There’s NO Such Thing as Business Ethics?

What is the most frustrating thing about putting together a PUZZLE?
What is the most frustrating thing about putting together a PUZZLE?

The Missing PIECE!

We Definitely CHANGE!
Marshall University Football
Team Chapel @ KSU-2005

Time Moves ON!
There’s NO Such Thing as Business Ethics?
Wichita State University Accounting & Auditing Conference
May 19, 2014

Our Discussion Today!

Ethics is Ethics
Ethics Standards Update!
Practical Puzzle Pieces Used To Strengthen our ETHICAL Foundations
What Can You Do To Make An Ethical Difference

Ethics is Ethics!
Webster’s Definition of ETHICS

The discipline dealing with what is GOOD and BAD and with MORAL duty and obligation…a set of moral principles and values.

Webster’s Definition of MORALS

a: moral practices or teachings: modes of conduct

b: ETHICS
ETHICS VS. MORALS

In modern culture the terms ETHICS and MORALS are virtual synonyms.
Quite frankly the confusion over the interchangeableness of these two terms is understandable.
BUT it is WRONG!

Per Dr. James Eckman President and Professor of Theology, Ethics, and History at Grace University

What are Ethics?

Ethics is what is normative, ABSOLUTE.
It refers to a SET OF STANDARDS around which we organize our lives and from which we define our duties and obligations.
It results in a set of imperatives that establishes behavior patterns that are acceptable.
It is what people OUGHT TO DO!

Per Dr. James Eckman President and Professor of Theology, Ethics, and History at Grace University
By contrast...Morality?

- Morality is more concerned with what people do.
- It describes what people are already doing, often regardless of any ABSOLUTE SET OF STANDARDS.
- The problem arises when the NORM is identified with that which is ABSOLUTE.

Per Dr. James Eckman President and Professor of Theology, Ethics, and History at Grace University

It seems nothing is absolute anymore?

“We determine the norm of human behavior through statistical studies. Therefore since unacceptable behavior is widely practiced, that becomes society’s norm and therefore it is the ETHICAL standard.

Per Dr. James Eckman President and Professor of Theology, Ethics, and History at Grace University
It seems nothing is absolute anymore? (con’t)

Ethics becomes a relativistic, floating set of patterns which determines our duty and obligation. NOTHING is absolute and NOTHING is forever. That which the culture THOUGHT was NAILED DOWN IS NOT. It is as fluid as a changing river.”

Per Dr. James Eckman President and Professor of Theology, Ethics, and History at Grace University

How are OUR Values Defined Today?

- Honesty (truthfulness, openness)
- Integrity (convictions, courage)
- Objectivity (independence, fairness, equality)
- Promise Keeping (fulfilling commitments)
- Fidelity (loyalty, confidentiality)
- Caring (compassion, kindness)
- Respect (dignity)
- Accountability (responsibility)
- Excellence (quality of work)
- Citizenship or Social Responsibility (respect for law, social consciousness)
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What PUZZLE piece is missing today in our Ethics?

If our ETHICAL FOUNDATION IS AS FOLLOWS:

➢ “NOTHING is absolute and NOTHING is forever. That which the culture THOUGHT was NAILED DOWN IS NOT. It is as fluid as a changing river.”

THEN, WHERE ARE WE?

There’s No Such Thing as “Business Ethics”!

Has the definition of “Ethics” changed?

Is “Ethics” really “More Than A Feeling”?

Has “Ethics” become a nebulous, elusive concept instead of the bedrock foundation that all businesses and levels of government should be built upon?
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There’s No Such Thing as “Business Ethics”!

Ethics is Ethics

If you desire to be ethical, you live it by one standard across the board

Integrity (Ethical) Guideline for ANY situation

How Would I Like to Be Treated In This Situation?

Referred to as the “GOLDEN RULE”
Where Are YOU Today?

As we go through the rest of this presentation, think about these few slides we have just discussed above and answer in your own mind the following:

➢ Where are **YOU** today with your Ethics?
➢ What is **YOUR ETHICAL FOUNDATION** built on?
Primary Sources of Complaints

- Outside party (e.g., client)
- Media (e.g., newspaper, professional publications)
- Staff review of AAERs and other SEC litigation releases
- Government referrals (e.g., state boards, DOL, SEC, FDIC, IGs of various governmental agencies)
- Internal Revenue Bulletins

Independence

"Cornerstone" of the CPA Profession

- Independence of "Mind"
- Independence in "Appearance"
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AI CPA Rules

AI CPA Rule contains 1 Overarching Principle:

A member may not perform management functions or make management decisions for the attest client.

AI CPA Ethics Rules

Rule 101
A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council.
Independence Concepts

To “Be” independent, the auditor must be intellectually honest.

To be “Recognized” as independent, the auditor must be free from any obligation to or interest in the client or its management.

Independence rules are precepts to guard against the “Presumption” of loss of independence. Possession of intrinsic independence is a matter of personal quality, not a set of rules.

Professions and Their Public Good

Medical professionals
- The preservation and encouragement of the public’s health

Legal professionals
- The pursuit of justice on behalf of the public

Accounting professionals
- The presentation of truth in a fair and accurate manner for the public’s interest
Accountants’ Responsibilities

Responsibilities to the public
- Present the truth in a fair and accurate manner and serve the public interest

Responsibilities to our clients
- Keep client’s records confidential, avoid contingent fees, disclose commissions

Responsibilities to our colleagues
- Avoid discreditable acts, improper client solicitation, misleading advertising, and follow applicable standards

Responsibilities to ourselves
- Be true to yourself and avoid decisions that oppose your sense of right and wrong which you may regret

Key Take-Away(s) from this Session

- Look and feel of the Code will change
- Changes to independence rules for nonattest services soon to be effective
- Independence rules now apply to affiliates
Action Item(s)

- Familiarize Yourself With the Revised Code of Professional Conduct
  - Especially the Online Version!
- Make Sure Your Firm Is Ready To Apply
  - Nonattest Services Requirements When Preparing Financial Statements
  - The Independence Rules to Affiliates of Financial Statement Attest Clients

Recent Changes
Recently Adopted or Revised

- Revised Code of Professional Conduct
- Nonattest Services
- Client Affiliates
- Partner Equivalents
- Subordination of Judgment

Why Is the Revised AICPA Code of Professional Conduct SO IRRESISTABLE?
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Easily Digestible
The revised AICPA Code has been reformatted to improve clarity.

Intuitively Organized
The revised AICPA Code is categorized by topic and, when necessary, provides subtopics and sections to allow for easy navigation.

Learn more at aicpa.org/ethicscodification.

Bonus Material
Links to non-authoritative guidance are embedded in the revised AICPA Code. For example, while searching for guidance on a particular topic, you may come across links to an FAQ page or a basis for conclusion paper that is related to that topic.

Learn more at aicpa.org/ethicscodification.
Revised Code of Professional Conduct

Online Platform

- Basic and Advanced Search Capability
- Pop-ups
- Bookmarks
- Record Notes
- Hyperlinking

Highlights non-authoritative guidance and provides links to access (print and online platforms)

New Numbering Format

1.200 - Independence

1.230 - Fees

1.230.010 - Unpaid Fees

1.250.020 - Fees and Other Types of Remuneration

Mapping Documents Available
<table>
<thead>
<tr>
<th>Preface</th>
<th>Applicable to All Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part 1</td>
<td>Applicable to Members in Public Practice</td>
</tr>
<tr>
<td>Part 2</td>
<td>Applicable to Members in Business</td>
</tr>
<tr>
<td>Part 3</td>
<td>Other Members</td>
</tr>
</tbody>
</table>

## Part 1: Members In Public Practice - Topics

1.000 INTRODUCTION  
1.100 INTEGRITY AND OBJECTIVITY  
1.200 INDEPENDENCE  
1.300 GENERAL STANDARDS  
1.310 COMPLIANCE WITH STANDARDS  
1.320 ACCOUNTING PRINCIPLES  
1.400 ACTS DISCRÉDITABLE  
1.500 FEES AND OTHER TYPES OF REMUNERATION  
1.510 CONTINGENT FEES  
1.520 COMMISSIONS AND REFERRAL FEES  
1.600 ADVERTISING AND OTHER FORMS OF SOLICITATION  
1.700 CONFIDENTIAL INFORMATION  
1.800 FORM OF ORGANIZATION AND NAME
Independence Sub-Topics

| 1.210 Conceptual Framework Approach | 1.257 Insurance Products |
| 1.220 Accounting Firms | 1.257 Loans, Leases, and Guarantees |
| 1.224 Affiliates, including Governmental Units | 1.265 Business Relationships |
| 1.226 Reissued Reports | 1.270 Family Relationships with Attest Clients |
| 1.228 Engagement Contractual Terms | 1.275 Employment or Association with an Attest Client |
| 1.230 Fees | 1.280 Memberships |
| 1.240 Financial Interests | 1.285 Gifts and Entertainment |
| 1.245 Trusts and Estates | 1.290 Actual or Threatened Litigation |
| 1.250 Participation in Employee Benefit Plans | 1.295 Nonattest Services |
| 1.255 Depository, Brokerage and Other Accounts | 1.297 Independence Standards for Engagements Performed in Accordance with SSAEs |
| 1.257 Insurance Products | |
| 1.260 Loans, Leases, and Guarantees | |
| 1.265 Business Relationships | |
| 1.270 Family Relationships with Attest Clients | |
| 1.275 Employment or Association with an Attest Client | |
| 1.280 Memberships | |
| 1.285 Gifts and Entertainment | |
| 1.290 Actual or Threatened Litigation | |
| 1.295 Nonattest Services | |
| 1.297 Independence Standards for Engagements Performed in Accordance with SSAEs | |

Point and Click World

| 1.200 | Independence |
| 1.275 | Employment or association with attest client |
| 1.275.005 | Simultaneous Employment or Association with an Attest Client |
| 1.275.010 | Honorary Director or Trustee of Not-for-Profit Organization |
| 1.275.015 | Advisory Board |
| 1.275.020 | Governmental Advisory Committee |
| 1.275.025 | Campaign Treasurer |
| 1.275.030 | Federated Fund-Raising Organization |
| 1.275.035 | Fund-Raising Organization |
| 1.275.100 | Former Employment or Association With Attest Client |
| 1.275.200 | Considering Employment or Association With an Attest Client |
| 1.275.210 | Subsequent Employment or Association With an Attest Client |
Addition of Two New Conceptual Frameworks

Conceptual Framework for Members in Public Practice
Conceptual Framework for Member’s in Business
Effective December 15, 2015
Toolkit Under Development

What is a Conceptual Framework

Nothing on Point in the Code
➢ Old Thinking
   ✓ Relationship or circumstance must be permitted
➢ Revised Thinking
   ✓ Apply the conceptual framework

Requires professional judgment
➢ Reasonable Third Party
   ❖ For example, if the situation involves a staff person often an effective safeguard is:
      ❖ The staff’s removal from the engagement
      ❖ Additional review of the staff’s work
Steps of the Conceptual Framework

Step 1: Identify Threats
- No Threats: Proceed

Step 2: Evaluate Threats
- Threats not Significant: Proceed

Step 3: Identify Safeguards
- Existing
- New

Step 4: Evaluate Safeguards
- Threats Not Acceptable Level: Stop
- Threats at Acceptable Level: Proceed

Nonattest Services
Interpretation 101-3, Nonattest Services

- Financial Statement Preparation, etc.
- Cumulative Effect Providing Multiple Nonattest Services Has on Independence
- Effective December 15, 2014

General Requirements

- May not assume management responsibilities for the client
- Client agrees to certain conditions
- Establish and document in writing specific terms
Attest or Nonattest Service?

- Financial Statement Preparation
- Cash-to-accrual Conversions
- Reconciliations

Before Performing a New Nonattest Service...Evaluate
- Are safeguards contained in the general requirements adequate?

If Threats Are Not at an Acceptable Level...
- Apply additional safeguards to eliminate or reduce the threats to an acceptable level or
- Do not perform the additional nonattest service.
Client Affiliates

Interpretation 101-18 Application of Independence Rules to Affiliates

Must apply the independence rules to any affiliate of a financial statement attest client

Defined terms:
- Financial Statement Attest Client (F/S AC)
- Control
- Significant Influence
- Affiliate

Effective for engagements covering periods beginning on or after January 1, 2014 with early implementation permitted

Few Limited Exceptions
Affiliates Are …

Traditional Affiliates
A. Entity that a client can control
B. Entity in which client (or entity controlled by client) has material direct financial interest and significant influence over entity
C. Entity that controls client when client is material to the entity
D. Entity with material direct financial interest in client and significant influence over client
E. Sister entity if client and sister entity are both material to parent

Non-Traditional Affiliates
F. Trustee of trust client
G. Sponsor of single employer benefit plan client
H. Union or participating employer that has significant influence over a multiple or multiemployer plan client
I. Plan sponsored by client or entity controlled by client
J. Investment advisor, general partner or trustee of a fund client when fund is material and the entity has either control or significant influence over fund

Traditional Affiliates

- **X**
  - Ultimate Parent
  - Z is not material to X
  - C1 and C2 are subsidiaries

- **C1**
  - C1 is not C2’s Sister
  - C1 is not material to X

- **K**
  - K is not material to C2
  - K is not E or Z’s Sister

- **C2**
  - C2 is material to X
  - Z is material to C2
  - K, E and Z are Subsidiaries

- **E**
  - E is Z and K’s Sister
  - E is material to C2

- **D1**
  - Investor
  - D1 has significant influence over Z
  - Z is material to D1

- **D2**
  - Investor
  - D2 has significant influence over Z
  - Z is not material to D2

- **Financial Statement Attest Client**
  - Z is material to C2 & D1

- **A2**
  - Subsidiary

- **A1**
  - Subsidiary

- **Investee**
  - Z has significant influence over B1 and B1 is material to Z

- **Investee**
  - Z has significant influence over R3 but R3 is immaterial to Z

- **Investee**
  - Z does not have significant influence over R3

**KEY FOR TRADITIONAL AFFILIATES FLOW CHART**
- Only Affiliates A, B, C, D and E are represented on this flowchart.
- Z is the Financial Statement Attest Client and is identified by a yellow box.
- Affiliates of Financial Statement Attest Client are identified in green boxes.
Non-authoritative Guidance

FAQs for Employee Benefit Plans

- Would an entity in which plan invests be an affiliate?
  - Investments i) controlled by plan or ii) material to plan and plan has significant influence over (FASB criteria)
- Would a service provider be an affiliate?
  - Not unless the plan invests in the service provider.
- Are brother/sister plans affiliates?
  - If both are material to the sponsor.
- Would entity that controls plan sponsor be an affiliate?
  - Yes, if plan was material to controlling entity.

Full Text of FAQs Can Be Found: www.aicpa.org/ebpafaqs

Partner Equivalents
New Definition - Partner Equivalents

- ONLY applies to independence rules
- Subject to same independence rules as partners
- Effective for engagements covering periods beginning on or after December 15, 2014

Partner Equivalents Are...

- Members who act in a partner capacity with respect to attest engagements but are not partners
  - Authority to bind firm with respect to attest engagement without partner approval
  - Ultimate responsibility for attest engagement
    - Authority to issue or authorize others to issue an attest report without partner approval
    - Authority to sign or affix the firm’s name to an attest report
  - Excludes partner approvals part of firm’s normal approval and QC policies and procedures applicable to partners
Subordination of Judgment

Revised Interpretation 102-4
Subordination of Judgment by a Member

Revisions Effective August 31, 2013
Clarifies that the guidance applies:
- To both members in public practice and in business
- When providing services for a client, employer or on a volunteer basis

Provides guidance on how to navigate situations when member and supervisor have difference of opinion relating to application of professional standards or applicable laws/regulations
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Does the Position Taken by the Supervisor...

- Fail to comply with professional standards, when applicable?
- Create a material misrepresentation of fact?
- Violate applicable laws or regulation?

Threats Not Significant If...

- Position fails to comply with professional standards provided
  - Position does not result in a material misrepresentation of fact
  - Position is not in violation of applicable law or regulations
- Must discuss with person taking position
Threats Are Significant If...

- Position results in material misrepresentation of fact, or
- Position in violation of applicable law or regulations

Then must:

+ Discuss with person taking position, and
+ If difference of opinion not resolved...discuss concerns with appropriate higher levels of management within the organization, and
+ If still not resolved, apply safeguards to eliminate or reduce threats to an acceptable level. Safeguards such as:
  + Any additional employer internal requirements
  + Any responsibility to report to third parties
  + Consult with legal counsel
  + Document!

Appropriate Action Not Taken or Threats Still Significant After Applying Safeguards Then...

- Consider continuing relationship with employer

- Take steps to eliminate exposure to subordination of judgment
Conflicts of Interest Interpretation

- Separate Interpretations For Members in Business and Public Practice
- Description of Conflict of Interest
  - Member provides professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict.
  - The interests of a member with respect to a particular matter and the interests of the client related to that matter are in conflict.
- Additional Examples of Conflicts of Interest
- Documentation Encouraged
- Steps Outlined In Interpretation
  - Identify Conflicts of Interest
  - Evaluate Conflict of Interest
  - Disclose and Obtain Consent
  - Perform Services If Consent Given
Other Standard Setting Projects

IFAC Convergence: Breaches
- Considering convergence with new IESBA standard on Breaches of the Code.
- Would provide guidance on actions a member should take when breach of independence rules occurs

Firm Mergers
- Developing independence guidance for members regarding instances when firms merge and partners or employees of one firm have certain relationships with attest clients of the other firm
  - Previous service on board of client of merging firm
  - Provided prohibited nonattest services to client of merging firm

Independence and Ethics Alert 2012/2013
- Overview of developments in independence and ethics;
- Issues receiving attention from regulators, investors, the media and others
- Assists reader in understanding independence requirements of AICPA Code and other rule-making and standards setting bodies [SEC - PCAOB - GAO]
- Contains “Plain English Guide to AICPA Independence Rules.”
Paragraph 1.14 The ethical principles that guide the work of auditors who conduct audits in accordance with GAGAS are

- the public interest;
- integrity;
- objectivity;
- proper use of government information, resources, and positions; and
- professional behavior.

Chapter 3 has detailed discussion of the Threats and Safeguards available under the Yellowbook. It would be good to revisit this chapter in order to be familiar with the differences between the AICPA and Government Auditing Standards (GAS).

Nonattest Services under AICPA code and Nonaudit Services under GAS.

Be aware of Documentation Differences
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Additional Ethics Resources

Other PEEC Projects (see 3-year agenda):
http://www.aicpa.org/download/ethics/PEEC_TF.pdf

Ethics Hotline:
(888) 777-7077 (Option 5 then option 2)

Ethics email:
ethics@aicpa.org

Ethics Division Web site:
http://www.aicpa.org/members/div/ethics/index.htm

Code of Professional Conduct:
www.aicpa.org/about/code/index.htm

Practical Puzzle Pieces Used To Strengthen our ETHICAL Foundations
Cracked ETHICAL Foundation??

Cultural Relativism  Behavioralism

Situation Ethics

Sell out at Any Cost

SELL OUT at Any Cost

The SELL OUT of “personal ethics” for a certain price.

We Do What We Must To Win

➢ Step on people, to advance self
➢ “Me” generation...no one else matters
➢ No “rules” or “absolutes”
➢ Disregard for others and life!
SOLID
ETHICAL Foundation

Respect (dignity)
Caring (compassion, kindness)
Objectivity (independence, fairness, equality)
Fidelity (loyalty, confidentiality)
Excellence (quality of work)
Social responsibility (respect for law)
Accountability (responsibility)
Promise Keeping (fulfilling commitments)
Integrity (convictions, courage)
Honesty (truthfulness, openness)

Ethical Absolutes Based on GOD’s moral law revealed in the Bible

Seven Puzzle Pieces to a Solid Personal ETHICAL Foundation

Evaluate Constantly
Tone at the Top
Heart
Integrity
Character
Accountability
Long lasting
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What Can You Do To Make An Ethical Difference

Where Do WE Start?
How Do WE Maintain a Solid ETHICAL Foundation?
Jim Collins author of “Built to Last” and “Good to Great”

Importance of Ethics in any successful company:

“Our research points to one essential element in any successful company. Those that are best have built a set of core values and lived by them.”

Each DAY is a NEW DAY!
What Really Matters?

“If you haven’t defined your values, I encourage you to do so...then live them out every day!!! Then work hard to keep the UNIMPORTANT from becoming IMPORTANT, and the IMPORTANT from becoming UNIMPORTANT.”

John Maxwell

QUESTIONS?

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