Ethics, Professional Responsibilities, and General Principles
AICPA Code of Professional Conduct

Introduction and Preface

After studying this lesson, you should be able to:

1. Understand the basic organizational structure of the new electronic version of the Code of Professional Conduct.
2. Explain the six key principles on which the code is based.

I. Introduction
   A. An electronic version of the AICPA’s Code of Professional Conduct is easily accessed on the AICPA’s website. This electronic version is easily updated.
   B. The code divides professional responsibilities in terms of the role that members play. Part 1 of the code sets out rules for members in public practice, such as independent auditors, tax professionals, and consultants who provide professional services to third parties. This includes, of course, independence rules but also rules regarding integrity, objectivity, and discreditable acts. Part 2 of the code sets out rules for members in business, such as internal auditors at a corporation. They need not worry about independence rules, and many of the other rules for members in business are identical (or nearly so) to the nonindependence rules that apply to members in public practice. Part 3 sets out rules for other members, such as those who are unemployed or retired, who are expected to avoid discreditable acts.
   C. The code also follows the lead of the International Federation of Accountants by putting into place a Conceptual Framework for answering questions that arise that are not answered even by the many detailed code provisions and interpretations. In virtually every subject matter area of the entire code, if there is no clear answer, the Conceptual Framework should be applied.

II. Preface (Part 0)
   A. Overview
      1. The code is divided into three main parts:
         a. Part 1 applies to members in public practice.
         b. Part 2 applies to members in business.
         c. Part 3 applies to other members.
      2. Members serving in multiple roles should choose the most restrictive applicable provisions.
   B. Principles and rules of conduct contained in the code are supplemented by:
      1. Interpretations
      2. Definitions
      3. Applications
      4. Where applicable, standards promulgated by other bodies such as
         a. State certified public accounting (CPA) societies
         b. Securities and Exchange Commission
         c. Public Company Accounting Oversight Board
         d. Government Accountability Office
E. Department of Labor
F. Various taxing authorities

C. Principles of Professional Conduct

1. By voluntarily joining the AICPA, members assume an obligation of self-discipline above and beyond legal requirements.

2. The six major principles call for “an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage”:
   a. “Responsibilities principle. In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.”
      i. This principle imposes a continuing responsibility on members to “cooperate with each other to:
         1. ‘improve the art of accounting,
         2. ‘maintain the public’s confidence, and
         3. ‘carry out the profession’s special responsibilities for self-governance.”
   b. “Public Interest principle. Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.”
   c. “Integrity principle. To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.”
      i. “Integrity is measured in terms of what is right and just”; members should always ask “Am I doing what a person of integrity would do?”
   d. “Objectivity and Independence principle. A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.”
      i. “Objectivity is a state of mind” that requires:
         1. impartiality,
         2. intellectual honesty, and
         3. freedom from conflicts of interest.
      ii. Only members in public practice must act with independence, but all members performing all services must act with objectivity and integrity.
   e. “Due care principle. A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.”
      i. Perfection is not required.
      ii. Competence requires a commitment to continued learning—hence, continuing professional education.
      iii. Members may derive competence from research or consultation with experts.
   iv. Due care entails
      1. Adequate planning of engagements
      2. Supervision of professional activities for which members are responsible.

Note
“A distinguishing mark of a profession is acceptance of its responsibility to the public.”
f. “Scope and nature of services principle. A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.”

g. At a minimum, members should:

i. Practice in firms that have good internal quality control procedures,

ii. Use their individual judgments to determine whether the scope and nature of services provided to an audit client would create a conflict of interest, and

iii. Individually assess whether a contemplated activity is consistent with their role as professionals.

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D. Definitions

1. Part 0 contains approximately 50 definitions, ranging from “Acceptable Level” to “Threats.” This study guide sets out various definitions as they become relevant to the substantive provisions being discussed, but it couldn’t hurt to read through the definitions.

Example

**Partner Equivalent**

A professional employee who is not a partner of the firm but who either (a) has the ultimate responsibility for the conduct of an attest engagement, including the authority to sign or affix the firm’s name to an attest report or issue, or authorize others to issue, an attest report on behalf of the firm without partner approval; or (b) has the authority to bind the firm to conduct an attest engagement without partner approval. For example, the professional employee has the authority to sign or affix the firm’s name to an attest engagement letter or contract to conduct an attest engagement without partner approval.