different. The change is not a general one and does not affect everyone in the locality. Would it be permissible to insert a card in the local newspaper announcing this change?

.112 *Answer*—It would be a violation of Interpretation 502-1 to place a notice in the local press concerning the change in telephone number. The member would be permitted to send a notice to clients currently served and to individuals with whom professional contacts are maintained, such as lawyers and bankers.

57. Directory Listing, Fraternity

.113 *Question*—May a member be listed under the caption “Accountant” in a directory published by a national fraternity of which he is a member? There is an extra charge for such a listing.

.114 *Answer*—While Interpretation 502-3 permits listing in membership directories, a paid listing in a fraternity directory would be improper. Interpretation 502-3 applies to complete listings of all members of the association in question. Listings obtained by the payment of special fees are considered to be advertising.

58. Directory Listing, “Lawyer—CPA—Tax Attorney”

.115 *Question*—May a member who is also a lawyer list himself in the certified public accountant section of the yellow pages as a “Tax Attorney”? May he have a similar listing under the attorney section of the classified telephone directory?

.116 *Answer*—Interpretation 502-3 prohibits the listing of the same name in more than one place in a classified directory. The prohibition against multiple listings is interpreted to apply primarily to listings indicating a type of accounting service. The prohibition should not prevent a member who is also a lawyer from being listed under both the CPA section and the lawyer section of the classified directory.

The designation “Tax Attorney” would be a violation of Interpretation 502-3 in that it associates a member’s name with a designation indicating the special skills he possesses or the particular services which he is prepared to render.

59. Directory Listing, Membership Designation

.117 *Question*—May a member use the designation “Member, American Institute of Certified Public Accountants” in directory listings?

.118 *Answer*—No.

60. Directory Listing, Multiple

.119 *Question*—A member, requesting clarification of Interpretation 502-3, poses the following questions:

1. The partnership of Smith and Jones consists of Mr. Smith, a CPA, and Mr. Jones, a public accountant. If the partnership name is listed in the yellow pages, may Mr. Smith also have his name listed individually under “Accountants—Certified Public”?

2. If a CPA partnership is listed in the yellow pages of the telephone directory under "Accountants—Certified Public," may a partner whose name appears in the partnership name also list his name separately under "Accountants—Certified Public"?

3. May a CPA partner list his name separately under "Accountants—Certified Public" if his name is not part of the partnership name which is listed under "Accountants—Certified Public"?

.120 *Answer*—Rule 502 and Interpretation 502-3 were not intended to prevent such listings. The answer to all three questions, therefore, is yes.

61. Directory Listings

.121 *Question*—In a classified telephone directory under the heading "Accountants—Certified Public," may a member list under his name the states in which he is licensed to practice?

.122 *Answer*—Such a listing would violate Rule 502 and Interpretation 502-3.

62. Directory Listing, Partners' Names

.123 *Question*—The listing of a member's firm name in the yellow pages of the telephone directory is followed immediately by the name of each partner and staff member. Is this consistent with Interpretation 502-3?

.124 *Answer*—It is a violation of Rule 502 to list under a firm's name in a classified directory all CPAs associated with the firm. Such a listing represents a "form of display . . . which differentiates it from other listings in the same directory." There is no objection to the listing of each member alphabetically in classified directories without reference to firm affiliation.

63. Directory Listing, White Pages

.125 *Question*—May a member's firm affiliation be shown after his name in the white pages of the telephone directory?

.126 *Answer*—The member's firm affiliation should not be shown after his name in the white pages of the directory. The listing could show the member's name, the designation "CPA," the address and telephone number of his office, and immediately thereunder the word "residence" with his home address and telephone number.

64. Directory, Trade Association

.127 *Question*—Is it proper for a member to join an association whose members are listed in a directory alphabetically and in sections classified by occupation or profession?

.128 *Answer*—A member may join the association and be listed in its membership directory alphabetically and under the classification “Certified Public Accountants” provided that all members of the association are listed, that there is no extra charge for listing, and that the listings are not promotional in nature.

65. Distribution of Firm Bulletin to Publisher

.129 *Question*—A member’s firm publishes a monthly information bulletin on data processing for the benefit of its staff and clients. A publishing company has asked to be put on the firm’s mailing list to receive all future issues of this bulletin, which will be indexed and will remain available to customers indefinitely. May the firm accede to the publisher’s request?

.130 *Answer*—If the bulletin is specifically requested or the publisher is a client, the publishing company could receive issues of the bulletin. However, the publishing company could not make it available to its customers. The member is responsible for controlling the ultimate distribution.

66. Distribution of Firm Literature

.131 *Question*—May a member’s firm respond to requests from professional or trade associations for multiple copies of firm publications? Could an association’s request be considered a request on behalf of each of its members, thus falling within the group to whom copies properly may be sent under Interpretation 502-7?

.132 *Answer*—Provided the firm’s name and address do not appear on the publication, a firm might send as many copies to a trade or professional association as requested. However, multiple copies of publications which identify the firm should not be furnished to trade or professional associations even upon request, because the firm furnishing such material would be unable to control its distribution.

67. Firm Publications: Annual Financial Report

.133 *Question*—A member’s firm proposes to prepare and distribute an annual financial report. The report would be distributed to staff members, clients, individuals with whom professional contacts are maintained, such as lawyers and bankers, and to nonclients who specifically request it. Would such actions be considered a violation of Rule 502 prohibiting solicitation and advertising?

.134 *Answer*—Rule 502 was not intended to prevent a member's firm from preparing and distributing publications containing information of interest to such recipients. Accordingly, issuance of an annual report would not be considered a violation of the rule. The member's firm, however, would be responsible for the distribution and control of the report outside the firm. Since it is likely that nonclients or the general public will have access to the material, care should be exercised to use good taste in its preparation. This is particularly important in any area that could reflect unfavorably on other firms.

A member's firm that issues financial statements or financial data has the responsibility to ensure that such financial information is presented in conformity with generally accepted accounting principles. Further, since the firm is engaged in the practice of public accounting, the public may draw an unwarranted conclusion that the statements have been audited unless a statement is included that the data have not been examined by other certified public accountants.

68. Employment Ads: "Situations Wanted"

.135 *Question*—To what extent may a member indicate specialization in "situations wanted" advertisements? Is advertising for per diem or part-time work considered to be advertising for professional engagements?

.136 *Answer*—In a "situation wanted" ad, a member may indicate a specialty provided he is legitimately seeking employment and a box number is used. The appearance of a member's name in such an ad could be construed as a means of advertising. In advertising in a professional journal for per diem or part-time work, a member must make it clear that he is seeking work with other practitioners only, and a box number rather than his name should be used.

69. Firm Name in Staff Training Manual

.137 *Question*—A member's firm is conducting a training program for new staff members. Training materials include an audit manual containing a uniform set of working papers and practical problems for the trainees to solve. Some universities have suggested that the firm print the manual and problems for use in auditing laboratory courses. May the firm be listed as the author of these texts?

.138 *Answer*—A member's firm may be listed as the author of training materials intended for publication and use by universities.

70. CPA Title on License Plates

.139 *Question*—Would a member be in violation of the rule against advertising were he to use license plates bearing the letters “CPA”?

.140 *Answer*—This would not be a violation of the rule against advertising.

71. Firm Name on Bowling Shirts

.141 *Question*—A client has asked a member’s firm to sponsor a team in a bowling league. Would it be permissible to use the firm’s name on the bowling shirts without referring to the firm as accountants?

.142 *Answer*—The firm’s name may be used on bowling shirts of a team composed primarily of its employees. The firm’s name may not appear as the sponsor of any outside athletic teams.

72. Firm Name on Desk Calendars

.143 *Question*—A member wishes to distribute to his clients desk calendars bearing his firm name and CPA title. Is this a violation of the rules against advertising?

.144 *Answer*—Distribution by a member, even to his own clients, of a desk calendar bearing the member’s firm name and CPA designation is contrary to Rule 502. Such material might be displayed by the client and thus serve as a means of indirect advertising.

73. Firm Name on EDP Publication

.145 *Question*—A member’s firm wants to distribute to its clients and to executives of its client companies an EDP publication whose back cover carries the legend “Compliments of (name of firm).” The publication would be prepared and published by a company specializing in individual firm publications and would be distributed monthly. Is this permitted?

.146 *Answer*—Interpretation 502-8 prohibits the imprinting of members’ names or their firms on tax booklets or other publications prepared by others.

74. Firm Name on Tax Booklet

.147 *Question*—A member’s firm has been retained by stock-brokerage clients to prepare annually a booklet on tax aspects of security transactions. The clients bear the printing costs and the accounting firm’s time charges. A legend on the cover of the booklet states that it was prepared by “Jones & Smith, Certified Public Accountants.” The clients mail the booklet with an end-

of-month statement to their customers. Is there any objection to this practice?

.148 *Answer*—Members are not discouraged from writing books and articles, or from distributing material which is of benefit to both the public and the profession. A member's firm may properly prepare such technical booklets for clients for a fee.

75. Greeting Cards to Clients

.149 *Question*—May a member send to clients and friends Christmas cards or other forms of holiday greetings bearing his firm name or his own name and CPA title?

.150 *Answer*—It is proper for a member to send to clients such greetings in his firm's name or in his own name as a CPA. If he wishes to send cards to friends or business associates, some of whom may be the clients of other CPAs, the greeting should be a personal one; it should not be sent in the member's firm name, and his professional title should not be shown.

76. Letterhead

.151 *Question*—Is it proper for a member's firm to place on its letterhead the inscription "Established in 1922"?

.152 *Answer*—This is not a violation of Rule 502.

77. Letterhead: Academic Degrees

.153 *Question*—May a member list his academic degrees on his professional letterhead?

.154 *Answer*—The Institute's Code does not forbid the showing of academic degrees on letterheads. Most Institute members possess one or more academic degrees but for reasons of policy and taste do not show them on their letterheads.

78. Letterhead: Lawyer-CPA

.155 *Question*—May a member who is also admitted to the bar represent himself on his letterhead as both an attorney and a CPA, or should he use separate letterheads in the conduct of the two practices?

.156 *Answer*—The Code does not prohibit the simultaneous practice of accounting and law by a member licensed in both professions. However, separate letterheads should be used.

79. Letterhead: Tax Specialization

.157 *Question*—May a member show on his letterhead the words "Enrolled to practice before the United States Treasury Department"?

.158 *Answer*—Since the statement implies specialization in taxes, this legend should not be used on letterheads or cards.

80. Management Letter

.159 *Question*—A client of a member's firm mailed to each of its stockholders a copy of its financial statements and the short-form opinion of the accounting firm. In an accompanying letter from management, the scope and complexity of the audit were discussed and the firm's customers were made aware of what was involved in such an audit. The letter mentioned, incidentally, that more than 420 people were engaged in the audit and that all the auditors involved had a college degree in accounting and many had master's degrees. Would a member's firm be violating the Code by permitting a client to publish this information?

.160 *Answer*—A narration describing the scope of the audit to the brokerage firm's customers is of greater benefit to the profession than would be any incidental advertising value that may accrue to the accounting firm. It is proper for the member's firm to be mentioned in this way.

81. Medicare Booklet

.161 *Question*—A hospital services division of a hospital association engaged a member's firm to help prepare a computer program for Medicare cost reporting which the association will make available for a fee. As part of the promotion of the program, representatives of the division call on hospitals and distribute a sales booklet with the imprint "prepared in association withAccounting Firm" on its cover. Would this be considered a violation of Rule 502?

.162 *Answer*—Inasmuch as the program was the result of a bona fide engagement it is proper for the member's firm to be identified as co-author of the program on the cover of such a sales booklet.

82. Newsletter

.163 *Question*—A publishing company has discussed the possibility of issuing a monthly newsletter on financial management under a member's name. His name would be featured prominently. The letter would be sold for a yearly fee, and subscriptions would be solicited by direct mail and other advertising. Would this arrangement violate the Code?

.164 *Answer*—Assuming that the letter bearing the member's name would be written by him or under his supervision, issuance

of such a letter would be proper under Interpretation 502-9. An author has the responsibility to make sure that those promoting such a publication keep within the bounds of professional dignity and do not make claims concerning the author or his writings that are not in good taste. The address of the member's firm should not be shown on such letters.

83. Nonpractitioner in Sales Brochure

.165 *Question*—A member who is not in public practice serves as treasurer and controller of a construction company. The company is preparing a sales brochure that will include brief background biographies of the officers and staff of the company. May the member's biography mention that he is a CPA and a member of the Institute?

.166 *Answer*—This would not be a violation of the Code since members not in practice are permitted to use their CPA designation and memberships in connection with promotion of business activities not of a type performed by public accountants.

84. Paid for by Others, Member's Testimonial Letter

.167 *Question*—A member's firm has been asked by the manufacturer of office machinery to prepare a testimonial letter for use in a national advertisement. Would this be a violation of the Code?

.168 *Answer*—This would be a violation of Rule 502 against advertising.

85. Paid for by Others, Member's Testimonial Letter

.169 *Question*—A magazine published by a business machine company for use in promoting its equipment printed an article by a partner of a member's firm; the article gave some of the firm's background and was also a testimonial for the business machine company's equipment. Would publication of the article be proper?

.170 *Answer*—This would be a violation of Rule 502.

86. Paid for by Others, Name in Client Ad

.171 *Question*—A member's client proposes to use public advertising to assure readers that certain financial or statistical facts regarding its products or services are genuine. May a member's firm engaged to verify such facts ethically permit its name to be used in such advertising?

.172 *Answer*—Accounting firms are often asked to perform unusual services with which their names may be associated. A member's firm may perform such services and its name may be associated with related public advertising provided that such

advertising is not misleading and the member's report and the financial or statistical facts are included in their entirety.

87. Paid for by Others, Radio Program Dedication

.173 *Question*—A bank wishes to dedicate to a member's firm one of a series of radio programs, each program being dedicated to a valued customer. In addition to credit lines, a two-minute tribute is to be given outlining the important part the firm has played in building the community. Would this be regarded as advertising on the part of the member's firm?

.174 *Answer*—This would be a violation of Rule 502.

88. Political Endorsement

.175 *Question*—Members supporting the presidential candidate of one of the major parties have sent a letter of political endorsement to the public. Members are identified with CPA title on the letter but no firm names or addresses are included. Is such a letter in violation of Rule 502?

.176 *Answer*—Such a letter would not violate Rule 502.

89. Postage Meter Machines

.177 *Question*—What, if anything, may properly be said by Institute members in the advertisement space provided by postage meter machines?

.178 *Answer*—Any type of advertising in the space would be improper. Members should limit the printing on their envelopes to a dignified corner legend.

90. Open House

.179 *Question*—A member opening a new office in a small town has been approached by a newspaper requesting that it be allowed to run a front page picture and personal story about him. Also, a local banker, together with other friends in his community, has suggested that the member hold an open house and serve coffee for about two hours. Would either of these activities be a violation of Rule 502?

.180 *Answer*—Provided the member did not cultivate the publicity, he could comply with the request of the newspaper to run a front page story with his picture (see Interpretation 502-10). The member could also hold a "coffee" provided he extended his invitation only to clients and those with whom professional contacts are maintained.

91. Press Release on Change in Staff

.181—.182 [Superseded by Interpretation 502-1.]

92. Press Release on Change in Staff

.183—.184 [Superseded by Interpretation 502-1.]

93. Press Release on Society Chapter Meeting

.185 *Question*—May a CPA society chapter issue a news release concerning its meetings, including a list of participants, to various newspapers circulated in the area?

.186 *Answer*—It is permissible for a CPA society chapter to issue such a news release as long as it contains what is “news” in the area. Good taste usually suggests that firm names and affiliations be omitted from a list of this kind.

94. Professorship Named After CPA

.187 *Question*—May a member who is in active practice permit a professorship at a local university to be named in his honor? Contributions for the professorship would be solicited from the profession and general public.

.188 *Answer*—Yes. Establishment of such a professorship brings honor to the profession, and is a desirable development. The establishment of the chair would honor the person for whom it was named.

95. Qualifications as Attachment to Report

.189 *Question*—May a member attach to his firm’s report an addendum listing the partners’ qualifications as an aid to readers who may not know the firm?

.190 *Answer*—Such a practice would violate the prohibition in Rule 502 against advertising.

96. Resume for Lender’s Information

.191 *Question*—When a client must submit financial statements carrying the opinion of a member in order to apply for a loan or financing from a bank or underwriter, is it proper for the member to submit to the banker or underwriter background data which will indicate his competence as an accountant?

.192 *Answer*—It is not improper for a member to submit such background data provided he is not seeking an engagement from the bank or underwriter. Lenders often keep central files on accountants whose work is submitted to them to assure themselves of the quality of the work performed. It is in the best interests of the client that the lender be made aware of the accountant’s qualifications so that the statements he prepares for his clients will be accepted without delay. However, the back-

ground information submitted should be a statement of fact, sent only for the purpose of inclusion in the lender's files. Anything more than this might be considered advertising in violation of Rule 502.

97. Seminar Announcement

.193 *Question*—Through a newspaper ad, an investment banking firm promoted a series of acquisition and merger seminars open to the public. Two members were listed as seminar speakers, along with lawyers and representatives of banking and other industries. The firm or business affiliation of each speaker was also shown. Was the listing of the two members and their firm names in the advertisement a violation of Rule 502?

.194 *Answer*—When members participate in acquisition and merger seminars, the profession receives recognition of its competence in that field, and the overall effect of the ad would be of benefit to the profession as a whole. It is proper for the list of speakers that appeared in the ad to include the two members and to give additional information in accordance with Interpretations 502-9 and 502-11.

98. Signs on Office Premises

.195 *Question*—A member's firm plans to build its own office building and has obtained the site. May the firm place a sign on this property reading either "Future Home of Jones & Co." or "Future Home of Jones & Co., CPAs"?

.196 *Answer*—Either sign would be a violation of Rule 502.

99. Signs on Office Premises

.197 *Question*—What are the restrictions regarding the printing of a member's name and title on signs outside his office?

.198 *Answer*—For general guidelines on this subject, see Interpretation 502-2. In addition, rulings have been issued on the following points:

1. Plaques or small signs bearing the name and title of a member are acceptable. The sign itself should be in good taste and modest in size so that it would not be viewed as advertising.
2. When an office building has the customary building directory, any sign other than the regular directory listing is improper.
3. A member's firm may list on its office door partners' names and the names of staff men, with a line separating the partners from the employees.
4. It would be proper for a member's firm whose name is the same as the building it occupies to make use of a modest sign permitting identification of the building from the street. It would not be permissible to include the CPA designation on the sign.

100. Specialization on Business Card

.199 *Question*—A member has been awarded the title "Certified Data Processor" by a data processing management association. May he use this title on his business card?

.200 *Answer*—The use of such a title on a member's business card would be a violation of Rule 502 (see Interpretation 502-5).

101. Specialization, Acquisitions and Mergers

.201 *Question*—The members of a firm have formed a separate partnership which, they maintain, is not practicing public accounting but is specializing in work relating to acquisitions and mergers. May the separate partnership indicate on its letterhead that it specializes in this field?

.202 *Answer*—Since services performed by the separate partnership are considered services of a type performed by public accountants, the Rules of the Code would apply to both partnerships in which the partners hold themselves out as CPAs. Interpretation 502-4 would prohibit the partnerships from indicating a specialty on business stationery.

102. Specialization: "Tax Accountant" Designation by Nonpractitioner

.203 *Question*—A member is employed as a "tax accountant" by a life insurance company. He is a full-time employee whose

duties consist of preparing the company's income tax returns, advising management of the tax consequences of proposed transactions, and replying to agents' inquiries about federal taxes as they apply to life insurance and related areas.

The member maintains that use of the "tax accountant" title is not in violation of Rule 502 since he is not holding himself out to the public as a tax specialist. The title is not a self-designation but rather one conferred by the insurance company. He also uses his CPA designation on the letterhead of the insurance company.

Is he violating any provision of the Code?

.204 *Answer*—There would be no violation of the Code in the use of the title "tax accountant" conferred by the insurance company. The use of the CPA designation is not prohibited under these circumstances since he is not performing services for the public.

103. Recruiting Ad in Employment Guide or Career Opportunity Guide

.205 *Question*—May a member's firm purchase space for a listing in an employment guide showing career opportunities in the area of finance? The listing would broadly describe the makeup and activities of the firm.

.206 *Answer*—Listings in such guides are proper as long as distribution is limited to individuals seeking employment, to college placement officers, and to other persons and organizations actively involved in placement.

104. Staff Recruiting in University Publication

.207 *Question*—An advertisement appearing in a university newspaper stated that a member's firm (named in the ad) would have representatives on the campus at a certain date to interview students interested in careers in public accounting. Was this a violation of Rule 502?

.208 *Answer*—Since the newspaper was distributed only to students on campus, the ad would not violate Rule 502.

105. Announcement Card: Elected to Vice Presidency

.209 *Question*—May a nonpracticing member who has been elected vice president and director of an investment company permit the company to publish a newspaper "card" which includes his CPA designation?

.210 *Answer*—Rule 502 would not prohibit the inclusion of the member's CPA title in a newspaper "card" since he is not

engaged in an occupation in which he renders services of a type performed by public accountants.

106. Information Under Telephone Directory Heading

.211 *Question*—Under the heading “Accountants—Certified Public” in a classified telephone directory, a member has listed the telephone number of his residence with the legend “If no answer dial” under his office address and telephone number. Is such a listing considered to be in a style differentiated from others in the same directory, as set out in Interpretation 502-3?

.212 *Answer*—Such a listing is permitted.

107. Member as Consultant for Client’s Customers

.213 *Question*—A member has been approached by a company that sells insurance by preparing executive compensation plans for executives of large corporations. The company wishes to retain the member to determine which of its executive compensation plans would be most suitable in individual cases and to prepare tax returns for such individuals. The company engages in advertising and sales promotion. Is this arrangement permissible?

.214 *Answer*—If the company has some staff capability and does not rely entirely on the member’s competence, he may be retained in a consulting capacity on an occasional basis to advise and assist the company in determining which plan would be most suitable for each executive, provided the member has no direct contact with the executives and the company does not mention its association with the member’s firm in any promotional material. If the member were retained on a permanent basis to determine the appropriate plan for each executive, the company would, in effect, be marketing the member’s services to customers obtained through advertising. The member should not enter into an arrangement with the company to prepare tax returns for executives since tax preparation would require direct service to customers which the company may have obtained through advertising and solicitation.

108. Member Interviewed by the Press

.215 *Question*—What standards must a member observe when he is interviewed by the press?

.216 *Answer*—As stated in Interpretation 502-10, “A member may respond factually when approached by the press for information concerning his firm, but he should not use press inquiries as a means of aggrandizing himself or his firm or of advertising professional attainments or services. When interviewed by a

writer or reporter, he is charged with the knowledge that he cannot control the journalistic use of any information he may give and should notify the reporter of the limitations imposed by professional ethics."

Comments or distribution of firm publications to the press which describe the abilities or achievements of a member or his firm which are not appropriately restrained will be considered deliberate cultivation of publicity and a violation of Rule 502.

109. Compensation from Nonpractitioners

.217 *Question*—A member proposes to render a management service to clients by arranging for the purchase of supplies from a supplier who offers a discount. The supplier, who is also a client, feels that the member's fee should be increased as compensation for providing this service. Would this constitute a violation of Rule 503? Would the answer be any different if the supplier was not a regular client of the member's firm?

.218 *Answer*—Accepting a commission from the supplier, whether or not he is a regular client, would violate Rule 503 which states that a member may not accept a commission for referral of products and services of others to a client. However, assisting clients in obtaining the best equipment at the best price is a legitimate professional service, and the member may properly charge for the time and effort devoted to this activity.

110. Computer Service Franchise

.219 *Question*—A member in public practice wishes to be a representative of a computer tax service. The organization provides services to tax practitioners only—no services are offered directly to the public. The member would be expected to utilize his professional contacts to introduce the service to other practitioners and to promote its use by them. He would receive a fee on each tax return processed for a practitioner from within his franchise area. Would this arrangement constitute a violation of Rules 503 and 504?

.220 *Answer*—Rule 503 provides that a member may not accept commissions or participate in fees for work turned over to others for services to clients. The proposed activity would not be "incident to services for clients," and Rule 503 does not apply. In regard to Rule 504, serving as representative of a tax preparation computer center would not be incompatible with the practice of public accounting so long as the center provided services only to practitioners and not directly to the public. Contacts with

other practitioners would be governed by the guidelines in Interpretation 502-13.

111. Purchase of Bookkeeping Practice

.221 *Question*—A member buys a bookkeeping firm's practice which is limited to monthly write-ups and tax return preparation. The purchase price is a percentage of the fees received from the bookkeeping firm's clients over a three-year period. Would there be a violation of Rule 503 in these circumstances?

.222 *Answer*—Since the rule prohibiting the payment of commissions was not intended to cover such situations, there would be no violation of Rule 503. This ruling is based on the assumption that the percentage of fees received is simply a means of determining the price that will be paid for the practice and that the arrangement will terminate at the end of the three-year period.

112. Referral

.223 *Question*—A member's firm proposed to enter into an arrangement with a management specialist. The management specialist would seek from business organizations engagements to prepare an operations survey that would suggest where improvements might be made. If the survey indicated deficiencies in the accounting systems, the consultant would recommend that the member's firm design and install an accounting system. The member's firm would pay the specialist a compensation for the referral based upon a percentage of the total fee for the engagement. Would such an engagement be proper?

.224 *Answer*—It would be improper to have such an arrangement because the member would be acquiring business through a "feeder."

113. Member's Spouse as Insurance Agent

.225 *Question*—May a member in public practice refer life insurance assignments to his wife, who is a life insurance agent, or to an agent who will share a commission with the member's wife?

.226 *Answer*—Rule 503 would prohibit such referrals since the member would receive the economic benefit derived from the commission paid to his wife.

114. Member's Firm Paying Employee Bonuses

.227 *Question*—Does Rule 503, which states that a member shall not pay a commission to obtain a client, prohibit a member

from paying bonuses or otherwise sharing the profits of professional accounting work with his employees where practice development is a factor in determining such bonus or profit-sharing amount?

.228 Answer—Rule 503 was not intended to prevent the sharing of the profits of professional work with employees, retired partners, and the heirs or estate of a deceased partner. It was not designed to prevent a firm from having some form of bonus or profit-sharing plan which includes recognition of practice development.

115. Actuary

.229 Question—A member's firm has acquired that portion of an insurance brokerage firm that performs actuarial and administrative services in connection with employee benefit plans. Would conduct of the operation as a separate partnership constitute a violation of Rule 504?

.230 Answer—Actuarial and administrative services in connection with employee benefit plans are a proper function of CPAs and are not incompatible with the practice of public accounting. As long as the organization adheres to all the provisions of the Code and bylaws, there would be no objection to this arrangement.

116. Bank Director

.231—.232 [Deleted pending consideration of proposed revisions by the Executive Committee of the AICPA's Professional Ethics Division.]

117. Consumer Credit Company Director

.233 Question—A consumer credit company purchases installment sales contracts from retailers and receives payments from consumers. May a practicing CPA serve as a director or officer of such a corporation?

.234 Answer—Yes, as long as he does not audit the corporation and does not participate in matters which might involve a conflict of interest.

118. Employment Agency

.235 Question—A member alleges that many firms operate employment agencies. Would this practice violate Rule 504?

.236 *Answer*—The operation of an employment agency would be an incompatible occupation. However, providing executive-search services for clients is permissible.

119. Finance Company

.237 *Question*—May a member conduct a public practice and also be involved in the operation of a finance company?

.238 *Answer*—This arrangement would be a violation of the rule against incompatible occupations. There is danger that the finance company might serve as a “feeder” to the member’s firm. There might also be relations between common clients of the firm and the finance company that might cast doubt upon the independence of the member’s firm.

120. Insurance Broker

.239 *Question*—A practicing member wishes to take out an insurance broker’s license and to affiliate with an insurance agency. Would this violate Rule 504?

.240 *Answer*—Such an activity would be incompatible and inconsistent with public accounting, since this occupation would necessarily involve advertising and solicitation and would also become “a feeder” for the member’s practice.

121. Insurance Salesman

.241 *Question*—A member in public practice proposes to take out a state insurance license and, from time to time, sell insurance to friends and clients. He would neither advertise nor solicit. Would his proposal violate Rule 504?

.242 *Answer*—A member selling insurance engages in an occupation incompatible and inconsistent with the practice of public accounting. A client served by the member in both capacities might question the accountant’s objectivity and independence in relation to his enterprise. The occupation is capable of being used as a “feeder” for the member’s practice.

122. Investment Advisor

.243 *Question*—May a member in public practice set up separate offices as a registered investment advisor?

.244 *Answer*—The simultaneous operation of an accounting practice and an investment advisory service, either in the same or separate offices, is a violation of Rule 504 of the Code.

123. Loan Broker

.245 *Question*—An insurance company asked a member to serve as broker in handling industrial and commercial loans.

Some of the member's clients might be interested in obtaining these funds. Would acceptance of the offer involve a violation of the Code?

.246 Answer—A member may not act as a loan broker and maintain an accounting practice at the same time—to do so would violate Rule 504.

124. Mutual Fund Salesman

.247 Question—A member in public practice wishes to serve as local representative of an open-end investment trust. His compensation would be in the form of a sales commission. Would this arrangement be a violation of the Code?

.248 Answer—Because it would necessarily involve active solicitation of possible buyers of securities and consequently discussions of accounting and tax matters, this occupation would be incompatible with public accounting.

125. Private Investor in Business and Real Estate

.249 Question—A member has withdrawn from his firm and has retired from public practice. His former firm has retained his name in its title. The member has announced his entry into the investment and real estate business in newspapers, listing his address which is the same as that of his former CPA firm. He does not mention his CPA title in advertisements. Has he violated the Code?

.250 Answer—Since the member has retired from his accounting firm and no longer practices as an accountant, the mere retention of his name in the former partnership title would not cause him to be considered a practitioner. Therefore, although the investment and real estate business has been held to be an incompatible occupation, the member would not be violating Rule 504 in this case because the occupation is not being conducted conjointly with the practice of public accounting. For the same reason, there is no violation of Rule 502.

It is assumed that his severance from the former firm is total and that he would not be referring to his former firm any customers with whom he has contact in his present business.

The member's real estate practice may not be conducted from the same office as the former accounting practice, but it may be located in the same building.

126. Real Estate Broker

.251 Question—Is the operation of a part-time real estate business as a broker incompatible with public accounting?

.252 *Answer*—Provided the operation of the real estate business is separate from the members public accounting practice and is not used as a “feeder,” there would be no violation of the Code.

127. State Controller

.253 *Question*—May a member serve in the office of the state controller and at the same time practice public accounting? The principal functions of the state controller are to maintain control over accounts for all state funds, administer disbursements, allocate revenue among county and local governments, and serve as ex officio member of several committees, boards, and commissions.

.254 *Answer*—It would be improper for a member to serve as state controller and practice public accounting on his own behalf at the same time since most if not all businesses are subject to some form of state control.

128. State Secretary of Revenue

.255 *Question*—May a member in public practice serve as the state secretary of revenue, administering the state taxation system?

.256 *Answer*—Service in this position would be incompatible with public accounting.

129. Travel Agency

.257 *Question*—Is the operation of a travel agency incompatible with the practice of public accounting?

.258 *Answer*—Provided the operation of the travel agency is separate from the member’s public accounting practice and is not used as a “feeder,” there would be no violation of the Code.

130. Collection Agent

.259 *Question*—A member in public practice wants to take out a state license as a collection agent and perform collection services by phone and letter for his clients only. Is this proper?

.260 *Answer*—Even though the collection service would be performed for clients only, it would not be proper for a member to contact his clients’ customers by either letter or phone requesting that accounts be paid. Collection agent is an occupation inconsistent and incompatible with the practice of public accounting and the mailing of collection letters is a violation of Rule 504 of the Code.

131. Bookkeeping Service as Feeder

.261 *Question*—A member contemplates opening an office and subletting space to a business service organization which offers bookkeeping, secretarial, and telephone answering services. If the bookkeeping service advertises and otherwise solicits customers, can any impropriety be imputed to the member because of the tenant-lessor arrangement? In using the secretarial services of the organization for the typing of tax returns, audit reports, and other client papers, would there be a violation of the confidential relationship between the member and his clients?

.262 *Answer*—Since the service company is housed in the same quarters, the general public would assume that there is only one operation. There is the danger that the subtenant's activities would serve as a "feeder" to the member's practice and constitute a violation of Rule 504.

The rule on confidential relationships does not preclude the use of outside agencies to perform typing services, but a member is responsible for seeing that the confidential relationship with his clients is not violated.

132. Tax Practice: Conflict of Interest

.263 *Question*—A member is in partnership with a non-CPA who is a former internal revenue agent with several years' experience as a practitioner specializing in taxes. Tax work accounts for approximately one-half of the firm's gross fees. The non-CPA has been asked to serve, without compensation, as the public member of the board of tax appeals recently established under a municipal income tax ordinance. Would his acceptance be advisable, provided he disqualified himself in any matter with which he was directly or indirectly connected?

.264 *Answer*—The position should be declined because the partnership would likely be unable to avoid future conflicts of interest.

133. Member Employed by Incorporated Law Firm

.265 *Question*—A member has been asked to join an incorporated law firm as a controller and tax advisor to maintain accounting records and perform related work for clients of the firm in its name. Would acceptance of this position present a conflict with the Code?

.266 *Answer*—If the member is an employee rather than an officer of the firm, his position would not present a conflict with the Code. However, the member could not use his CPA title in this position since he would be performing services similar to those rendered by practitioners.

134. Association of Accountants Not Partners

.267 *Question*—Two members who are not partners share an office, have the same employees, have a joint bank account, and work together on each other's engagements. Would it be proper to have a joint letterhead showing both names, "Certified Public Accountants," and their addresses?

.268 *Answer*—In these circumstances the public would assume that a partnership existed. If any reports were to be issued under the joint heading, Rule 505 would be violated.

Members should not use a letterhead showing the names of two accountants when a partnership does not exist.

135. Association of Firms Not Partners

.269 *Question*—Three CPA firms wish to form an association—not a partnership—to be known as "Smith, Jones & Associates." Is there any impropriety in this?

.270 *Answer*—The use of such a title is not permitted since it might mislead the public into thinking a true partnership exists. Instead, each firm is advised to use its own name on its letterhead, indicating the other two as correspondents.

136. Audit with Former Partner

.271 *Question*—A member's firm consisting of one certified and one noncertified partner has been dissolved. One account was retained which the two practitioners plan to continue to service together. Should the audit report be submitted on partnership stationery?

.272 *Answer*—It would appear proper for the audit to be carried out jointly by the two former partners. The opinion should be presented on plain paper and signed somewhat as follows:

John Doe, Certified Public Accountant
Richard Roe, Accountant

Such a signature would leave no doubt as to whether a partnership existed, and the client and others would have the assurance that both accountants participated in the audit.

137. Nonproprietary Partners

.273 *Question*—A member's firm wishes to institute the designation "nonproprietary partner" to describe certain high-ranking staff men who were former partners of merged firms who did not qualify for partnership in the merging firm. With this title,

they would be eligible to participate in the firm's pension plan. In holding themselves out to the public they would be required to use this designation. Is there any impropriety in the proposed title?

.274 *Answer*—The use of the designation “partner” should be restricted to those members of the firm who are legally partners. Those who are not parties to the partnership agreement should not hold themselves out in any manner which might lead others to believe that they are partners. The use of the designation “nonproprietary partner” by one who is not in fact a partner is considered misleading and therefore is not permitted.

138. Partner Having Separate Proprietorship

.275 *Question*—May a member be a partner of a firm of public accountants, all other members of which are noncertified, and at the same time retain for himself a practice of his own as a CPA?

.276 *Answer*—Rule 505 would not prohibit such a practice. However, clients and others interested should be advised about the dual position of the member to prevent any misunderstanding or misrepresentation.

139. Partnership with Public Accountant

.277 *Question*—May a member form a partnership for the practice of public accounting with a public accountant?

.278 *Answer*—While some state boards and CPA societies have rules prohibiting mixed partnerships, the Institute's Code does not prohibit a member from forming a partnership with a non-CPA. However, all partners would have to conform to the Code, and the partnership would not be permitted to represent itself as a partnership of CPAs.

140. Political Election

.279 *Question*—A member's firm, consisting of four members, practices under the name of the managing partner who is presently seeking election to high public office. If he is elected and withdraws from the partnership, may the three remaining partners continue to use the present firm name?

.280 *Answer*—It would not be a violation for the three remaining partners to continue to practice under the name of the managing partner followed by the designation “and Company.”

141. Responsibility for Non-CPA Partner

.281 *Question*—Is a member who has formed a partnership with a noncertified public accountant ethically responsible for all the acts of the partnership?

.282 *Answer*—Yes. If the noncertified partner should violate the Code, the member would be held accountable.

142. Retired Partners

.283 *Question*—After his retirement, the senior partner of a member's firm will continue to share in the net income of the firm for five years. Though he will be available for consultation, he will not be actively engaged in practice during his retirement. The following questions arise: (1) How may his name be shown on the firm's letterhead? (2) How should his title and firm affiliation be indicated in the American Institute's membership directory? (3) Even though he has retired, may his name be listed in the yellow pages of the telephone directory?

.284 *Answer*—(1) It is proper for a firm to list on its letterhead the names of deceased or retired partners followed by their years of service. The names of retired partners usually appear at the beginning of the roster of partners followed by a line to distinguish them from the active partners. (2) It is common practice for retired partners to be listed as partners of the firm in the Institute's membership directory, if they do so desire. (3) If a retired partner has office space or otherwise remains active with the firm, his association with the partnership may be shown in the building directory and in the white pages of the telephone directory. However, he should not have a listing in the yellow pages.

143. Partnership with Non-CPA

.285 *Question*—A member in public practice proposes to form a separate partnership to render tabulating services with a non-certified, unlicensed accountant in a regulatory state. The partnership will solicit business from practicing CPAs and public accountants only. The noncertified accountant is also the sole owner of a local service bureau. There is to be no connection between this company and the proposed partnership. The partnership would operate within the framework of the Code. Is the proposed arrangement in violation of the Code?

.286 *Answer*—Providing there is indeed no connection between the service bureau and the proposed partnership and business of the partnership is limited to other practicing CPAs or public accountants, such an arrangement would not be a violation of the Code. The danger exists, however, that the service bureau might be used as a "feeder" to the public accounting practice, and the CPA involved might indirectly obtain the advantages of advertising, solicitation, and other activities which he is prohibited

from performing directly. If this occurred, a violation would exist.

144. Title: Partnership Roster

.287 *Question*—Is there any prohibition in the Code to the use of an established firm name in a different state where there is some difference in the roster of partners?

.288 *Answer*—It would be proper for the firm to use the established name in different states even though the roster of partners differed as long as the firm otherwise complies with Rule 505.

145. Firm Name of Merged Partnerships

.289 *Question*—When two partnerships merge, is it permissible for the newly merged firm to practice under a title which includes the name of a partner who had retired from one of the two firms prior to the merger?

.290 *Answer*—Rule 505 of the Code of Professional Ethics states that partnerships may practice under a firm title which includes the name or names of former partners. Since the retired partner was once a partner in one of the merged firms, it would be proper for his name to appear in the title of a newly created firm.

146. Membership Designation

.291 *Question*—On the letterhead of a partnership of members and noncertified public accountants, the designation “Members of the American Institute of Certified Public Accountants” appears in a manner which attempts to distinguish members of the Institute from nonmembers. Is such use of the designation of Institute membership by a mixed partnership permitted by Rule 505?

.292 *Answer*—Rule 505 states, “A firm may not designate itself as Members of the American Institute of Certified Public Accountants unless all of its partners or shareholders are members of the Institute.” Individual members may be designated as such.

147. Firm Designation

.293 *Question*—May a member who is a sole proprietor or the sole shareholder in a professional corporation use in his firm title the designation “and Company” or “and Associates”?

.294 *Answer*—Rule 505 would prohibit the member from using in his firm title the designations “and Company,” “and Associates,” or “& Co.,” since these may be interpreted to mean

more than one partner or shareholder. This ruling would apply even to a member who employs a staff that might include other CPAs.

148. Firm Designation

.295 *Question*—May two members who have formed a partnership use in their firm title the designations “and Company” or “and Associates,” or must such designations stand for an unidentified other partner?

.296 *Answer*—Because their firm is a true partnership, it would not be a violation of the Institute’s Code for two members to use in their firm titles the designations “and Company” or “and Associates.” Regulations of some state boards of accountancy require that there be at least one more partner than the number of names in the firm name when the words “and Company” are used.

149. Data Processing: Accounting and Bookkeeping Assistance

.297 *Question*—A member’s firm has been asked by a local bank to render accounting and bookkeeping assistance in connection with a data processing system which the bank intends to market to its customers. The bank would perform all the data processing functions; the member’s firm would review financial statements and make adjustments for accrual basis presentation. The firm would not audit the financial statements nor would its name appear thereon. The member’s firm would be employed and paid by the bank and would render its services to the bank only. Would this arrangement constitute a violation of the Code?

.298 *Answer*—It would be improper for the member to enter into such an agreement because he would be doing indirectly that which he is not permitted to do directly.

150. Data Processing: Billing Service

.299 *Question*—A member in public practice wishes to form a corporation to perform centralized billing services for local doctors. He maintains that this service, which is similar to one currently offered and advertised by a local bank, does not constitute the practice of public accounting and that Rules 502 and 505 do not apply. The member wishes to circularize local doctors with whom he is acquainted, informing them of the availability of the service. May the member proceed with this plan?

.300 *Answer*—The service in question does in fact constitute service of a type performed by public accountants and conse-

quently the member could proceed with this plan only if the operation were conducted in accordance with the Institute's standards of professional conduct, which prohibits solicitation and advertising.

151. Data Processing: Computer Center

.301 *Question*—May a member in public practice operate a computer center under the name "Computer Services" which would be listed in the white pages of the telephone directory, but not in the yellow pages?

.302 *Answer*—If the services are to be offered to the public, Rule 505 states that a member shall not practice under a firm name which includes any fictitious name, indicates specialization or is misleading as to the type of organization. If the computer center offers services only to other practitioners, the member would not be considered to be engaged in the practice of public accounting through the center, and the prohibition against fictitious names would not apply. Interpretation 502-13 contains guidelines concerning a member informing other practitioners of his availability to provide them or their clients with professional services.

152. Data Processing: Computer Center

.303 *Question*—An accounting firm, together with a management consulting firm and two banks, proposes to rent a computer. The accounting firm would computerize its writeup services; the management consulting firm would perform statistical studies; and the banks would program their internal operations and offer computer services to customers and depositors. The customers and clients of the accounting firm, the management consulting firm, and the banks would be notified of the availability of computer services and of the joint basis on which the service is operated. Does this arrangement violate the Code?

.304 *Answer*—Such an arrangement would violate Rule 503 since the accounting firm would be sharing the profits of the computer operations, which are services performed by public accountants, together with persons not engaged in the practice of public accounting as a principal occupation. Since the banks and the management consultants would notify persons other than the accounting firm's clients of the availability of the computerized services, there would also appear to be a violation of Rule 502.

153. Data Processing: Computer Center

.305 *Question*—A member's firm wants to acquire all the stock of a corporate computer service bureau, dissolve the corporation,

and merge its operation into the accounting firm's practice. The service bureau is already doing work for some of the firm's clients, and for the clients of other CPAs. What are some of the ethical considerations in such an arrangement?

.306 *Answer*—There would be no objection to offering data processing services to the service bureau's present customers so long as Rule 505 is observed. There are practical problems in purchasing a computer center servicing clients of other CPAs; although not required under the Code it is recommended that a member should not accept other work from clients of other CPAs without first discussing the matter with the other CPA.

The member's firm would have to conduct the EDP practice on a professional level and could not advertise, solicit, or hold itself out as specializing.

154. Data Processing: Computer Center, Service Bureau as Client

.307 *Question*—May a member accept a retainer by a data processing center to investigate the problems of the center's customers (frequently served by other CPAs) and to report to the center his recommendations on the need for data processing equipment? The member would assist in the installation of the necessary equipment. He would bill his regular per diem charges to the service center.

.308 *Answer*—Such an arrangement would be prohibited since it would result in the offering of professional consulting services under the name of a commercial processing center. There would be no objection if the service center recommended to its customers that the member be retained to determine the need for data processing equipment. The member could then bill the client directly for his services. However, the member has the responsibility for complying with Rule 401.

155. Data Processing: Computer Corporation

.309 *Question*—A member's firm wishes to set up a computer corporation of which a firm of computer consultants would be equal owner. The corporation would perform consulting work through the member's firm only for clients of the firm. The corporation would not offer any services directly to the public. Would such an arrangement violate the Code?

.310 *Answer*—The proposed arrangement would not be a violation of Rules 503 and 505 if the corporation served only practitioners and, through them, their clients.

156. Data Processing: Consultant to Service Bureau

.311 *Question*—May a member in public practice assist a corporation in developing a tabulating service to be offered to the public? He would have no financial interest in the corporation and no representations would be made that he or any CPA was connected with the development of the tabulating service.

.312 *Answer*—This would not be a violation of the Code.

157. Data Processing: Employee Not in Practice

.313 *Question*—A member not in public practice is employed as executive director of a service center, owned by banks, which offers computer services to bank clients. The stockholder banks want to offer the center's services to CPAs. Would the member's association be considered a violation of the Code?

.314 *Answer*—The member would not be in violation of the Code since Interpretation 502-13 was intended to apply to practitioners rather than employees. The center should not identify its executive director as a CPA.

158. Data Processing: Employee-Shareholder in Public Practice

.315 *Question*—A member having a public accounting practice is also president and a shareholder of a corporation whose main business is financing but which also engages in adjunct data processing services for the public. Is he acting in accord with Interpretation 505-1?

.316 *Answer*—Because the member is engaged in a public accounting practice his relationship to the corporation should be solely that of an investor, and his financial interest in the corporation should not be material to the corporation's net worth. His association with the data processing corporation should be limited to that of a consultant, as opposed to that of an officer and shareholder.

159. Data Processing: Fee Sharing

.317 *Question*—A member's firm wishes to set up a data processing center by forming a joint venture with three of its clients—a bank, a professional engineering firm, and a trucking company. The joint venture would be an entity separate from the public accounting firm and would be known as the Blank Data Processing Company. If the joint venture operates at a profit and the profits are divided among the four joint venturers, would this be considered a participation in the fees of professional work by nonpractitioners in violation of Rule 503?

.318 *Answer*—Such services are “of a type performed by public accountants” and members rendering these services must observe all provisions of the bylaws and the Code. Since Rule 503 prohibits the sharing of fees with persons not engaged in public accounting as a principal occupation, the operation of such a separate organization would be prohibited regardless of the fact that it did not advertise, solicit clients, or practice in corporate form. Such a joint venture with clients would probably impair the firm’s independence as auditors of those clients. In addition, since the organization would be subject to the profession’s ethical restrictions, which prohibit the indication of specialties, it would not be permitted to designate itself as a “data processing” center.

160. Data Processing: Forwarding Fees

.319 *Question*—A member’s firm *A* renders data processing services to its clients but uses the electronic equipment of CPA firm *B*. Firm *B* bills firm *A* at a reduced rate as compared to its normal billing rates for its own clients. Firm *A* then bills its clients at a higher rate than it was billed. Is this arrangement ethical?

.320 *Answer*—The Code prohibits such forwarding fees. However, it is proper for a member’s firm to render data processing services to its clients through the use of the equipment of another CPA firm. There is no objection to the suggested billing mechanics.

161. Time-Sharing Computer Programs Developed by Member’s Firm

.321 *Question*—A member’s firm has devised computer programs which may be adaptable to recurring use in analyzing the results of historical or prospective transactions. A commercial company which operates a time-sharing computer network desires to acquire the programs for inclusion in its catalog of programs which it offers to customers. The member’s firm would retain ownership of the programs, but a royalty would be paid by the time-sharing company to the firm based on the actual usage of the programs by its customers. The customers of the time-sharing company include both clients and non-clients of the member’s firm. Would such an agreement to provide computer programs to the time-sharing company violate the Code of Professional Ethics?

.322 *Answer*—It may be in the public interest that such programs be made available for general use. Time-sharing companies with established networks offer a practical means of mak-

ing programs available to potential users. However, in any arrangement between a member's firm and time-sharing companies whereby programs designed by the member's firm are made available to the public, the ethical prohibitions against encroachment, solicitation and advertising must be observed. A member's firm that developed programs which are suitable for general use may license the use of such programs to time-sharing computer companies provided that:

1. The name of the member or his firm shall not be identified with the program package or otherwise mentioned in any promotional material or training manual distributed by the time-sharing company.
2. The time-sharing company shall not disclose the source of the program to any customer who is not a client of the member's firm.
3. The computer programs licensed to the time-sharing company must not require subsequent service by the member's firm which would bring it into a direct relationship with customers of the time-sharing company who are not existing clients of the firm.

162. CPA Designation on Professional Organization Letterhead

.323—.324 [Superseded by Ethics Ruling No. 171.]

163. Distribution of Firm Publications to News Media

.325 *Question*—A member's firm distributes its firm publications, upon request, to various news media. Is the member's firm in compliance with the intent of Rule 502 and related pronouncements under such circumstances?

.326 *Answer*—Rule 502 was not intended to preclude the news media from receiving a firm's publication upon specific request. Since the member's firm is responsible for the distribution and control of all its publications outside the firm, care must be exercised not to aggrandize his firm at the expense of other firms. Requests from the news media for information contained in a specific publication should not be used as an opportunity for the firm to provide other publications containing extraneous information not the subject of the request. The relationship between a member's firm and the news media, especially where the news medium involved is a client, should be subjected to particular scrutiny by the firm to avoid a violation of the intent of Rule 502 and related pronouncements.

164. Nonclients on Firm Publication Mailing List

.327 *Question*—A nonclient has requested to be placed on a member's firm mailing list to receive its monthly magazine. Would this arrangement violate Rule 502?

.328 *Answer*—Nonclients specifically requesting the firm's monthly magazine may at their request be placed on the firm's mailing list, for that publication. Requests from nonclients for a specific edition of a publication should not result in the nonclient being placed on the firm's regular mailing list to receive future copies of that or any other firm publication. Requests by nonclients for publications should normally be obtained in writing but may under certain circumstances be acknowledged and documented by the firm as the result of an oral request. Ordinarily, a member's firm should purge its publication mailing lists every 1-2 years.

165. Sale of Firm Publications

.329 *Question*—A client wishes to purchase and distribute to its customers multiple copies of a technical publication that had been developed by a member's firm. The firm name appears on the cover as author. Would the member's firm be in compliance with Rule 502 if it acceded to its client's request?

.330 *Answer*—A member's firm may sell to clients and others, upon request, multiple copies of a technical publication it has produced provided:

1. the firm's name does not appear on the cover,
2. authorship credits appearing within the publication are in compliance with Interpretation 502-9,
3. the publication is solely technical in nature and does not include any general information about the firm, such as a listing of its offices, description of services it renders, etc., and
4. it is sold for a fair price.

166. Announcement of Member's Withdrawal from Firm

.331 *Question*—A member proposes to withdraw from a firm in which he is a partner and begin his own practice. The member wishes to inform the firm's clients of his withdrawal through a written announcement. The announcement will include a statement that the member will be opening an office to practice public accounting. Would this action violate Rule 502?

.332 *Answer*—The provisions of the partnership agreement control the withdrawing partner's actions with respect to such

announcements. If the partnership agreement is silent on this question, the following guidelines would apply: A member should first notify the firm in writing of his intent to withdraw. It is also the member's responsibility to discuss with the firm the format, content and distribution of any announcements a member wishes to send to clients. It is desirable that a mutually acceptable form of notification be reached by the member and his firm. If such agreement cannot be reached, then a withdrawing member or the continuing firm may send notices to all clients. Such notices may only include part or all of the following: the name of the withdrawing partner, the effective date of termination and the name, address and telephone number of the member's new firm affiliation. This announcement should normally be made within a period of 30 days after a member has notified his firm of his intent to leave or the effective date of termination, whichever is later.

An employee who resigns or is discharged may not take any actions with respect to notifying clients of the firm of the termination of his employment unless the terms of the employment contract specifically provide for such notices.

167. Member Receiving Payment for Referral of Client to Others

.333 *Question*—A member has been approached by a company that sells limited partnership interests (tax shelter investments) in oil and gas properties with the proposal that:

1. the member investigate this investment venture to the extent he deems necessary and inform or recommend the investment to appropriate clients of the member's firm, and
2. the company will make a payment to the member, such payment being roughly equal to 5% of any amount invested by the firm's clients who invest because of the member's recommendation.

Would such an arrangement violate Rule 503 prohibiting commissions?

.334 *Answer*—The above arrangement would be a violation of Rule 503. This would be true whether:

1. the member's clients were aware of the payment arrangement or not, and
2. the payment was a stated percentage of amounts invested or arrived at through any other manner.

It would not be a violation of Rule 503 if the member were, on behalf of one or more of his firm's clients, to investigate a tax shelter or other investment venture and recommend such investments to these clients. His fee for such investigations should be charged to such clients. A member's fee is an integral part of the customary professional relationship with a client and such fees should comprise the only compensation for the rendering of services to his clients.

168. Audit Guides Issued by Governmental Agencies

.335 *Question*—A member has been asked to perform an audit for a grantee receiving funds from a governmental agency. The grantee is required to be audited, and the governmental agency overseeing the use of the funds has issued an audit guide, which states that the audit “. . . must be sufficiently comprehensive in scope to permit the expression of an opinion on the financial statements in the report and must be performed in accordance with generally accepted auditing standards and audit requirements set forth in the audit guide.” The guide further states that the auditor is to evaluate compliance with applicable grant provisions and instructions from the governmental agency and that the auditor's report should state that the audit was made in accordance with the audit guide.

Must the auditor follow the requirements of the audit guide in addition to generally accepted auditing standards?

.336 *Answer*—Most agencies requiring audits of grantees request the auditor to submit his proposal in a form that includes an agreement to follow the requirements of the agency's audit guide. If the member has agreed to follow the requirements of an agency's audit guide, he is bound by such requirements in addition to generally accepted auditing standards. Accordingly, if he does not follow the audit guide requirements, he must disclose this fact in his report and the reasons therefor.

169. Firm Publications, Distribution to Client's Board of Directors

.337 *Question*—A member's firm distributes its periodical to the President and other officers of an audit client. May the firm include all members of the client's board of directors on its mailing list to receive such publication?

.338 *Answer*—The firm may include all members of an audit client's board of directors, including outside directors, on its mailing list to receive its firm periodical. The content of firm

publications should be consistent with the criteria contained in Interpretation 502-7. In the case of a client eleemosynary corporation, firm publications should not be distributed to its board of directors if the board is large and membership is considered to be primarily honorary.

170. Sponsor's Announcement of Member's Participation in Educational Seminar

.339 *Question*—A member has accepted an invitation to participate in an educational seminar. How should a member comply with an obligation under Interpretation 502-11 not to permit the sponsor to distribute publicity relating to the member or his firm except as permitted under Interpretation 502-9?

.340 *Answer*—A member may be held responsible for the contents of such material if it is not consistent with Interpretation 502-9. It is a member's responsibility when accepting an invitation to participate in a seminar to inform the sponsoring organization of the ethical standards which apply to situations where a CPA will be identified in promotional or publicity material initiated by the sponsor. A member must take appropriate steps necessary to assure that all advance copy or material that will be distributed in regard to the seminar which describes the member or identifies his firm meets the guidelines contained in Interpretation 502-9. This may be accomplished by the member's either preparing the promotional material or reviewing the material prior to its publication.

171. CPA Designation on Professional Organization or Corporation Letterhead

.341 *Question*—A member has been appointed to the executive group of a nonprofit professional organization. The member also is an outside director on the board of directors of a publicly held corporation. Would it violate Rule 502 if the member's name and CPA designation were listed on the letterhead of either entity?



.342 *Answer*—It would not be a violation if the member's name and CPA designation were listed on the letterhead of a nonprofit or profit entity which he served in an official capacity. A letterhead listing that indicates the member's name and the firm with which he is affiliated is permitted provided all individuals in the executive group or on the board of directors are similarly identified, but the CPA designation may not also be included in such listing.

II

APPENDIXES

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The next page is 5121.


ET Appendix A**Generally Accepted Auditing Standards**

As Adopted by The
Membership in 1948
and 1949

General standards

1. The examination is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the examination and the preparation of the report.

Standards of field work

1. The work is to be adequately planned and assistants, if any, are to be properly supervised.
2. There is to be a proper study and evaluation of the existing internal control as a basis for reliance thereon and for the determination of the resultant extent of the tests to which auditing procedures are to be restricted.
3. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under examination.

Standards of reporting

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.
2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.
3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefor should be stated. In all cases, where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.

➤ *The next page is 5131.* ←

ET Appendix B***Council Resolution Designating the
Financial Accounting Standards Board
as the Body to Establish Accounting
Principles***

The following resolution of Council was approved at the spring meeting of Council on May 7, 1973:

WHEREAS in 1959 the Council designated the Accounting Principles Board to establish accounting principles, and WHEREAS the Council is advised that the Financial Accounting Standards Board has become operational, it is RESOLVED, that as of the date hereof the Financial Accounting Standards Board, in respect of Statements of Financial Accounting Standards finally adopted by such Board in accordance with its Rules of Procedure and the bylaws of the Financial Accounting Foundation, be, and hereby is, designated by this Council as the body to establish accounting principles pursuant to Rule 203 of the Rules of Conduct of the American Institute of Certified Public Accountants; provided, however, any Accounting Research Bulletins, or Opinions of the Accounting Principles Board presently issued or approved for exposure by the Accounting Principles Board prior to April 1, 1973, and finally adopted by such Board on or before June 30, 1973, shall constitute statements of accounting principles promulgated by a body designated by Council as contemplated in Rule 203 of the Rules of Conduct unless and until such time as they are expressly superseded by action of the FASB.

»»»→ *The next page is 5141.* ←«««

ET Appendix C**Council Resolution Permitting
Professional Corporations or
Associations**

The following resolution of Council was approved at the spring meeting of Council on May 6, 1969 and amended at the fall meeting of Council on October 12, 1974:

RESOLVED, that members may be officers, directors, stockholders, representatives or agents of a corporation offering services of a type performed by public accountants only when the professional corporation or association has the following characteristics:

1. *Name.* The name under which the professional corporation or association renders professional services shall contain only the names of one or more of the present or former shareholders or of partners who were associated with a predecessor accounting firm. Impersonal or fictitious names, as well as names which indicate a specialty, are prohibited.

2. *Purpose.* The professional corporation or association shall not provide services that are incompatible with the practice of public accounting.

3. *Ownership.* All shareholders of the corporation or association shall be persons engaged in the practice of public accounting as defined by the Code of Professional Ethics. Shareholders shall at all times own their shares in their own right, and shall be the beneficial owners of the equity capital ascribed to them.

4. *Transfer of Shares.* Provision shall be made requiring any shareholder who ceases to be eligible to be a shareholder to dispose of all of his shares within a reasonable period to a person qualified to be a shareholder or to the corporation or association.

5. *Directors and Officers.* The principal executive officer shall be a shareholder and a director, and to the extent possible, all other directors and officers shall be certified public accountants. Lay directors and officers shall not exercise any authority whatsoever over professional matters.

6. *Conduct.* The right to practice as a corporation or association shall not change the obligation of its shareholders, directors, officers and other employees to comply with the stan-

dards of professional conduct established by the American Institute of Certified Public Accountants.

7. *Liability.* The stockholders of professional corporations or associations shall be jointly and severally liable for the acts of a corporation or association, or its employees—except where professional liability insurance is carried, or capitalization is maintained, in amounts deemed sufficient to offer adequate protection to the public. Liability shall not be limited by the formation of subsidiary or affiliated corporations or associations each with its own limited and unrelated liability.

In a report approved by Council at the fall 1969 meeting, the Board of Directors recommended that professional liability insurance or capitalization in the amount of \$50,000 per shareholder/officer and professional employee to a maximum of \$2,000,000 would offer adequate protection to the public. Members contemplating the formation of a corporation under this rule should ascertain that no further modifications in the characteristics have been made.

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Bylaws of the American Institute of Certified Public Accountants

As Amended February 1, 1974

BL Section 100

I. NAME AND PURPOSE

TABLE OF CONTENTS

<i>Section</i>		<i>Paragraph</i>
101	Name and Purpose01

»»»→ *The next page is 5311.* ←«««

BL Section 101***Name and Purpose***

As amended February 1, 1974

- .01** The name of this organization shall be the American Institute of Certified Public Accountants. In keeping with the Institute's certificate of incorporation, its objectives shall be to unite certified public accountants in the United States; to promote and maintain high professional standards of practice; to assist in the maintenance of standards for entry to the profession; to promote the interests of CPAs; to develop and improve accounting education; and to encourage cordial relations between CPAs and professional accountants in other countries.
-

BL Section 200**II. ADMISSION TO MEMBERSHIP
AND ASSOCIATION**

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250 R	Implementing Resolutions Under Section 2.5 International Associates01-.03

➤→ *The next page is 5331.* ←➤

BL Section 210

2.1 Members

As amended February 1, 1974

.01. Members of the Institute shall be

2.1.1 Members of the Institute at the effective date of these bylaws, and

2.1.2 Persons who shall qualify for admission as provided in section 2.2 of this article and who shall be admitted by the Board of Directors.

BL Section 220

2.2 Requirements for Membership

As amended February 1, 1974

.01 The following persons may qualify for admission as members of the Institute:

2.2.1 Those who are in possession of valid and unrevoked certified public accountant certificates issued by the legally constituted state authorities ("state," when it appears in these bylaws and in implementing resolutions of Council, shall be understood to include the states, territories, or territorial possessions of the United States or the District of Columbia), and

2.2.2 Who shall have passed an examination in accounting and other related subjects satisfactory to the Board of Directors.

➤➤➤→ The next page is 5351. ←➤➤➤

BL Section 230**2.3 Certificate of
Membership**

As amended Febru-
ary 1, 1974

- .01 Upon admission each member shall be entitled to a certificate setting forth that he is a member of the Institute, but no certificate shall be issued until receipt of dues for the current year. Certificates of membership shall be returned to the secretary of the Institute upon suspension or termination of membership for disciplinary reasons.
-

BL Section 240**2.4 Right of Members to Describe Themselves as Such**

As amended February 1, 1974

- .01 A member of the Institute shall be entitled to use the designation "Member of the American Institute of Certified Public Accountants." A firm all of whose partners or shareholders are members shall be entitled to use the designation "Members of the American Institute of Certified Public Accountants."
-

»»»→ *The next page is 5371.* ←«««

BL Section 250**2.5 International
Associates**

As amended Febru-
ary 1, 1974

- .01 International associates shall include those who were international associates on the effective date of these bylaws. Thereafter, citizens of other countries who shall satisfy such requirements as the Council may prescribe may be admitted as international associates. The Council shall adopt rules governing such associate membership and indications thereof.

(See section 250 R.)

»»»→ *The next page is 5381.* ←«««

BL Section 250 R***Implementing Resolutions Under
Section 2.5 International
Associates***

As amended February
1, 1974

Resolved:

- .01** That those persons who are not, and have not begun the process of becoming, citizens of the United States of America may qualify for admission as international associates of the Institute if they
- (a) are of good moral character,
 - (b) have received a baccalaureate, masters, or Ph.D. degree, with concentration in accounting, conferred by an accredited college or university, in the United States of America or its territories, or its equivalent,
 - (c) have passed the Uniform Certified Public Accountant Examination in accordance with the regulations prescribed by the Board of Examiners, and
 - (d) are not practicing public accounting in the United States of America as proprietors, partners, principals, officers, or shareholders.

Further resolved:

- .02** That upon admission and receipt of dues for the current year each international associate shall be entitled to a certificate of association stating that he is an international associate of the Institute, provided that the said certificate of associateship shall not be displayed in home or office during the recipient's stay in the United States in a manner that might mislead anyone to believe the recipient to be a CPA of any of the licensing jurisdictions of the United States; and such certificate shall be returned to the secretary upon suspension or termination of the association of an international associate for disciplinary reasons.

Further resolved:



- .03** That termination of association of an international associate shall be governed by the provisions of Article VII of the Institute bylaws and, in addition, an international associateship shall be considered to be terminated when, having satisfied all the requirements of a licensing jurisdiction and having been issued a CPA certificate, an international associate either becomes eligible for membership in the AICPA, or, after a period of thirty-six months has elapsed from the date of his admission, has not returned to his homeland for a period of at least one year.
-

BL Section 300

III. ORGANIZATION AND PROCEDURE

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350	Officers Elected by Council01
350 R	Implementing Resolution Under Section 3.5 Officers01-.07
360	Committees01
360 R	Implementing Resolutions Under Section 3.6 Committees ..	.01-.12


The next page is 5401.


BL Section 310

3.1 General

As amended February 1, 1974

- .01 The organization of the Institute shall include the members, the Council, the Board of Directors, officers, committees (including subcommittees, boards, sub-boards, task forces, and the like, standing or otherwise).
 - .02 The Board of Directors may from time to time organize the committees and staff of the Institute into divisions and, subject to section 3.6, may adopt rules of procedures and operating policies for such divisions.
-

»»»→ *The next page is 5411.* ←«««

BL Section 320

3.2 Membership

As amended February 1, 1974

.01 The rights and powers of the membership of the Institute shall be as hereinafter defined.

3.2.1 Attendance at Meetings

Every member and international associate of the Institute shall be entitled to attend all meetings of the Institute.

3.2.2 Voting Rights

Every member, but no international associate, shall be entitled to vote in person, when in attendance, upon all questions brought before duly called meetings of the Institute, and by mail ballot for the election of Council members pursuant to sections 6.1 through 6.1.6, on proposed amendments to these bylaws or to the Code of Professional Ethics as provided in Article VIII, and upon proposed resolutions of the membership as provided in section 5.1.4.

3.2.3 Residence for Voting Purposes

The state from which a member may vote shall be that indicated by his mailing address as carried in the official records of the Institute, and may be either the state in which he resides or that in which his office is located.

3.2.4 Resolutions of the Membership

As provided in section 5.1.4, the members by mail ballot may enact resolutions of the membership, not inconsistent with these bylaws, which shall be binding upon the membership, the Council, the Board of Directors, officers, divisions, committees or boards, and staff.

3.2.5 Certain Positions to Be Held Only by Members

Only members of the Institute, as defined in section 2.1, may serve as officers of the Institute or as members of the Council, the Board of Directors, or any committee or board designated as "senior" by the Council (see section 3.6.1), or as "permanent" by these bylaws (see section 3.6.2); provided, however, that the secretary, who need not

be a member of the Institute, shall be a member of the Board of Directors.

➤ *The next page is 5421.* ←

BL Section 330

3.3 Council

As amended February 1, 1974

.01 The governing body of the Institute shall be the Council.

3.3.1 Composition

The Council shall be composed of

3.3.1.1 Members of the Institute directly elected by the membership in each state in accordance with sections 6.1.1 through 6.1.6;

3.3.1.2 Representatives of the recognized state societies of certified public accountants selected in accordance with section 6.2;

3.3.1.3 Twenty-one members-at-large selected in accordance with section 6.3;

3.3.1.4 The chairman of the Board, the vice chairman of the Board, the president, the three volunteer vice presidents, and the treasurer;

3.3.1.5 All past presidents of the American Institute of Accountants and the American Institute of Certified Public Accountants who served prior to December 31, 1973, and are members of the Institute;

3.3.1.6 All past chairmen of the Board of the American Institute of Certified Public Accountants who are members of the Institute; and

3.3.1.7 Any member of the Board of Directors of the Institute, except the secretary, not otherwise on the Council.

3.3.2 Powers

The Council may exercise all powers requisite for the purposes of the Institute, not inconsistent with these bylaws or with duly enacted resolutions of the membership, including but not limited to the authority to prescribe the policies and procedures of the Institute and to enact resolutions binding upon the Board of Directors, the officers, divisions, committees or boards, and staff.

3.3.3 Reports to Membership

The actions of the Council shall be reported to the membership at least annually.

»»»→ *The next page is 5431.* ←«««

BL Section 340

3.4 Board of Directors

As amended February 1, 1974

- .01** Between meetings of the Council, the activities of the Institute shall be directed by the Board of Directors, the composition of which shall be prescribed by the Council.

(See section 340 R.)

3.4.1 Powers

The Board of Directors shall act as the executive committee of Council between meetings of Council, shall control and manage the property, business, and activities of the Institute, and shall take whatever action it deems desirable including the establishment of policies for the conduct of the affairs of the Institute consistent with the provisions of these bylaws, resolutions of the membership, or actions of the Council.

3.4.2 Reports to Council

The actions of the Board of Directors shall be reported to the Council at least semiannually.

BL Section 340 R

***Implementing Resolution Under
Section 3.4 Board of
Directors***

**As amended Febru-
ary 1, 1974**

Resolved:

.01 That the Board of Directors shall be composed of

(a) the chairman of the Board, the vice chairman of the Board, the vice presidents elected by the Council, the treasurer, and the immediate past chairman of the Board;

(b) the president and the secretary of the Institute; and

(c) nine present or former members of the Council elected to the Board by the Council pursuant to section 6.3, to serve for three years or until the election of their successors.

➤→ *The next page is 5451.* ←➤

BL Section 350**3.5 Officers Elected
by Council**

As amended February
1, 1974

- .01 The officers of the Institute shall be a chairman of the Board of Directors, a vice chairman of the Board, who shall be the chairman of the Board nominee, three volunteer vice presidents, and a treasurer, all of whom shall be members in practice; a president, who shall be a member and full-time employee of the Institute, and a secretary, who shall be a full-time employee of the Institute, but need not be a member of the Institute. The chairman of the Board, the vice chairman, the treasurer, the president, and the secretary shall have such terms of office, powers, and privileges as the Council may prescribe.

(See section 350 R.)

3.5.1 Officers Appointed by the Board of Directors

The Board of Directors may appoint staff vice presidents who shall be neither members of the Board nor of the Council and who shall perform such duties as may be assigned to them by the president.

➤ *The next page is 5461.* ←

BL Section 350 R***Implementing Resolution Under
Section 3.5 Officers***

As amended February 1, 1974

Resolved:**Term of Office**

- .01** That the chairman of the Board, the vice chairman of the Board, the volunteer vice presidents, and the treasurer shall each be elected annually by the Council for a term of one year or until the election of his successor. Only the treasurer may succeed himself in the same office after serving a full term of one year.

Chairman of the Board

- .02** That the chairman of the Board shall preside at meetings of members of the Institute, the Council, and the Board of Directors. He shall appoint committees and boards as provided in section 3.6 of the bylaws. He shall act as a spokesman for the Institute and appear on its behalf before other organizations.

Vice Chairman of the Board

- .03** That the vice chairman shall be chairman-nominee of the Board of Directors and shall preside in the absence of the chairman at meetings of the Institute, the Council, and the Board of Directors. He shall familiarize himself with the duties of the office of chairman and shall perform such other related duties as may be assigned to him by the chairman.

Elected Vice Presidents

- .04** That the duties of the elected vice presidents shall be those usually appertaining to the office of vice president. One of the elected vice presidents designated by the Board of Directors shall preside at meetings of the Institute or of the Council in the absence of the chairman of the Board and of the vice chairman of the Board. No two elected vice presidents shall be residents of the same state.

Treasurer

- .05 That the treasurer shall familiarize himself with financial policies, investment policies, and the accounting procedures, controls, and financial reporting of the Institute, and shall consult with the president and the independent auditors on such matters, on which he shall advise the members of the Board of Directors and the president. He shall report thereon to the Board of Directors to the extent that he deems desirable or as the Board of Directors may direct, and shall perform such other related duties as may be assigned to him by the Council or the Board of Directors.

President

- .06 That the president shall have full responsibility for the execution of the policies and programs of the Institute, act as a spokesman for the Institute, and perform such other services as may be assigned to him by the Council and the Board of Directors.

Secretary

- .07 That the secretary of the Institute shall have the usual duties of a corporate secretary and shall perform such other related duties as may be assigned to him by the president. An assistant secretary to serve in his absence, who need not be a member of the Institute, may be appointed by the Board of Directors.
-

➤➤➤→ *The next page is 5471.* ←➤➤➤

BL Section 360

3.6 Committees

As amended February 1, 1974

- .01 Except as otherwise provided by these bylaws or the Council (see section 3.6.1), the chairman of the Board, or his delegate, may appoint committees and boards with such duties, powers, responsibilities, and procedures as he may prescribe. The chairman of the Board, the president and the secretary shall have the privilege of the floor at meetings of all committees and boards.

(See section 360 R.)

3.6.1 Senior Committees

The Council may designate any committee or board as a "senior" committee or board. The appointment by the chairman of the Board of members to senior committees or boards shall require the approval of the Board of Directors. The duties, powers, responsibilities, and procedures of senior committees and boards shall be as the Council may prescribe consistent with the specific provisions of these bylaws.

(See section 360 R.)

3.6.2 Permanent Committees, Boards, and Divisions

The following committees shall be permanent committees, boards, or divisions of the Institute: the nominations committee (see section 3.6.2.1); the professional ethics division (see section 3.6.2.2); the Trial Board (see section 3.6.2.3); and the Board of Examiners (see section 3.6.2.4).

(See section 360 R.)

3.6.2.1 Nominations Committee

There shall be a nominations committee composed of seven members of the Institute, elected by the Council in such manner as the Council shall prescribe. It shall be the responsibility of the Committee to make nominations for the offices of chairman of the Board, vice chairman of the Board, volunteer vice president, treasurer, the Board of Directors, the Trial Board, and the Coun-

cil, as elsewhere provided in these bylaws, and to apportion among the states directly elected Council seats pursuant to section 6.1.2.

3.6.2.2 Professional Ethics Division

There shall be a professional ethics division whose executive committee shall serve as the ethics committee of the Institute, and there shall be such other committees within the division as the Board of Directors shall authorize. The division shall, with the concurrence of the Board of Directors, adopt rules governing procedures consistent with these bylaws or actions of Council to investigate potential disciplinary matters involving members and arrange for presentation of the case before the Trial Board where the committee finds prima facie evidence of infraction of these bylaws or of the Code of Professional Ethics, interpret the Code of Professional Ethics, propose amendments thereto, and perform such related services as the Council may prescribe.

3.6.2.3 Trial Board

There shall be a Trial Board consisting of members in practice to adjudicate disciplinary charges against members of the Institute pursuant to section 7.4. Members of the Trial Board shall be elected by the Council for such terms as the Council may prescribe.

The Trial Board is empowered to adopt rules, consistent with these bylaws or actions of the Council, governing procedure in cases heard by it or any sub-board, and in connection with any application for review of a decision of a sub-board.

Decisions of any sub-board or the Trial Board shall be subject to review only by the Trial Board.

(See section 360 R.)

3.6.2.4 Board of Examiners

There shall be a Board of Examiners appointed by the chairman of the Board of Directors subject to the approval of the Board of Directors. It shall supervise the preparation of a uniform examination which may be adopted by the legally constituted authorities of the states in examining candidates for the certified public accountant certificate and the conduct of the grading service offered by the Institute. The Board of Examiners shall formulate the necessary rules and regulations for the conduct of its work, but all such rules and regulations may be amended, suspended, or revoked by the Board of Directors. The Board of Examiners may delegate to members of the Institute's staff or other duly qualified persons the

preparation of examination questions and the operation of the grading service conducted by the Institute.

»»»→ *The next page is 5491.* ←«««

BL Section 360 R**Implementing Resolutions Under
Section 3.6 Committees**

As amended February 1, 1974, unless otherwise indicated

Resolved:

- .01 (1) That the following be designated as senior committees and boards:
- Accounting standards division executive committee
 - Auditing standards division executive committee
 - Board of Examiners
 - Federal taxation division executive committee
 - Management advisory services division executive committee
 - Practice review committee
 - Professional development division executive committee
 - Professional ethics division executive committee
- .02 (2) That the following senior technical committees be authorized to make public statements, without clearance with the Council or the Board of Directors, on matters related to their area of practice:
- Accounting standards division executive committee
 - Auditing standards division executive committee
 - Federal taxation division executive committee
 - Management advisory services division executive committee
 - Professional ethics division executive committee
- .03 (3) That the practice review committee is hereby authorized to review specific reports and related financial statements that appear to deviate from accepted standards, and to communicate to the reporting accountant or accounting firm the committee's comments or questions about the report or related financial statements. The committee's function is to be educational, not disciplinary, in nature.

The committee shall not refer a case to the professional ethics division except that it may refer a case under either of the following circumstances:

(a) A member, after reasonable notice, fails or refuses to make a substantive response to a letter of inquiry from the committee.

(b) A member, without reasonable grounds, fails to comply subsequently with technical standards with respect to a specific client where major deficiencies in such technical standards have previously been called to his or her attention by the committee.

No member of the professional ethics division shall be a member of the practice review committee.

The committee shall deal on a confidential basis with each report submitted to it and shall not communicate its views on the report to any person other than the accountant or accounting firm who signed the report, state CPA society committee having similar responsibilities that requests assistance in reviewing the report, or the professional ethics division with respect to a referred case. The committee shall not disclose the source of a report submitted to it.

The committee may advise the auditing standards division executive committee and the accounting standards executive committee of problems that may need authoritative clarification.

[As amended, effective May 14, 1975.]

Under Section 3.6.2 Permanent Committees, Boards, and Divisions

Resolved:

- .04 That at the Council meeting preceding the annual meeting the retiring chairman of the Board and the incoming chairman of the Board shall present their joint recommendations for members of the nominating committee for the current year, at least two of whom shall be members of the Council. Other nominations from the floor shall be permitted. Voting shall be by voice vote of the incoming Council, or if requested by a majority of those present, by written ballot. A majority vote shall elect.

Under Section 3.6.2.3. Trial Board

[As amended, effective August 1, 1975.]

Resolved:

- .05 That the powers of the "Trial Board" set forth in bylaw section 3.6.2.3 shall be exercised by the Joint Trial Board Division which shall consist of a system of regional trial boards and a National Review Board.

- .06 Regional trial boards shall be created for each appropriate geographical region as agreements are entered into between the Institute and the various state societies as contemplated in section 7.4 of the bylaws. The number and geographical composition of such regions may be changed from time to time by the ethics division with the concurrence of the Board of Directors as appears appropriate to the efficient management of the business of the Joint Trial Board Division. No state society shall be included in a region without its consent.
- .07 Each regional trial board shall be composed of twenty-five members in practice elected by the Board of Directors of the state societies in the region in proportion to the number of valid current CPA certificates in force in each state comprising that region at the time of such election. The regional trial board shall also include additional members from those states as to which it is necessary to bring that state's membership to a minimum of three, as well as a chairman and vice-chairman who shall be elected annually by the Board of Directors of the Institute from persons who are members of both a state society in the region and the Institute. The Board of Directors shall also designate a secretary for each regional trial board who need not be a member thereof. No member of the Institute's professional ethics division or an ethics committee or a committee with similar jurisdiction of a state society nor a member of the state board of accountancy shall be eligible for appointment to a regional trial board.
- .08 The chairman of any regional trial board or its vice-chairman, when acting as chairman, pursuant to rules to be adopted by the Joint Trial Board Division shall appoint from the members of the regional trial board a panel of not less than 5 members including a chairman, who may or may not be the chairman or vice-chairman when acting as chairman of the particular regional trial board, to hear and adjudicate charges against members of the Institute or participating state societies in the region under the provisions of section 7.4 of these bylaws.
- .09 The National Review Board shall consist of thirty-six members of the Institute in practice elected by Council. All persons elected to membership on the National Review Board shall also be members of a state society, and no more than three members of the National Review Board shall have their principal place of practice in any one state. No member of the Institute's professional ethics division or member of a state society ethics committee or a committee with similar jurisdiction nor a member of a state board of accountancy shall be eligible for appointment to the National Review Board.

- .10 The National Review Board shall elect from its membership a chairman and vice-chairman, the vice-chairman to serve as chairman during any period of unavailability of the chairman. It shall elect a secretary who need not be a member.
 - .11 The chairman or vice-chairman when acting as chairman pursuant to rules of procedure to be adopted by the Joint Trial Board Division shall appoint from the members of the National Review Board a panel of not less than nine members including a chairman, who may or may not be the chairman or vice-chairman when acting as chairman of the National Review Board, to hear and adjudicate either charges against members when the National Review Board is a tribunal of first instance, or to exercise the reviewing jurisdiction as provided in Council resolution under section 7.4 of these bylaws, which section shall govern as to the appointment of the ad hoc committees as called for therein.
 - .12 Upon the initial creation of any regional trial board and the National Review Board the terms of members thereof shall be staggered as follows: one-third shall serve a term of one year; a second one-third shall serve a term of two years; and a third one-third shall serve a term of three years. One third of the membership of each regional trial board and the National Review Board shall be elected annually thereafter.
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BL Section 400**IV. FINANCIAL MANAGEMENT
AND CONTROLS**

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➤➤➤ *The next page is 5521.* ←➤➤➤

BL Section 401***Financial Management
and Controls***

**As amended Febru-
ary 1, 1974**

- .01** The Council shall have authority to prescribe such procedures as it deems appropriate to assure adequate budgetary and financial controls. Budgets shall be prepared and presented as the Council shall prescribe.

(See section 401 R.)

BL Section 401R***Implementing Resolution Under
Article IV Financial Management
and Controls***

**As amended Febru-
ary 1, 1974**

Resolved:

- .01** That annual budgets and projections of revenues and expenditures for the succeeding four years shall be prepared by the Institute's staff, reviewed and approved by the Board of Directors, and presented to Council for approval at its meeting preceding the annual meeting; such budgets shall be in a form indicating the costs of the principal programs and activities of the Institute; material variations from the annual budget shall be reported to the Council at its spring meeting by the Board of Directors; receipt of such report without rejection shall constitute authority to continue expenditures for purposes indicated in the annual budget, as modified and presented at the spring meeting, until a new budget for the following fiscal year is approved by the Council. However, the Board of Directors may, between meetings of Council, authorize additional expenditures in total not to exceed five percent of budgeted revenues from all sources.
-

➤➤➤ *The next page is 5541.* ←➤➤➤

BL Section 410**4.1 Audit**

As amended February 1, 1974

- .01** The Council shall, for each fiscal year, appoint a certified public accountant or certified public accountants to express an opinion on the financial statements of the Institute and its affiliated organizations. The financial statements of the Institute and the report of the auditor or auditors for each fiscal year shall be published for the information of the membership.
-

BL Section 420

4.2 Committee on Audit

As amended February 1, 1974

- .01 The chairman of the Board shall appoint from among the members of the Board of Directors, other than the officers, a committee on audit to make arrangements with the auditor or auditors for their examination and to review the audit report.
-

»»»→ *The next page is 5561.* ←«««

BL Section 430***4.3 Execution of Instruments
on Behalf of the Institute***

**As amended Febru-
ary 1, 1974**

- .01** All checks, drafts, deeds, mortgages, bonds, contracts, reports, proxies, and other instruments may be executed on behalf of the Institute by such officers or employees as the Council or the Board of Directors may from time to time designate, either generally or in specific instances.
-

BL Section 440

***4.4 Limitation of Personal Liability
for Financial Loss***

**As amended Febru-
ary 1, 1974**

- .01** No personal liability shall attach to any officer or any member of Council, the Board of Directors, or any committee, board, or division for financial losses resulting from the exercise of judgment, in good faith, in the performance of his assigned duties.
-

➤ ***The next page is 5581.*** ←

BL Section 450**4.5 Dues**

As amended February 1, 1974

- .01** The Council shall determine the annual dues which shall be paid by each member and international associate in accordance with such classifications as it deems appropriate, and may require dues of a different amount for each class so created.
- .02** Dues shall be payable on or before the first day of each fiscal year of the Institute or in such other manner as the Council shall prescribe. For new members or international associates, dues shall be apportioned to the end of the fiscal year.
- .03** No dues shall be paid by members or international associates of the Institute while they are engaged in military service of the United States or its allies during war. Individual members or international associates may be excused from payment of dues for reasonable cause by the treasurer.
-

»»»→ The next page is 5591. ←«««

BL Section 460**4.6 Fiscal Year**

As amended February 1, 1974

.01 The fiscal year of the Institute shall be as the Council shall prescribe.

(See section 460 R.)

BL Section 460 R

***Implementing Resolution Under
Section 4.6 Fiscal Year***

As amended February
1, 1974

Resolved:

- .01** The fiscal year of the Institute shall be the twelve months beginning August 1 and ending July 31.
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BL Section 500**V. MEETINGS OF THE INSTITUTE
AND THE COUNCIL**

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»»»→ *The next page is 5615.* ←«««

BL Section 501***Meetings of the Institute
and the Council***

As amended Febru-
ary 1, 1974

- .01 This article shall govern meetings of the Institute and of the Council. The Board of Directors shall determine the dates of meetings of Council and the matters to be presented for action.
-

➤➤➤ *The next page is 5621.* ←➤➤➤

BL Section 510

5.1 Meetings of the Institute

As amended February 1, 1974

- .01** The membership shall meet pursuant to sections 5.1.1 through 5.1.3, conduct its business pursuant to section 5.1.3, and may adopt resolutions pursuant to section 3.1.4. Meetings of the membership shall be known as meetings of the Institute.

5.1.1 Regular Meetings of the Institute

There shall be a regular meeting of the Institute within three months after the close of the fiscal year, on a date to be fixed by the Board of Directors. This meeting shall also be known as the annual meeting of the Institute.

5.1.2 Special Meetings of the Institute

The chairman of the Board shall call special meetings of the Institute when so requested by the Council or the Board of Directors, or upon the written request of at least two hundred members of the Institute or any thirty members of Council. Special meetings of the Institute shall be held at places designated by the Board of Directors. No business shall be transacted at a special meeting of the Institute other than that for which the meeting shall have been convened.

5.1.3 Notice of Meetings of the Institute

Notice of each meeting of the Institute, whether regular or special, shall be mailed to each member of the Institute, at his mailing address as shown on the official records of the Institute, at least thirty days prior to the date of such meeting.

5.1.4 Resolution of the Membership by Mail Ballot

A majority of the members of the Institute, assembled at any duly called corporate meeting of the Institute at which a quorum is present, may direct that the chairman of the Board submit any question to the entire membership for a vote by mail. Any resolution enacted in such a mail ballot by two-thirds of the members voting

shall be declared by the chairman of the Board a resolution of the membership and shall be binding, if consistent with these bylaws, upon the Council, the Board of Directors, committees, boards, divisions, officers, and staff. Mail ballots shall be valid and counted only if received within sixty days after date of the mailing of ballot forms.

➤ *The next page is 5631.* ←

BL Section 520

5.2 Meetings of Council

As amended February 1, 1974

.01 Meetings of the Council shall be governed by sections 5.2.1 through 5.2.5, section 5.3, and section 6.7.

5.2.1 Regular Meetings of Council

Regular meetings of the Council shall be held prior to the annual meeting of the Institute, and on such other dates as the Council or the Board of Directors may designate.

5.2.2 Special Meetings of Council

The chairman of the Board shall call special meetings of the Council when requested to do so by the Board of Directors, or when requested in writing by at least thirty members of the Council. Special meetings of the Council shall be held at places designated by the Board of Directors.

5.2.3 Mail Ballot in Lieu of Special Meeting of Council

In lieu of a special meeting of the Council, the chairman of the Board, with the approval of the Board of Directors, may submit any question to the Council for a vote by mail, and any action therein approved in writing by not less than two-thirds of the whole membership of the Council shall be declared by the chairman of the Board an act of the Council and shall be recorded in the minutes of the Council.

5.2.4 Notice

Notice of each meeting of the Council shall be sent to each member of the Council, at his mailing address as shown in the official records of the Institute, at least twenty-one days before such meeting. Such notice, as far as practicable, shall contain a statement of the business to be transacted.

5.2.5 Minutes

A copy of the minutes of each meeting of the Council shall be forwarded to each member of the Council within forty-five days after such meeting.

BL Section 530

**5.3 General Provisions
Governing Meetings**

**As amended February
1, 1974**

.01 The following general provisions shall govern quorum and parliamentary procedure.

5.3.1 Meetings—Quorum

Two hundred members of the Institute shall constitute a quorum for the transaction of any business duly presented at any meeting of the Institute. Thirty members of Council shall constitute a quorum of the Council. Ten members of the Board of Directors shall constitute a quorum of the Board.

5.3.2 Meetings—Rules of Parliamentary Procedure Applicable

The rules of parliamentary procedure contained in Robert's Rules of Order Revised shall govern all meetings of the Institute and of the Council.

BL Section 600

VI. ELECTION OF COUNCIL, BOARD OF DIRECTORS, AND OFFICERS OF THE INSTITUTE

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➤➤➤→ *The next page is 5655.* ←➤➤➤

BL Section 601***Election of Council, Board of
Directors, and Officers of
the Institute***

**As amended Febru-
ary 1, 1974**

- .01** Except for ex officio members of Council (see sections 3.3.1.4 through 3.3.1.7), the election of members of the Council, the Board of Directors, and officers of the Institute shall be in accordance with the provisions of this article.
-

»»»→ The next page is 5661. ←«««

BL Section 610

6.1 Members of Council Directly Elected by Members of the Institute

As amended February 1, 1974

.01 Members of Council directly elected by the membership in the respective states (see section 3.3.1.1) shall be elected in accordance with sections 6.1.1 through 6.1.6 as supplemented by Council resolution.

6.1.1 At Least One Member of Council Directly Elected by Membership of Each State

There shall be at least one member of Council directly elected by the members of the Institute in each state having one or more persons enrolled upon the membership lists of the Institute.

6.1.2 Number and Allocation of Directly Elected Council Seats Among the States

The total number of directly elected members of Council, in addition to those provided for by section 6.1.1, shall be eighty-five except as modified by section 6.1.2.1. The number of seats, excluding those extended by section 6.1.2.1, shall be equitably allocated among the states in direct proportion to the number of Institute members enrolled from each state.

6.1.2.1 Unexpired Terms Unaffected by Reduced Allocation

No member of Council directly elected by the membership in any state shall lose his seat for the term he then serves should the allocation of that state be diminished by virtue of section 6.1.2; but no state's allocation of directly elected Council seats shall be extended by this section beyond the natural expiration of a seat's full term or its vacation by the member filling it, whichever first occurs.

6.1.2.2 Allocation to Be Made by Nominations Committee

The nominations committee shall make the allocation provided in section 6.1.2. It shall be made at five-year intervals, at least nine

months prior to annual meetings to be held each calendar year which ends in one and in six, and shall govern the five annual elections immediately following. It shall be based upon the membership figures and addresses carried on the books of the Institute the last day of the fiscal year immediately preceding the date of such determination.

6.1.3 Term of Office

Except as specified by this section 6.1.3, the term of office of a directly elected member of the Council shall commence when his election is announced by the chairman of the Board of Directors at the meeting of the Council immediately preceding the annual meeting of the Institute, as prescribed by section 6.7, and shall run until the announcement of the election of new directly elected members of the Council at the meeting of the Council immediately preceding the annual meeting of the Institute three years after his election. If any such member of the Council shall not serve his full term, the vacancy so created may be filled pursuant to section 6.6. The term of office of any member directly elected by the members in his state to fill such vacancy shall be the remainder of the three-year term with respect to which the vacancy occurred.

No member having served for two consecutive full terms as a directly elected member of the Council shall be eligible to serve another such term until at least one year after the completion of his second consecutive full term.

6.1.4 Number of Council Seats to Be Filled by Election

The number of Council seats to be filled in a state's quota of directly elected members of the Council for any given year shall be the number of its allocation of directly elected Council seats less the number of members of the Council from that state filling such seats for terms running through that year.

6.1.5 Nominations

At least eight months prior to the annual meeting of the Institute, the nominations committee shall request, from the recognized society of certified public accountants in each state for which any vacancies (see section 6.1.4) will arise in the coming year, the names of at least two suggested candidates from the state represented by such society to fill each such vacancy. The committee shall give due consideration to the names so submitted, but shall not be required to select its nominees from among such names. In the absence of a satisfactory response from

any such state society, the nominations committee shall select the nominees from such state.

The nominations committee shall make its nominations for directly elected members of the Council at least six months prior to the annual meeting of the Institute. Notice of such nominations shall be published to the membership by the secretary at least five months prior to the annual meeting of the Institute. Any twenty members of the Institute from any given state for which a vacancy shall arise may submit to the secretary independent nominations for directly elected members of the Council from that state provided that such nominations be filed with the secretary at least four months prior to the annual meeting of the Institute.

6.1.6 Election

The nominees of the nominations committee for directly elected seats on Council shall be declared elected by the secretary if no independent nominations are filed for such seats as required by section 6.1.5.

The secretary shall mail to all members of the Institute in each state in which there is a contest for a directly elected seat on Council, at least ninety days prior to the annual meeting of the Institute, mail ballots containing the names of nominees from that state nominated by the nominations committee and the names of nominees independently nominated. Each ballot shall contain an announcement that votes will be counted only if received by the secretary at least forty-five days before the annual meeting of the Institute. Election to contested seats on Council shall be determined by a majority of the votes received from each jurisdiction by that date. Mail ballots shall be counted by the secretary, who shall certify the results for publication to the membership. Newly elected members shall be notified promptly and advised to attend the initial meeting of Council prior to the annual meeting of the Institute. They shall take office as provided in section 6.7.

(See section 610 R.)

➤ *The next page is 5681.* ←

BL Section 610 R***Implementing Resolution Under
Section 6.1 Members of Council
Directly Elected by Members
of the Institute***

As amended Febru-
ary 1, 1974

Under Section 6.1.6 Election***Resolved:***

- .01** That the withdrawal of a nomination for whatever reason after the balloting has commenced will not be acted upon until the certification of election has been completed. Vacancies then arising will be filled in accordance with section 6.6 of the bylaws, except that in states where the number of nominees exceeds the number of vacancies, the vacancy created by any withdrawal will be filled by that nominee having the highest number of votes after all other vacancies have been filled.
-

BL Section 620**6.2 Selection of Members of
Council to Represent
State Societies**

**As amended Febru-
ary 1, 1974**

- .01** Each recognized state society of certified public accountants shall designate, in a manner it deems appropriate, an Institute member to represent it on the Council. The term of each member of the Council so designated shall commence upon notification of the secretary by the society designating him at the meeting of Council immediately preceding the annual meeting of the Institute and shall run for one year or until the designation of his successor, provided that no such member of the Council shall represent a state society for more than six consecutive years.
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»»»→ *The next page is 5701.* ←«««

BL Section 630***6.3 Election of Members-at-Large of Council, Board of Directors, Chairman of the Board, Vice Chairman of the Board, Volunteer Vice Presidents and Treasurer***

As amended February 1, 1974

- .01** Seven Institute members, without regard to the states in which they reside, shall be elected annually by the Council as members-at-large of the Council, at its meeting immediately preceding the annual meeting of the Institute, and immediately prior to the installation of the members of the Council newly elected under section 6.1, for a term of three years or until the election of their successors. At the same meeting, but subsequent to the installation of such newly elected members of the Council, including members-at-large, the Council shall elect the chairman of the Board, the vice chairman of the Board, the volunteer vice presidents and the treasurer, and three members of the Board of Directors. Such members of the Board of Directors shall serve for a term of three years or until election of their successors. Nominations for all such positions shall be made by the nominations committee at least six months prior to the annual meeting of the Institute, and notice thereof shall be published to the membership of the Institute at least five months prior to such annual meeting. Independent nominations may be made by any twenty members of the Council if filed with the secretary at least four months prior to the annual meeting of the Institute. No nominations from the floor will be recognized. A majority of votes shall elect. Nominees may be invited to the meeting at which the election is to be held and those elected shall take office as prescribed in section 6.7.
- .02** No member having served for two consecutive full terms as a member-at-large of the Council shall be eligible to serve another such term until at least one year after the completion of his second consecutive full term.

6.3.1 Re-election to Board of Directors

No elected member of the Board of Directors who has served a full three-year term shall be eligible for re-election to such a term until the meeting of the Council one year after the completion of his full three-year term.

➤ *The next page is 5711.* ←

BL Section 640***6.4 Election of the President
and the Secretary***

As amended Febru-
ary 1, 1974

- .01 Election of the president and secretary shall be by the Council and shall be conducted as the Council may prescribe.

(See section 640 R.)

BL Section 640 R

***Implementing Resolution Under Section
6.4 Election of the President and
the Secretary***

As amended Febru-
ary 1, 1974

Resolved:

- .01 That the Board of Directors shall recommend to the Council persons to be elected as president and secretary, respectively, to serve until their successors are elected. Other nominations shall be permitted from the floor. Voting may be by voice vote, or upon request of a majority of those present, by written ballot. A majority vote shall elect.
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➤➤➤ *The next page is 5721.* ←➤➤➤

BL Section 650**6.5 Forfeiture of Office
for Non-Attendance**

As amended Febru-
ary 1, 1974

- .01** Any directly elected member or member-at-large of Council who shall be absent from three consecutive meetings shall forfeit his seat.
-

BL Section 660

6.6 Vacancies

As amended February 1, 1974

- .01** Vacancies in the membership of Council, or in the Board of Directors, or in any of the offices of the Institute, occurring between annual meetings of the Institute, may be filled by election of replacements by the Council, either at a meeting of Council or by mail ballot, under such conditions as the Council may prescribe. If the Council should so replace a directly elected member of the Council, such interim appointment will run only until his seat is filled by direct election of the membership of his state as provided in these bylaws.
- .02** Pending action by the Council to fill a vacancy among any of the elected officers of the Institute, the Board of Directors may appoint a temporary successor to act in the capacity indicated.

(See section 660 R.)

»»»→ *The next page is 5741.* ←«««

BL Section 660 R***Implementing Resolution Under
Section 6.6 Vacancies***

As amended Febru-
ary 1, 1974

Resolved:

.01 That if a vacancy occurs in the membership of Council, or in the Board of Directors, or in any of the offices of the Institute between annual meetings of the Institute, the Board of Directors shall recommend replacements for election by Council. Voting on such replacement may be conducted by mail ballot, in which case provision shall be made for write-in votes, or at the next meeting of Council, as may appear most desirable in the circumstances. If the voting takes place at a Council meeting, nominations from the floor shall be permitted; voting may be by voice vote, or at the request of a majority of those present, by written ballot. A majority vote shall elect. In any event, persons elected to fill vacancies in the Board of Directors, in the Council, or in any of the offices of the Institute shall serve only for the remainder of the unexpired term of the previous incumbent or until a successor is elected.

BL Section 670**6.7 Election Meeting of Council**

As amended February 1, 1974

- .01 At the meeting of the Council immediately preceding the annual meeting of the Institute, following the completion of such other business as the Council may transact, the Council shall elect new members-at-large of the Council pursuant to section 6.3. New members-at-large shall then take office, replacing those members-at-large whose terms shall have expired. Then the presiding officer shall announce the installation of members of the Council newly elected under section 6.1, at which time they shall take office, replacing those directly elected members of Council whose terms shall have expired. Election of officers, new members of the Board of Directors and others shall then be held, and each officer or member of the Board of Directors so elected shall replace his predecessor upon such election, provided, however, that the retiring chairman of the Board shall continue in office through the end of the annual meeting of the Institute.
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BL Section 700**VII. TERMINATION OF MEMBERSHIP
AND DISCIPLINARY SANCTIONS**

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➤➤➤→ *The next page is 5771.* ←➤➤➤

BL Section 701***Termination of Membership and
Disciplinary Sanctions***

**As amended Febru-
ary 1, 1974**

- .01** This article shall govern the termination or suspension of membership in the Institute, whether imposed as a matter of discipline or voluntarily sought, and the imposition of any other disciplinary sanction, including censure or admonition, whether public or private, or imposition of conditions for retention of membership.
-

BL Section 710***7.1 Resignation of
Membership***

**As amended Febru-
ary 1, 1974**

- .01 Resignations of members shall be in writing and may be offered at any time. Actions on such resignations and applications for reinstatement of resigned members shall be taken by the Board of Directors under such provisions as the Council may prescribe. Council may make separate provision for action on resignations of members not in good standing or against whom disciplinary proceedings or investigations are pending, and on applications for reinstatement of persons whose resignation was accepted when in such classification.

(See section 710 R.)

➤➤➤ *The next page is 5791.* ←➤➤➤

BL Section 710 R***Implementing Resolution Under
Section 7.1 Resignation of
Membership***

As amended Febru-
ary 1, 1974

Resolved:

- .01 That the Board of Directors shall act upon resignation of members, which shall become effective on the date of acceptance, but no action shall be taken on the resignation of a member with respect to whom charges are under investigation by the professional ethics division, or against whom a complaint is pending before the Trial Board, unless the division or the Trial Board, as the case may be, recommends that such resignation be accepted. If a person whose resignation was accepted when he was under investigation or the object of a complaint should subsequently apply for reinstatement, the Board of Directors shall not reinstate such person without the consent of the division or the Trial Board, as the case may be.
-

BL Section 720

***7.2 Termination of Membership for
Nonpayment of Financial
Obligation***

**As amended Febru-
ary 1, 1974**

- .01** The Board of Directors may, in its discretion, terminate the membership of a member who fails to pay his dues or any other obligation to the Institute within five months after such debt has become due. Any membership so terminated may be reinstated by the Board of Directors, under such conditions and procedures as the Council may prescribe.

(See section 720 R.)

7.2.1 Termination of Affiliation of International Associate

The Council may terminate the affiliation of an International Associate in its discretion.

➤➤➤ *The next page is 5811.* ←←←

BL Section 720 R**Implementing Resolution Under Section
7.2 Termination of Membership for
Nonpayment of Financial Obligation**

As amended Febru-
ary 1, 1974

Resolved:

- .01** That if a person whose membership has terminated for nonpayment of dues or other financial obligation shall apply for reinstatement, the Board of Directors, in its discretion, may reinstate him, provided that he shall have paid to the Institute all dues and other obligations owing by him to the Institute at the time his membership was terminated.

Further resolved:

- .02** That no person shall be considered to have resigned in good standing if at the time of his resignation he was in debt to the Institute for dues or other obligations. A member submitting his resignation after the beginning of the fiscal year, but before expiration of the time limit for payment of dues or other obligations, may attain good standing by paying dues prorated according to the portion of the fiscal year which has elapsed, provided obligations other than dues shall have been paid in full.
- .03** A member who has resigned or whose membership has terminated in any manner may not file a new application for admission but may apply for reinstatement under this resolution or applicable provisions of the bylaws.

➤ *The next page is 5821.* ←

BL Section 730

7.3 Disciplinary Suspension and Termination of Membership Without Hearing

As amended February 1, 1974

- .01 Membership in the Institute shall be suspended or terminated without a hearing for disciplinary purposes as provided in sections 7.3.1 and 7.3.2, under such conditions and by such procedure as shall be prescribed by the Council.

(See section 730 R.)

7.3.1 Criminal Conviction of Member

Membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for

7.3.1.1 A crime defined as a felony under the law of the convicting jurisdiction;

7.3.1.2 The willful failure to file any income tax return which he, as an individual taxpayer, is required by law to file;

7.3.1.3 The filing of a false or fraudulent income tax return on his or a client's behalf; or

7.3.1.4 The willful aiding in the preparation and presentation of a false and fraudulent income tax return of a client; and

shall be terminated in like manner upon the similar filing of a final judgment of conviction.

7.3.2 Suspension or Revocation of Certificate

Membership in the Institute shall be suspended without a hearing should a member's certificate as a certified public accountant, or license or permit to practice as such or to practice public accounting be suspended as a disciplinary measure by any governmental authority; but, such suspension of membership shall terminate upon reinstatement of the certificate, or such membership in the Institute shall be terminated without hearing should such certificate, license, or

permit be revoked, withdrawn, or cancelled as a disciplinary measure by any governmental authority. The Council shall provide for the consideration and disposition by the Trial Board, with or without hearing, of a timely written petition of any member that his membership should not be suspended or terminated pursuant to this section 7.3.2.

7.3.3 Trial Board Disciplining Not Precluded

Application of the provisions of section 7.3.1 and section 7.3.2 shall not preclude the summoning of the member concerned to appear before the Trial Board or a sub-board pursuant to section 7.4.

➤ *The next page is 5831.* ←

BL Section 730 R**Implementing Resolution Under Section
7.3 Disciplinary Suspension and
Termination of Membership
Without Hearing**

As amended February
1, 1974

Resolved:

- .01** (1) That the membership of a member who is convicted by a court of any of the criminal offenses enumerated in section 7.3.1 of the bylaws shall become automatically suspended upon the mailing of a notice of such suspension, as provided in paragraph (5) of this resolution. Such notice shall be mailed within a reasonable time after a certified copy of a judgment of conviction of such criminal offense has been filed with the secretary of the Institute.
- .02** (2) That the membership of a member who has been convicted by a court of any of the offenses enumerated in section 7.3.1 of the bylaws, and which conviction has become final, shall become automatically terminated upon the mailing of a notice of such termination, as provided in paragraph (5) of this resolution. Such notice shall be mailed within a reasonable time after a certified copy of such conviction and evidence that it has become final has been filed with the secretary of the Institute.
- .03** (3) That the membership of a member whose certificate as a certified public accountant, or license or permit to practice as such or to practice public accounting has been suspended as a disciplinary measure by any governmental authority shall, except as provided in paragraph (6) of this resolution, become automatically suspended upon the expiration of thirty days after the mailing of a notice of such suspension, as provided in paragraph (5) of this resolution. Such notice shall be mailed within a reasonable time after a statement of such governmental authority, showing that such certificate, license, or permit has been suspended and specifying the cause and duration of such suspension has been filed with the secretary of the Institute. Such

automatic suspension shall cease upon the expiration of the period of suspension so specified.

- .04** (4) That the membership of a member whose certificate as a certified public accountant, or license or permit to practice as such or to practice public accounting has been revoked, withdrawn, or cancelled as a disciplinary measure by any governmental authority shall, except as provided in paragraph (6) of this resolution, become automatically terminated upon the expiration of thirty days after the mailing of a notice of such termination, as provided in paragraph (5) of this resolution. Such notice shall be mailed within a reasonable time after a statement of such governmental authority showing that such certificate, license, or permit has been revoked, withdrawn, or cancelled and specifying the cause of such revocation, withdrawal, or cancellation has been filed with the secretary of the Institute.
- .05** (5) That notices of suspension or termination pursuant to paragraph (1), (2), (3), or (4) of this resolution shall be signed by the secretary of the Institute and mailed by registered mail, postage prepaid, addressed to the member concerned at his last known address according to the records of the Institute.
- .06** (6) That the operation of paragraph (3) or (4) of this resolution shall become postponed if, within thirty days after mailing the notice of suspension or termination, the secretary of the Institute receives a request from the member concerned that the pertinent provision shall not become operative. The request shall state briefly the facts and reasons relied upon. All such requests shall be referred to the Trial Board for action thereon by the Trial Board or by an ad hoc committee thereof consisting of at least five members appointed by the chairman of the Trial Board or vice chairman, when acting as chairman.
- .07** If the request is denied, the suspension or termination, as the case may be, shall become effective upon such denial, and the member concerned shall be so notified in writing by the secretary. No appeal to the Trial Board shall be allowable with respect to a denial of such a request by the ad hoc committee.
- .08** If the request is granted, the suspension or termination, as the case may be, shall not become effective. In such event, the secretary shall transmit the matter to the professional ethics division to take whatever action it considers proper in the circumstances.
- .09** A determination that paragraph (3) or (4) of this resolution shall not become operative shall be made only when it clearly appears that, because of exceptional or unusual circumstances, it would be inequitable to permit such automatic suspension or termination.

➤➤➤ *The next page is 5851.* ←←←

BL Section 740**7.4 Disciplining of Member
by Trial Board**

As amended February
1, 1974

.01 Under such conditions and by such procedure as the Council may prescribe, the Trial Board or a sub-board thereof may, by the two-thirds vote of the members present and voting, expel a member (except as otherwise provided in section 7.4.3), or by a majority vote of the members present and voting, may suspend a member for a period not to exceed two years not counting any suspension imposed under sections 7.3.1 and 7.3.2, or may impose such lesser sanctions as the Council may prescribe on any member if

7.4.1 He infringes any of these bylaws or any provision of the Code of Professional Ethics;

7.4.2 He is declared by a court of competent jurisdiction to have committed any fraud;

7.4.3 He is held by the Trial Board or a sub-board thereof to have been guilty of an act discreditable to the profession, or to have been convicted of a criminal offense which tends to discredit the profession; provided that should the Trial Board or sub-board find by a majority vote that he has been convicted by a criminal court of an offense involving moral turpitude, or any of the offenses enumerated in section 7.3.1, the penalty shall be expulsion;

7.4.4 He is declared by any competent court to be insane or otherwise incompetent;

7.4.5 His certificate as a certified public accountant or license or permit to practice as such or to practice public accounting is suspended, revoked, withdrawn, or cancelled as a disciplinary measure by any governmental authority; or

7.4.6 He fails to cooperate with the professional ethics division in any disciplinary investigation involving him or his partner or employee by not responding to interrogatories of a committee of the professional ethics division within thirty days of their posting by

registered mail, postage prepaid, to him at his last known address shown on the books of the Institute.

- .02** With respect to a member residing in a state which has entered into an agreement approved by the Institute's Board of Directors for the conduct of joint Trial Board hearings, disciplinary hearings shall be conducted before such joint Trial Board.

(See section 740 R.)

➤ *The next page is 5871.* ←

BL Section 740 R**Implementing Resolution Under Section
7.4 Disciplining of Member
by Trial Board**

As amended effective August 1, 1975

Resolved:

- .01 (1) Any complaint preferred against a member under Section 7.4 of the bylaws shall be submitted to the professional ethics division, which in turn may refer the complaint for investigation and recommendation to an ethics committee (or its equivalent) of a state society of certified public accountants which has made an agreement with the Institute of the type authorized in Section 7.4 of the bylaws. If, upon consideration of the complaint, investigation and/or recommendation thereon, it appears to the division that a prima facie case is established showing a violation of any applicable bylaws or any provision of the Code of Professional Ethics of the Institute or any state society making an agreement with the Institute referred to above or showing any conduct discreditable to a certified public accountant, the professional ethics division or the ethics committee of such state society shall report the matter to the Secretary of the Joint Trial Board Division who shall summon the member involved to appear in answer at the next convenient meeting of a panel of the appropriate regional trial board or a panel of the National Review Board appointed to hear the case under paragraph 3(b) provided, however, that with respect to a case falling within the scope of Section 7.3 of the bylaws the division shall have discretion as to when and whether to report the matter to the Secretary before such summoning.
- .02 (2)
- (a) If the professional ethics division or state society ethics committee shall dismiss any complaint preferred against a member or shall fail to initiate its investigation within ninety days after such complaint is presented to it in writing, the member preferring the complaint may present the complaint in writing to the National Review Board, provided, however, that this provision shall not apply to a case falling within the scope of Section 7.3.
- (b) The chairman of the National Review Board shall cause such investigation to be made of the matter as

he may deem necessary, and shall either dismiss the complaint or refer it to the Secretary of the Joint Trial Board Division who shall summon the member involved thereby to appear before the panel appointed in paragraph (c) hereof to hear the case.

(c) Prior to causing the investigation referred to in paragraph (a), the chairman (or vice-chairman when acting as chairman) of the National Review Board shall designate eighteen members of the National Review Board to refrain from such investigation in order that nine of them may be appointed to an independent hearing panel if necessary. He shall report the names of such members to the Secretary of the Joint Trial Board Division prior to any action under paragraph (a).

.03 (3) For the purpose of adjudicating charges against persons subject thereto as provided in the foregoing paragraphs of this resolution, the following must take place:

(a) The Secretary of the Joint Trial Board Division shall mail to the member concerned, at least sixty days prior to the proposed hearing by the appropriate regional trial panel appointed to hear the case under the rules of procedure of the Joint Trial Board Division, written notice of the charges to be adjudicated. Such notice, when mailed by registered mail, postage prepaid, addressed to the respondent concerned at his last known address, according to the records of the Institute, or any participating state society if the case involves a person who is not a member of the AICPA under an agreement contemplated by section 7.4 of the bylaws, shall be deemed properly served.

(b) Within thirty days of the mailing of the notice set forth in paragraph (a) every respondent must move to exercise any right he may have under the rules of procedure of the Joint Trial Board Division to request a trial before a panel of the National Review Board rather than the regional trial board to which he has been summoned under paragraph (a). Any hearing in the matter shall be conducted according to the rules of procedure of the Joint Trial Board Division which shall provide that such request shall not be granted as a matter of right but shall be considered by an ad hoc committee to be appointed by the chairman of the National Review Board or its vice-chairman when acting as chairman and composed of not less than three (3) members of the National Review Board. The ad hoc committee shall decide if the request

shall be granted or denied. The ad hoc committee's decision on this question shall be final and subject to no further review. If the request is granted the charges shall be heard by a panel of the National Review Board constituted as set forth in resolution under Section 3.6.2.3 of the bylaws. In those cases in which such a request is granted and a panel of the National Review Board makes a decision there shall be no further appeal of any kind.

(c) After hearing the evidence presented by the professional ethics division or other complainant and by the respondent, the appropriate trial panel hearing the case, a quorum present, by vote of the members present and voting, may, in a manner consistent with Section 7.4 of the AICPA bylaws, admonish, suspend for a period of not more than two years, or expel the member against whom the complaint is made, provided that in any case in which the appropriate trial panel finds that a member has departed from the profession's ethical standards, it may also direct the member concerned to complete specified professional development courses and to report to the professional ethics division upon such completion.

(d) In a case decided by a regional trial board the member concerned may request a review by a panel of the National Review Board of the decision provided such a request for review is filed with the Secretary of the Joint Trial Board Division at the principal office of the Institute within thirty days after the decision of the regional trial board, and that such information as may be required by the rules of the Joint Trial Board Division shall be filed with such request. Such a review shall not be a matter of right. Each such request for a review shall be considered by an ad hoc committee to be appointed by the chairman of the National Review Board or its vice-chairman in the event of his unavailability, and shall appoint an ad hoc committee of not less than three members of the National Review Board who did not participate in any prior proceedings in the case to consider each such request for review. The ad hoc committee shall have the power to decide whether or not such request for review by a panel of the National Review Board shall be granted. The ad hoc committee's decision shall be final and subject to no further review. If such request for review is allowed, a panel of the National Review Board as constituted as set forth in the resolution under Section 3.6.2.3 of the bylaws shall review the decision of the regional trial board in

Termination of Membership and Disciplinary Sanctions

accordance with the rules of the Joint Trial Board Division. On such review, the panel of the National Review Board may affirm, modify, or reverse all or any part of the decision of the regional trial board or make such other disposition of the case as it deems appropriate.

The National Review Board may by general rule indicate the character of reasons which may be considered to be of sufficient importance to warrant an ad hoc committee granting a request for review.

(e) Any decision of any regional trial board, or any panel of the National Review Board including any decision of an ad hoc committee shall become effective when made, unless the decision of the panel or committee indicates otherwise, in which latter event it shall become effective at the time determined by the panel or committee. Any decision of a regional trial board shall become effective as follows:

(i) Upon the expiration of thirty days after it is made, if no request for review is properly filed within such thirty-day period.

(ii) Upon the denial of a request for review, if such request has been properly filed within such thirty-day period and is denied by an ad hoc committee.

(iii) Upon the effective date of a decision of a panel of the National Review Board affirming the decision of an appropriate trial panel in cases where a review has been granted by an ad hoc committee.

(f) A quorum of any panel or ad hoc committee shall consist of a majority of those appointed, unless otherwise provided in the rules of the joint Trial Board Division.

.04 (4) In cases where the professional ethics division concludes that a prima facie violation of the Code of Professional Ethics or bylaws is not of sufficient gravity to warrant further formal action, it may issue an administrative censure, provided, however, that there will be no publication of such disciplinary action in the Institute's principal membership periodical and the member concerned is notified of his right to a hearing on the issues before the appropriate trial panel should he choose to have a hearing on the issues.

.05 (5) In cases involving departures from any section of the Code of Professional Ethics, the professional ethics division may direct the member or members concerned to complete specified professional development courses.

➤➤➤ *The next page is 5881.* ←➤➤➤

BL Section 750**7.5 Reinstatement**

**As amended February
1, 1974**

- .01** The Council may prescribe the conditions and procedures under which members suspended or terminated under section 7.3 and 7.4 may be reinstated.

(See section 750 R.)

»»»→ The next page is 5891. ←«««

BL Section 750 R**Implementing Resolution Under
Section 7.5 Reinstatement**

As amended effective
August 1, 1975

Resolved:

.01 (1) That at any time after the publication in a membership periodical of the Institute of a statement of a case and decision, on application of the member concerned, the appropriate panel of either the regional trial board or the National Review Board which last heard the case and whose decision provides the basis for the publication, may, by a two-thirds vote of the members present and voting, recall, rescind, or modify such decision which action shall be published in the membership periodical of the Institute. The denial of an application under this section shall not prevent the member concerned from applying for reinstatement under section (2) hereof.

.02 (2) That

(a) Should a judgment of conviction or an order of a governmental authority on which the suspension or termination of membership was based under section 7.3 of the bylaws be reversed or otherwise set aside or invalidated, such suspension shall terminate or such member shall become reinstated when a certified copy of the order reversing or otherwise setting aside or invalidating such conviction or order is filed with the secretary of the Joint Trial Board Division, who shall refer the matter to the professional ethics division for whatever action it deems appropriate.

(b) A member who has been suspended or expelled by the Joint Trial Board Division pursuant to section 7.4 of the bylaws may request that the suspension terminate or request reinstatement if a judgment of conviction, an order or finding of any court, or an order of the governmental authority on which the suspension or expulsion was based has been reversed or otherwise set aside or invalidated. Such request shall be referred to the professional ethics division which, after investigating all related circumstances, shall report the matter, with the division's recommendation, to the National Review Board whereupon a panel of the National Review Board constituted to hear the matter in the same manner as

a panel set up to review the action of a regional trial board under section 3.6.2.3, may terminate the suspension or reinstate the member concerned by a majority vote of the members present and entitled to vote.

(c) Except as provided in subparagraphs (a) and (b) of this paragraph (2), a member whose membership has been automatically terminated under section 7.3, or who has been expelled by or had his resignation accepted by a panel of the Joint Trial Board Division may, at any time after three years from the effective date of such termination, expulsion, or acceptance of resignation, request reinstatement of his membership. Such request shall be referred to the professional ethics division, which, after investigation, shall report the matter, with the division's recommendation, to the National Review Board whereupon a panel of the National Review Board constituted in the same manner as one set up to review the action of a regional trial board under section 3.6.2.3 may reinstate such member on such terms and conditions as it shall determine to be appropriate. If an application for reinstatement under this subparagraph is denied, the member concerned may again apply for reinstatement at any time after two years from the date of such denial.

➤➤➤→ *The next page is 5901.* ←➤➤➤

BL Section 760**7.6 Publication of
Disciplinary Action**

As amended February
1, 1974

- .01 Notice of disciplinary action pursuant to section 7.3 or 7.4 hereof, together with a statement of the reasons therefor, may be published in such form and manner as the Council may prescribe.

(See section 760 R.)

»»»→ *The next page is 5903.* ←«««

BL Section 760 R***Implementing Resolution Under Section
7.6 Publication of Disciplinary
Action***

**As amended effective
August 1, 1975**

Resolved:

- .01 That notice of disciplinary action taken under section 7.3 or 7.4 of the bylaws and the basis therefor shall be published in a membership periodical of the Institute. In the case of a suspension or termination pursuant to section 7.3 of the bylaws, such notice shall be in a form approved by the chairman of the National Review Board or the vice-chairman when acting as such and shall disclose the name of the member concerned unless the chairman or vice-chairman decides that the name be omitted. In any action pursuant to section 7.4 of the bylaws, the panel hearing the case shall decide, by a majority vote of the members present and voting, whether the notice of the case and the decision to be published shall disclose the name of the member involved. A statement of the case and the decision of the said panel shall be prepared by a member or members thereof, under a procedure to be established in the Rules of the Joint Trial Board Division and the statement and decision, as so released shall be published in a membership periodical of the Institute. No such publication shall be made until such decision has become effective.
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➤➤➤ *The next page is 5921.* ←➤➤➤

BL Section 770***7.7 Disciplinary Sections Not to Be Applied Retroactively***

As amended February 1, 1974

- .01 Sections 7.3 and 7.4 shall not be applied to offenses of wrongful conduct occurring prior to its effective date, but such offenses shall be subject to discipline under the bylaws of the Institute in effect at the time of their occurrence.
-

BL Section 800

VIII. AMENDMENTS

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BL Section 801***Amendments***

As amended February 1, 1974

.01 Amendments to these bylaws and the Code of Professional Ethics shall be accomplished in a manner consistent with this Article.

BL Section 810

***8.1 Proposals to Amend
the Bylaws***

**As amended Febru-
ary 1, 1974**

- .01** Proposals to amend the bylaws may be made by any thirty members of the Council, by any two hundred or more members of the Institute in good standing, or by the Board of Directors.
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➤➤➤→ *The next page is 5961.* ←➤➤➤

BL Section 820**8.2 Proposals to Amend the Code
of Professional Ethics**

As amended Febru-
ary 1, 1974

- .01 Proposals to amend the Code of Professional Ethics may be made by any thirty members of the Council, by any two hundred or more members of the Institute in good standing, by the Board of Directors, or by the professional ethics division.
-

»»»→ *The next page is 5971.* ←«««

BL Section 830**8.3 Submission to Council
via Board of Directors**

**As amended February
1, 1974**

- .01 All such proposals to amend the bylaws or the Code of Professional Ethics, unless made at a meeting of the Council or the Board of Directors, shall be submitted in writing to the Board of Directors. The Board of Directors shall submit all such proposals, accompanied by its recommendation, to the Council for action.
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»»»→ *The next page is 5981.* ←«««

BL Section 840***8.4 Submission to Membership
by Mail Ballot***

**As amended Febru-
ary 1, 1974**

- .01** If approved by the Council the proposed amendment shall be submitted to all of the members of the Institute for a vote by mail ballot on or after ninety days following such approval. If at least two-thirds of those voting approve such proposal, it shall become effective as an amendment to the bylaws or to the Code of Professional Ethics, as applicable. Mail ballots shall be considered valid and counted only if received in the Institute's principal office within sixty days from the date of mailing the ballots to the members.
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BL Section 900**GENERAL**

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BL Section 911

Objectives of the American Institute of Certified Public Accounts

.01 *Note:* The following statement of the Institute's objectives reflects a series of actions by Council over the last decade. The objectives set forth here supplement, or in some cases amplify, the opening paragraph of the bylaws devoted to the purposes of the organization.

- To sustain itself as an organization of distinction by the wide participation of its members, by the intense and creative involvement of the best of the profession in Institute affairs, and by an exceptional quality of staff performance.
- To adopt a form of organization best designed to meet the needs of all its members both in and out of practice.
- To engage a full-time staff of sufficient size and competence and to organize their efforts—both in terms of direct staff work and assistance to committees—so that the organization can move with speed and precision to continually strengthen its service and its leadership.
- To perform in a manner which will persuade all parties at interest—government, financial institutions, the business community, universities and the public generally—to accept the organization as the authoritative source of principles and procedures in its field.
- To promote improvements in financial reporting by seeking to eliminate variations in reporting practices which are not justified by substantial differences in circumstances.
- To communicate effectively to the public, as well as to all levels of government, in regard to matters of concern to the profession.
- To produce valuable, new knowledge in its field through research and experimentation, the analysis and synthesis of experience, and the development and adaptation of new techniques.
- To identify those areas in society where the need for the CPA's attest function exists and to assist its members in equipping themselves to

perform the attest function wherever a useful social purpose would be served.

- To maintain surveillance over practice in the interest of promoting high standards of performance by the profession and public confidence in its work.
- To promote the adoption of uniform, nationwide standards governing the issuance of CPA certificates, recognition of qualified accountants of other countries, and freedom of movement in interstate and international accounting practice.
- To serve as a constructive force in improving education for the profession and, ultimately, all business education.
- To encourage a continuous restatement of those areas of knowledge and technical competence required by the CPA in his present and prospective professional practice, and a clarification of the responsibilities appropriate to universities, practitioners, and professional societies in the education and training of CPAs.
- To maintain a high level of quality in its publications and in its program of professional development, and thus to aid its members in discharging their commitment as professional men to a lifetime of study and self-improvement.
- To coordinate, on a voluntary basis, the plans, programs, and activities of the state societies and of the Institute, with particular emphasis on the adoption of uniform codes of professional ethics and enforcement procedures.
- To cooperate fully with all organizations of accountants, both at home and abroad, to the end that the entire accounting function can make its maximum contribution to the public good.
- To encourage every eligible CPA, in furtherance of his personal development and in fulfillment of his professional obligations, to become a member of both his state society and the Institute.
- To encourage all CPAs to perform a wide range of services in the broad field of accounting consistent with their professional competence and their ethical responsibilities. (*See BL section 921, "A Description of the Professional Practice of Certified Public Accountants" which was approved by Council in 1966 as an official statement of Institute policy.*)

➤➤➤ → *The next page is 6031.* ← ➤➤➤

BL Section 921

A Description of the Professional Practice of Certified Public Accountants

- .01** Certified public accountants practice in the broad field of accounting.
- .02** Accounting is a discipline which provides financial and other information essential to the efficient conduct and evaluation of the activities of any organization.
- .03** The information which accounting provides is essential for (1) effective planning, control, and decision-making by management, and (2) discharging the accountability of organizations to investors, creditors, government agencies, taxing authorities, association members, contributors to welfare institutions, and others.
- .04** Accounting includes the development and analysis of data, the testing of their validity and relevance, and the interpretation and communication of the resulting information to intended users. The data may be expressed in monetary or other quantitative terms, or in symbolic or verbal forms.
- .05** Some of the data with which accounting is concerned are not precisely measurable, but necessarily involve assumptions and estimates as to the present effect of future events and other uncertainties. Accordingly, accounting requires not only technical knowledge and skill, but even more importantly, disciplined judgment, perception, and objectivity.
- .06** Within this broad field of accounting, certified public accountants are the identified professional accountants. They provide leadership in accounting research and education. In the practice of public accounting CPAs bring competence of professional quality, independence, and a strong concern for the usefulness of the information and advice they provide, but they do not make management decisions.
- .07** The professional quality of their services is based upon the requirements for the CPA certificate—education, experience and examination—and upon the ethical and technical standards established and enforced by their profession.

- .08** CPAs have a distinctive role in examining financial statements submitted to investors, creditors, and other interested parties, and in expressing independent opinions on the fairness of such statements. This distinctive role has inevitably encouraged a demand for the opinions of CPAs on a wide variety of other representations, such as compliance with rules and regulations of government agencies, sales statistics under lease and royalty agreements, and adherence to covenants in indentures.
- .09** The examination of financial statements requires CPAs to review many aspects of an organization's activities and procedures. Consequently they can advise clients of needed improvements in internal control, and make constructive suggestions on financial, tax and other operating matters.
- .10** In addition to furnishing advice in conjunction with their independent examinations of financial statements, CPAs are engaged to provide objective advice and consultation on various management problems. Many of these involve information and control systems and techniques, such as budgeting, cost control, profit planning, internal reporting, automatic data processing, and quantitative analysis. CPAs also assist in the development and implementation of programs approved by management.
- .11** Among the major management problems depending on the accounting function is compliance with tax requirements. An important part of the practice of CPAs includes tax planning and advice, preparation of tax returns, and representation of clients before government agencies.
- .12** CPAs also participate in conferences with government agencies such as the Securities and Exchange Commission, and with other interested parties, such as bankers.
- .13** Like other professional men, CPAs are often consulted on business, civic and other problems on which their judgment, experience, and professional standards permit them to provide helpful advice and assistance.
- .14** The complexities of an industrial society encourage a high degree of specialization in all professions. The accounting profession is no exception. Its scope is so wide and varied that many individual CPAs choose to specialize in particular types of service.
- .15** Although their activities may be diverse, all CPAs have demonstrated basic competence of professional quality in the discipline of accounting. It is this which unites them as members of one profession, and provides a foundation for extension of their services into new areas.

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