

## Chapter 03 Professional Ethics

### True / False Questions

1. The Rules portion of the AICPA Code of Professional Conduct must be followed by only those members in private practice.

True False

2. The AICPA Code of Professional Conduct derives its authority from the Bylaws of the AICPA.

True False

3. An immaterial loan from the CPA to an officer of a client impairs the independence of the CPA.

True False

4. Financial interests of a CPA's nondependent children are attributed directly to the CPA.

True False

5. Statements on Accounting and Review Services are enforceable under the AICPA Code of Professional Conduct.

True False

6. CPAs may *not* advertise as to any special expertise other than in accounting, auditing, and tax.

True False

7. A CPA may receive a commission for recommending a particular computer system to an audit client.

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8. The communications between CPAs and their clients are privileged under federal law.  
True False

9. CPAs can advertise the fees only for their nonattest services.  
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10. The American Institute of Certified Public Accountants has been the primary source for ethical rules for internal auditors.  
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**Multiple Choice Questions**

11. ABC Company is audited by the Phoenix office of Willingham CPAs. Which of the following individuals would be *least* likely to be considered a "covered member" by the independence standard?

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12. Which of the following statements is true with respect to the PCAOB and SEC's concept of independence when an auditor both prepares financial statements and audits those financial statements for a client?

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13. Auditors are periodically punished for holding an investment in a client. This violates which ethical rule?

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14. The AICPA Conceptual Framework for Independence Standards suggests that CPAs evaluate whether a particular threat would lead which type of person to conclude that an unacceptable risk of non-independence exists?

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- B. Engaging in discriminatory employment practices.
- C. Robbing a convenience store.
- D. Knowingly signing a false tax return.

32. Which of the following forms of advertising would most likely to be considered to be a violation of Rule 502 of the AICPA Code of Professional Conduct?

- A. Advertising including the types of services offered and the standard fees for the services.
- B. Advertising including the experience of the firm's professional staff.
- C. Advertising including an indication that the firm has a close relationship with several tax court judges.
- D. Advertising including the percentage of the firm's staff that have CPA certificates.

33. If a CPA violates the AICPA Code of Professional Conduct, the AICPA Trial Board may do all of the following, except:

- A. Admonish the offending member.
- B. Suspend the offending member.
- C. Expel the offending member.
- D. Revoke the offending member's CPA certificate.

34. Which of the following acts by a CPA would be most likely to be a violation of the AICPA Code of Professional Conduct?

- A. Assisting a client in preparing a financial forecast.
- B. Forming a professional corporation to practice as a CPA.
- C. Accepting a fee in a tax matter relating to an administrative proceeding.
- D. A "covered member" owns an immaterial amount of stock in an audit client.

35. In which of the following circumstances would a covered member be considered independent when performing the audit of the financial statements of a new client for the year ended December 31, 20X3?

- A. The covered member resigned on January 17, 20X3 from the board of directors of the client, prior to accepting the new audit engagement.
- B. The covered member continues to hold an immaterial indirect financial interest in the client.
- C. The covered member continues to serve as a trustee for the client's pension plan and has the authority to make investment decisions.
- D. The covered member's spouse owns an immaterial amount of shares of common stock in the client.

36. Independence is required of a CPA performing:

- A. Audits, but not any other professional services.
- B. All attestation services, but not other professional services.
- C. All attestation and tax services, but not other professional services.
- D. All professional services.

37. A CPA should maintain objectivity and be free of conflicts of interest when performing:

- A. Audits, but not any other professional services.
- B. All attestation services, but not other professional services.
- C. All attestation and tax services, but not other professional services.
- D. All professional services.

38. Bill Pan, CPA, has posted the general ledger and has maintained the financial records of Zorko Corporation. As a part of his responsibilities he has recorded journal entries and made closing entries. Which of the following best summarize the AICPA and SEC views as to the following question: Is audit independence impaired?

Item	AICPA	SEC
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D



39. In determining the scope and nature of services to be performed in public practice, a CPA firm should:

- A. Require independence for all services performed.
- B. Determine that the performance of all services is consistent with the firm's members' role as professionals.
- C. Have in place internal control procedures.
- D. Only perform accounting related services.

40. Independence of a CPA with respect to a client is not impaired if:

- A. The CPA has a loan to an officer of the client.
- B. The CPA has an immaterial direct interest in the client.
- C. The CPA is trustee for the client's pension plan.
- D. The CPA has an immaterial joint, closely held business investment with the client.

41. A CPA firm may not designate itself as "members of the AICPA" unless:

- A. All of its partners or shareholders are members of the Institute.
- B. All of its professional staff are members of the Institute.
- C. A majority of its professional staff are members of the Institute.
- D. At least one partner or shareholder is a member of the Institute.

42. While performing an audit an audit of a public company, the auditors discovered material illegal acts and resigned due to the client's refusal to disclose them. The auditors' reason for resignation should be disclosed through:

Item	CPA Direct Communication With Shareholders	The Process of Filing a Form 8-K
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

43. Pickens and Perkins, CPAs, decide to incorporate their practice of accountancy. According to the AICPA Code of Professional Conduct, shares in the corporation can be issued:

- A. Only to persons qualified to practice public accounting.
- B. Only to employees and officers of the firm.
- C. Only to persons qualified to practice as CPAs and members of their immediate families.
- D. To the general public.

44. Which of the following statements best describes why the profession of certified public accountants has deemed it essential to promulgate a code of professional conduct and to establish a mechanism for enforcing observation of the code?

- A. A distinguishing mark of a profession is its acceptance of responsibility to the public.
- B. A prerequisite to success is the establishment of an ethical code that stresses primarily the professional's responsibility to clients and colleagues.
- C. A requirement of most state laws calls for the profession to establish a code of ethics.
- D. An essential means of self-protection for the profession is the establishment of flexible ethical standards by the professions.

45. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is:

- A. Considered acceptable by the AICPA Code of Professional Conduct.
- B. Ill advised since it would impair the CPA's independence with respect to the client.
- C. Considered discreditable to the profession.
- D. A violation of generally accepted auditing standards.

46. The AICPA Code of Professional Conduct would be violated if a CPA accepted a fee for services and the fee was:

- A. Fixed by a public authority.
- B. Based on a price quotation submitted in competitive bidding.
- C. Based on performing work relating to judicial proceedings.
- D. Payable if the audit of the financial statements led to a loan.

47. An audit independence issue might be raised by the auditor's participation in consulting services engagements. Which of the following statements is most consistent with the profession's attitude toward this issue?

- A. Information obtained as a result of a consulting services engagement is confidential to that specific engagement and should not influence performance of the attest function.
- B. The decision as to loss of independence must be made by the client based on the facts of the particular case.
- C. The auditor should not make management decisions for an audit client.
- D. The auditor who is asked to review management decisions, is also competent to make these decisions and can do so without loss of independence.

48. The AICPA Code of Professional Conduct will ordinarily be considered to have been violated when the CPA represents that specific consulting services will be performed for a stated fee and it is apparent at the time of the representation that the:

- A. Actual fee would be substantially higher.
- B. Actual fee would be substantially lower than the fees charged by other CPAs for comparable services.
- C. Fee was a competitive bid.
- D. CPA would not be independent.

49. The concept of materiality would be least important to an auditor when considering the:

- A. Decision whether to use positive or negative confirmations of accounts receivable.
- B. Adequacy of disclosure of a client's illegal act.
- C. Discovery of weaknesses in a client's internal control.
- D. Effects of a direct financial interest in the client upon the CPA's independence.

50. When an accountant is not independent, the accountant is precluded from issuing a:

- A. Compilation report.
- B. Review report.
- C. Management advisory report.
- D. Tax planning report.

51. Competence as a certified public accountant includes all of the following except:

- A. Having the technical qualifications to perform an engagement.
- B. Possessing the ability to supervise and to evaluate the quality of staff work.
- C. Warranting the infallibility of the work performed.
- D. Consulting others if additional technical information is needed.

52. The AICPA Code of Professional Conduct states that a CPA shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client. This rule should be understood to preclude a CPA from responding to an inquiry made by:

- A. The trial board of the AICPA.
- B. An investigative body of a state CPA society.
- C. A CPA-shareholder of the client corporation.
- D. An AICPA voluntary quality review body.

53. A client company has not paid its 20X3 audit fees. According to the AICPA Code of Professional Conduct, in order for the auditor to be considered independent with respect to the 20X4 audit, the 20X3 audit fees must be paid before the:

- A. 20X3 report is issued.
- B. 20X4 fieldwork is started.
- C. 20X4 report is issued.
- D. 20X5 fieldwork is started.

54. A CPA sole practitioner purchased stock in a client corporation and placed it in a trust as an educational fund for the CPA's minor child. The trust securities were not material to the CPA but were material to the child's personal net worth. Would the independence of the CPA be considered to be impaired with respect to the client?

- A. Yes, because the stock would be considered a direct financial interest and, consequently, materiality is not a factor.
- B. Yes, because the stock would be considered an indirect financial interest that is material to the CPA's child.
- C. No, because the CPA would not be considered to have a direct financial interest in the client.
- D. No, because the CPA would not be considered to have a material indirect financial interest in the client.

55. A primary purpose for establishing a code of conduct within a professional organization is to:

- A. Reduce the likelihood that members of the profession will be sued for substandard work.
- B. Ensure that all members of the profession perform at approximately the same level of competence.
- C. Demonstrate acceptance of responsibility to the interests of those served by the profession.
- D. Require members of the profession to exhibit loyalty in all matters pertaining to the affairs of their organization.

56. An accounting association established a code of ethics for all members. The most likely primary purpose for establishing the code of ethics was to:

- A. Outline criteria for professional behavior to maintain standards of competence, morality, honesty, and dignity within the association.
- B. Establish standards to follow for effective accounting practice.
- C. Provide a framework within which accounting policies could be effectively developed and executed.
- D. Outline criteria that can be utilized in conducting interviews of potential new accountants.

**Essay Questions**

57. The following is a list of circumstances that might be faced by a public accounting firm. If the circumstance represents a violation of one of the rules of the AICPA Code of Professional Conduct, provide the title of the rule. Write "no violation" in the space if the circumstance does not represent a violation of a rule.

	<b>Circumstance</b>	<b>Rule Violated</b>
1	The dependent-son of a partner in a CPA firm owns ten shares of stock in an audit client.	
2	In preparing a tax return, a CPA takes a deduction at the client's request, that the CPA believes is not justified.	
3	A CPA robs a bank.	
4	A CPA owns 100 shares of stock in a consulting client.	
5	A CPA charges an audit fee that depends on the amount of credit the client obtains.	
6	A CPA advertises in a local newspaper.	
7	A CPA issues an unqualified opinion on financial statements that materially depart from an FASB standard; the CPA believes that the departure is not justified.	
8	A CPA receives a commission for selling computer equipment to an audit client.	
9	A CPA discloses information about a client because the information was subpoenaed.	
10	A CPA does not follow generally accepted auditing standards.	

58. CPAs are allowed to advertise under the Rules of the AICPA Code of Professional Conduct.

- a. List the general guidelines regarding the nature of acceptable advertising.
- b. Describe two specific forms of unacceptable advertising.

59. The Sarbanes-Oxley Act of 2002 placed significant restrictions on the types of consulting that may be performed by auditors for their public company audit clients.

- a. List four types of services that are prohibited by the Act.
- b. List three types of general consulting activities that would the AICPA Code of Professional Conduct indicates impair the auditors' independence.

60. The AICPA's Code of Professional Conduct consists of two parts, Principles and Rules.

- a. Describe the purpose of each of the two parts.
- b. Describe the disciplinary action that may be taken against a member who violates the Code.
- c. Must the Rules be followed by members of the AICPA that are not in public practice?  
Explain your answer.

## Chapter 03 Professional Ethics **Answer Key**

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**FALSE**

*Difficulty: Medium*

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- C. Robbing a convenience store.
- D. Knowingly signing a false tax return.

*Difficulty: Easy*

32. Which of the following forms of advertising would most likely to be considered to be a violation of Rule 502 of the AICPA Code of Professional Conduct?

- A. Advertising including the types of services offered and the standard fees for the services.
- B. Advertising including the experience of the firm's professional staff.
- C. Advertising including an indication that the firm has a close relationship with several tax court judges.
- D. Advertising including the percentage of the firm's staff that have CPA certificates.

*Difficulty: Medium*

33. If a CPA violates the AICPA Code of Professional Conduct, the AICPA Trial Board may do all of the following, except:

- A. Admonish the offending member.
- B. Suspend the offending member.
- C. Expel the offending member.
- D. Revoke the offending member's CPA certificate.

*Difficulty: Medium*

34. Which of the following acts by a CPA would be most likely to be a violation of the AICPA Code of Professional Conduct?

- A. Assisting a client in preparing a financial forecast.
- B. Forming a professional corporation to practice as a CPA.
- C. Accepting a fee in a tax matter relating to an administrative proceeding.
- D. A "covered member" owns an immaterial amount of stock in an audit client.

*Difficulty: Hard*



35. In which of the following circumstances would a covered member be considered independent when performing the audit of the financial statements of a new client for the year ended December 31, 20X3?

- A. The covered member resigned on January 17, 20X3 from the board of directors of the client, prior to accepting the new audit engagement.
- B.** The covered member continues to hold an immaterial indirect financial interest in the client.
- C. The covered member continues to serve as a trustee for the client's pension plan and has the authority to make investment decisions.
- D. The covered member's spouse owns an immaterial amount of shares of common stock in the client.

*Difficulty: Hard*

36. Independence is required of a CPA performing:

- A. Audits, but not any other professional services.
- B.** All attestation services, but not other professional services.
- C. All attestation and tax services, but not other professional services.
- D. All professional services.

*Difficulty: Medium*

37. A CPA should maintain objectivity and be free of conflicts of interest when performing:

- A. Audits, but not any other professional services.
- B. All attestation services, but not other professional services.
- C. All attestation and tax services, but not other professional services.
- D.** All professional services.

*Difficulty: Medium*

38. Bill Pan, CPA, has posted the general ledger and has maintained the financial records of Zorko Corporation. As a part of his responsibilities he has recorded journal entries and made closing entries. Which of the following best summarize the AICPA and SEC views as to the following question: Is audit independence impaired?

Item	AICPA	SEC
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

- A. Option A
- B. Option B
- C. Option C**
- D. Option D

*Difficulty: Hard*

39. In determining the scope and nature of services to be performed in public practice, a CPA firm should:

- A. Require independence for all services performed.
- B. Determine that the performance of all services is consistent with the firm's members' role as professionals.**
- C. Have in place internal control procedures.
- D. Only perform accounting related services.

*Difficulty: Medium*

40. Independence of a CPA with respect to a client is not impaired if:

- A. The CPA has a loan to an officer of the client.
- B. The CPA has an immaterial direct interest in the client.
- C. The CPA is trustee for the client's pension plan.
- D. The CPA has an immaterial joint, closely held business investment with the client.**

*Difficulty: Hard*

41. A CPA firm may not designate itself as "members of the AICPA" unless:

- A. All of its partners or shareholders are members of the Institute.
- B. All of its professional staff are members of the Institute.
- C. A majority of its professional staff are members of the Institute.
- D. At least one partner or shareholder is a member of the Institute.

*Difficulty: Medium*

42. While performing an audit an audit of a public company, the auditors discovered material illegal acts and resigned due to the client's refusal to disclose them. The auditors' reason for resignation should be disclosed through:

Item	CPA Direct Communication With Shareholders	The Process of Filing a Form 8-K
A)	Yes	Yes
B)	Yes	No
C)	No	Yes
D)	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

*Difficulty: Hard*

43. Pickens and Perkins, CPAs, decide to incorporate their practice of accountancy. According to the AICPA Code of Professional Conduct, shares in the corporation can be issued:

- A. Only to persons qualified to practice public accounting.
- B. Only to employees and officers of the firm.
- C. Only to persons qualified to practice as CPAs and members of their immediate families.
- D. To the general public.

*Difficulty: Medium*

*Source: AICPA*

44. Which of the following statements best describes why the profession of certified public accountants has deemed it essential to promulgate a code of professional conduct and to establish a mechanism for enforcing observation of the code?

- A. A distinguishing mark of a profession is its acceptance of responsibility to the public.
- B. A prerequisite to success is the establishment of an ethical code that stresses primarily the professional's responsibility to clients and colleagues.
- C. A requirement of most state laws calls for the profession to establish a code of ethics.
- D. An essential means of self-protection for the profession is the establishment of flexible ethical standards by the professions.

*Difficulty: Easy*  
*Source: AICPA*

45. A CPA's retention of client records as a means of enforcing payment of an overdue audit fee is an action that is:

- A. Considered acceptable by the AICPA Code of Professional Conduct.
- B. Ill advised since it would impair the CPA's independence with respect to the client.
- C. Considered discreditable to the profession.
- D. A violation of generally accepted auditing standards.

*Difficulty: Medium*  
*Source: AICPA*

46. The AICPA Code of Professional Conduct would be violated if a CPA accepted a fee for services and the fee was:

- A. Fixed by a public authority.
- B. Based on a price quotation submitted in competitive bidding.
- C. Based on performing work relating to judicial proceedings.
- D. Payable if the audit of the financial statements led to a loan.

*Difficulty: Medium*  
*Source: AICPA*

47. An audit independence issue might be raised by the auditor's participation in consulting services engagements. Which of the following statements is most consistent with the profession's attitude toward this issue?

- A. Information obtained as a result of a consulting services engagement is confidential to that specific engagement and should not influence performance of the attest function.
- B. The decision as to loss of independence must be made by the client based on the facts of the particular case.
- C.** The auditor should not make management decisions for an audit client.
- D. The auditor who is asked to review management decisions, is also competent to make these decisions and can do so without loss of independence.

*Difficulty: Hard*  
*Source: AICPA*

48. The AICPA Code of Professional Conduct will ordinarily be considered to have been violated when the CPA represents that specific consulting services will be performed for a stated fee and it is apparent at the time of the representation that the:

- A.** Actual fee would be substantially higher.
- B. Actual fee would be substantially lower than the fees charged by other CPAs for comparable services.
- C. Fee was a competitive bid.
- D. CPA would not be independent.

*Difficulty: Medium*  
*Source: AICPA*

49. The concept of materiality would be least important to an auditor when considering the:

- A. Decision whether to use positive or negative confirmations of accounts receivable.
- B. Adequacy of disclosure of a client's illegal act.
- C. Discovery of weaknesses in a client's internal control.
- D.** Effects of a direct financial interest in the client upon the CPA's independence.

*Difficulty: Hard*  
*Source: AICPA*

50. When an accountant is not independent, the accountant is precluded from issuing a:

- A. Compilation report.
- B.** Review report.
- C. Management advisory report.
- D. Tax planning report.

*Difficulty: Medium*  
*Source: AICPA*

51. Competence as a certified public accountant includes all of the following except:

- A. Having the technical qualifications to perform an engagement.
- B. Possessing the ability to supervise and to evaluate the quality of staff work.
- C.** Warranting the infallibility of the work performed.
- D. Consulting others if additional technical information is needed.

*Difficulty: Easy*  
*Source: AICPA*

52. The AICPA Code of Professional Conduct states that a CPA shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client. This rule should be understood to preclude a CPA from responding to an inquiry made by:

- A. The trial board of the AICPA.
- B. An investigative body of a state CPA society.
- C.** A CPA-shareholder of the client corporation.
- D. An AICPA voluntary quality review body.

*Difficulty: Medium*  
*Source: AICPA*

53. A client company has not paid its 20X3 audit fees. According to the AICPA Code of Professional Conduct, in order for the auditor to be considered independent with respect to the 20X4 audit, the 20X3 audit fees must be paid before the:

- A. 20X3 report is issued.
- B. 20X4 fieldwork is started.
- C. 20X4 report is issued.**
- D. 20X5 fieldwork is started.

*Difficulty: Medium*  
*Source: AICPA*

54. A CPA sole practitioner purchased stock in a client corporation and placed it in a trust as an educational fund for the CPA's minor child. The trust securities were not material to the CPA but were material to the child's personal net worth. Would the independence of the CPA be considered to be impaired with respect to the client?

- A. Yes, because the stock would be considered a direct financial interest and, consequently, materiality is not a factor.**
- B. Yes, because the stock would be considered an indirect financial interest that is material to the CPA's child.
- C. No, because the CPA would not be considered to have a direct financial interest in the client.
- D. No, because the CPA would not be considered to have a material indirect financial interest in the client.

*Difficulty: Hard*  
*Source: AICPA*

55. A primary purpose for establishing a code of conduct within a professional organization is to:

- A. Reduce the likelihood that members of the profession will be sued for substandard work.
- B. Ensure that all members of the profession perform at approximately the same level of competence.
- C. Demonstrate acceptance of responsibility to the interests of those served by the profession.**
- D. Require members of the profession to exhibit loyalty in all matters pertaining to the affairs of their organization.

*Difficulty: Medium*  
*Source: IIA*

56. An accounting association established a code of ethics for all members. The most likely primary purpose for establishing the code of ethics was to:

- A. Outline criteria for professional behavior to maintain standards of competence, morality, honesty, and dignity within the association.
- B. Establish standards to follow for effective accounting practice.
- C. Provide a framework within which accounting policies could be effectively developed and executed.
- D. Outline criteria that can be utilized in conducting interviews of potential new accountants.

*Difficulty: Medium*  
*Source: IIA*

#### Essay Questions

57. The following is a list of circumstances that might be faced by a public accounting firm. If the circumstance represents a violation of one of the rules of the AICPA Code of Professional Conduct, provide the title of the rule. Write "no violation" in the space if the circumstance does not represent a violation of a rule.

	<b>Circumstance</b>	<b>Rule Violated</b>
1	The dependent-son of a partner in a CPA firm owns ten shares of stock in an audit client.	
2	In preparing a tax return, a CPA takes a deduction at the client's request, that the CPA believes is not justified.	
3	A CPA robs a bank.	
4	A CPA owns 100 shares of stock in a consulting client.	
5	A CPA charges an audit fee that depends on the amount of credit the client obtains.	
6	A CPA advertises in a local newspaper.	
7	A CPA issues an unqualified opinion on financial statements that materially depart from an FASB standard; the CPA believes that the departure is not justified.	
8	A CPA receives a commission for selling computer equipment to an audit client.	
9	A CPA discloses information about a client because the information was subpoenaed.	
10	A CPA does not follow generally accepted auditing standards.	



	<b>Circumstance</b>	<b>Rule Violated</b>
1	The dependent-son of a partner in a CPA firms owns ten share of stock in an audit client.	Independence
2	In preparing a tax return, a CPA takes a deduction at the client's request, that the CPA believes is not justified.	Integrity and objectivity
3	A CPA robs a bank.	Acts discreditable
4	A CPA owns 100 shares of stock in a consulting client.	No violation
5	A CPA charges an audit fee that depends on the amount of credit the client obtains.	Contingent fees
6	A CPA advertises in a local newspaper.	No violation
7	A CPA issues an unqualified opinion on financial statements that materially depart from an FASB standard; the CPA believes that the departure is not justified.	Accounting principles
8	A CPA receives a commission for selling computer equipment to an audit client.	Commissions and referral fees
9	A CPA discloses information about a client because the information was subpoenaed.	No violation
10	A CPA does not follow generally accepted auditing standards.	Compliance with standard

*Difficulty: Hard*

58. CPAs are allowed to advertise under the Rules of the AICPA Code of Professional Conduct.

- a. List the general guidelines regarding the nature of acceptable advertising.
- b. Describe two specific forms of unacceptable advertising.

- a. Advertising is acceptable if it is not false, misleading, or deceptive.
- b. Unacceptable forms of advertising include advertising that (only two required):
  - Creates unjustified expectations of favorable results.
  - Indicates an ability to influence a court or other official body.
  - Misstates professional qualifications.

*Difficulty: Medium*

Chapter 03 - Professional Ethics

59. The Sarbanes-Oxley Act of 2002 placed significant restrictions on the types of consulting that may be performed by auditors for their public company audit clients.

- a. List four types of services that are prohibited by the Act.
- b. List three types of general consulting activities that would the AICPA Code of Professional Conduct indicates impair the auditors' independence.

a. Services prohibited by the Act include (4 required):

- Bookkeeping or other services related to the accounting records or financial statements.
- Financial information systems design and implementation.
- Appraisal, valuation and actuarial services.
- Internal audit outsourcing services, management functions or human resources.
- Various investment services.
- Legal services and expert services unrelated to auditing.

b. Consulting functions that the AICPA Code of Professional Conduct indicate impair independence include (3 required):

- Authorizing, executing or consummating a transaction.
- Preparing source documents.
- Having custody of client assets.
- Supervising client employees in their normal recurring activities.
- Determining which recommendation should be implemented.
- Reporting to the board of directors on behalf of management.
- Serving as a client's stock transfer or escrow agent, registrar, or its general counsel.

*Difficulty: Hard*

60. The AICPA's Code of Professional Conduct consists of two parts, Principles and Rules.

- a. Describe the purpose of each of the two parts.
- b. Describe the disciplinary action that may be taken against a member who violates the Code.
- c. Must the Rules be followed by members of the AICPA that are not in public practice? Explain your answer.

a. Principles-goal-oriented, positively stated discussion of the profession's responsibilities to the public, clients, and fellow practitioners. Rules--enforceable applications of the principles.

b. For violations of the Code a member may be required to take remedial action, such as attending continuing education programs. For more serious violations, the member may be censured, suspended, or expelled.

c. The Rules apply to all members of the AICPA, unless the wording of the rule indicates otherwise.

*Difficulty: Medium*