Disclaimer

My views are not necessarily the views of the AICPA PCPS Technical Issues Committee (TIC) as a whole or of my individual colleagues on the AICPA TIC staff or individual committee members.
FAR = FIRE

RU stuck in the office or IN LIFE?
Winston Churchill

Success is not final, failure is not fatal: it is the courage to continue that counts.

Our Discussion Today!
• 360 Degrees of Ethics
• Ethical Foundation
• Ethics Culture “Firm or Office”
• Ethics In Practice
• Do Little Things Really Matter?
• What Can You Do To Make An Ethical Difference?
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Ethics in Your Everyday: Living In A Glass House
May 22, 2019

Ethical Peanut!

Mom said, TAKE IT BACK AND APOLOGIZE!

Constant Life Transitions—These four partners were together for 22 years

SJHL Partners in 2000 (left to right): Carver Swindoll, Kyle Hawk, Keith Janzen and Scot Loyd
New Director as of April 6, 2019 at the First National Bank, Sedan, KS where our family owns part of the bank
“Change is the new, constant reality of any workplace. And if it’s not, it ought to be, because the riskiest thing any businesses can do in the new, uncertain world order, is to not change.”
What is Ethics?

- Ethics is what is **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

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I remember the days a handshake was good enough!

Public Trust? Is it missing today?
Is doing the right thing always easy? Is it always “right”?

R U Transparent with people? Is it easy to TRUST people?

Do people TRUST YOU?

Missing Piece Today?
What’s Your Brand?

 Kent Noble, Bill Daniels Chair of Business Ethics, University of Wyoming
 Daniels Fund, Ethics Initiative
 Kent presented at the 22nd Annual Biennial Forum of Government Auditors

What’s Your Brand?

 Creative
 Integrity
 Grit
 Dependable
 Energetic
 Knowledgeable
 Engaging
 Efficient
 Detailed

 Open
 Passionate
 Giving
 Leader
 Good Communicator
 Punctual
 Non-judgmental
 Humorous

 Confident
 Curious
 Positive attitude
 Humble
 Kind
 Organized
 Respectful
What’s Your Brand?

- Positive Attitude
- Integrity
- Grit

RU Fresh
or
RU on Empty?
If you drop the rubber ball, it will bounce back.

If you drop one of the glass balls, it will be damaged, or even shattered and will never be the same as it was before.

DailySelfhelp.com
Ethics Culture “Firm or Office”
The 2019 World’s Most Ethical Companies® Honoree List
www.ethisphere.com

➢ In 2019, 128 companies are recognized for exemplifying and advancing corporate citizenship, transparency and the standards of integrity.

➢ The honorees span 21 countries and 50 industries and includes 16 first-time honorees and eight companies that have been named to the list every year since 2007.

➢ We don’t publicly disclose the total number of applicants each year. We established this policy at the very beginning of our program so that companies have the freedom to apply and be measured against others in total confidence and so that those who are honored recognize that their programs are being measured both competitively and on their own merits.
If ethics are poor at the top, that behavior is copied down through the organization.

-- Robert Noyce
What’s Your “FIRMS” Brand?

- Does your personal brand play into the Firm’s Brand?
- What opportunities do you have as an individual for strengthening the Firm’s Brand?
- Does the Firm/Company Brand Really matter?

Is Your “FIRMS” Brand Important?
What’s Your “FIRMS” Brand?

What’s Your “FIRMS” Brand?

Together we’ll go far
What’s Your “FIRMS” Brand?

What’s Your “FIRMS” Brand?
Ethics is Ethics

Ethics doesn’t change!
Audit Conduct strives to be the most complete source for information on auditor independence, professional ethics and related topics.

Our ever-expanding library of blog posts is a comprehensive source of information on auditor independence and ethics. If you cannot find the information you need in our archives, please contact Catherine Allen at (631) 849-2392 or via email by clicking here.

Receive news as it happens Cathy’s quarterly newsletter addresses topics important to the accounting professional.

Very practical articles that could keep you in compliance with the AICPA Codes and others

https://www.auditconduct.com/articles
Professional Ethics Division at AICPA

- Establish independence and ethics standards for the profession
- Enforcement - investigate potential violations of the Code
- Educate members on ethics standards

Professional Ethics Division at AICPA

- **Toolkits**: Nonattest Services and Conceptual Frameworks
  - Understanding and flowcharts
  - Fillable checklists and worksheet
- **FAQs**
  - General topics, nonattest services, network firms, confidential client information, affiliates of employee benefit plans
- **Plain English Guide**
- **Basis For conclusion Documents**
Professional Ethics Division at AICPA

➢ Online platform
  ✓ Basic and advanced search capability
  ✓ Pop ups
  ✓ Bookmarks
  ✓ Record notes
  ✓ Hyperlinking

➢ New Revised and Pending [0.600]

➢ Revision History Table
Hosting Services

Hosting services impair independence because you are maintaining internal control.

Hosting service means that you accept responsibility to
- Be the sole host of attest client’s financial or nonfinancial system
- Custody or storage of attest client’s data or records
- Electronic security or back-up services for attest client’s data or records
Examples of Hosting Services

- Housing the attest client’s website or other non-financial information system
- Keeping the attest client’s data or records on the attest client’s behalf.
  - General ledger information
  - Supporting schedules (such as, depreciation or amortization schedules)
  - Lease agreements or other legal documents
- Being the attest client’s business continuity or disaster recovery provider

Examples of Services That Are NOT Hosting

- Copy of a work product or of data or records as documentation to support a service provided.
- Having the same general ledger software on the member’s server that the attest client has on its server to facilitate delivery of bookkeeping services.
- Retaining data collected by the member related to a work product that the member prepared (e.g., survey).
- Electronically exchanging data or records using a portal.
  - To avoid providing hosting services, terminate access to portal.
Examples of Services That Are NOT Hosting

- Licensing software where client inputs its data and receives an output that the attest client is responsible for maintaining.
  - Activity that the software performs must not impair independence
- Having possession of a depreciation schedule that the member prepared, provided the schedule and calculation is given to the attest client so its records are complete.
- Retaining original data or records to facilitate the delivery of a service provided returned at the end of the engagement.
  - Tax records to prepare a tax return

Hosting services - Updated Frequently-Asked-Questions (FAQs)

• FAQ 2, was added to address inquiries the AICPA staff has received.
• This FAQ says that once the hosting services interpretation becomes effective (7/1/19), a member does not have to terminate access to hosted client data or records for engagements completed prior to the effective date of the interpretation
• HOWEVER, the member should apply the new standard on a go-forward basis, since the AICPA Code of Professional Conduct (Code) does not currently prohibit hosting.
Hosting services - Updated Frequently-Asked-Questions (FAQs)

- Some PEEC members were concerned about allowing members to take no action with regards to previous engagements once the new rule goes into effect and asked that the task force consider revising the language.

- Later in the meeting, the PEEC reviewed and agreed with an updated version of the FAQ, which indicates that members need not terminate access prior to the effective date.

- Rather, they should terminate access to hosted client data or records for engagements completed prior to 7/1/19 within a reasonable period once the rule becomes effective.

Hosting services - Updated Frequently-Asked-Questions (FAQs)

- FAQ 3 was revised as the task force agreed to provide examples of a "reasonable period of time" rather than suggest a period of six (6) months in all cases.

- Instead, the task force provided examples of what would or would not be considered reasonable and advised members to apply judgment.

- The PEEC agreed with this approach.
Hosting services - Updated Frequently-Asked-Questions (FAQs)

- FAQ 5 was revised to address a concern about performing bookkeeping services when the firm has the software only on its server.

- Members questioned using “financial information system,” (FIS) in the FAQ, as that term is being proposed for use in the Information System Services interpretation.

- Later in the meeting, the PEEC reviewed and agreed with an updated version of the FAQ that removed the term, “financial information system” but retained the requirement that the client have a complete set of books and records.
The task force made various revisions to the proposed ISS interpretation in light of the comments, which include the following:

- Revised the definition of Financial Information System (FIS) by incorporating the notion of internal controls over financial reporting and other clarifications.
- One member asked whether it would be possible to provide examples of systems that would not be a FIS, e.g., email system, or one that may be a FIS in some but not all circumstances.
- The task force chair invited PEEC members to send any examples they would consider to be meaningful.

- Removed tax provision as a specific example of a discrete item (par. 04 in the proposed interpretation which states in part that, “designing and developing a template that performs a discrete calculation such as a tax provision or depreciation calculation does not constitute designing or developing a financial information system and will not impair independence…”),
- due to task force concerns that a tax provision would be material or significant to the financial statements.
- Another countered that incorporating a materiality threshold into that provision would contradict the Code’s bookkeeping provision (1.295.120), which allows a member to assist the client with developing its tax provision and does not consider materiality.

Next Steps: The task force will continue its evaluation of the comments to the ISS proposal and bring an updated proposal to PEEC in a future meeting.
Professional Ethics Division at AICPA

 TAX PRACTICE QUALITY REVIEW PROPOSAL (Confidential Client Information): AICPA staff Brandon Mercer discussed the revisions made to the June 2018 proposal that would allow members undergoing tax practice quality reviews to disclose client data to a reviewer without obtaining explicit permission from the client.

 The PEEC discussed, but did not agree, to include a statement that the member be satisfied that the reviewer is aware of relevant treasury regulations and/or have a confidentiality agreement when the reviewer is not an AICPA member because professionals performing those reviews are subject to Circular 230 confidentiality rules and US Treasury (IRS) regulation 7216.

 The PEEC unanimously agreed to adopt the proposed interpretation, as revised, effective on the last day of the month the interpretation is published in the Journal of Accountancy.

Professional Ethics Division at AICPA

 STATE AND LOCAL GOVERNMENT (SLG) AFFILIATE PROPOSAL (Independence): Ms. Miller, the task force chair, discussed the latest revisions to the July 2017 ED that defines the affiliates of a SLG for purposes of independence. Members agreed with changes to the guidance on "upstream" affiliates of an SLG audit client.

 After discussion, the PEEC agreed to re-expose the revised, proposed interpretation for a 60-day comment period. Comment letters were due March 11, 2019. Staff is developing guidance for implementing the proposed SLG affiliates interpretation, once adopted and issued, that would be linked from the code and available to all members.
State and Local Government Sector vs. Commercial Sector

- Consolidated presentation
- Single opinion
- Control or significant influence & materiality for inclusion

Columnar presentation
- Multiple opinion units
- Financial accountability criteria for inclusion
WHAT’S ON THE HORIZON?

• Yellow Book last updated in 2011
• Exposure draft of revised document including proposed changes issued in April 2017
• Final updated version issued in July 2018

WHAT’S ON THE HORIZON?

• The 2018 revision of Government Auditing Standards is effective for Financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020
• Performance audits beginning on or after July 1, 2019
• Early implementation is not permitted
• Note that 2018 Yellow Book independence provisions would apply for audit periods that begin on July 1, 2019
• Use this 2018 release as an opportunity to also revisit sections of the Yellow Book that haven’t changed
• www.gao.gov/yellowbook
Revising the Yellow Book

- Along with changes to its format and structure, the new Yellow Book contains updates on the following topics:
  - Independence
  - Competence and Continuing Professional Education
  - Quality Control and Peer Review
  - Financial Audits
  - Attestation Engagements and Reviews of Financial Statements
  - Performance Audits

Independence Threats related to Preparing Financial Statements & Accounting Records

- Nonaudit services performed by auditors related to financial statements and accounting records either:
  - Impair Independence—No Change from 2011 Yellow Book (Para. 3.87)
  - Are Significant Threats
    - The auditor prepares financial statements in their entirety (para. 3.88). OR
    - The auditor determines that a service related to preparing financial statements or accounting records is a significant threat (para. 3.93).
Independence Threats related to Preparing Financial Statements & Accounting Records

- Nonaudit services performed by auditors related to financial statements and accounting records either (con’t):

  - Are Significant Threats (con’t)
    - Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level (para. 3.33).
    - Decline to perform the service (para. 3.88).

  - Are Threats
    - Evaluate threat and document evaluation (para. 3.90).
    - Typing, formatting, printing, binding: not likely significant (para. 3.95)

Safeguards Related to Nonaudit Services

- Examples of safeguards for addressing threats to independence related to nonaudit services (para. 3.69):
  - not including individuals who provided the nonaudit service as engagement team members;
  - having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate;
  - engaging another audit organization to evaluate the results of the nonaudit service; or
  - having another audit organization re-perform the nonaudit service to the extent necessary to enable that other audit organization to take responsibility for the service.
Nonaudit Services vs. Routine Activities

- Routine activities are not considered nonaudit services (para. 3.70).
- Examples include (paras. 3.70 & 3.71):
  - providing advice and responding to questions as part of an engagement, and
  - educating the audited entity on matters within the technical expertise of the auditors.

Additional Updates to Independence Guidance

- Added application guidance to define management's “Skills, Knowledge and Experience” (SKE) as an indicator is management’s ability to recognize a material error (para. 3.79)
- Updated application guidance to clarify that certain services provided by government audit organizations would generally not create threats to independence allowability of certain functions such as investigations (para. 3.72)
Paying Professional Ethics More Than Lip Service

“Regardless of their job roles, professional accountants have a primary accountability to the public. In their ethical capacity, the more than three million professional accountants around the world play a critical role in building trust in business and the public sector. This means that throughout all activities, professional accountants must be anchored by their fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.”
New IESBA Code is Official!

- Following years of hard work and forethought about enhancing the international Code, the International Ethics Standards Board for Accountants (IESBA) has released a completely restructured, strengthened and clarified Code, now titled *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

- Enhancements include:
  - A design that facilitates navigation, use and enforcement
  - Requirements that are distinguished from the application materials
  - More focus on the fundamental principles underlying the Code
  - Better integration of the conceptual framework with the rest of the code
  - Stronger safeguards embedded in the conceptual framework

New International Code’s Structure (IESBA)

- Part 1, *Complying With the Code, Fundamental Principles and Conceptual Framework*
- Part 2, *Professional Accountants in Business*
- Part 3, *Professional Accountants in Public Practice*
- Part 4A, *Independence for Audit and Review Engagements*
- Part 4B, *Independence for Assurance Engagements Other Than Audit and Review Engagements*
The March/April issue of Directorship Magazine includes my article entitled, "Multinationals Are Facing Tougher Rules on Auditor Independence, and a June 15 Deadline". I wrote this article for the audit committee member; it describes the revised and restructured *International Ethics Code for Professional Accountants*, including *International Independence Standards* (the Code), and focuses on:

- the relevance of the Code to auditors of multinational companies;
- key messages in the new Code;
- ways in which the Code has been strengthened; and
- the application of the independence rules.

On the last point, the article illustrates the provisions and considerations the auditor should apply when an audit client requests that the auditor provide nonassurance services.
10 Things That Require Zero Talent

1. Being On Time
2. Work Ethic
3. Effort
4. Body Language
5. Energy
6. Attitude
7. Passion
8. Being Coachable
9. Doing Extra
10. Being Prepared

make yourself stronger than your excuses
What Can You Do To Make An Ethical Difference?
What’s Your Brand?

- Positive Attitude
- Integrity
- Grit

What’s Your “FIRMS” Brand?

- Does your personal brand play into the Firm’s Brand?
- What opportunities do you have as an individual for strengthening the Firm’s Brand?
- Does the Firm/Company Brand Really matter?
A man can do only what he can do. But if he does that each day he can sleep at night and do it again the next day.

Albert Schweitzer
What’s Your Personal Approach to Life?

Let the light shining in you be brighter than the light shining on you.
Dabo Swinney

Are You INSPIRED In Your Work DAY!
What Really Matters?

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

John Maxwell

Questions?

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