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1962

## By-laws, rules of professional ethics, numbered opinions of the Committee on Professional Ethics, objectives of the Institute adopted by Council, 1962

American Institute of Accountants

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By-Laws

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Code of  
Professional Ethics

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Numbered Opinions of the Committee  
on Professional Ethics

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Objectives of the Institute  
Adopted by Council

*1962*

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
270 Madison Avenue, New York 16, N. Y.

# By-Laws

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

*As Amended March 6, 1962*

## ARTICLE I: *Name and Purposes*

The name of this organization shall be American Institute of Certified Public Accountants. Its objects shall be to unite the accountancy profession in the United States as constituted by the certified public accountants of the several states, territories, possessions, and the District of Columbia; to promote and maintain high professional and moral standards within the accountancy profession; to assist in the maintenance of high standards for the certified public accountant certificate in the several states, territories, possessions, and the District of Columbia; to develop and maintain standards for the examination of candidates for admission; to safeguard the interests of certified public accountants; to advance accounting research; to develop and improve accountancy education; and to encourage cordial relations among certified public accountants practicing in the United States of America and accountants of similar status in the other countries of the world.

## ARTICLE II: *Members and Associates*

Section 1. Members of the Institute shall be:

- (a) Members of the Institute at September 1, 1960.
- (b) Persons who shall qualify for election as provided in Section 2 of this article and shall be recommended by the committee on admissions and shall be elected by the Council.

Section 2. The following persons may qualify for election as members of the Institute:

(a) Those who are in possession of valid and unrevoked certified public accountant certificates issued by the legally constituted authorities of the states, territories, or territorial possessions of the United States or the District of Columbia, and

(b) Who shall have passed an examination in accounting and related subjects satisfactory to the committee on admissions, and

(c) Who shall have been in public accounting practice, on their own account or in the employ of a practicing public accountant, for not less than two years, or shall have had experience which in the opinion of the committee on admissions is equivalent to two years' public accounting practice, and at the date of application shall be engaged in work related to accounting.

Section 3. All credits for experience shall be allotted by the committee on admissions, and the committee shall have discretion to determine whether or not any applicant's experience is of a nature satisfactory for purposes of these by-laws.

Section 4. Upon election 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 Council upon suspension or termination of membership for any cause except death.

Section 5. Members of the Institute shall be entitled to describe themselves as "Members of the American Institute of Certified Public Accountants."

Section 6. Associates of the Institute shall be persons who shall qualify for election as provided in Section 7 of this Article and shall be recommended by the committee on admissions and shall be elected by the Council.

Section 7. Persons who have the qualifications described in Sections 2(a) and (b) of this Article may qualify for election as associates of the Institute.

Section 8. Upon election as an associate of the Institute each associate shall be entitled to a certificate stating that he is an associate of the Institute, but no such certificate shall be issued until receipt of dues for the current year. Such certificate shall

be returned to the Council upon the suspension or termination of an associate's affiliation with the Institute for any cause except death or admission as a member of the Institute. If an associate is admitted as a member of the Institute, such certificate, as well as his membership certificate, shall be returned to the Council upon suspension or termination of his membership for any cause except death.

Section 9. Associates of the Institute shall not be entitled to describe themselves as "Members of the American Institute of Certified Public Accountants," but shall be entitled to describe themselves as "Associates of the American Institute of Certified Public Accountants."

Section 10. Persons resident and in public accounting practice in countries other than the United States, its territories and territorial possessions, who were elected by the Council as international associates, shall not be entitled to describe themselves as members of the American Institute of Certified Public Accountants, but shall be entitled to describe themselves as "International Associates of the American Institute of Certified Public Accountants." Certificates of association held by any such associate shall be returned to Council upon suspension or termination of such association for any cause other than death. No further elections of international associates are to be made by the Council.

### ARTICLE III: *Dues*

Section 1. Each member and associate and each international associate shall pay annual dues, which shall be payable on or before September 1st of each year, in advance, for the ensuing fiscal year in such amounts as are determined by the Council. Such dues shall include the annual subscription of such member and associate and international associate to *The Journal of Accountancy*. For dues purposes the Council may classify members, associates and international associates according to such factors as it determines to be relevant and prescribe dues of a different amount for each class so created.

Section 2. All dues shall be paid in advance and shall be apportioned in the first instance to the end of the fiscal year.

No dues shall be paid by members or associates of the Institute while they are engaged in military or naval service of the United States or its allies during war. Members of the Institute may be excused from the payment of dues for reasonable cause upon recommendation of the executive committee.

#### ARTICLE IV: *Voting*

Section 1:\* Every member of the Institute shall be entitled to attend all meetings of the Institute and to cast a vote upon all questions brought before such meetings.

No associate or international associate may vote.

Section 2. Any member of the Institute may be represented at regular and special meetings of the Institute by another member acting as his proxy, provided, however:

(a) That no person shall act as a proxy for more than five members.

(b) That no proxy given shall confer power of substitution and that all proxies shall be valid only for the meeting for which specifically given.\*

#### ARTICLE V: *Termination of Membership or Affiliation*

Section 1. Resignations of members or associates may be offered in writing at any time and shall be effective on the date of acceptance. Action upon the resignation of a member or associate in good standing shall be taken by the executive committee and, in the case of a member or associate under charges, by the trial board or a sub-board appointed to hear the case.

Section 2. A member or associate who fails to pay his annual dues or any subscription, assessment, or other obligation to the Institute within five months after such debt has become due shall automatically cease to be a member or associate of the Institute, unless in the opinion of the executive committee it is not in the best interests of the profession that his membership or affiliation be terminated in this way.

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\*Effective February 15, 1963: Delete Section 2 in its entirety, and the phrase "Section 1."

Section 3. (a) A member or associate who shall resign while in good standing may, upon request made in writing to the Institute, be reinstated by the executive committee without a reinstatement fee.

(b) The executive committee, in its discretion, may reinstate a member or an associate whose membership or affiliation has been terminated for nonpayment of dues or any other obligation owing by him to the Institute, provided that his reinstatement shall not become effective until he shall have paid to the Institute all dues and other obligations owing by him to it at the time of such termination, and shall also have paid to it a reinstatement fee in such amount, if any, as shall have been determined by a general resolution of the Council.

(c) No person shall be considered to have resigned while in good standing if at the time of his resignation he was in debt to the Institute for dues or other obligations. A member or associate 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.

(d) A member or associate who has resigned or whose membership or affiliation has been terminated may not file a new application for admission but may apply for reinstatement under paragraphs (a) or (b) of this section.

Section 4. A member or associate renders himself liable to expulsion or suspension by the trial board or a sub-board thereof if

(a) he refuses or neglects to give effect to any decision of the Institute or of the Council, or

(b) he infringes any of these by-laws or any provision of the Code of Professional Ethics as approved by the Council of the Institute,\* or

(c) he is declared by a court of competent jurisdiction to have committed any fraud, or

(d) he is held by the trial board or a sub-board thereof to have been guilty of an act discreditable to the profession, or

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\*Effective February 15, 1963: Delete the words "as approved by the Council of the Institute" from Section 4(b).



(e) he is declared by any competent court to be insane or otherwise incompetent, or

(f) his certificate as a certified public accountant is suspended, revoked or withdrawn by the authority of any state, territory, or territorial possession of the United States or the District of Columbia. However, should the executive committee be of the opinion that it is in the best interest of the Institute, it may terminate without referral to the trial board or a sub-board appointed to hear the case, the membership of a member or the affiliation of an associate whose certificate has been so suspended, revoked or withdrawn.

Section 5. A member or associate shall be expelled if the trial board or a sub-board thereof finds, by a majority vote of the members present and entitled to vote, that he has been convicted by a court of a felony or other crime or misdemeanor involving moral turpitude; provided, in the case of such a finding by a sub-board, its finding in this respect is not reversed by the trial board. If the court conviction shall be reversed by a higher court, such member or associate may request reinstatement, and such request shall be referred to the committee on professional ethics which, after investigating all related circumstances, shall report the matter, with the committee's recommendation, to the trial board, with respect to cases heard initially by it and cases heard by it on review of a decision of a sub-board and to the sub-board which heard the case, with respect to cases heard by such sub-board in which no request for review has been granted. Whereupon the trial board or sub-board, as applicable, may by a majority vote of the members present and entitled to vote, reinstate such member or associate.

Section 6. The Council may, in its discretion, terminate the affiliation of an international associate.

## ARTICLE VI: *Trials and Penalties*

Section 1. Any complaint preferred against a member or associate under Section 4 of Article V shall be submitted to the committee on professional ethics. If, upon consideration of a complaint, it appears to the committee that a prima facie case is established showing a violation of any by-law or any pro-

vision of the Code of Professional Ethics or conduct discreditable to a public accountant, the committee on professional ethics shall report the matter to the executive committee, which shall summon the member or associate involved thereby to appear in answer at the next meeting of the trial board or any sub-board appointed to hear the case, unless the executive committee decides to terminate the membership or affiliation of the member or associate involved pursuant to its authority to do so under Article V, Section 4, paragraph (f).

Section 2. If the committee on professional ethics shall dismiss any complaint preferred against a member or associate, or shall fail to act thereon within ninety days after such complaint is presented to it in writing, the member or associate preferring the complaint may present the complaint in writing to the trial board.

The trial board shall make such investigation of the matter as it may deem necessary and shall either dismiss the complaint or refer it to the executive committee, which shall summon the member or associate involved thereby to appear in answer at the next meeting of the trial board or any sub-board appointed to hear the case.

Section 3. For the purpose of adjudicating charges against members or associates of the Institute, as provided in the foregoing sections:

(a) The executive committee shall instruct the secretary to mail to the member or associate concerned, at least thirty days prior to the proposed meeting of the trial board or any sub-board appointed to hear the case, written notice of the charges to be adjudicated. Such notice, when mailed by registered mail, postage prepaid, addressed to the member or associate concerned at his last known address, according to the records of the Institute, shall be deemed properly served.

(b) After hearing the evidence presented by the committee on professional ethics or other complainant, and by the defense, the trial board or sub-board hearing the case, by a majority vote of the members present and voting, may admonish or suspend, for a period of not more than two years, the member or associate against whom complaint is made, or by a two-thirds vote of the members present and voting, may expel such mem-

ber or associate. The trial board or sub-board hearing the case shall decide, by a majority vote of the members present and voting, whether the statement of the case and the decision to be published shall disclose the name of the member or associate involved. A statement of the case and the decision of the trial board or sub-board hearing the case shall be prepared by a member or members of the trial board or the sub-board, as the case may be, under a procedure to be established by such trial board or sub-board, and the statement and decision, as released by the trial board or sub-board, shall be published in the *CPA*. No such publication shall be made until such decision has become effective, as hereinafter provided.

(c) The member or associate concerned in a case decided by a sub-board may request a review by the trial board of the decision of the sub-board, provided such a request for review is filed with the secretary of the trial board at the principal office of the Institute within thirty days after the decision of the sub-board, and shall file with such request such information as may be required by the rules of the trial board. 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 trial board, or its vice chairman in the event of his unavailability, and composed of not less than five members of the trial board who did not participate in the prior proceedings in the case. The ad hoc committee shall have power to decide whether or not such a request for review by the trial board shall be allowed, and such committee's decision that such a request shall not be allowed shall be final and subject to no further review. A quorum of such an ad hoc committee shall consist of a majority of those appointed. If such a request for review is allowed, the trial board shall review the decision of the sub-board in accordance with its rules of practice and procedure. On review of such a decision the trial board may affirm, modify, or reverse all or any part of such decision or make such other disposition of the case as it deems appropriate. The trial 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 of a decision of a sub-board.

(d) Any decision of the trial board, including any decision

reviewing a decision of a sub-board, shall become effective when made, unless the trial board's decision indicates otherwise, in which latter event it shall become effective at the time determined by the trial board. Any decision of a sub-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 a request has been properly filed within the thirty-day period and has been denied by the ad hoc committee; and

(iii) Upon the effective date of a decision of the trial board affirming the decision of a sub-board in cases where a review has been granted by the ad hoc committee, and the trial board has affirmed the decision of such sub-board.

Section 4. At any time after the publication in the *CPA* of a statement of the case and decision, the trial board may, with respect to a case heard by it, initially or on review of a decision of a sub-board, and the sub-board may, with respect to a case heard by it in which its decision has become effective without a review by the trial board, by a two-thirds vote of the members present and voting, recall, rescind, or modify such expulsion or suspension, a statement of such action to be published in the *CPA*.

## ARTICLE VII: *Council and Officers*

Section 1. The governing body of the Institute shall be a Council consisting of:

(a) Members in practice, aggregating in number the total of such members resulting from the application of the following rules:

(1) Each state, territory or possession of the United States or the District of Columbia having at least one member shall have at least one elected member of Council and shall have one additional elected member of Council for each five hundred members in excess of one member.

(2) The determination of the number of members in each jurisdiction, the allocation of Council memberships under this paragraph (a) to each jurisdiction and the total number

of Council memberships under this paragraph (a) shall all be made annually by the committee on nominations at least four months prior to the annual meeting of the Institute based on membership figures as of August 31 preceding the date of such determinations and shall become effective immediately following the first annual meeting held after the making of such determinations.

(3) If in any year the application of (1) above would result in a jurisdiction having allocated to it fewer members of the Council under this paragraph (a) than the total number of Council memberships allocated to it for the immediately preceding year, the total number of available Council memberships for such jurisdiction shall be increased by whatever number, if any, may be required to permit any Council members whose terms have not expired to continue in office until the expiration of their terms.

At the annual meeting in 1958, and thereafter, vacancies in membership of the Council determined by the application of the above rules shall be filled by election of members in practice from the jurisdiction with respect to which each such vacancy exists for a term of three years or until their successors shall have been elected; and

(b) Nine members in practice, to be elected at large without regard to the jurisdiction in which they practice, three of whom shall be elected at each annual meeting for a term of three years or until their successors shall have been elected; and

(c) The following officers of the Institute: a president, four vice presidents (no two vice presidents shall be residents of the same state), and a treasurer, all of whom shall be members in practice and shall be elected at the annual meeting to serve until the next annual meeting or until their successors shall have been elected; and

(d) All past presidents of the American Institute of Accountants, or the American Institute of Certified Public Accountants, or the American Society of Certified Public Accountants who are members of the Institute; and

(e) Members of the Institute who are presidents of societies of certified public accountants of any state or territory of the United States or of the District of Columbia, who shall serve as members of Council only during their terms of office as presidents

of such societies; provided, however, that an Institute member who has been duly elected president of such a society of certified public accountants but who has not yet assumed office may, at the option of his society, and upon written notification to the Institute by such society, serve as a member of the Institute's Council in the place of the current president of such society.

(f) No member of Council elected under the provisions of paragraph (a) or (b) of this section who has served two successive three-year terms shall be eligible for re-election under the provisions of paragraphs (a) or (b) until after the lapse of one year. Election to fill an unexpired term shall not be considered as a three-year term.

Section 2. The same person shall not hold the office of president for more than two successive years.

Section 3. The Council shall elect a secretary, with the additional title of executive director, of the Institute, who shall act as an executive officer under the direction of the Council. The secretary may be chosen from without the membership of the Institute, but he shall have the privilege of the floor at meetings of the Institute, the Council, and the executive committee.

Section 4. In the event of a vacancy or vacancies occurring between meetings of the Institute in the membership of the Council or in any of the executive offices of the Institute, the Council shall be empowered to elect a member or members to fill such vacancy or vacancies until the next annual meeting or until a successor or successors shall have been elected. Such election shall be by majority vote of the Council and may take place at any regular or special meeting of the Council or, in lieu of a meeting, nominations may be called for by the president and the names of the nominees submitted to the members of Council for election by mail ballot. Vacancies in the membership of the Council shall be filled at the next annual meeting by election by the Institute for the unexpired terms.

Section 5. Except in the case of past presidents the office of a member of Council shall be rendered vacant by his absence from three consecutive meetings of the Council.

Section 6. Neither associates nor international associates may

be members of Council, hold any office in the Institute, or be eligible to serve as members of the Institute's executive committee, Council, trial board, or any of the Institute's committees on professional ethics, admissions, budget and finance, investments, by-laws, credentials and nominations, nor shall they be eligible to serve as members of the Institute's board of examiners.

## ARTICLE VIII: *Duties of Council and Officers*

Section 1. It shall be the duty of the president or, in his absence, of one of the vice presidents or other members of the Council designated by the Council to preside at all meetings of the Institute and of the Council. The president shall call special meetings of the Institute or of the Council when he deems it necessary, or when requested to do so by the executive committee, or upon the written request of at least one hundred members of the Institute for a meeting of the Institute or of at least ten members of the Council for a meeting of the Council. Special meetings of the Institute or of the Council shall be held at places designated by the executive committee.

The duties of the vice presidents shall be those usually appertaining to the office of vice presidents.

The duties of the treasurer shall be to familiarize himself with financial policies, investment policies and the accounting procedures, controls and financial reporting of the Institute and to consult with the executive director and the independent auditors on such matters. He shall act in an advisory capacity to the members of the executive committee and the executive director on all of the foregoing matters and shall report thereon to the executive committee to the extent that he deems desirable or as the executive committee may direct. He shall perform such other related duties as may be assigned to him by the Council or executive committee.

The secretary, in addition to performing the usual duties of his office, shall discharge such other duties as may be assigned to him by the Council or by the executive committee. The secretary of the Institute shall be the secretary of all committees.

Section 2. It shall be the duty of the Council to take control

and management of all the property of the Institute, to elect or appoint such agents or employees as may be necessary for the proper conduct of the affairs of the Institute, to keep a record of its proceedings and to report to the Institute at each annual meeting. The Council shall exercise all powers requisite for the purposes of the Institute.

Section 3. The Council may, in its discretion, delegate to the executive committee all functions of the Council, except the fixing of dues, the election of officers, members and associates, the right to review the rules and regulations of the board of examiners and committee on admissions, and filling a vacancy on the executive committee.

#### ARTICLE IX: *Trial Board and Committees*

Section 1. There shall be a board of examiners, trial board and the following regular standing committees:

Executive	Investments
Professional Ethics	By-Laws
Admissions	Credentials*
Budget and Finance	Nominations

Section 2. (a) The Council shall elect from its present and former members a trial board of twenty-one members, seven of whom shall be elected each year to serve for a term of three years. Vacancies shall be filled by the Council for the unexpired term. No member of the committee on professional ethics shall be a member of the trial board. A quorum shall consist of a majority of the members of the trial board.

The trial board shall elect from its members a chairman and a vice chairman, the vice chairman to serve as chairman during any period of unavailability of the chairman. It shall also elect a secretary who need not be a member of the trial board. Such elections shall be for such terms of office as the trial board shall determine. The chairman, or vice chairman, when acting as chairman, may appoint from the members of the trial board a panel of not less than five members, which may, but need not,

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\*Effective February 15, 1963: Eliminate the word "Credentials" appearing on the list of regular standing committees in Section 1.



include himself, to sit as a sub-board to hear and adjudicate charges against members or associates; subject, however, to a review of its decision by the trial board, as provided in Article VI, Section 3. A quorum of the sub-board shall consist of a majority of the panel so appointed. The trial board is empowered to adopt rules governing the practice and procedure in cases heard by it or any sub-board, and in connection with any proceedings to review a decision of a sub-board.

(b) The executive committee shall consist of the president, four vice presidents, and the treasurer of the Institute, and seven other members of the Council elected by the Council. Five members of the committee shall constitute a quorum of the executive committee.

(c) The committee on professional ethics shall consist of not less than five members, not members of the executive committee, who shall be elected by Council.

(d) The committee on nominations shall consist of seven members. Two members of the committee shall be elected by the Council from its membership at the meeting of Council prior to the annual meeting of the Institute or at any adjournment thereof. Officers and other members of the Council whose terms expire within one year shall not be elected to the committee on nominations. The five remaining members of the committee shall be elected by the Institute at the annual meeting and shall be members in practice who are not officers or members of the Council. The member of the nominating committee first named by the Council shall serve as temporary chairman of the committee until the committee itself, by mail vote or at a duly called meeting, shall elect a permanent chairman.

(e) The committee on admissions shall consist of five members in practice, elected by Council for a term of three years, except that of the members first elected one shall serve for one year, two for two years, and two for three years. It shall pass upon all applications for admission to the Institute before such applications are acted upon by the Council. The committee on admissions shall determine whether or not applicants possess the qualifications for election required by Article II. It may in its discretion in any case require an oral, written, or partly oral and partly written examination in addition to the examination taken by the applicant for his certificate as a certified public accountant. The committee on admissions shall elect a chairman

and shall formulate rules and regulations for the conduct of its work, but all such rules and regulations may be amended, suspended, or revoked by the Council.

(f) There shall be a committee on budget and finance appointed as provided in and having the duties described in Article XI of these by-laws.

(g) All other standing committees shall be appointed by the president. The president shall also have power in his discretion to constitute and appoint special committees as occasion may arise.

(h) Except as provided above, all committees shall consist of a chairman and not less than two other members of the Institute and shall serve until the annual meeting of the Institute next following their election or appointment.

Section 3. The president of the Institute shall be *ex officio* a member of all committees.

Section 4. Except in the case of the executive committee a majority of each committee shall constitute a quorum for the transaction of business. All committees shall be subject to the call of their respective chairmen, but, in lieu of a meeting of a committee, the chairman may submit any question to the members of the committee for vote by mail, and any action approved in writing by not less than two-thirds of the whole committee shall be declared an act of the committee.

## ARTICLE X: *Duties of Committees*

Section 1. The duties of the various committees shall be as described in this article or elsewhere in these by-laws, and, in addition, such other duties as are indicated by their respective titles.

Section 2. The executive committee shall administer the affairs of the Institute, supervise the finances and exercise such other powers as may be designated by the Council. It shall keep minutes of its proceedings and shall report fully to the Council at each meeting thereof.

Section 3. The committee on professional ethics shall perform the duties set forth in Section 1 of Article VI and may advise

anyone applying to it as to whether or not a submitted action or state of facts warrants a complaint against a member or associate of the Institute, provided, however, that if the committee finds itself unable to express an opinion, such inability shall not be construed as an endorsement of the action or state of facts.

Section 4. The committee on credentials shall convene immediately after the annual meeting of the Institute shall have been called to order and at any time during the meeting may register proxies submitted to it. Only proxies validated by this committee shall be entitled to vote.\*

## ARTICLE XI: *Budgets and Financial Controls*

Section 1. The committee on budget and finance shall consist of the treasurer and two members of the executive committee appointed by the president to serve until the annual meeting of the Institute next following their appointment.

Section 2. The committee on budget and finance shall prepare and, after approval by the executive committee, shall present for consideration and approval of the Council, such budget statements as may be requested by the Council. The Council may delegate authority to amend its approved budgets, but only to the executive committee.

The Council shall, by resolution, state specifically:

(1) The extent to which its approval of budgets shall constitute authorization of commitments and expenditures.

(2) The extent to which it delegates to the executive committee authority to amend its approved budgets.

Section 3. (a) The committee on investments shall consist of three members of the Institute, one of whom shall be appointed each year by the president for a term of three years.

(b) The committee on investments shall supervise the investments of the Institute and shall have power to authorize sales, purchases and other transactions affecting such investments. The committee on investments shall report to the executive committee at each meeting thereof all securities transactions authorized since the previous report, and the executive commit-

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\*Effective February 15, 1963: Delete Section 4 in its entirety.

tee may direct such further changes in the investment portfolio of the Institute as it deems desirable. No personal liability shall attach to any of the members of the committee on investments or the executive committee for losses resulting from the exercise of their judgment in the purchase or sale of securities.

(c) The executive committee shall report to the Council at each regular meeting thereof all securities transactions since the previous report.

Section 4. (a) The Council shall, at the fall meeting in each fiscal year, appoint a certified public accountant or certified public accountants to audit the accounts of the Institute and its affiliated organizations. The report of the auditor or auditors for each fiscal year shall be submitted to the members of the Institute at the annual meeting and shall be published for the information of the membership.

(b) The president shall appoint from among the members of the executive committee a committee on audit to make arrangements with the auditor or auditors for their examination and to review the audit report.

Section 5. All funds of the Institute not otherwise employed shall be deposited from time to time to the credit of the Institute in general or special bank accounts with such banks, trust companies or other depositories as the executive committee may from time to time designate. The executive committee may make such special rules and regulations with respect to any such bank accounts not inconsistent with the provisions of these by-laws as it may deem desirable.

Section 6. All checks, drafts, deeds, mortgages, bonds, contracts, reports, proxies and other instruments may be executed on behalf of the Institute by such officer or officers or employee or employees as the Council or the executive committee may from time to time designate, either generally or in specific instances.

## ARTICLE XII: *Nomination and Election of Officers and Members of Council*

Section 1. (a) Nominations for officers and members of Council, except those provided for in Article VII, Sections 1(d) and

(e), shall be made by the committee on nominations at least sixty days prior to the date of the annual meeting at which the elections are to take place. Notice of such nominations shall be mailed by the secretary to all members at least thirty days prior to the annual meeting.

Before making its nominations for members of Council under Article VII, Section 1(a), the committee on nominations shall send, at least four months prior to the date of the annual meeting, to the societies of certified public accountants in those jurisdictions from which, in the opinion of the committee, members should be elected to Council in that year, a request that each such society submit within thirty days to the committee on nominations, a list of names of suggested candidates selected from Institute members in its jurisdiction containing at least twice the number of names as there are anticipated vacancies on Council to be filled from its jurisdiction under Article VII, Section 1(a). The committee on nominations shall give due consideration to the names so submitted, but shall not be required to select its nominees from among such names.

(b) Any ten members of the Institute may submit independent nominations, provided that such nominations be filed with the secretary at least twenty days prior to the date of the annual meeting. Notice of such independent nominations shall be mailed by the secretary to all members at least ten days prior to the annual meeting.

Section 2. Election of officers and members of Council shall be by ballot. The president shall appoint a chairman and two tellers, who shall receive and count the ballots cast for each officer and member of Council and shall announce the result to the presiding officer. A majority of votes shall elect.

If there be no majority on the first ballot for any one or more officers or members of Council, additional ballots shall be taken at once for the particular office or offices to which there shall have been no election until an election be effected.

Section 3. The members present at any election of officers and members of Council, and eligible to vote in such election, may direct the secretary to cast a ballot for any nominee or nominees for such office or offices, and election by such ballot shall be valid and effective.

### ARTICLE XIII: *Examinations*

Section 1. Preparation of a uniform examination which may be adopted by the legally constituted authorities of a state or territory of the United States or the District of Columbia in examining candidates for the certified public accountant certificate and conduct of the grading service offered by the Institute shall be under the supervision of a board of examiners which shall consist of nine members in practice, three of whom shall be elected each year by the Council, at its first meeting after the annual meeting of the Institute, to serve for a term of three years.

Section 2. The board of examiners shall organize by the election of a chairman and 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 Council. The board may appoint duly qualified persons to prepare examination questions and to grade the uniform examination papers submitted for the grading service conducted by the Institute.

### ARTICLE XIV: *Meetings*

Section 1. There shall be a regular meeting of the Institute during the period included within the months of September, October, and November of each year on a date to be fixed by the executive committee. This meeting shall also be known as the annual meeting of the Institute. The fiscal year of the Institute shall end with the 31st day of August of each year.

Section 2. Special meetings of the Institute may be convened as provided in Article VIII, Section 1, at such places as the executive committee shall designate. No business shall be transacted at such meetings other than that for which the meetings shall have been convened.

Section 3. Notice of each meeting of the Institute, whether regular or special, shall be mailed to each member of the Institute, at his last-known address, according to the records of the Institute, at least thirty days prior to the date of such meeting.

Section 4. In lieu of a special meeting, the Institute in meeting

assembled may direct, or the Council by a majority vote may direct, that the president submit any question to the entire membership for a vote by mail. If voted on by at least one-third of the members, any action approved in writing by two-thirds of the members voting shall be declared by the president an act of the Institute and shall be so recorded in its minutes. Mail ballots shall be valid and counted only if received within sixty days after date of mailing ballot forms from the office of the Institute.

Section 5. Regular meetings of Council shall be held within three days prior to and two days subsequent to the annual meeting of the Institute, and in April or May, the dates of such meetings to be fixed by the executive committee.

Section 6. Special meetings of the Council may be called as provided in Article VIII, Section 1, of these by-laws.

Section 7. Notice of each meeting of the Council except the meeting subsequent to the date of the annual meeting of the Institute shall be sent to each member of the Council at his last-known address, according to the records of the Institute, twenty-one days before such meeting. Such notice as far as practicable shall contain a statement of the business to be transacted.

Section 8. A transcript of the minutes of each meeting shall be forwarded to each member of the Council within thirty days after such meeting.

Section 9. In lieu of a special meeting of the Council the president may submit any question to the Council for vote by mail and any action approved in writing by not less than two-thirds of the whole membership of the Council shall be declared by the president an act of the Council and shall be recorded in the minutes of the Council.

Section 10. 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.

Section 11. The rules of parliamentary procedure contained in Robert's *Rules of Order* shall govern all meetings of the Institute and of the Council.

ARTICLE XV: *Amendments*

The secretary shall embody in the call for the annual meeting all proposals to amend the by-laws prepared by the committee on by-laws for submission to such meeting, and any other proposals to amend the by-laws of which he shall have had notice in writing signed by thirty or more members in good standing at least sixty days prior to the date of such meeting. All such proposals to amend the by-laws shall be presented for vote of the members at the annual meeting, and by consent of the majority of the members present in person other proposals to amend the by-laws which are made by members present in person at the meeting may be presented for vote of the members at any annual meeting. Any proposal to amend the by-laws, if approved by a two-thirds vote of the members present at such meeting in person or by proxy, shall be submitted to all of the members of the Institute for a vote by mail, and if voted upon by at least one-third of the members, and if approved in writing by two-thirds of the members voting shall become effective as an amendment to the by-laws. Mail ballots shall be valid and counted only if received within sixty days after date of mailing ballot forms from the office of the Institute.\*

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\*Effective February 15, 1963: Delete the present wording in its entirety and substitute the following:

Section 1. Proposals to amend the by-laws may be made by any member of the Council, any thirty or more members of the Institute in good standing, the executive committee or the committee on by-laws.

Section 2. Proposals to amend the Code of Professional Ethics may be made by any member of the Council, any thirty or more members of the Institute in good standing, the executive committee or the committee on professional ethics.

Section 3. All such proposals to amend the by-laws or the Code of Professional Ethics, excepting such as are made at a meeting of the Council or the executive committee, shall be submitted in writing to the executive committee. The executive committee, with such assistance of the committee on by-laws or the committee on professional ethics, as it deems appropriate,



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shall submit all such proposals, accompanied by its recommendation, to the Council for action.

Section 4. The notice of the first annual meeting of the Institute, held more than three months after the approval by the Council of any such proposed amendment, shall set forth the amendment and indicate its approval by the Council. Such amendments shall be presented to such annual meeting for discussion by the members present but not for action.

Section 5. Following such annual meeting, the proposed amendment, accompanied by a statement prepared by the secretary summarizing the arguments presented for and against it, shall be submitted to all of the members of the Institute for a vote by mail ballot. If at least one-third of the members vote upon the proposed amendment by mail ballot, and at least two-thirds of those so voting approve such amendment, it shall become effective as an amendment to the by-laws 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.

## ANNUAL DUES

	<i>Length of time CPA Certificate Held</i>	<i>Rate</i>
1. Members and associates, at the beginning of the fiscal year, engaged in public accounting practice as partners or individual practitioners.	3 years or less	\$25
	Over 3 through 6 years	\$35
	Over 6 through 10 years	\$45
	Over 10 years	\$55
2. Members and associates whose principal occupation at the beginning of the fiscal year is employment by recognized colleges or universities or by government.	3 years or less	\$15
	Over 3 years	\$20
	Upon retirement if not eligible under Item 4	\$15
3. Members and associates, at the beginning of the fiscal year, employed as staff accountants, or in industry, or in other occupations not specified in paragraphs (1) and (2)	3 years or less	\$15
	Over 3 through 6 years	\$20
	Over 6 through 10 years	\$25
	Over 10 years	\$30
4. Members and associates, who at the beginning of the fiscal year shall have been members for at least 20 years, shall have attained the age of 65, shall have retired from practice or other work, and have notified the Institute of these facts		\$10
5. International associates		\$25

# Objectives

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

*The following objectives recommended by the Committee on Long-Range Objectives were adopted by the Council on the dates indicated:*

It is an objective of the Institute to serve as the national organization of certified public accountants in and out of public practice, and to develop and maintain the form of organization best adapted to the needs of all its members.

(Adopted April 1958)

It is an objective of the Institute to encourage co-operation and consultation among national organizations of accountants to the end that the entire accounting function may make its greatest contribution to the public welfare.

(Adopted October 1958)

Pending the time when public practitioners within the accounting function are either CPAs or those with a clearly differentiating title, there will be a group of non-CPAs who are presently permitted to practice as "public accountants" and whose right to continue to do so during their lifetime must be respected. It is an objective of the Institute that CPAs and their professional societies should develop and maintain friendly co-operative relations with this transitional group with the purpose of improving educational, technical, and ethical standards, and providing aid in fulfilling the requirements for the CPA certificate.

(Adopted April 1959)

It is an objective of the Institute that by voluntary agreement the plans, programs, procedures and activities of the state societies and the Institute be co-ordinated to the full extent possible, and their respective areas of responsibility be clearly

delineated; and in particular that the state societies and the Institute adopt a uniform code of ethics and enforcement procedures.

(Adopted May 1960)

It is an objective of the Institute to provide encouragement to CPAs to continue study and self-improvement throughout their professional lives, by providing formal recognition of advanced study and superior attainment.

(Adopted April 1961)

It is an objective of the Institute, recognizing that management service activities are a proper function of CPAs, to encourage all CPAs to perform the entire range of management services consistent with their professional competence, ethical standards, and responsibility.

(Adopted April 1961)

# Code of Professional Ethics

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

*As Amended March 6, 1962*

The reliance of the public and the business community on sound financial reporting and advice on business affairs imposes on the accounting profession an obligation to maintain high standards of technical competence, morality and integrity. To this end, a member or associate of the American Institute of Certified Public Accountants shall at all times maintain independence of thought and action, hold the affairs of his clients in strict confidence, strive continuously to improve his professional skills, observe generally accepted auditing standards, promote sound and informative financial reporting, uphold the dignity and honor of the accounting profession, and maintain high standards of personal conduct.

In further recognition of the public interest and his obligation to the profession, a member or associate agrees to comply with the following rules of ethical conduct, the enumeration of which should not be construed as a denial of the existence of other standards of conduct not specifically mentioned:

## ARTICLE 1: *Relations with Clients and Public*

1.01 A member or associate shall not express his opinion on financial statements of any enterprise financed in whole or in part by public distribution of securities, if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate

family owns or is committed to acquire a substantial interest in the enterprise. A member or associate shall not express his opinion on financial statements which are used as a basis of credit if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise, unless in his report he discloses such interest.\*

- 1.02 A member or associate shall not commit an act discreditable to the profession.
- 1.03 A member or associate shall not violate the confidential relationship between himself and his client. [See below, Opinion No. 3.]
- 1.04 Professional service shall not be rendered or offered for a fee which shall be contingent upon the findings or results

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\*A new Rule 1.01, adopted by the membership March 6, 1962, will become effective January 1, 1964. It reads as follows:

Neither a member or associate, nor a firm of which he is a partner, shall express an opinion on financial statements of any enterprise unless he and his firm are in fact independent with respect to such enterprise.

Independence is not susceptible of precise definition, but is an expression of the professional integrity of the individual. A member or associate, before expressing his opinion on financial statements, has the responsibility of assessing his relationships with an enterprise to determine whether, in the circumstances, he might expect his opinion to be considered independent, objective and unbiased by one who had knowledge of all the facts.

A member or associate will be considered not independent, for example, with respect to any enterprise if he, or one of his partners, (a) during the period of his professional engagement or at the time of expressing his opinion, had, or was committed to acquire, any direct financial interest or

of such service. This rule does not apply to cases involving federal, state, or other taxes, in which the findings are those of the tax authorities and not those of the accountant. Fees to be fixed by courts or other public authorities, which are therefore of an indeterminate amount at the time when an engagement is undertaken, are not regarded as contingent fees within the meaning of this rule.

## ARTICLE 2: *Technical Standards*

2.01 A member or associate shall not sign a report purporting to express his opinion as the result of examination of financial statements unless they have been examined by him, a member or an employee of his firm, a member or associate of the Institute, a member of a similar association in a foreign country, or a certified public accountant of a state or territory of the United States or the District of Columbia.

2.02 In expressing an opinion on representations in financial

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material indirect financial interest in the enterprise, or (b) during the period of his professional engagement, at the time of expressing his opinion or during the period covered by the financial statements, was connected with the enterprise as a promoter, underwriter, voting trustee, director, officer or key employee. In cases where a member or associate ceases to be the independent accountant for an enterprise and is subsequently called upon to re-express a previously expressed opinion on financial statements, the phrase "at the time of expressing his opinion" refers only to the time at which the member or associate first expressed his opinion on the financial statements in question. The word "director" is not intended to apply to a connection in such a capacity with a charitable, religious, civic or other similar type of nonprofit organization when the duties performed in such a capacity are such as to make it clear that the member or associate can express an independent opinion on the financial statements. The example cited in this paragraph, of circumstances under which a member or associate will be considered not independent, is not intended to be all-inclusive.

statements which he has examined, a member or associate may be held guilty of an act discreditable to the profession if

(a) he fails to disclose a material fact known to him which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; or

(b) he fails to report any material misstatement known to him to appear in the financial statement; or

(c) he is materially negligent in the conduct of his examination or in making his report thereon; or

(d) he fails to acquire sufficient information to warrant expression of an opinion, or his exceptions are sufficiently material to negative the expression of an opinion; or

(e) he fails to direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedure applicable in the circumstances. [See below, Opinion No. 8.]

2.03 A member or associate shall not permit his name to be associated with statements purporting to show financial position or results of operations in such a manner as to imply that he is acting as an independent public accountant unless he shall:

(a) express an unqualified opinion; or

(b) express a qualified opinion; or

(c) disclaim an opinion on the statements taken as a whole and indicate clearly his reasons therefor; or

(d) when unaudited financial statements are presented on his stationery without his comments, disclose prominently on each page of the financial statements that they were not audited. [See below, Opinion No. 8.]

2.04 A member or associate shall not permit his name to be used in conjunction with an estimate of earnings contingent upon future transactions in a manner which may lead to the



belief that the member or associate vouches for the accuracy of the forecast. [See below, Opinion No. 10.]

ARTICLE 3: *Promotional Practices*

3.01 A member or associate shall not advertise his professional attainments or services.

Publication in a newspaper, magazine or similar medium of an announcement or what is technically known as a card is prohibited.

A listing in a directory is restricted to the name, title, address and telephone number of the person or firm, and it shall not 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. Listing of the same name in more than one place in a classified directory is prohibited. [See below, Opinions Nos. 1, 2, 4 and 9.]

3.02 A member or associate shall not directly or indirectly solicit clients by circulars or advertisements, nor by personal communication or interview, not warranted by existing personal relations. [See below, Opinion No. 1.]

3.03 A member or associate shall not make a competitive bid for a professional engagement. Competitive bidding for public accounting services is not in the public interest, is a form of solicitation, and is unprofessional.

3.04 Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member or associate.

Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member or associate. [See below, Opinion No. 6.]

ARTICLE 4: *Operating Practices*

- 4.01 A firm or partnership, all the individual members of which are members of the Institute, may describe itself as "Members of the American Institute of Certified Public Accountants," but a firm or partnership, not all the individual members of which are members of the Institute, or an individual practicing under a style denoting a partnership when in fact there be no partner or partners, or a corporation, or an individual or individuals practicing under a style denoting a corporate organization shall not use the designation "Members of the American Institute of Certified Public Accountants."
- 4.02 A member or associate shall not allow any person to practice in his name who is not in partnership with him or in his employ.
- 4.03 A member or associate in his practice of public accounting shall not permit an employee to perform for the member's or associate's clients any services which the member or associate himself or his firm is not permitted to perform.
- 4.04 A member or associate shall not engage in any business or occupation conjointly with that of a public accountant, which is incompatible or inconsistent therewith.
- 4.05 A member or associate engaged in an occupation in which he renders services of a type performed by public accountants, or renders other professional services, must observe the by-laws and Code of Professional Ethics of the Institute in the conduct of that occupation. [See below, Opinion No. 7.]
- 4.06 A member or associate shall not be an officer, director, stockholder, representative, or agent of any corporation engaged in the practice of public accounting in any state or territory of the United States or the District of Columbia.

ARTICLE 5: *Relations with Fellow Members*

- 5.01 A member or associate shall not encroach upon the practice of another public accountant. A member or associate may furnish service to those who request it. [See below, Opinion No. 1.]
- 5.02 A member or associate who receives an engagement for services by referral from another member or associate shall not extend his services beyond the specific engagement without consulting with the referring member or associate.
- 5.03 Direct or indirect offer of employment shall not be made by a member or associate to an employee of another public accountant without first informing such accountant. This rule shall not be construed so as to inhibit negotiations with anyone who of his own initiative or in response to public advertisement shall apply to a member or associate for employment.

# Committee on Professional Ethics

## **NUMBERED OPINIONS**

### Opinion No. 1: *Newsletters, Publications*

*Impropriety of member furnishing clients and others with tax and similar booklets prepared by others and imprinted with firm name of member.*

In the opinion of the committee, imprinting the name of the accountant on newsletters, tax booklets or other similar publications which are prepared by others and distributed by a member of the Institute does not add to the usefulness of the material to the reader. Use of the imprint, in the committee's opinion, is objectionable in that it tends to suggest (and has been interpreted by many as a means of) circumventing Rule 3.01 of the Code of Professional Ethics, which says that a member shall not advertise his services.

It is the conclusion of the committee that distribution of newsletters, tax booklets or similar publications, prepared by others, when imprinted with the name of the accountant furnishing the material, is not in the interest of the public or the profession.

The committee sees no grounds for objection to furnishing material of the type indicated to clients or others provided that such material does not carry the imprint described and provided that such distribution is limited in a manner consistent with Rules 3.02 and 5.01.

(PUBLISHED IN THE CPA, DECEMBER 1956)

Opinion No. 2: *Responsibility of Member for Acts of Third Parties on His Behalf*

*Member may not carry out, through others, acts which he is prohibited from directly performing under Institute by-laws and Code of Professional Ethics.*

A member should not cause others to carry out on his behalf either with or without compensation acts which, if carried out by a member, would place him in violation of the Institute's code or by-laws. To illustrate this principle, the committee has ruled that a member would be in violation of the Institute's Code of Professional Ethics if, with his approval:

1. A nonprofit organization in recognition of accounting services which had been rendered by a member placed without charge an advertisement of the firm in the organization's bulletin;
2. A bank announced to its depositors that a CPA would be at a desk on the main floor of the bank at certain hours and days during the tax season to assist customers in preparation of tax returns for a fee;
3. A trade association in its official publication announced that a certain certified public accountant, member of the Institute, who long had served the association as independent accountant, was especially well qualified and available to assist association members in dealing with accounting and tax problems peculiar to the industry.

(PUBLISHED IN THE CPA, DECEMBER 1956)

Opinion No. 3: *Confidence of a Client*

*Seller of accounting practice should not give the purchaser access to working papers, income tax returns, and correspondence pertaining to accounts being sold without first obtaining permission of client.*

The seller of an accounting practice has a duty under Rule 1.03 pertaining to confidential relations, first to obtain permission of the client to make available to a purchaser working papers and other documents.

(PUBLISHED IN THE CPA, JANUARY 1957)

Opinion No. 4: *Authorship—Propriety of Showing Firm Affiliation of Author*

*Responsibility of author for publisher's promotion efforts.*

Many certified public accountants, members of the Institute, are especially well qualified to write authoritatively on accounting, taxes, auditing, management and related subjects, and, in the interests of the public and the profession, are encouraged to write under their names articles and books for publication. In the opinion of the committee it is of value to the reader to know the author's background (degrees he holds, professional society affiliation, and the firm with which he is associated). It is held that publication of such information is not in violation of Rule 3.01.

It is the opinion of the committee that an author who is a member of the Institute has the responsibility to ascertain that the publisher or others promoting distribution of his work keep within the bounds of professional dignity and do not make claims concerning the author or his writing that are not factual or in good taste.

(PUBLISHED IN THE CPA, FEBRUARY 1957)

Opinion No. 5: *Prohibited Self-Designations—Use of Title "Tax Consultant," "Tax Specialist," or Similar Description Forbidden*

The "Statement of Principles Relating to Practice in the Field of Federal Income Taxation, Promulgated in 1951 by the National Conference of Lawyers and Certified Public Accountants," was

approved by the Institute's Council. Section 5 of this statement reads as follows:

"5. *Prohibited Self-Designations.* An accountant should not describe himself as a 'tax consultant' or 'tax expert' or use any similar phrase. Lawyers, similarly, are prohibited by the canons of ethics of the American Bar Association and the opinions relating thereto, from advertising a special branch of law practice."

Under Article V, Section 4, of the Institute's by-laws a member renders himself liable to expulsion or suspension by the trial board if he refuses to give effect to any decision of the Institute or the Council.

It is the opinion of the committee that a reasonable period of time has elapsed since the adoption of the Statement of Principles by Council within which the members could revise their stationery, directory and other listings so as to conform with the Statement.

(PUBLISHED IN THE CPA, MARCH 1957)

### Opinion No. 6: *Concept of "Laity" in Sharing of Fees*

*Concept of laity as used in Rule 3.04, interpreted to prohibit sharing of fees, profits, or commissions with others not in public practice; propriety of joint services.*

Rule 3.04 provides that: "Commissions, brokerage, or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member or associate.

"Commissions, brokerage, or other participation in the fees, charges, or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member or associate."

There has been no precise definition of the word "laity" as used in Rule 3.04, and it is the belief of the committee that no

useful purpose would be accomplished by attempting to establish a special definition for use solely within the accounting profession which would include certain non-accounting professional groups and exclude other such groups. It is the view of the committee that Rule 3.04 should be interpreted as intending to prohibit a member in public practice from receiving or paying a commission or sharing a fee with *any individual or firm not engaged or employed in the practice of public accounting.*

Rule 3.04 is not intended to apply to payments to a retired partner of a public accounting firm or to the heirs of a deceased partner or of a deceased member. Also in view of the fact that the term "laity" has not been authoritatively defined, the committee feels that it would be unreasonable to apply its present interpretation to arrangements made in good faith and already existing between certified public accountants and individuals not presently in the practice of public accounting. It is the hope of the committee that within a reasonable time Rule 3.04 may be amended so as to clarify the word "laity" by referring instead to any individual or firm not engaged or employed in the practice of public accounting. In the meantime an understanding of, and voluntary compliance with, the committee's views should facilitate the transition.

The committee believes there is nothing contrary to the public interest or in violation of the rules of conduct in a firm of certified public accountants co-ordinating its work with that of an engineering, legal or other professional firm on a specific project for a single client. In such cases care should be taken by the accounting firm not to extend its services beyond its particular field and that any reports or recommendations rendered make clear the limitation of responsibilities assumed and services rendered.

Neither Rule 3.04 nor any of the other Institute rules of ethical conduct at present prohibit a partnership by a member of the Institute in public practice with a person who is not a certified public accountant. The committee, however, looks forward to the day when such public accounting partnerships will be composed solely of certified public accountants.

(PUBLISHED IN THE CPA, JANUARY 1958)



Opinion No. 7: *Statistical Tabulating Services*

The committee on professional ethics has, in recent years, responded to several inquiries in regard to the possible violation of the Institute's Code of Professional Ethics by members who operate statistical tabulating service bureaus.

In practically all cases the tabulating services include or contemplate the accumulation of data to be used for accounting purposes, the maintenance of accounts, and bookkeeping services. This type of service is similar to so-called "write-up work" or bookkeeping service rendered by many public accountants.

Some members have formed separate partnerships which perform statistical tabulating services. Some of these organizations were apparently formed under the erroneous impression that the Institute's rules of ethical conduct would not be applicable.

The committee finds it is proper for members to conduct statistical tabulating service bureaus. The committee holds, however, that any such separate organization in which a member has an interest should not be permitted to do things which the member in public practice is prohibited from doing as a member of the Institute, such as advertising, soliciting business, or practicing in corporate form.

It is the opinion of the committee that any member of the Institute who has any interest in an organization which renders statistical tabulating services is either directly or indirectly rendering "services of a type performed by public accountants" and, therefore, must observe the by-laws and Rule 4.05, which requires compliance with the Code of Professional Ethics of the Institute.

(PUBLISHED IN THE CPA, DECEMBER 1958)

Opinion No. 8: *Denial of Opinion Does Not Discharge Responsibility in All Cases*

*Where the CPA believes financial statements contain false or misleading information, mere denial of opinion held insufficient.*

Rule 2.02 deals with a member's responsibilities in expressing an opinion on representations in financial statements. The rule does not, however, specifically refer to situations where an opinion is denied, either by disclaimer or by reference to the statements as "prepared without audit." When an accountant denies an opinion on financial statements under Rule 2.03, which incorporates the provisions of Auditing Statement 23, he is in effect stating that he has insufficient grounds for an opinion as to whether or not the statements constitute a fair presentation. Rule 2.03 provides that where an opinion is denied, the accountant must indicate clearly his reasons therefor.

In a circumstance where a member believes the financial statements are false or misleading as a whole or in any significant respect, it is the opinion of the committee that he should require adjustments of the accounts or adequate disclosure of the facts, as the case may be, and failing this the independent accountant should refuse to permit his name to be associated with the statements in any way.

(PUBLISHED IN THE CPA, FEBRUARY 1959)

### Opinion No. 9: *Distribution of Literature*

*Though members may prepare printed material indicating services they are qualified to render, distribution of such material should be limited to clients.*

There has come to the attention of the committee with increasing frequency printed material bearing a member's name and address or that of his firm, which is devoted either to informing others of the services the member or his firm is prepared to render or dealing with a specialized subject in a manner that might suggest the firm's ability to serve in a specialized field or geographical area.

The committee feels that such material is entirely proper when its distribution is carefully restricted to clients, but that failure to control the circulation of such literature directly or through third parties may place the member whose name it bears in

violation of Rule 3.01 of the Institute's Code of Professional Ethics prohibiting advertising.

The committee believes that a member who produces any literature, or material which may be considered promotional in nature, must assume responsibility to guard and control its distribution. It is recognized by the committee that in isolated cases a client, not knowing the profession's restrictions on the distribution of such material, may pass on to the client of another member material he found of interest. Such an isolated instance would not necessarily be viewed as unethical practice. Where there is evidence that reasonable control has not been maintained to limit distribution of such material, it is the view of the committee that it must, in the interest of the profession, strictly enforce both the spirit and the letter of Rule 3.01, which provides "A member or associate shall not advertise his professional attainments or services. . . ."

(PUBLISHED IN THE CPA, MAY 1960)

*Opinion No. 10: Responsibility of Members for Pro Forma Statements and Forecasts Under Rule 2.04*

*In preparing for management any special purpose financial statement anticipating results of future operations, a member must disclose the source of the information used and the major assumptions made, and he must indicate that he does not vouch for the accuracy of the forecast.*

Rule 2.04 provides that "A member or associate shall not permit his name to be used in conjunction with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that the member or associate vouches for the accuracy of the forecast."

The ethics committee is well aware that pro forma statements of financial position and results of operation, cost analyses, budgets and other similar special purpose financial data, which set forth anticipated results of future operations, are important tools of management and furnish valuable guides for determining the future conduct of business.

The committee is of the opinion that Rule 2.04 does not prohibit a member from preparing, or from assisting a client in the preparation of, such statements and analyses. However, when a member associates his name with such statements and analyses, or permits his name to be associated therewith, there shall be the presumption that such data may be used by parties other than the client. In such cases, full disclosure must be made of the source of the information used, or 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 responsibility he is taking. Such disclosure should be made on each statement, or in the member's letter or report attached to the statements. The letter or report of the member must also clearly indicate that the member does not vouch for the accuracy of the forecast. It is the opinion of the committee that full and adequate disclosure would put any reader of such statements on notice and restrict the statements to their intended use.

(PUBLISHED IN THE CPA, NOVEMBER 1960)