

Ethics

AICPA Decision Tree

For CPAs In Business and Industry

One hallmark of the CPA profession is our commitment to a Code of Conduct. This Code details our responsibilities, and our CPA certificate demands compliance with it. Ethical conduct is never out of vogue in the CPA profession, and this professional code is what sets us apart from our non-certified colleagues. There is no compromise.

The Code of Conduct applies to all AICPA members whether employed in business and industry, public practice, government or academia. When faced with a work-related ethical issue, we have been taught to challenge the situation and if it is not resolved to our satisfaction (in the context of GAAP) we should resign. In establishing the Code of Conduct, the implications of resignation for a member in business & industry is not taken lightly; the fact that an employer is the member in industry's only source of income, possibly the only source of health insurance for

themselves and their family, is recognized. However, in situations where all efforts at resolution and GAAP compliance have been explored yet the situation is still not adequately resolved, then resignation is the only alternative — this is what we must do to comply with the high ethical standards of the CPA profession.

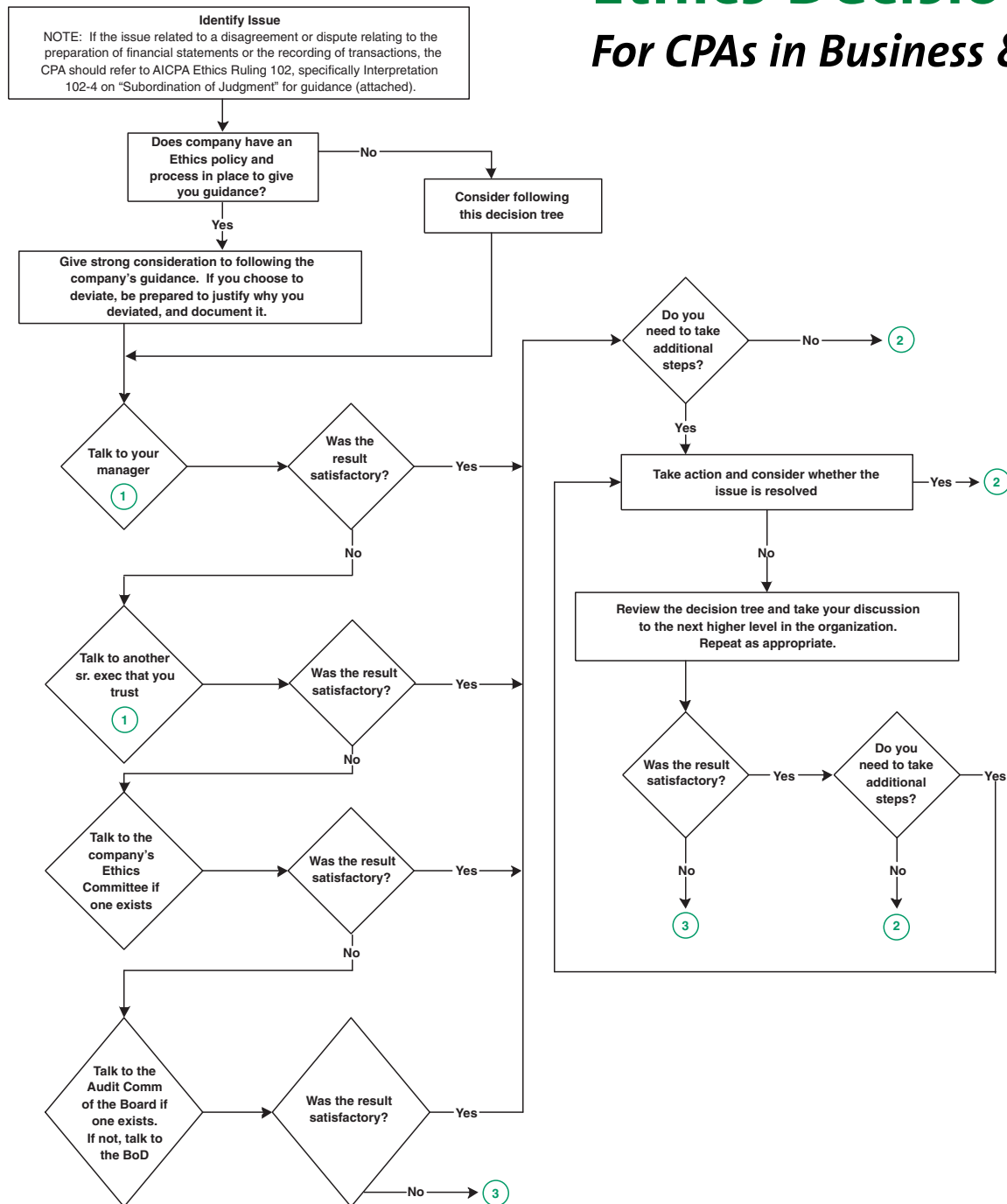
If you are challenged with an ethics issue at some point in your professional career, chances are you don't know where to turn, whom to talk to, or what to do next. The AICPA, in consultation with the Business & Industry Executive Committee (BIEC), created the following decision tree to help walk you through a process of resolving an ethics issue that you might encounter. BIEC members, who are CPAs in companies of all sizes, contributed their experience in finalizing this decision tree. From their perspective, we offer the following points for you to think about:

- Do your best to resolve the issue within your own organization, whether that is your department in a larger organization or the company as a whole. Most issues are easily resolved.
- Be cognizant of your obligations to your employer's external accountant. You must be candid and must not knowingly misrepresent facts or fail to disclose material information to them (Ethics Interpretation 102-3). The full text of the interpretation is provided on the fourth page of this document for your convenience.
- One of the most common ethics violations by CPAs in business & industry relates to Ethics Interpretation 102-4 on Subordination of Judgment. This interpretation may be especially relevant if the CPA has a disagreement or dispute with their manager on the preparation of financial statements or the recording of transactions. The full text of the interpretation is also provided herein for your convenience.
- Don't overlook an ethics policy or statement in place at your company. In a smaller company you might need to rely on outside resources as ethics policies might not be fully developed or documented.
- Maintain professional skepticism. If you get an explanation for the situation think about whether it makes sense. Continue to observe over time to see if the situation plays out as expected.
- Maintain documentation of the issue—your thoughts and decisions all along the way, and the parties with whom you discussed these issues—to review later as may be necessary.
- Even if you are successful in a particular situation, you might find that there are other implications that make it impossible to continue working at a company. In this situation you should seek employment elsewhere.
- Depending on the severity of the issue, you may want to consult with people that you respect from outside the company. Also, consider whether you need to consult with an attorney.

Our hope for you is that you never need to use this decision tree. However, if you do, we hope you find it helpful. Share your comments with us at: BusIndNews@aicpa.org

Ethics Decision Tree

For CPAs in Business & Industry



Notice to Readers

This material is designed to provide illustrative information with respect to the subject matter covered. It does not establish standards or preferred practices. The material has not been considered or acted upon by senior technical committees or the AICPA Board of Directors and does not represent an official opinion or position of the AICPA. It is provided with the understanding that the author and publisher are not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. The author and publisher make no representations, warranties or guarantees as to, and assume no responsibility for, the content or application of the material contained herein, and expressly disclaim all liability for any damages arising out of the use of, reference to, or reliance on such material.

Notes to Ethics Decision Tree

For CPAs in Business & Industry

- 1** When speaking with your manager or a more senior executive, carefully gauge your satisfaction with the response. Bear in mind that your manager or other executive might be a party to the situation that you have observed, so approach the response with the necessary degree of professional skepticism.
- 2** It appears you have successfully managed your way through this challenge. It is recommended that you maintain and secure all documentation related to this matter as described in your records retention policy or as recommended by your legal counsel in case the issue resurfaces. Has the organization's processes, internal control system, and culture changed in response to this matter? Are these changes sufficient to minimize the recurrence of a challenge like this one? Evaluate your answers and consider consulting with management, an outside mentor or other neutral party whom you respect.
- 3** Consider whether it is appropriate for you to continue your employment at this company. Consider the severity and implications of the issue you have identified and whether it should be reported to the outside accountants, regulatory agency, bank or other lending institution, owner or investor committee, BoD, or another party.

ETHICS HOTLINE

The AICPA Professional Ethics Team maintains a hotline for members to make inquiries about the Code of Conduct, and for advice when facing situations that challenge their professional ethics. To access the Ethics Hotline dial 1-888-777-7077 and follow the prompts to be routed to the Ethics team.

ET Section 102*

Integrity and Objectivity

.01—Rule 102—Integrity and objectivity. In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others.

[As adopted January 12, 1988.]

.04—102-3—Obligations of a member to his or her employer's external accountant. Under rule 102 [ET section 102.01], a member must maintain objectivity and integrity in the performance of a professional service. In dealing with his or her employer's external accountant, a member must be candid and not knowingly misrepresent facts or knowingly fail to disclose material facts. This would include, for example, responding to specific inquiries for which his or her employer's external accountant requests written representation.

[Effective November 30, 1993.]

.05—102-4—Subordination of judgment by a member. Rule 102 [ET section 102.01] prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services. Under this rule, if a member and his or her supervisor have a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the member should take the following steps to ensure that the situation does not constitute a subordination of judgment:

1 The member should consider whether (a) the entry or the failure to record a transaction in the records, or (b) the financial statement presentation or the nature or omission of

disclosure in the financial statements, as proposed by the supervisor, represents the use of an acceptable alternative and does not materially misrepresent the facts. If, after appropriate research or consultation, the member concludes that the matter has authoritative support and/or does not result in a material misrepresentation, the member need do nothing further.

2 If the member concludes that the financial statements or records could be materially misstated, the member should make his or her concerns known to the appropriate higher level(s) of management within the organization (for example, the supervisor's immediate superior, senior management, the audit committee or equivalent, the board of directors, the company's owners). The member should consider documenting his or her understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.

3 If, after discussing his or her concerns with the appropriate person(s) in the organization, the member concludes that appropriate action was not taken, he or she should consider his or her continuing relationship with the employer. The member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer's (former employer's) external accountant. In this connection, the member may wish to consult with his or her legal counsel.

4 The member should at all times be cognizant of his or her obligations under interpretation 102-3 [ET section 102.04].

**AICPA Professional Standards, Code of Professional Conduct*

www.aicpa.org

To view this document electronically or to view other ethics materials for CPAs in business and industry, please visit <http://www.aicpa.org/members/div/ethics/industry.htm>