

AUDIT X CONDUCT NEWS

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Ethics Update

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February 2023 brought significant developments in accounting professional ethics, which are summarized below:

AICPA Professional Ethics Executive Committee (PEEC) Open Meeting

The Professional Ethics Executive Committee (PEEC) ¹ held a virtual open meeting on February 21, 2023, agreeing to issue the following exposure drafts (EDs):

- "Proposed new and revised interpretations: Fees." One interpretation addresses ethical considerations when determining fees for attest services. The other addresses the independence requirements and considerations for fee dependency, which occurs when total fees generated from an attest client represent a large proportion of a firm's total fees; and
- Proposed revisions to "Solicitation or Disclosure of CPA Examination Questions and Answers" interpretations, which would expand the interpretation of the "Acts Discreditable Rule" to include cheating on examinations in continuing professional education (CPE) courses.

PEEC will issue both EDs sometime in March.

PEEC also discussed a proposed ED to revise the definition of "public interest entity" (including a new compliance requirement) and adopt a new definition of "publicly traded entity." The PEEC asked the Public Interest Entity (PIE), Task Force to reconsider the application of the compliance requirement in light of concerns about a lack of clarity regarding the following examples:

(1) If a firm performed both a financial statement audit and a System and Organization Controls (SOC) attestation engagement for a client that was a PIE, would more restrictive PIE independence rules (e.g., those of the Securities and Exchange Commission) apply to both the audit and SOC engagement, or only to the audit engagement?

(2) If a firm chooses to treat a not-for-profit attest client as a PIE, which independence rules should the firm apply?

PEEC also:

- agreed with revisions to a previously issued frequently asked question (FAQ) on unpaid fees to address concerns about application of the term "covered member."

¹ I am a member of the Professional Ethics Executive Committee, which is responsible for interpreting and enforcing the AICPA Code of Professional Conduct, for promulgating new interpretations and rulings, and for monitoring those rules and making revisions as needed. All views expressed in this article are my own and do not represent official positions of either PEEC or the AICPA.

- heard a presentation about the newly proposed international ethics standard on tax planning (note: more information about that proposal is below)
- agreed to allow the Simultaneous Employment Task Force to conduct outreach activities to obtain feedback about the proposed direction of revisions to the “Simultaneous employment or association with an attest client” interpretation
- learned of recent activities to explore private equity investments in CPA firms
- heard an update on recent activities of the International Ethics Standards Board for Accountants (IESBA)
- learned of a new project on the use of experts, which is being fast-tracked to coincide with the IESBA standard-setting project of the same name
- learned that the Ethics Division staff updated the [AICPA/Department of Labor \(DOL\) Independence Rules Comparison](#)

The full PEEC agenda is available [here](#).

To listen to a verbal report of the meeting by the Ethics Division staff, see the latest [Ethically Speaking Podcast](#).

International Ethics Standards Board for Accountants

Final Pronouncement: Revisions to the Code Relating to the Definition of Engagement Team and Group Audits

The IESBA issued a final pronouncement “[Revisions to the Code Relating to the Definition of Engagement Team and Group Audits](#).” The pronouncement will be effective for audits of financial statements for periods beginning on or after December 15, 2023, and early adoption is permitted.

The *International Standard on Auditing (ISA) 600 (Revised)* establishes the requirements with which a firm performing a group audit engagement and all those involved in the engagement must comply. Participants in the group audit, which may include individuals and component audit firms both within and outside the group audit firm’s network, are required to comply with relevant ethical requirements, including those related to independence.

The change in the definition of *engagement team* in ISA 220 (Revised) prompted IESBA to clarify the independence requirements for individuals involved in a group audit who are *outside* the group audit firm’s network. Under the revisions, a component audit firm and its personnel outside the group audit firm’s network must be independent of the component audit client. For example, the component audit client may be a subsidiary of the group audit client. The group audit client is the entity on whose group financial statements the group audit firm expresses an opinion (e.g., the component audit client’s parent company). The component audit firm and its personnel are also subject to certain restrictions on financial interests in, and loans and guarantees with, the group audit client. If threats arise with respect to other entities in the group, e.g., the component audit client’s sister company), the conceptual framework applies.

Among other things, the revisions also establish new defined terms, revise several existing terms, and establish a more explicit process for addressing an independence breach by a component audit firm.

ED: Proposed Revisions to the Code Addressing Tax Planning and Related Services

The IESBA released “[Proposed Revisions to the Code Addressing Tax Planning and Related Services](#)” for public comment, which sets forth the ethical requirements and considerations related to tax planning and related services. As stated in the background portion of the document:

“Questions have been raised regarding the ethical implications for professional behavior when individual professional accountants (PAs) in business (PAIBs) and professional accountants in public practice (PAPPs) are involved in developing tax minimization strategies that are perceived as “aggressive” or when firms provide advice to their clients on such strategies.”

The proposal seeks to establish a principles-based framework (leveraging some pre-existing principles and provisions in the IESBA Code) to guide ethical behavior. The proposal addresses issues such as:

- compliance with fundamental principles
- the types of threats that may arise when performing tax planning activities
- the proper role and mindset when performing tax planning activities, with consideration (among other things) of the profession’s reputation
- understanding applicable tax laws and regulations, which may include the legislative intent behind laws or rules, and when relevant, considering the economic purpose and substance of a tax transaction
- using professional judgment to determine whether tax planning advice has a credible basis in tax law or regulation when uncertainty exists
- consultation with internal or external sources
- communication with clients or employers
- the need for transparency
- the appropriate level of documentation to evidence judgments, decisions, and actions, and
- responding to noncompliance with laws and regulations (NOCLAR)

Comments are due May 18, 2023.

Upcoming Meetings

The AICPA PEEC will hold its next virtual open meeting on May 9 – 10, 2023.

The IESBA is holding an open meeting March 13 – 17 in Abu Dhabi, United Arab Emirates. Click [here](#) to view the agenda.

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