

Ethics Decision Tree

For CPAs in Business



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EXECUTIVE SUMMARY

One hallmark of the CPA profession is our commitment to the AICPA Code of Professional 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 AICPA Code of Professional Conduct applies to all AICPA members whether employed in business, 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, we should take the necessary steps to eliminate exposure to subordination of judgment — which can also lead to resignation. In establishing the Code, the implications of resignation for a member in business is not taken lightly; the fact that an employer is the member'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 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 its 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. [[Obligation of a Member to His or Her Employer's External Accountant](#) interpretation (AICPA, *Professional Standards*, ET sec. 2.130.030)]. The full text of the interpretation is provided on the fifth page of this document for your convenience.
- ▶ CPAs in Business may encounter situations where they may need to consult with the [Subordination of Judgment](#) interpretation (AICPA, *Professional Standards*, ET sec. 2.130.020). 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 obtain 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. Before consulting with third parties, make sure you remain alert to the requirements of the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation [2.400.070] of the "Acts Discreditable Rule" [2.400.001]. In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.

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.

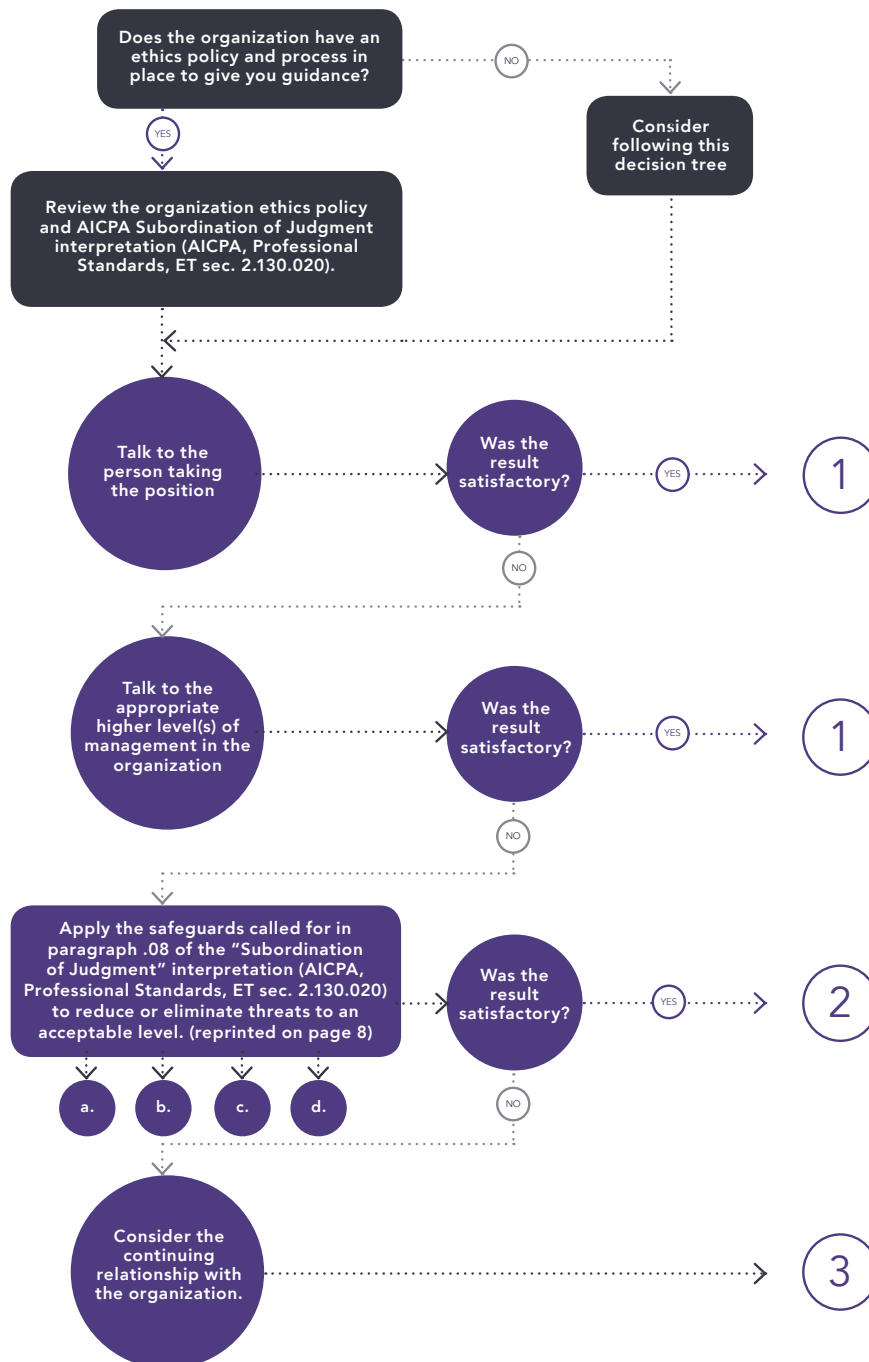
ETHICS DECISION TREE

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Ethics Decision Tree For CPAs in Business

When a member encounters an issue that would result in a material misrepresentation of fact or a violation of applicable laws or regulations then threats to compliance with the “Integrity and Objectivity Rule” exist. In such situations members must try to resolve the issue by following these recommended steps and actions:



NOTES TO ETHICS DECISION TREE FOR CPAs IN BUSINESS

- 1 When speaking with your manager or higher level(s) of management, 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 organization 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 properly document all resulting actions. In addition, make sure you document your understanding of the facts, accounting principles or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.
- 3 Consider whether it is appropriate for you to continue your employment at this organization and take appropriate steps to eliminate your exposure to subordination of judgment. 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, Board of Directors or another party.

ETHICS HOTLINE

The AICPA Professional Ethics Team maintains a hotline for members to make inquiries about the AICPA Code of Professional Conduct, and for advice when facing situations that challenge their professional ethics. To access the Ethics Hotline dial 888.777.7077 and follow the prompts to be routed to the Ethics team.

2.100 INTEGRITY AND OBJECTIVITY

[Prior reference: ET Section 102]

[Effective December 15, 2014]

2.100.001 — Integrity and Objectivity Rule.

01. 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. [Prior reference: paragraph .01 of ET section 102]

2.130.030 — Obligation of a Member to His or Her Employer's External Accountant Rule.

.01 The "Integrity and Objectivity Rule" [2.100.001] requires a member to maintain objectivity and integrity in the performance of a professional service. When dealing with an 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 the employer's external accountant requests written representation. [Prior reference: paragraph .04 of ET section 102].

2.130.020 Subordination of Judgment.

.01 The "Integrity and Objectivity Rule" [2.100.001] prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services for an employer or on a volunteer basis. This interpretation addresses differences of opinion between a member and his or her supervisor or any other person within the member's organization.

.02 Self-interest, familiarity, and undue influence threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] may exist when a member and his or her supervisor or any other person within the member's organization have a difference of opinion relating to the application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations.

.03 A member should evaluate the significance of any threats to determine if they are at an acceptable

level. Threats are at an acceptable level if the member concludes that the position taken does not result in a material misrepresentation of fact or a violation of applicable laws or regulations. If threats are not at an acceptable level, the member should apply the safeguards in paragraphs .06–.08 to eliminate or reduce the threat(s) to an acceptable level so that the member does not subordinate his or her judgment.

.04 In evaluating the significance of any identified threats, the member should determine, after appropriate research or consultation, whether the result of the position taken by the supervisor or other person

- a. fails to comply with professional standards, when applicable;
- b. creates a material misrepresentation of fact; or
- c. may violate applicable laws or regulations.

.05 If the member concludes that threats are at an acceptable level, the member should discuss his or her conclusions with the person taking the position. No further action would be needed under this interpretation.

.06 If the member concludes that the position results in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would not be at an acceptable level. In such circumstances, the member should discuss his or her concerns with the supervisor.

.07 If the difference of opinion is not resolved after discussing the concerns with the supervisor, the member should discuss his or her concerns with the appropriate higher level(s) of management within the member's organization (for example, the supervisor's immediate superior, senior management, and those charged with governance).

.08 If after discussing the concerns with the supervisor and appropriate higher level(s) of management within the member's organization, the member concludes that

appropriate action was not taken, then the member should consider, in no specific order, the following safeguards to ensure that threats to the member's compliance with the "Integrity and Objectivity Rule" [2.100.001] are eliminated or reduced to an acceptable level:

- a. Determine whether the organization's internal policies and procedures have any additional requirements for reporting differences of opinion.
- b. Determine whether he or she is responsible for communicating to third parties, such as regulatory authorities or the organization's (former organization's) external accountant. In considering such communications, the member should be cognizant of his or her obligations under the "Confidential Information Obtained From Employment or Volunteer Activities" interpretation [2.400.070] of the "Acts Discreditable Rule" [2.400.001] and the "Obligation of a Member to His or Her Employer's External Accountant" interpretation [2.130.030] of the "Integrity and Objectivity Rule" [2.100.001].
- c. Consult with his or her legal counsel regarding his or her responsibilities.
- d. Document his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.

.09 If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider the continuing relationship with the member's organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.

.10 Nothing in this interpretation precludes a member from resigning from the organization at any time.

However, resignation may not relieve the member of responsibilities in the situation, including any responsibility to disclose concerns to third parties, such as regulatory authorities or the employer's (former employer's) external accountant.

.11 A member should use professional judgment and apply similar safeguards, as appropriate, to other situations involving a difference of opinion as described in this interpretation so that the member does not subordinate his or her judgment. [Prior reference: paragraph .05 of ET section 102]

Under the Subordination of Judgment 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 evaluate the significance of the threats and consider whether (a) the entry or the failure to record a transaction, 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 threats are considered to be at an acceptable level and no further action is needed.
2. If the member concludes that the financial statements or records could be materially misstated which implies that the threats are not at an acceptable level, 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 apply the recommended safeguards and consider communicating to third parties, such as regulatory authorities or the employer's (former employer's) external accountant — as prescribed by the Code. In this connection, the member may wish to consult with his or her legal counsel. If the member then concludes that no measures can eliminate or

reduce the threats to an acceptable level, he or she should consider his or her continuing relationship with the employer.

4. The member should at all times be cognizant of his or her obligations under the Integrity and Objectivity interpretations.

AICPA Professional Standards, Code of Professional Conduct. [aicpa.org](https://www.aicpa.org).

To view this document electronically or to view other ethics materials for CPAs in business, please visit [this page](#).



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