



Members in Business and Industry – Examples of Violations

The AICPA requires that all members, including those in business and industry, adhere to the AICPA Code of Professional Conduct (Code). It is imperative that members are knowledgeable of their responsibilities under the Code. Listed below are some fictitious fact patterns that are designed to show how the Rules and related interpretations could be applied. They represent just a few examples of the many business and industry member violations that could occur. At times, some situations could result in more than one violation.

Integrity and Objectivity Rule

Member Linda Chambers is a CPA and the Chief Financial Officer for Brookings Incorporated. At the request of the external auditors, Linda signed the client representation letter stating that, there has been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices. Earlier that month she had received an inquiry from the Securities and Exchange Commission (SEC) concerning the company's revenue recognition policy.

As a member, Linda has a responsibility to the company's external accountants. She is required to be candid in disclosing the communication received from the SEC. In addition, Linda may not sign documents containing materially false and misleading information. Linda could potentially be in violation of "Integrity and Objectivity Rule" (AICPA, *Professional Standards*, ET sec. 2.100.001) as supported by the "Knowing Misrepresentations in the Preparation of Financial Statements or Records" interpretation (AICPA, *Professional Standards*, ET sec. 2.130.010), and Obligations of a Member to His or Her Employer's External Accountants" interpretation (AICPA, *Professional Standards*, ET sec. 2.130.030).

General Standards Rule

The controller, member Dale Weinstein, CPA, of Brookings Incorporated recorded a material sale of merchandise on the last day of the first quarter. Dale never received notification of a sales invoice or received any shipping documentation to ascertain that the sales transaction had actually occurred. Although this was a departure from company policy, Dale recorded the transaction.

Dale did not exercise due professional care and had a responsibility to obtain sufficient relevant data that would provide him with a reasonable basis for his conclusion. Dale could potentially be in violation of the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 2.300.001) of the AICPA *Code of Professional Conduct*.

Accounting Principles Rule

In a response to an SEC inquiry, member John Sterling, the CEO of Brookings Incorporated, writes: The Company's financial statements are presented in conformity with generally accepted accounting principles, and I am not aware of any material misstatements. Earlier that morning, John had been present at a meeting with the company's external accountants discussing a material error in those same financial statements.

John cannot express, in the written communication with the SEC that the financial statements are in accordance with generally accepted accounting principles and are free of material errors when he knows that

his statement is false. As a member, John could be potentially in violation of the “Accounting Principles Rule” (AICPA, *Professional Standards*, ET sec. 2.320.001) of the AICPA Code of Professional Conduct.

Acts Discreditable Rule

I have been so busy with the company’s initial public offering that I have failed to file my personal income tax returns for the last two years, said member Susan Allen*.

Susan may not realize it, but she has a responsibility to comply with applicable federal, state or local laws regarding the timely filing of her personal tax returns. She could now also be potentially in violation of the “Acts Discreditable Rule” as supported by the “Failure to File a Tax Return or Pay a Tax Liability” interpretation (AICPA, *Professional Standards*, ET sec. 2.400.030)

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