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## Code of Professional Ethics, as amended December 30, 1969

Tennessee Society of Certified Public Accountants

American Institute of Chemical Engineers

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# Code of Professional Ethics

as amended December 30, 1969

of the  
TENNESSEE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS  
and the  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

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# Code of Professional Ethics

*American Institute of Certified Public Accountants*

**AS AMENDED DECEMBER 30, 1969**

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 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 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. [See Opinion Nos. 12, 15 and 16.]

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 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 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 express his opinion on financial statements unless they have been examined by him, or by a member or employee of his firm, on a basis consistent with the requirements of Rule 2.02.

In obtaining sufficient information to warrant expression of an opinion he may utilize, in part, to the extent appropriate in the circumstances, the reports or other evidence of auditing work performed by another certified public accountant, or firm of public accountants, at least one of whom is a certified public accountant, who is authorized to practice in a state or territory of the United States or the District of Columbia, and whose independence and professional reputation he has ascertained to his satisfaction.

A member or associate may also utilize, in part, to the extent appropriate in the circumstances, the work of public accountants in other countries, but the member or associate so doing must satisfy himself that the person or firm is qualified and independent, that such work is performed in accordance with generally accepted auditing standards, as prevailing in the United States, and that financial statements are prepared in accordance with generally accepted accounting principles, as prevailing in the United States, or are accompanied by the information necessary to bring the statements into accord with such principles.

- 2.02 In expressing an opinion on representations in financial 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 neces-



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sary 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 Opinion Nos. 8 and 18.]

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) express an adverse opinion; or

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

(e) 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 Opinion Nos. 8, 13 and 15.]

2.04 A member or associate shall not permit his name to be used in conjunction with any forecast of the results of future transactions in a manner which may lead to the belief that the member or associate vouches for the accuracy of the forecast. [See 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 Opinion Nos. 1, 2, 4, 9 and 11.]

- 3.02 A member or associate shall not endeavor, directly or indirectly, to obtain clients by solicitation. [See Opinion Nos. 1, 9, 11 and 18.]
- 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 or paid directly or indirectly by a member or associate to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation.

Commissions, brokerage, or other participation in the fees, charges or profits of work recommended or turned over to any individual or firm not regularly engaged or employed in the practice of public accounting as a principal occupation, as incident to services for clients, shall not be accepted directly or indirectly by a member or associate. [See Opinion Nos. 6 and 17.]

**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

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\* On the advice of legal counsel that Rule 3.03 subjects the Institute and its representatives to risks under the federal antitrust laws, the Institute's Board of Directors, Council and division of professional ethics have decided that the Institute will continue to refrain from taking any disciplinary action against any member or associate under Rule 3.03 until there has been a change in circumstances that would justify a different opinion on the legal status of the Rule.

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 practice in the name of another unless he is in partnership with him or in his employ, nor shall he allow any person to practice in his name who is not in partnership with him or in his employ.

This rule shall not prevent a partnership or its successors from continuing to practice under a firm name which consists of or includes the name or names of one or more former partners, nor shall it prevent the continuation of a partnership name for a reasonable period of time by the remaining partner practicing as a sole proprietor after the withdrawal or death of one or more partners.

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. [See Opinion No. 17.]

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 bylaws and Code of Professional Ethics of the Institute in the conduct of that occupation. [See Opinion Nos. 7 and 17.]

4.06 A member or associate may offer services of a type performed by public accountants only in the form of either a proprietorship, or a partnership, or a professional corporation or association whose characteristics conform to resolutions of Council.

*The following resolution of Council was approved at the spring meeting of Council at Colorado Springs on May 6, 1969:*

WHEREAS, if the membership of the Institute approves the proposed amendment of Rule 4.06 of the Code of Professional Ethics

permitting the practice of public accounting in the form of a professional corporation or association whose characteristics shall be established by the Council, it is hereby

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

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

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

3. *Ownership.* All shareholders of the corporation or association shall be persons duly qualified to practice as a certified public accountant in a state or territory of the United States or the District of Columbia. Shareholders shall at all times own their shares in their own right, and shall be the beneficial owners of the equity capital ascribed to them.

4. *Transfer of Shares.* Provision shall be made requiring any shareholder who ceases to be eligible to be a shareholder to dispose of all of his shares within a reasonable period to a person qualified to be a shareholder or to the corporation or association.

5. *Directors and Officers.* The principal executive officer shall be a shareholder and a director, and to the extent possible, all other directors and officers shall be certified public accountants. Lay directors and officers shall not exercise any authority whatsoever over professional matters.

6. *Conduct.* The right to practice as a corporation or association shall not change the obligation of its shareholders, directors, officers and other employees to comply with the standards of professional conduct established by the American Institute of Certified Public Accountants.

7. *Liability.* The stockholders of professional corporations or associations shall be jointly and severally liable for the acts of a corporation or association, or its employees—except where professional liability insurance is carried, or capitalization is maintained, in amounts

deemed sufficient to offer adequate protection to the public. Liability shall not be limited by the formation of subsidiary or affiliated corporations or associations each with its own limited and unrelated liability.

*In a report approved by the Council at the fall 1969 meeting, the Board of Directors recommended that professional liability insurance or capitalization in the amount of \$50,000 per shareholder/officer and professional employee to a maximum of \$2,000,000 would offer adequate protection to the public. Members contemplating the formation of a corporation under this rule should ascertain that no further modifications in the characteristics have been made.*

## **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 Opinion Nos. 1, 9 and 11.]
- 5.02 A member or associate who receives an engagement for services by referral from another member or associate shall not discuss or accept an extension of his services beyond the specific engagement without first 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.