



Course Outline

- I. Introduction to Ethics
- II. Purpose of the Board
- III. License Requirements
- IV. Continuing Professional Education
- V. Peer Review
- VI. Complaint Process
- VII. Unlicensed Activity
- VIII. What's New?
- IX. Rules of Professional Conduct
- X. Enforcement Case Examples



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Standards for Tennessee CPAs

State Specific Ethics

INTRODUCTION

Why Ethics?



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Can Ethics be Taught?

Socrates

VS

Kohlberg

If people are good only because they fear punishment, and hope for reward, then we are a sorry lot indeed." ~

Albert Einstein



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What Percentage of High School Students Cheat?

1. 25%
2. 45%
3. 65%
4. 75%
5. 100%



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Learning Ethics

Ethics problem solving strategies develop in your 20s & 30s.

Strategies are linked to an individual's perception of society and his or her role in society.

The extent of changes is directly related to the number of years of formal education.

Deliberate attempts to influence awareness of ethical reasoning have been deemed effective.



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Board's Purpose

- Protect the public
 - Ensuring professional competence through review of qualifications, peer review, etc.
- Enhance Communication with licensees
- Respond to Business and Technological Challenges



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State Board of Accountancy

- 11 members
 - 9 CPAs
 - 1 Attorney
 - 1 Public member
- Appointed by the governor
- 3 year terms
- Board meets quarterly



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Committee Structure

- Board committees:
 - Enforcement
 - Executive
 - Licensing
 - Laws and Rules



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Tennessee Accountancy Act

- The current accountancy law can be found in the Tennessee Code Annotated, Title 62: Professions, Business and Trade, Chapter 1
- The law can be found at [Legal Resources from the Office of the State](#)
- A link to the website:
<https://www.tn.gov/commerce/regboards/accountancy.html>



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License types

Individual

Firm

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License Status

Active	Inactive	Special Circumstances
<p>CPE</p> <p>Renewal</p> <p>PPT</p>	<p>Renewal</p> <p>CPE PPT</p>	<p>Inactive- 65 and over</p> <p>Disabled over 6 months</p> <p>Active Military</p>

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Renewal

Every 2 Years Based on License #

\$110 to the State Board

Due December 31

Non-renewed expire July 1

Renew Online: core.tn.gov

Rules 0020-05-.03, 5 and 0020-05-.07, 1



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Inactive Status – What You Need to Know

- Must place the word “inactive” adjacent to CPA when using the designation for any lawful purpose such as business cards, letterhead, resume, biography, social media sites.
- Licensees must apply for inactive status by logging into their account at <https://core.tn.gov>.

The Board does not automatically change licenses to inactive status if CPE requirements are not met.



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Tennessee State Board of Accountancy Rule 0020-05-.03, 3c

- A certificate holder who has been granted inactive status **may not** for compensation perform or offer to perform for the public, including the providing of accounting service from a licenses accounting firm, any of the following services:
 - Any accounting or auditing service which involves the issuance of reports on financial statements (including opinions, reviews, compilations, or attest engagements).
 - Any consulting engagement which would constitute the attest function, or furnishing advice on tax matters.



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Tennessee State Board of Accountancy Rule 0020-05-.03, 3d

- A certificate holder who has been granted inactive status **may** perform the services described in the prior slide if:
 - The services are provided **without compensation** to the certificate holder;
 - The services are performed solely for the **certificate holder's employer** and such employer is not a licensed accounting firm; or,
 - The certificate holder **does not use the CPA designation** in association with his or her name while providing such lawful services.



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Reactivation of an Inactive License

License Reactivation

80
Hours

Technical Hours:

24
Months

Accounting

Ethics

Attest

Taxation

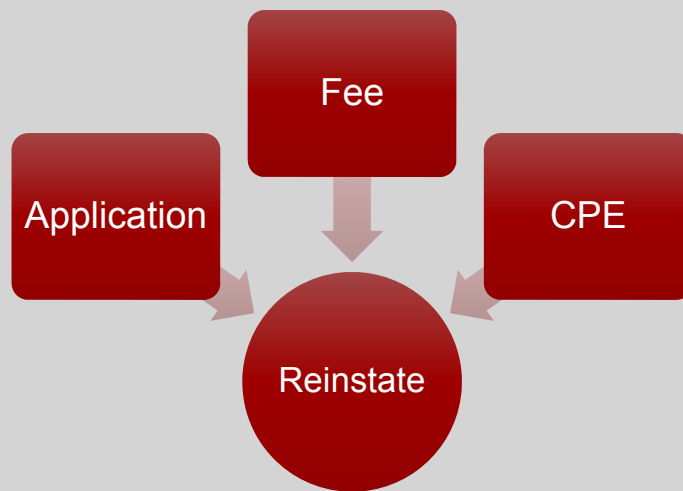
Management

Any of the technical subjects included in NASBA's Fields of Study



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Reinstatement



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Firm Permits

Required to:

Provide Attest
Services

Use titles:

CPAs, CPA Firm,
PAs or PA Firm,
Accountant,
Accounting

Required for:

Each Office
Location

Permits Expire

Annually on
December 31



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Firm Ownership Requirement

- Simple majority of the beneficial ownership shall belong to holders of a certificate (do not have to be licensed in TN)
- If principal place of business is in TN, and they perform professional services in TN, partners, officers, etc. must hold valid certificate issued in TN

*Refer to 62-1-108 (c) (d) for additional details regarding
ownership and non-licensee owners*



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Firm Name Rules

Firm names must be registered and approved by the Board

- Names of owners/partners allowed
- Name cannot mislead
 - Structure of firm
 - Nature of services performed
 - Presence of CPAs on staff
- May not contain:
 - Names of suspended or revoked CPAs
 - Name of individual who is not a CPA



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Firm Name Examples

Patrick Andrews, CPA	Yes, if licensed CPA
Andrews and Associates	Yes, if more than 1 CPA
Andrews Audit Services	Yes, if service offered
Red, White & Blue Accounting	Only with Board approval
Andrews, Jones and Disney CPAs	Yes, if all are CPA's
Andrews and Jones CPAs PLLC	Yes, if a PLLC



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Stay In Compliance!

Notify the Board of Changes Within 30 Days. Examples Include:

- √ Individual Licensee Name, Email, or Physical Address Change
- √ Change of Firm Address
- √ New Firm Formation
- √ Firm Name Change
- √ New Partner or Retirement/Death/Withdrawal of Partner
- √ Dissolution of the firm, within 30 days of occurrence
- √ Opening or closing of firm location in TN
- √ Non-Compliance Events



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Firm and License Statistics

As of Jan. 2019

Active Licenses	10,982
Expired Licenses	2,756
Inactive	4,176
Retired 65	1,067
Revoked Licenses	70
Retired	114
Suspended	6
Active Firms	1,777
Expired Firm Permits	288
Revoked Firm Permits	22



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Continuing Education

- 80 approved hours every 2 years
- Minimum of 20 hours in each year
- 40 hours in technical subjects
 - 20 must be in attestation if performing attestation services
 - 20 must be in area of expertise if performing expert witness testimony
- 2 hours Board approved TN specific ethics



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Continuing Education

- **If engaged in the attest function** – must complete at least 20 hours of attest and accounting CPE credit
- **If expert witnesses in TN court in the areas of accounting, attest, management advisory services, or tax** – must complete at least twenty (20) hours in the subject area(s) noted above



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Fields of Study

TECHNICAL
Accounting
Accounting (Governmental)
Auditing
Auditing (Governmental)
Business Law
Economics
Finance
Information Technology
Management Services
Regulatory Ethics
Specialized Knowledge
Statistics
Taxes

NON-TECHNICAL
Behavioral Ethics
Business Management & Organization
Communications & Marketing
Computer Software & Applications
Personal Development
Personnel/Human Resources
Production



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Qualifying Programs

- To qualify for CPE credit, the program must contribute directly to the professional competence of the licensee and;
 - Meet the Statements on Standards for Continuing Professional Educations programs jointly approved by NASBA and AICPA
 - Unless otherwise exempted by the board, CPE must be taught by NASBA approved vendors/instructors



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CPE Limits

- Instructors and speakers may receive three times credit for course instruction. Instructor hours may not exceed 50% of total required credit
- Successful completion of some certifying exams will qualify for CPE credit
- A maximum of 20% can be obtained from reading journals



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CPE Carryover

Reporting Period 1	Reporting Period 2	Reporting Period 3
Year 1: earned 30 hours Year 2: earned 60 hours Total of 90 hours in the reporting period 10 extra hours earned	Year 1: earned 20 hours Year 2: earned 52 hours Total of 72 hours in reporting period Carry forward 8 hours from Period 1 to make up deficiency	No carryover available because no extra hours earned in Period 2



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Home State Exemption

- What are my CPE requirements if I am a non-resident licensee?
 - Comply with resident state CPE
 - No CPE requirements in resident state?
 - CPE requirements for Tennessee
 - Ethics requirement
 - Non-resident state ethics if required
 - If no ethics requirement, must have Tennessee ethics course

EXEMPT



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CPE Audit

- 10% of licenses are randomly selected for an audit
- All documentation must be submitted for the reporting period
- Notification and instructions are received by mail and email
- All responses are submitted through core.tn.gov
- Failure to respond to a CPE audit is a violation of the notification requirements and will likely lead to a complaint and possible disciplinary action



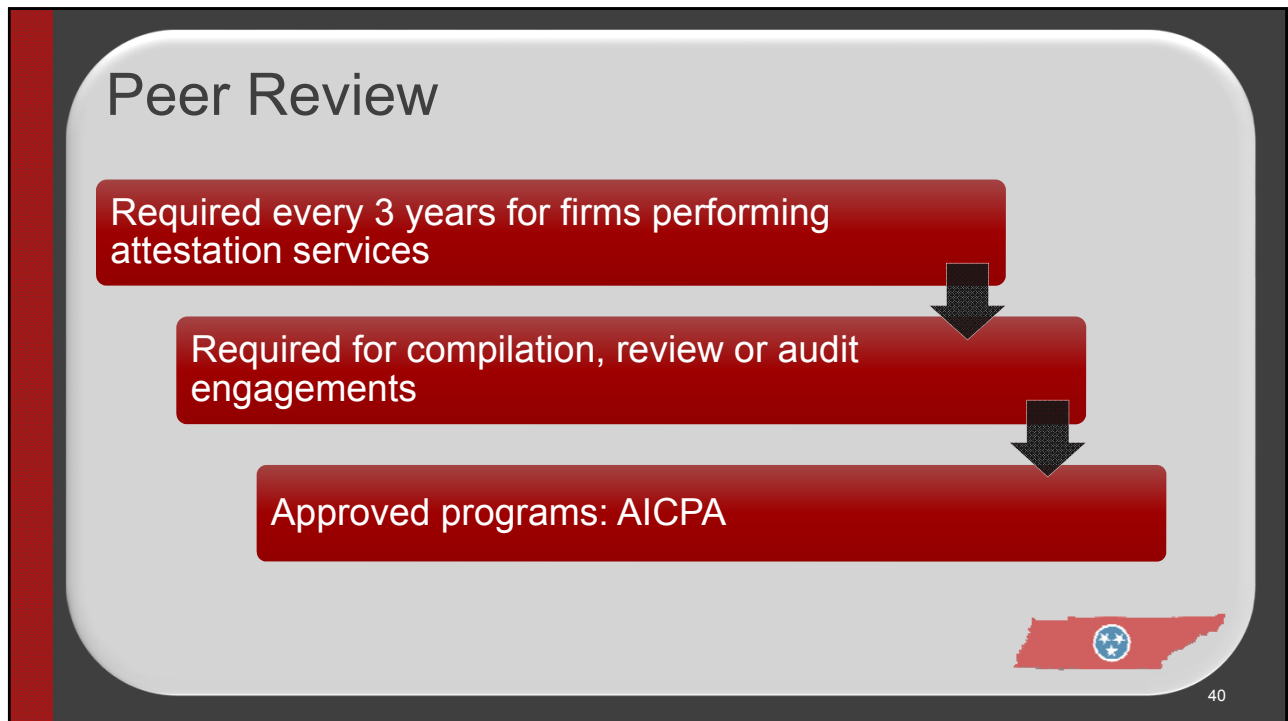
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Failure to Meet CPE Requirements

- 8 hours – Failure to complete 80 hours as required
- 8 hours – Failure to complete 40 hours in specified subject areas
- 8 hours – Failure to complete 20 hours in each year of biennial renewal period
- 8 hours – Failure to complete 20 hours if engaged in attest work
- 8 hours – Failure to complete two hour State Specific Ethics



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“Attest” is defined as...

Audits
Following
SAS

Examinations
using SSAEs

Tennessee Code
Annotated, Section 62-1-
103, states that attest
means providing the
following services:

Reviews
Following
SSARS

Any report
prescribed by
SASs, SSARSs,
or SSAEs



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SSAE Attest Engagements

- Engagements (**with certain exceptions**) in which a certified public accountant is engaged to issue a report on subject matter that is the responsibility of another party.
- Agreed-Upon Procedures
- Financial Forecasts and Projections
- Reporting on Pro Forma Financial Information
- Compliance Attestation
- Management’s Discussion & Analysis



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Consulting vs. Attestation

In an attest service, you are engaged to express an opinion regarding an assertion that is the responsibility of another party.

In a consulting service, you are engaged for the benefit of the client. The nature and scope is determined by the agreement between you and the client.

- Forensic Examination
- Expert Witness Services
- Valuation Services
- Divorce Engagements



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What a Firm Needs to Know

- Firms should enroll in the Program by the report date of the initial attest engagement
- Initial review due 18 months from the date of enrollment
- Types of Reviews - System and Engagement
- Peer Review Report Types – Pass, Pass with Deficiencies, Fail



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What a Firm Needs to Know

- Firms must submit a copy of the most recently accepted peer review to the Board. Required documents include:
 - Peer Review Report
 - Firm's Letter of Response
 - Committee Acceptance Letter
 - Firm's Letter of Agreement
 - Committee Approval Letter, if applicable



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The Complaint

- The Respondent firm performed an audit for the period ending December 31, 2012.
- The firm held an active license but was not enrolled in peer review.
- Respondent had indicated during renewal that the firm was enrolled.



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The Response

Respondent admitted to having performed one audit in 2012 in conjunction with an IRS form 5500. He claimed to have forgotten about the audit.



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The Result

The complaint was closed upon the signing of a consent order in which Respondent agreed to pay a civil penalty of \$4,000.00.

The civil penalty was not paid, and the Respondent's CPA license and Firm Permit were revoked.



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Filing a Complaint

TN Department of Commerce & Insurance

Comprehensive Online Regulatory & Enforcement System

Returning User
*User ID:
*Password:
[Forgot user ID?] [Forgot password?]
[Sign In]

New User
[Register a new account]

You must create a new online account even if you already use e-services. Your online account is separate from your e-Services account.

THIS SYSTEM IS FOR AUTHORIZED USE ONLY!

Use of this system constitutes consent to monitoring, interception, recording, reading, copying or capturing by authorized personnel of all activities. There is no right to privacy in this system. Unauthorized use of this system is prohibited and subject to criminal and civil penalties.

<https://core.tn.gov/datamart/mainMenu.do;jsessionid=NRdUBqeGSNxiZZpe-o3bErut.undefined>

Complaint Response Form

Online Complaint Response Form

This form should ONLY be used to respond to a complaint filed against you and can only be used for a single response.

If you are submitting a response to multiple complaints you may choose to use another method or complete this form for each complaint or individual responding.

Please note all fields MUST be completed.

Please choose a profession at the drop-down below.*

Accountancy

Complaint Number*

Your Name*

First Name

Last Name

Email

Mailing Address*

<https://www.tn.gov/commerce/contact-us/online-complaint-response-form.html>



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Board Actions

- Close Complaint
- Letter of Warning
- Letter of Instruction
- Consent Orders
 - Civil Penalties
 - Additional CPE or Peer Review
 - Probation
 - Suspension
 - Revocation
- Informal Conference
- Formal Conference (Hearing)



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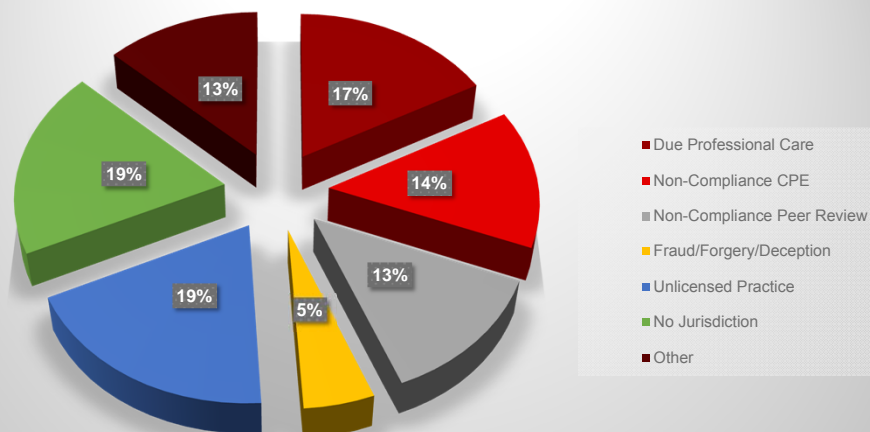
Civil Penalty Basis

- Whether the amount will be a substantial economic deterrent to the Respondent
- The circumstances leading to the violation
- The economic benefits gained by the Respondent as a result of non-compliance
- The severity of the violation and the risk of harm to the public



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FY18 Complaints






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Unlicensed Activity

Most Common Issues Regarding Unlicensed Activity

-  Individuals performing attest work without a firm permit
-  Individuals continuing to use the CPA designation on a delinquent or expired license



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Case Study Example 1

An anonymous complaint alleging Respondent was misleading the public to think he was a CPA. Respondent, while running a political campaign, stated in certain materials that he “met the Certified Public Accountant requirements in Tennessee.” Respondent is not licensed as a CPA.



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Case Study Example 1

Board Decision - Close upon issuance of a letter of warning that “no person not holding a valid certificate shall use or assume the title “certified public accountant” or the abbreviation “CPA” or any other title, designation, words, letters, abbreviation, sign, card or device tending to indicate that the person is a certified public accountant.”

What Have We Learned?

Be sure you are aware of all laws and rules regarding the use of the CPA designation as you work within TN and across state lines.



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Case Study Example 2

Referred by the Board of Licensing Contractors. Respondent issued a Review without first obtaining a firm permit and enrolling in peer review. Respondent quickly responded, indicated this was her first review, and she did not realize a peer review was needed. Respondent is now enrolled in peer review. Respondent still needs a firm permit.



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Case Study Example 2

Board Decision - Civil penalty in the amount of \$750 for issuing a Review prior to enrolling in peer review. Additionally, Respondent must obtain a firm permit within thirty days of execution of the Consent Order or shall be responsible for an additional \$1,000 civil penalty. If Respondent obtains a firm permit, she must either submit an exemption form or enroll in peer review within thirty days of the execution of the Consent Order. If Respondent enrolls in peer review, she must provide proof that the attest engagement giving rise to this complaint was reviewed by September 30, 2019.

What Have We Learned?

Attest work can only be performed out of a licensed firm. Firms should also properly enroll in an approved peer review program prior to issuing any type of attest work.



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New Rules Effective Since May 2018

- Definition of “Licensee” includes all certificates, permits and license
- “Expired License” - shortens designation from one year to six months after expiration
- CPE not specifically authorized must be submitted for approval PRIOR to completion of the CPE
- New rule requires submission of peer review documents to the Board for peer reviews scheduled on or after June 1, 2018
- Firm Name Rule – Expands and clarifies types of Firm Names that would be considered misleading



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Pending CPE Rules

- Approved by the Board on July 24, 2018
- Expect effective date in early to mid 2019
 - **Defines technical and non-technical fields of study**
 - **Add new delivery methods (nano-learning, blended learning)**



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Nano Learning

Defined as a tutorial program designed to permit a participant to learn a given subject in a 10-minute time frame through the use of electronic media and without interaction of a real-time instructor)

- Acceptable under the current rules
- Follow same requirements for CPE, (maintain roster, outline, speakers bio, etc.)
- Must be offered by AICPA, a CPA state society, or a NASBA approved vendor



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Other News

- Beginning with the 2019 CPA Renewal Period, CPA's with active licenses must submit a listing of CPE credits earned, including:

- Sponsor Name
- Date(s) of Training
- Title of Program
- CPE Subject Code
- CPE Credit Awarded

Must be submitted via an attachment such as PDF, Excel, etc.



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Why do people sacrifice
their integrity and act unethically?



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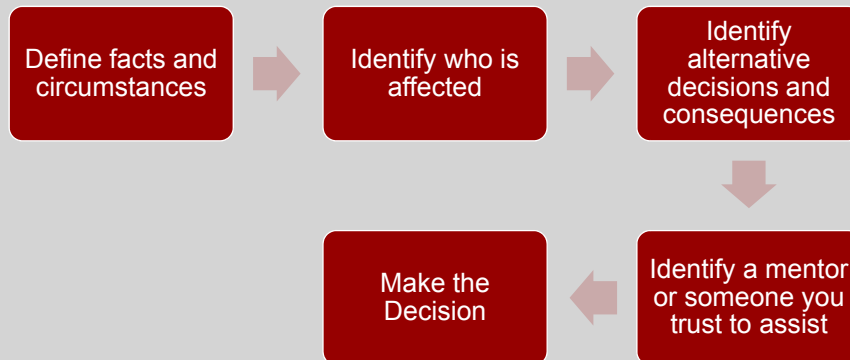
Factors in Unethical Behavior

- Pressure to meet unrealistic business objectives
- Desire to further one's career
- Protect livelihood
- Working in an environment with diminished morals or cynicism
- Improper training



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Steps in Ethical Decision Making



Ste 5



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Questions for Consideration in Ethical Decisions

- Are there legal concerns?
- Is it right? (If you know it's wrong, don't do it!)
- Does it comply with company values?
- Does it comply with the principles of your profession (for accountants, GAAP)?
- Would you be embarrassed by your decision if others knew about it?
- Who else is affected by this (others in the company, customers, etc.)?



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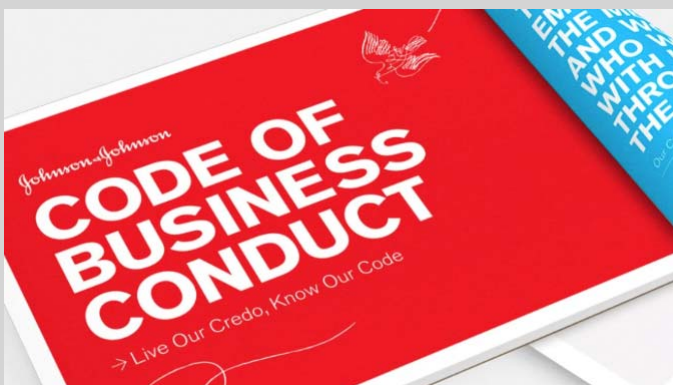
Questions for Consideration in Ethical Decisions

- Are you willing to take sole responsibility for this decision?
- Is there another course of action that does not create an ethical dilemma?
- How will it look in the newspaper?
- Do you think a reasonable person would agree with your decision? (Ask an appropriate person.)



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Ethics Codes



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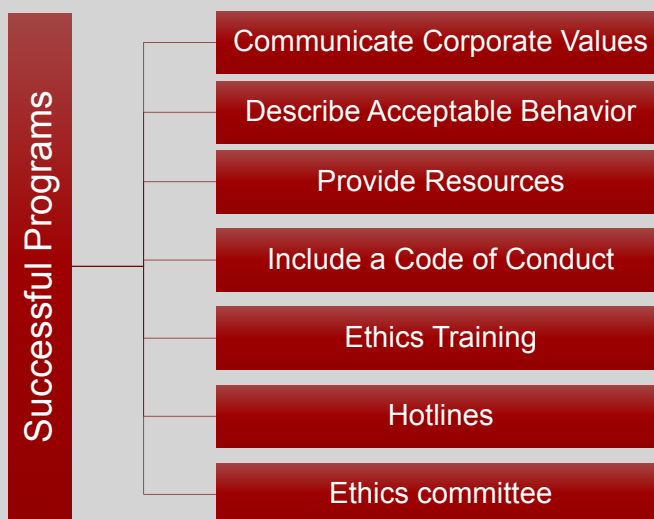
Tone at the Top

- Management must set the example.
- Management can influence the behavior and activities of their employees.
- Firms are required by the AICPA Quality Control Standards to set a proper quality tone at the top and ensure the firm follows relevant ethical guidelines.



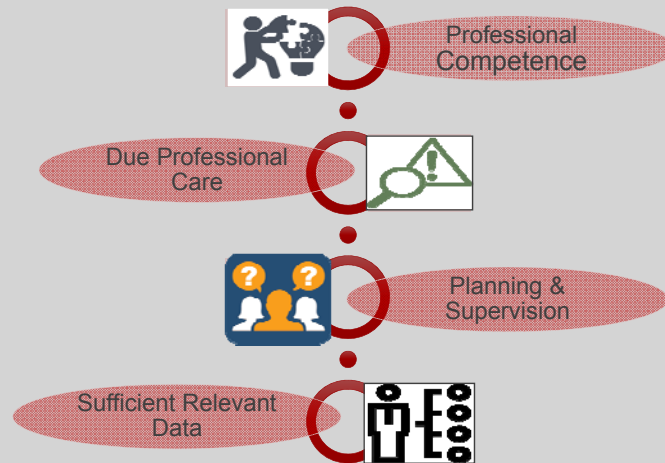
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Corporate Ethics Programs



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Competence Includes...



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AICPA Code of Professional Conduct

Codification

- Principles
- Rules
- Interpretations
- Rulings

Conceptual Framework

- For Members in Public Practice
- For Members in Business

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AICPA Code of Professional Conduct: Principles

1. Responsibilities
2. The Public Interest
3. Integrity
4. Objectivity and Independence
5. Due Care
6. Scope and Nature of Services



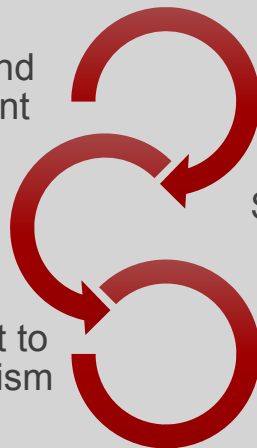
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Responsibilities & Public Interest

Professional and
Moral Judgment

Commitment to
Professionalism

Serve Public Trust
in all Actions



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Principles: Integrity



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Principles: Objectivity

- CPA's must be "impartial, intellectually honest, and free of conflicts of interest."
- CPA's must be candid and tell the truth regardless of discomfort.



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Principles: Independence

- Without independence, objectivity becomes more difficult.
- Specific rules exist to define independence.
- Rules have specific applications in specific circumstances, but other times exist when specific guidance is not available.
- A narrow reading of specific rules designed to find a “loophole” violates the integrity requirements.



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AICPA Ethics and Independence Requirements

- Members must be independent of certain affiliates of a financial statement attest client:
 - An entity that a financial statement attest client can control
 - An entity in which a financial statement attest client, or an entity controlled by the financial statement attest client has a direct financial interest that gives the client significant influence over such entity
 - An entity that controls a financial statement attest client when the financial statement attest client is material to such entity



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Independence Safeguards

Safeguards

- Created by the profession, legislation, or regulation
- Safeguards implemented by the client
- Safeguards implemented by the firm

Effectiveness of Safeguards

- Facts and circumstances
- Proper identification of threats
- Whether or not safeguard meets its objectives



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Principles: Due Care

- Due professional care sets a high standard
- Competence and diligence are hallmarks of due care
 - Competence is a “mastery of the common body of knowledge” and “a commitment to learning and professional involvement”
 - “Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards”



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Conceptual Framework Approach

- Identify Threats to Compliance
- Evaluate Significance of Threats
 - Evaluate threats individually and in the aggregate
- Identify and Apply Safeguards



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Conceptual Framework

Threat Categories

- Advocacy
- Adverse Interest
- Familiarity
- Self-Interest
- Self-Review
- Undue Influence

Safeguards

- Education & Training
- Profession Standards and Discipline
- Legislation
- Competency & Experience Requirements
- Professional Resources



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Contingent Fees

Definition: A fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specified finding or result is attained.

Not Allowed For:

- Audit or Review of Financial Statements
- Compilation of a Financial Statement
- Examination of Prospective Financial Information
- Prepare an original or amended tax return

Excludes:

- Fees fixed by courts or public authorities
- Fees in tax matters



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Contingent Fees Permitted For:

- Representing a client in connection with a revenue agent's examination of a state income tax return
- Filing an amended federal or state income tax return claiming a tax refund based on a tax issue involving a different taxpayer
- Filing an amended federal or state income tax return for a refund exceeding a threshold
- Requesting a refund of overpayments of interest or penalties
- Protest to reduce property assessment value



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Commission Rule

- Prohibited when the member or firm also performs the client's:
 - Audit or review of financial statements
 - Compilation of a financial statement
 - Examination of prospective financial information
- Permitted commissions and referral fees must be disclosed



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Confidential Client Information

- Do not disclose
 - client information to a competitor
 - information from previous engagement
- In tax matters, spouses are considered one client even if undergoing a divorce
- Professional services for the benefit of another person or entity dictates the parties are considered separate clients



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Sharing Client Information

- Obtain Consent:
 - when using a third-party service provider
- Disclosure of information not considered confidential is not subject to the rule
- Information pursuant to an enforceable subpoena or summons (Client notification is not required)
- Disclosure of client name is allowed as long as it is not related to confidential information such as financial problems or lawsuits



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Discreditable Acts

- Discrimination and Harassment
- Solicitation or Disclosure of CPA Exam Q&A
- Failure to File a Tax Return or Pay a Tax Liability
- Negligence in Preparation of Financial Statements / Records
- Violating Governmental or Regulatory Agency Rules or Laws



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Discreditable Acts, Continued

- Indemnification & Limited Liability Provisions
- Disclosure of Confidential Information
- False, Misleading, or Deceptive Acts in Marketing
- Deceptive use of the CPA Credential



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Enforcement Case Example 1

Respondent was randomly selected for a CPE audit but failed to respond to the audit, and as a result, did not submit any hours. Instead, Respondent submitted an affidavit to set his license inactive, but did not address the CPE audit.

Civil penalty of \$1,000 for failure to complete required CPE. If license is reactivated, complete 120 hours of CPE plus any other hours required by statute or rule for reinstatement/reactivation

What Have We Learned?

Moving your license to an Inactive or Closed status at the time of a CPE audit request will not relieve you of the CPE requirement in place prior to the changing of license status.



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Enforcement Case Example 2

Complaint received from a former client of a licensee

Allegations include:

- Failure to exercise **due professional care**
 - Failure to report taxable income on tax return
 - Providing improper tax advice

The Complainant engaged another CPA to validate errors and ultimately suspended the tax engagement.

Billed full-price for the tax return



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Enforcement Case Example 2

Findings: Evidence collected supports allegation of negligence

Response: “Just missed them”

Civil penalty along with the requirement for additional CPE in the areas of IRS Circular 230 and the AICPA Statements of Standards for Tax Services

What Have We Learned?

1) Importance of documenting discussion with clients; 2) Document assumptions made; 3) Firm wide quality control process should be in place for tax, audit and accounting practice.



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Enforcement Case Example 3

Complaint filed by a concerned citizen against a firm and three partners

Allegations include:

- Impairment of **independence** in the audit of a governmental entity
 - Campaign contributions made by partners of the firm to the future County Mayor
 - Firm completes audit associated with county governments



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Enforcement Case Example 3

Findings: Respondents first engaged to complete audit seven years prior to contributions

No need to unduly influence a political candidate to procure audit

Review showed that candidate did not have direct or indirect influence over procurements made by audit client

There were no violations of independence noted in the review of complaint. Closed with no action

What Have We Learned?

- 1) Importance of documenting discussion with clients; 2) Document assumptions made; 3) Firm wide quality control process should be in place for tax, audit and accounting practice.



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Standards for Tennessee CPAs

State Specific Ethics

QUESTIONS?