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AICPA Member Forum on the Report of the Special Committee on Standards of Professional Conduct for CPAs: Discussion Leader's Materials and Participants' Materials

American Institute of Certified Public Accountants (AICPA)

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**AICPA MEMBER FORUM ON
THE REPORT OF THE SPECIAL COMMITTEE ON
STANDARDS OF PROFESSIONAL CONDUCT
FOR CPAS**

DISCUSSION LEADER'S MATERIALS



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

August 15, 1986

To: Discussion Leader for AICPA Member Forum on the
Report of the Special Committee on Standards
of Professional Conduct for CPAs

Thank you for agreeing to lead a member forum discussion on the report of the Special Committee on Standards of Professional Conduct for CPAs. This program will provide the Institute committees established to implement the recommendations in the report with members' views that will help to structure implementation proposals.

Enclosed are:

1. *Notes for Discussion Leader* to help you prepare for and run the discussion.
2. *Discussion Leader's Guide* to help stimulate discussion.
3. A copy of the materials provided for forum participants, including a member forum response sheet.
4. A summary response sheet for your use.

Feedback from members is the essential purpose of the forums. We would appreciate it if you would emphasize this to participants.

Please submit their responses and your summary to your state society coordinator or to James F. Flynn at the AICPA as soon after the discussion as possible.

Thank you for helping us reach our members on this important topic.

Sincerely yours,

A handwritten signature in black ink that reads "Philip B. Chenok". The signature is written in a cursive, flowing style.

Philip B. Chenok
President

PC:fs
Encl.

NOTES FOR DISCUSSION LEADER

AICPA MEMBER FORUM ON THE REPORT OF THE SPECIAL COMMITTEE ON STANDARDS OF PROFESSIONAL CONDUCT FOR CPAS

Before the Meeting

I. *Preparation and Background*

- A. In advance of the meeting, discussion leaders should thoroughly review the *Special Committee's Report*, the *Discussion Leader's Guide* and the *Participants' Materials*.
- B. There should be 20 to 25 participants at the meeting. They should be given a copy of the report and the materials provided for their use, including the response sheet.
- C. Your role as moderator:
 - 1. You should devote a minimum of time to introductory remarks and a maximum of time to discussion.
 - 2. Attempt to elicit views from everyone present or at least from a majority.
 - 3. Unless necessary, avoid disagreeing with or "educating" a participant at the time he makes a point. Let other participants take the opposite position or correct a factual error.
 - 4. Avoid giving your own point of view. The AICPA wants to know the views of its members on this issue without leading them in any way. You are representing the AICPA at this discussion; you are the link between the Institute and members. The purpose of the member forum is to find out how members feel about an issue. In order to do this, we ask that discussion leaders assume a neutral position, so that members have an opportunity to express their individual views freely. Of course, we hope to get *your* views when you submit your summary and response sheet.
 - 5. Bring to the meeting the materials provided for the participants that include response sheets to be completed during the session.

At the Meeting

II. *Introductory Remarks and Presentation of Highlights Film (25 to 30 minutes)*

- A. Explain that the purpose of the meeting is to obtain feedback from members on the recommendations in the report of the Special Committee on Standards of Professional Conduct for CPAs.
- B. Distribute the response sheets and carefully review with the participants the instructions given on the first page. Emphasize the importance of making recommendations in the appropriate spaces if the participants believe a particular recommendation should be modified.
- C. Show highlights film.

III. *The Discussion (95 to 150 minutes)*

- A. Open the meeting to discussion of the statements included in the response sheet, using the enclosed *Discussion Leader's Guide*.
- B. Give participants time to complete their recommendations and write comments in the space provided at the end of the response sheet.
- C. Allow time for participants to review their responses and collect all response sheets at the end of the session.

After the Meeting

IV. *Feedback to AICPA*

- A. After the forum, write your own summary impressions of the participants' views highlighting implementation questions raised and send it with their responses to your state society coordinator for the program or to:

James F. Flynn, Director
State Society Relations
American Institute of CPAs
1211 Avenue of the Americas
New York, NY 10036-8775

- B. Your summary and the responses of the participants will be compiled with the results from other groups and submitted to the committees established to structure the proposals for implementing the recommendations that will be presented to AICPA Council.

V. *Thank you!*

DISCUSSION LEADER'S GUIDE

AICPA MEMBER FORUM ON THE REPORT OF THE SPECIAL COMMITTEE ON STANDARDS OF PROFESSIONAL CONDUCT FOR CPAS

This Discussion Leader's Guide is provided for discussion leaders only, not for participants, to help them organize and stimulate discussion. Except for the comments in italics, this guide is the same as the Participants' Guide. It contains questions on which the AICPA seeks the views of its members, with related explanations and comments. The questions are the same, and in the same order, as the questions in the Participants' Guide. A response sheet, keyed to the questions stated and more fully explained in the guides, is provided for each participant. It is to be completed during the forum and returned to the AICPA or the state society by the discussion leader together with the discussion leader's summary impressions of the participants' views.

AICPA members recently received the report of the Special Committee on Standards of Professional Conduct for CPAs. In recognition of the profound impact that implementation of the report's recommendations will have on all segments of the AICPA membership, Council authorized the distribution of the report to the membership in order to inform the members and to obtain their views. The informed views of members will be critical in developing a plan of implementation and in structuring code provisions and required changes in the Institute's bylaws. A memorandum, "Comments on Some Frequently Raised Questions," accompanies this guide.

QUESTIONNAIRE

This questionnaire contains statements and questions about the report's conclusions and recommendations on which the Institute seeks the views of its members. You are asked to review this guide and to complete the accompanying response sheet, which is keyed to this questionnaire. In considering these questions, you should carefully review the Special Committee's report.

Suggested Time Allocation

We suggest that the forum be scheduled for 2 to 3 hours and that it keep within the following time schedule:

	<i>Minimum</i>	<i>Maximum</i>
	<i>(Minutes)</i>	
<i>a. Introductory remarks</i>	10	15
<i>b. Videotape</i>	15	15
<i>c. Discussion and completion of questionnaire (85 to 135 minutes). We suggest that discussion time be allocated as follows to the five areas covered in the questionnaire:</i>		
<i>1. Restructured code (6 questions)</i>	25	40
<i>2. Scope and nature of services (4 questions)</i>	10	20
<i>3. Quality review program (4 questions)</i>	25	40
<i>4. Structure for handling complaints (5 questions)</i>	15	20

	<i>Minimum</i>	<i>Maximum</i>
	<i>(Minutes)</i>	
5. <i>Education requirements (2 questions)</i>	10	15
d. <i>Wrap-up review</i>	<u>10</u>	<u>15</u>
<i>Totals</i>	<u>120</u>	<u>180</u>

A. CHAPTER 3: RESTRUCTURED CODE (25–40 MINUTES)

The report calls on the Institute to recast its Code of Professional Ethics into two basic sections. Please indicate your views on the proposed restructured Code as recommended in the Special Committee's report (Exhibits 1 and 2 of Chapter 3) by responding to the related items on the accompanying response sheet.

The six questions in this section relate to the proposed restructured Code. Lead off the discussion by reviewing the report's basic recommendations in this area as follows:

- *Restructure the Code and make it generally applicable to the professional activities of all AICPA members.*
- *Adopt a new goal-oriented section that will be enforceable as shown in Exhibit 1 to Chapter 3.*
- *Revise and update the Rules of Conduct as shown in Exhibit 2 to Chapter 3.*
- *Give the senior technical committees authority to interpret the Code.*

You may also want to review at this point the items that relate to this area from the accompanying memorandum, "Comments on Some Frequently Raised Questions."

1. Do you agree that the restructured Code should contain the new goal-oriented, positively stated section entitled "Standards of Professional Conduct," to provide general guidance on which practitioners can base decisions on proper conduct?
2. The Special Committee recommends that the Code should contain a section that consists of a complete revision, updating and repositioning of the present Rules of Conduct designated Rules of Performance and Behavior to make them more responsive to today's environment. Do you agree with the proposed changes to the following rules?
 - a. Rule 101 on independence
 - b. Rule 102 on integrity and objectivity
 - c. Rule 201 on general standards
 - d. Rule 202 on compliance with standards
 - e. Rule 203 on accounting principles
 - f. Rule 301 on confidential client information
 - g. Deletion of Rule 504 on incompatible occupations
 - h. Rule 505 on form of practice
3. Under the present Rules of Conduct, only two of the Rules, (a) Integrity and Objectivity and (b) Acts Discreditable, apply to members not in practice. Both the Standards and the

Rules sections of the restructured Code recommended by the Special Committee would apply, as appropriate, to the professional activities of *all* members.

Do you agree that both the Standards and the Rules of the proposed new Code should apply to the professional activities of all members?

4. With limited exceptions, the Institute's Professional Ethics Executive Committee is the body authorized by the Institute's present bylaws to issue interpretations of, and rulings on, the Rules of Conduct. The Special Committee recommends that with the adoption of the proposed new Code, the Institute's Council should designate the senior committees now authorized to establish technical standards—such as the Auditing Standards Board, the Accounting and Review Services Committee, and the Management Advisory Services Executive Committee—together with the Professional Ethics Executive Committee as the bodies authorized to interpret the Rules applying to their areas of responsibility with a coordinating committee to assure consistency. The purpose of this is to provide greater flexibility and timeliness in the interpretations of the Rules and to have all standards relating to a particular area of practice combined in one place in the authoritative literature.

Do you agree that the senior technical committee now authorized to set technical standards, such as the Auditing Standards Board, should share the responsibility for interpreting the proposed new Rules of Performance and Behavior in the areas for which they now have the authority to set technical standards?

5. Under Rule 302 of the present Rules of Conduct, with few exceptions, a member may not accept a contingent fee. Under the proposed new Rule, a member who accepts a contingent fee from a client would lose independence with respect to that client. The proposed Rule states: "A member in public practice who performs engagements for a contingent fee will be considered to have lost independence with regard to that client because a common financial interest has been established."

Do you agree with the proposed new Rule 302 on Contingent Fees?

6. The present Rule 503 on Commissions bans the acceptance of commissions. The proposed new Rule 503 on Commissions states: "The acceptance of a payment for referral of products or services of others by a member in public practice is considered to create a conflict of interest that results in a loss of objectivity and independence except under those circumstances where bodies designated by Council have determined that such conflicts of interest do not arise."

Do you agree that the senior technical committees should be given explicit authority to determine circumstances in which members may accept commissions without creating a conflict of interest that would impair their objectivity and independence?

B. CHAPTER 4: SCOPE AND NATURE OF SERVICES (10–20 MINUTES)

Because of public concerns about the rapid growth of nonattest services the proposed new Code recommended by the Special Committee includes guidance for practitioners on making decisions about the scope and nature of services provided in their practices. The Special Committee concluded that public concerns about the objectivity and integrity or the independence of CPAs are of paramount importance to the profession and that issues arising from the growth of nonattest services should be dealt with in the proposed new Code. The goal-oriented section of the code would provide guidance on the scope and nature of services. Items 7–10 relate to that aspect of the report.

As a lead-off to the discussion of this section, you should note that the Special Committee was asked to consider five of the major issues identified by the Future Issues Committee, including expansion of services and products. Chapter 4 of the report provides background. The intent is to provide within the Code guidance to aid members in making decisions about offering nonattest services and about activities that may be perceived as creating conflicts of interest, not to set arbitrary boundaries. You should note the view expressed in the report that such guidance is needed to help assure the orderly expansion of services in keeping with the requirements of competence, objectivity, and integrity and to reinforce the commitment to professionalism in an increasingly competitive practice environment. You may also want to raise the question of whether the magnitude of nonattest services provided to an audit client over time should be included in the guidance provided as a factor to be considered.

7. Do you agree that the proposed new code should attempt to deal with issues arising from the growth of nonattest services by providing guidance for practitioners?
8. Do you agree that the guidance should move members to practice in firms that have in place internal quality-control procedures to ensure that services are delivered in a competent manner and are adequately supervised?
9. Do you agree that the guidance should require that members determine whether, in their individual judgments, the nature or magnitude of nonattest services provided to an audit client over time might create, or appear to create, conflicts of interest in the performance of the audit function for that client?
10. Do you agree that members should assess whether in their individual judgment an activity is consistent with their role as professionals — for example, it is a reasonable extension or variation of existing services offered by the member or others in the profession?

C. CHAPTER 5: QUALITY REVIEW PROGRAM (25–40 MINUTES)

The Special Committee recommends mandatory quality reviews for members in public practice to improve the quality of services and to reduce the amount of substandard work. The report recommends that the Institute in cooperation with state CPA societies establish and conduct the proposed mandatory quality review program. Items 11–17 relate to the proposed practice monitoring program. Please indicate on the response sheet whether you agree or disagree with the following recommendations of the Special Committee.

The seven questions in this section relate to the recommendation for mandatory practice reviews. Lead off the discussion by reviewing the basic recommendations in this area from Chapter 5 of the report. You may want to review at this point the items that relate to this area from the accompanying memorandum, “Comments on Some Frequently Raised Questions.”

11. Do you agree that there is a need for a proactive approach to improve compliance with performance standards?
12. Do you agree that the Institute in cooperation with the state CPA societies should establish a quality review program and make participation in that program or in the peer review programs of the Division for CPA Firms a membership requirement for members in public practice?
13. Do you agree that the Institute should develop the standards and procedures for the program and oversee its operations to assure consistency?

14. Do you agree that state societies should implement the program in their areas to bring the program closer to members?
15. Do you agree that the quality review program should be modeled after the peer review program of the PCPS, which is tailored to the nature and size of a firm's practice?
16. The Special Committee recommends that each state society also adopt participation in the Institute's quality review program as a requirement for membership in the state society to make the program more effective.

Do you agree that your state society should adopt such a requirement?
17. Do you agree that the Institute should adopt a requirement for AICPA members who practice in firms that audit one or more SEC registrants that would require those firms to be members of the SEC Practice Section of the Division for CPA Firms?

D. CHAPTER 5: STRUCTURE FOR HANDLING COMPLAINTS (15-20 MINUTES)

The Special Committee recommends that the Institute redefine the roles, responsibilities, and relationships of the professional ethics committee and the bodies involved in the operation of JEEP. Items 18-22 relate to that recommendation.

18. Do you agree that the Institute should establish more effective procedures, as outlined in the report, for handling complaints and assuring compliance with performance standards by all members?
19. Under the Special Committee's recommendations, the bodies established to conduct the quality review program and the peer review committees of the Division for CPA Firms would be assigned responsibility for investigating complaints against firms and members in practice that involve compliance with technical standards. Under the present system, such complaints are investigated by the Institute ethics committee or a state society ethics committee.

Do you agree that technical complaints should be handled in the quality review or peer review programs?
20. Under the Special Committee's recommended structure for the quality review program, a body at the Institute level would be established to hear and adjudicate matters in disciplinary proceedings that could lead to the dismissal of a firm from the program or to other forms of punitive sanctions.

Do you agree that the responsibility for such punitive sanctions should be centralized at the Institute level?
21. Under the Special Committee recommendations, a National Trial Board whose members would be elected by the Institute's Council as representatives of the state societies would replace the Regional Trial Boards whose members are proposed by the state societies.

Do you agree that the Regional Trial Boards should be replaced by a single National Trial Board which would serve as the hearing body in all disciplinary proceedings against members?

22. Under the Special Committee's recommendations, the Institute would maintain public files that would include information on the disposition of all complaints investigated, whether at the Institute or state society level. Under the present system, information is made public only when a member is disciplined as a result of action by the Trial Board.

Do you agree that the Institute should maintain public files on the disposition of *all* complaints investigated?

E. CHAPTER 6: EDUCATION REQUIREMENTS (10-15 MINUTES)

23. The Special Committee recommends that the Institute adopt a membership provision that would make continuing professional education mandatory for all AICPA members except those in retirement.

Do you agree that the Institute should establish a national, uniform continuing professional education requirement for *all* members to assure that all members maintain their professional competence?

24. The Special Committee recommends that the Institute take appropriate action before the year 2000 to adopt the 150-hour post baccalaureate education requirement as a condition for membership in the Institute for those qualifying for entry into the profession after that year.

Do you agree with that recommendation?

**AICPA MEMBER FORUM ON
THE REPORT OF THE SPECIAL COMMITTEE ON
STANDARDS OF PROFESSIONAL CONDUCT
FOR CPAS**

PARTICIPANTS' MATERIALS



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

August 15, 1986

To: Participants in AICPA Member Forum on the
Report of the Special Committee on Standards
of Professional Conduct for CPAs

Thank you for agreeing to attend a discussion on the report of the Special Committee on Standards of Professional Conduct for CPAs. Your views will provide valuable information for the committees established to structure proposals for implementing the recommendations in the report.

Before the meeting, we ask that you give some thought to those recommendations by carefully reviewing the report and to any suggestions you may have to make the recommendations more effective. The discussion will cover these general topics:

- The proposal to restructure the Institute's Code of Professional Ethics to improve its relevance and effectiveness.
- The proposed guidance to practitioners in making judgments regarding the scope and nature of services and adherence to professionalism.
- The proposal to establish a new program for the systematic monitoring of practice to improve the quality of services and to assure compliance with performance standards.
- The proposal for the AICPA to establish membership requirements for both continuing professional education and the basic education to enter the profession.

Please complete the response sheet included with this material and give it to your discussion leader. If you wish to submit more detailed written comments, we encourage you to do so.

Thank you once again for participating in the member forum discussion.

Sincerely yours,

Philip B. Chenok
President

PC:dv
Encl.

PARTICIPANTS' GUIDE

AICPA MEMBER FORUM ON THE REPORT OF THE SPECIAL COMMITTEE ON STANDARDS OF PROFESSIONAL CONDUCT FOR CPAS

AICPA members recently received the report of the Special Committee on Standards of Professional Conduct for CPAs. In recognition of the profound impact that implementation of the report's recommendations will have on all segments of the AICPA membership, Council authorized the distribution of the report to the membership in order to inform the members and to obtain their views. The informed views of members will be critical in developing a plan of implementation and in structuring code provisions and required changes in the Institute's bylaws. A memorandum, "Comments on Some Frequently Raised Questions," accompanies this guide.

QUESTIONNAIRE

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Do you agree with the proposed changes to the following rules?

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sections of the restructured Code recommended by the Special Committee would apply, as appropriate, to the professional activities of *all* members.

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24. The Special Committee recommends that the Institute take appropriate action before the year 2000 to adopt the 150-hour post baccalaureate education requirement as a condition for membership in the Institute for those qualifying for entry into the profession after that year.

Do you agree with that recommendation?

**REPORT OF THE SPECIAL COMMITTEE
ON STANDARDS OF PROFESSIONAL CONDUCT**

**Comments on
Some Frequently Raised Questions**

This memorandum presents statements of concerns that have been frequently voiced about the recommendations in the report of the Special Committee on Standards of Professional Conduct and about the effects of implementing those recommendations. Each statement is followed by a suggested response for use in the member forums to be conducted on the report.

GENERAL

STATEMENT:

The report represents a knee-jerk reaction to the Dingell hearings.

RESPONSE:

The AICPA leadership, aware of eroding public confidence and of deficiencies in performance and compliance, initiated the study of the profession's standards long before the latest round of congressional hearings and media criticisms to make an assessment of the current relevance and effectiveness of the existing ethics and performance standards. The special committee believes that its recommendations constitute a meaningful response to the challenge of balancing the needs of the public and of the profession.

STATEMENT:

Members received the report without a clear indication of how they were expected to respond and without any indication of differing views. Thus, it is not clear what is expected of members.

RESPONSE:

The special committee and the AICPA Board of Directors recognized the far-reaching nature of the report's recommendations and the profound impact that their implementation will have on all segments of the profession. For that reason, AICPA Council authorized the distribution of the report to the membership without comment to obtain the informed views of members. Those views will be critical in developing a plan for implementing the recommendations and in structuring code revisions and the necessary changes in the Institute's bylaws.

STATEMENT:

The cost and the resultant bureaucracy that might be created by the implementation of the recommendations in the report will cause a substantial erosion of AICPA membership.

RESPONSE:

The special committee believes that the profession must make substantial reforms in the way it achieves adherence to standards to make those standards more relevant and effective in improving the quality of services and more responsive to the changing environment and to public expectations. Since existing structures at the Institute will be used, implementation should not result in excessive cost or the creation of an added bureaucracy. The report is based on a view of the Institute's role as that of the national accounting body in

which membership represents a level of professional achievement greater than the possession of a CPA certificate. The special committee believes that the Institute should be perceived as a body that continually monitors and strives to improve the quality of its members' professional work. The possible consequence of some erosion of membership is outweighed by the need to raise standards and to give stature and reputation to membership in the AICPA.

RESTRUCTURED CODE

STATEMENT:

The goal-oriented section of the proposed Code is written in such broad terms that it is difficult to see how its provisions can be enforced.

RESPONSE:

The goal-oriented section of the Code covers the basic responsibilities of members to clients, fellow professionals, and the public. It provides standards of conduct that serve the public interest and buttress performance standards and the profession's commitment to professionalism. The special committee believes a profession worthy of public trust needs such standards to guide decisions relating to behavior and to govern the application of its technical expertise. The goal-oriented section of the proposed Code is based on the premise that members assume an obligation of self-discipline. It provides aspirational goals that members are expected to strive for. The enforcement of its provisions will depend primarily on understanding and the voluntary actions by members, secondarily on reenforcement by peers and public opinion, but ultimately on disciplinary proceedings, when necessary, against those who fail to comply with the profession's adopted performance standards. It will shift the emphasis from compliance with specific rules to an emphasis on achieving positively-stated goals. The special committee believes that professionalism requires much more than compliance with specific rules; it requires a pattern of conduct that results in the performance of all professional activities with competence, objectivity, and integrity. Specific rules by themselves cannot be comprehensive and flexible enough to provide members with the incentive to achieve that level of performance.

STATEMENT:

It is not clear from the report what happens under the proposed restructuring to the existing ethics interpretations and rulings.

RESPONSE:

All of the existing interpretations and rulings under the present Rules of Conduct will remain in effect until further action to modify them is deemed necessary by the senior technical committees.

STATEMENT:

The AICPA Council now has residual authority over ethics interpretations and may override a proposed action by the Professional Ethics Executive Committee. It is not clear from the report whether Council would continue to have that authority with respect to interpretations by the senior technical committees.

RESPONSE:

The AICPA Council is the governing body of the Institute and, as such, would continue to have the residual authority over interpretations of the Code initiated either by the Professional Ethics Executive Committee or the other senior technical committees.

STATEMENT:

The proposed rules of performance and behavior generally apply to members' performance of professional services. The term "professional services," is not defined and the definition intended is not clear from the context in which the term is used. What is the meaning of "professional services" as used in the proposed Code?

RESPONSE:

Although the term is not defined in the report, the special committee used the term to encompass all activities of members requiring the use of their expertise as CPAs. The intent is to broaden the application of the rules to the activities of all members whether or not they are in public practice. The special committee recognizes the need for definitions, such as those in the present Code, and the implementing groups are expected to provide the necessary definitions.

STATEMENT:

Proposed Rule 102 requires a member to maintain objectivity and integrity in the performance of any professional service. How can a member in industry be expected to maintain objectivity?

RESPONSE:

Objectivity is a state of mind, a quality that lends value to a member's services. The rule imposes on members in industry the obligation to be impartial, intellectually honest, and free of conflicts of interest in the performance of professional services. Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility and the ability to maintain objectivity in rendering professional services. This means that a member employed by others to prepare financial statements or to perform other professional services is charged with the same responsibility for objectivity as members in public practice.

STATEMENT:

The general standards, Rule 201, requires professional competence, due professional care, planning and supervision, and sufficient relevant data in connection with professional services performed by all members. Can a member in industry *really* be expected to comply with the general standards?

RESPONSE:

The special committee believes that AICPA members in industry perform, as CPAs, important professional activities and should be required to comply with the general standards. The general standards as stated in proposed Rule 201 are a more explicit statement of the requirements in the goal-oriented section of the Code on the public interest, integrity, and due care.

STATEMENT:

Under the proposed Rule 302 on Contingent Fees, a member in public practice who performs an engagement for a contingent fee would be deemed to have lost independence with regard to that client because of a common financial interest. It is not clear from the rule or the commentary on the rule how or when a member can regain independence in relation to a client after having accepted a contingent fee engagement.

RESPONSE:

The special committee did not address that aspect of the rule, and some elaboration or interpretation will clearly be necessary in the implementing process. However, the intent of the rule is clear: a member who performs an engagement for a contingent fee may not during the same period accept an engagement for that client requiring independence.

STATEMENT:

The proposed Rule 503 on Commissions prohibits the acceptance of a payment for referral of products or services of others by a member in public practice. Does the rule prohibit acceptance of a fee in an engagement in which a member evaluates several products for the purpose of recommending one of those products to the client?

RESPONSE:

The special committee used the term “payment for referral of products or services,” to broaden the scope of the rule to cover any payment that in substance constituted a commission. The scope of the rule is not otherwise changed and it clearly would not apply to fees charged in a management advisory engagement in which a member is engaged to evaluate alternatives.

STATEMENT:

It is not clear from the proposed Rule 503 on Commissions whether or when a member can regain his or her objectivity with regard to a client after having accepted a commission from the client.

RESPONSE:

The intent of the rule is to prohibit the acceptance of commissions. Under the proposed rule, as under the current rule, the acceptance of a commission would be a prima facie violation.

QUALITY REVIEW PROGRAM

STATEMENT:

Wouldn't the establishment of the recommended quality review program lead to the recognition of firms as AICPA members?

RESPONSE:

The program would not lead to the recognition of firms as AICPA members. The requirement for firms would be made effective indirectly through membership requirements for individuals. For an individual CPA in practice to retain eligibility for membership in the AICPA, the firm would have to enroll in the quality review program or the peer review programs of the Division for CPA Firms.

STATEMENT:

Why should a young CPA who accepts employment with a firm that does not enroll in the quality review program be penalized and not allowed to become a member of the Institute? Why not penalize only the partners of the firm?

RESPONSE:

The special committee believes that the quality review program can only be made effective through mem-

bership requirements that relate to all individuals who qualify for membership. All individuals who have earned the CPA designation have a responsibility to comply with professional standards. Limiting the membership requirement to individuals who are principals or partners in firms would impair its effectiveness. Moreover, having the requirement relate to all CPAs provides a strong incentive for principals and partners to qualify their practice so as to attract and retain highly qualified staff.

STATEMENT:

Why should a firm with one or more SEC clients be required to join the SEC practice section for its partners and staff to be eligible for AICPA membership? Why not establish an SEC section within the quality review program for those firms?

RESPONSE:

The SEC practice section is structured to recognize the wider public interest in the financial reporting of public companies and serves the special needs of firms that audit the financial statements of those companies, particularly those registered with the Securities and Exchange Commission. Members of the SECPS are subject to special membership and oversight requirements relating to their SEC clients, including SEC oversight, the Public Oversight Board, and the Special Investigation Committee. Therefore, it would be extremely difficult to establish an SEC section within the quality review program structured to serve the self-regulatory needs of firms that audit SEC clients.

STATEMENT:

How much will a review cost our firm?

RESPONSE:

Reviews under the program will be tailored to the size and nature of practice and will range from desk report reviews to field reviews of a firm's quality control system. The cost of reviews will vary accordingly, but should be similar to the cost of peer reviews conducted by committee-appointed review teams in the PCPS. The cost of such reviews conducted by the PCPS in 1985 generally varied according to the number of professionals and the number of accounting and audit hours as follows:

<u>Firm Description</u>	<u>Number of Firms</u>	<u>Cost Per Review</u>		
		<u>Low</u>	<u>Average</u>	<u>High</u>
Sole Practitioner, No Professional Staff	4	\$ 957	\$1,154	\$1,398
2-5 Professionals:				
1 Partner	16	924	2,292	3,876
2 or more Partners	16	1,330	2,234	3,536
6-10 Professionals	33	1,643	3,448	5,938
11-20 Professionals	27	2,046	4,271	5,739
Over 20 Professionals	12	4,006	7,442	12,192

Cost includes reviewers' time charges, AICPA's 10% administrative fee, and reviewers' expenses. Hourly billing rates for reviews of firms with less than 20 professionals and no SEC clients are \$60 for team captains,

\$50 for team members who are partners or proprietors, and \$40 for other team members. For firms with 20 or more professionals and all firms with SEC clients, the rates are \$10 higher in each classification. Firms normally incur these costs once every three years.

STATEMENT:

Must a CPA who is in practice only part time enroll in a quality review program and agree to undergo reviews?

RESPONSE:

All AICPA members in public practice would have to practice in firms enrolled in the quality review program or the peer review programs of the PCPS or SECPS regardless of whether they practiced part or full time.

STATEMENT:

Will an enrolled firm have a choice as to the selection of the reviewers?

RESPONSE:

The special committee contemplates that procedures similar to those used in the PCPS will be established for selecting reviewers. The participation of the reviewed firm in the selection of reviewers would depend on the nature of the review. For report reviews and for reviews conducted by committee appointed review teams the selection may be an interactive process in which the firm to be reviewed will have the right to raise objections to a specific individual assigned as a reviewer. For firm-on-firm reviews, one firm chooses another to conduct the review.

STATEMENT:

When deficiencies are found in a review, will the firm be subjected to disciplinary action by the Institute, the state society and the state board?

RESPONSE:

The primary emphasis in the program is on education and remedial or corrective action to enhance the quality of practice and to help eliminate substandard performance. Punitive sanctions by the Institute and the state society will only be recommended in the event that the firm fails to correct material deficiencies. However, it is contemplated that the report of the reviewer and a report on any required corrective actions would be included in a public file, which would be available to state boards and others on their request.

STATEMENT:

Under the proposed quality review program, what will happen to existing state society or state board report review programs?

RESPONSE:

The purpose of the proposed program is to develop a national uniform program in which existing programs can be integrated.

STATEMENT:

Are all firms going to live by the same rules under the proposed practice monitoring program?

RESPONSE:

The program contemplates that all practice units will be subject to some form of quality review either in programs qualified under the new quality review program or in the existing peer review programs of the division for firms. However, any firms with one or more SEC practice clients would be required to join the SEC practice section of the Division for CPA Firms to qualify CPAs in those firms for membership in the AICPA.

STATEMENT:

How will the proposed quality review program affect the PCPS?

RESPONSE:

Under the proposed quality review program, reviews similar to the reviews conducted under the peer review program of the PCPS would be established as an alternative to membership in the PCPS. The special committee believes that membership in the PCPS will be enhanced and made more attractive.

STATEMENT:

If all practice units are to be required to undergo some form of quality review, why not mandate membership in the Division for CPA Firms?

RESPONSE:

The primary objective of the quality review program is to improve the quality of practice. That objective can be achieved by mandating quality reviews for all practice units. In contrast, the two sections of the Division for CPA Firms have broader objectives designed to serve the special needs of their members. The special committee concluded that the objective of improving the quality of practice could best be achieved by establishing an alternative program rather than mandating membership in the division.

STATEMENT:

The proposed quality review program obviously cannot be put into effect for all firms at one time. What are the plans for phasing-in the program?

RESPONSE:

The Institute has established an implementation committee to work out the plans for implementing the recommendations in the report. That committee will develop plans for initiating the program, including the procedures for phasing-in the program.

STATEMENT:

The report recommends that the Institute establish a public file on enrolled firms. Who will be responsible for maintaining that file and where will it be maintained?

RESPONSE:

The special committee recommends that the Institute establish an executive committee that would have

overall responsibility for setting general policies for the program, including requirements relating to information on enrolled firms to be maintained in files available to the public. The recommendation contemplates that the public file will be centralized and maintained at the AICPA.

STATEMENT:

Will an enrolled firm deal with the state society or the AICPA?

RESPONSE:

The special committee recommends that the state society establish quality review programs under the oversight of the AICPA. However, the AICPA would conduct the program in states that do not establish acceptable programs.

STATEMENT:

How will the Institute assure uniform national standards?

RESPONSE:

The AICPA will establish the policies and standards for the program and coordinate and oversee the operations of the program.

STATEMENT:

Under the peer review program of the Division for CPA Firms, egregious acts do not become an ethics matter. However, under the proposed quality review program such acts involving individuals may be referred to the ethics division. How will this difference be dealt with?

RESPONSE:

The special committee has sought to achieve a much closer coordination of the activities in the quality review program and in the ethics enforcement program. This specific question will be addressed by the implementation committee.

STATEMENT:

What appeal will a reviewed firm have from findings in a reviewer's report that the firm does not agree with?

RESPONSE:

As in the peer review program of the PCPS, a reviewed firm will be afforded the opportunity to submit a letter of comment on the reviewer's findings. The letter of comment will be considered by the quality review committee in disposing of the matter.

STATEMENT:

How will a lawsuit involving a reviewed firm affect its quality review?

RESPONSE:

The consideration given to lawsuits involving a reviewed firm should be similar to that given to lawsuits in a peer review. The specific case involving the suit would not be investigated. However, the reviewer should be aware of the suit and consider its possible effect on the firm's quality control system in determining the scope of the review.

STATEMENT:

Under the proposed program, will the public file include information on substandard work?

RESPONSE:

The objective of the program is to correct deficiencies found and to eliminate substandard work. The public file of an enrolled firm would include, among other information, the report of the reviewer, the reviewer's letter of comment, if any, the firm's response to the letter of comment, the quality review committee's letter to the firm indicating acceptance, information on any remedial or corrective action required, and other documents pertaining to corrective or remedial actions.

STRUCTURE FOR HANDLING COMPLAINTS

STATEMENT:

Under the proposed structure for handling complaints, why is it necessary to disband the Regional Trial Boards?

RESPONSE:

The special committee believes that having a centralized trial board will require fewer members, provide greater uniformity in the process, and lead to a more effective system for hearing and disposing of complaints.

STATEMENT:

Under the structure for handling complaints, will the state society ethics committees still be able to issue their own interpretations of the Rules of Performance and Behavior?

RESPONSE:

The special committee believes that state societies should be encouraged to conform their codes of ethics and their interpretations of their codes with those of the Institute in a manner similar to that now in effect under the Joint Ethics Enforcement Program. However, there is nothing in the proposal that would prevent state society ethics committees from issuing their own interpretations.

OTHER MATTERS

STATEMENT:

The guidance provided in the goal-oriented section of the proposed code requires practitioners to determine whether in their individual judgments the nature or *magnitude* of other services provided to an audit client *over time* might create or appear to create conflicts of interest in the performance of the audit function for

that client. Why did the special committee identify “magnitude of other services...over time” as a factor to be considered?

RESPONSE:

The special committee believed that no hard-and-fast rules can be developed to help members reach judgments about the scope and nature of services that they provide in their practices. However, the committee identified and reached a consensus on magnitude as a factor that practitioners should consider in structuring their judgment about the possibility of creating a conflict of interest with the audit function in the performance of nonaudit services for a client.

STATEMENT:

Mandatory continuing professional education for members not in public practice imposes a burdensome requirement on those members. Why did the special committee conclude that members not in public practice should be subject to such a requirement?

RESPONSE:

The special committee believes that AICPA members not engaged in public practice should be covered by a structured, mandatory CPE program because they perform, as CPAs, important professional activities and should be required to maintain their level of competence. The recommended program is structured to allow those members to select courses suitable to their professional activities.

RESPONSE SHEET

AICPA MEMBER FORUM ON THE REPORT OF THE SPECIAL COMMITTEE ON STANDARDS OF PROFESSIONAL CONDUCT FOR CPAS

I. PERSONAL INFORMATION

Please check
as appropriate

- A. State _____
1. AICPA Member
 2. State Society Member
- B. Affiliation
1. Public Accounting
Do you consider your firm
 - a. Small
 - b. Medium
 - c. Large
 2. Industry
 3. Government
 4. Education
 5. Other (please specify) _____
- C. Please check if you participated in a member forum and complete item D.
- D. Member forum conducted by
1. State Society
 2. Association of CPA firm
Identify: _____
 3. CPA firm
Identify: _____
 4. Other organizations
Identify: _____

II. QUESTIONNAIRE

INSTRUCTIONS

The response sheet contains statements about the conclusions and recommendations in the report of the Special Committee on Standards of Professional Conduct for CPAs keyed to the questions in the accompanying *Participants' Guide*. As you consider the questions raised in that guide, please answer the questions from the *Participants' Guide* by checking the appropriate response to the related item on this response sheet. Space has been provided at the end of the response sheet for comments. Please key your comments to the item to which it relates and attach additional sheets as needed.

Yes No Undecided
(Check as appropriate)

A. CHAPTER 3: RESTRUCTURED CODE

- | | | | |
|---|--------------------------|--------------------------|--------------------------|
| 1. The Code should contain the new goal-oriented section presented in the report. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. The following rules should be revised as presented in the report. | | | |
| a. Rule 101 on independence | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Rule 102 on integrity and objectivity | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Rule 201 on general standards | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Rule 202 on compliance with standards | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| e. Rule 203 on accounting principles | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Rule 301 on confidential client information | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Deletion of Rule 504 on incompatible occupations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Rule 505 on form of practice | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. The Code should apply to the professional activities of all AICPA members. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. As recommended in the report, the senior technical committees should be given authority to interpret the Code. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. The contingent fee rule should be modified as proposed. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. The commissions rule should be modified as proposed to give the senior committees designated by Council explicit authority to determine circumstances in which members may accept commissions. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

B. CHAPTER 4: SCOPE AND NATURE OF SERVICES

- | | | | |
|--|--------------------------|--------------------------|--------------------------|
| 7. The new Code should deal with issues arising from the scope and nature of services and provide guidance to members. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
|--|--------------------------|--------------------------|--------------------------|

	<u>Yes</u>	<u>No</u>	<u>Undecided</u>
	(Check as appropriate)		
8. The guidance on having in place quality control procedures to assure competence and adequate supervision is acceptable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. The guidance on the nature or magnitude of nonattest services is acceptable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. The guidance on assessing whether an activity is consistent with a practitioner's role as a professional is acceptable.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

C. CHAPTER 5: QUALITY REVIEW PROGRAM

11. A proactive program to improve the quality of practice and eliminate substandard work is needed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. The Institute in cooperation with state CPA societies should establish a mandatory quality review program for members in practice.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. The Institute should establish the standards and procedures and oversee the operations of the program.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14. State CPA societies should have primary responsibility for implementing the program.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15. The program should be modeled after the peer review program of the PCPS.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16. State societies should require participation in the program as a condition of membership.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
17. Membership in the SECPS should be mandatory for firms that audit one or more SEC registrants.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. CHAPTER 5: STRUCTURE FOR HANDLING COMPLAINTS

18. The Institute's procedures for handling complaints should be restructured as recommended in the report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Technical complaints should be dealt with in the quality review program as recommended in the report.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. The Institute should have the responsibility for punitive sanctions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21. The Regional Trial Board should be replaced by a single national board.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. The Institute should maintain a public file on the disposition of <i>all</i> complaints.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

