



OHIO CPA PROFESSIONAL STANDARDS AND RESPONSIBILITIES

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May 2018

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Part I: Expectations of CPAs

What's The Big Deal?

Query business ethics in the urban dictionary and this is what you get:

“The Business manager was talking about “Business Ethics” to his employees while he was simultaneously dumping harmful chemicals into the pastures nearby.

Go onto Pinterest and you'll find interesting quotes such as:

- There's no right way to do the wrong thing
- Do what is right not what is easy
- Relativity applies to physics not to ethics
- The time is always right to do what is right

But those are more serious, if you want some real laughs you have to Google “ethics jokes”. That's when you see things like:

- I took a course in ethics, but everything was contradicted by the course I took in accounting.
- Keep it fast, keep it fair, keep it simple. That's our motto here at the law firm of Rock, Paper, and Scissors.
- We need to draw the line on unethical behavior. But let's draw the line with an Etch-a-Sketch and don't be afraid to shake it a little.

Lesson: Don't assume your definition of ethics is the same as someone else's view of ethics.

Code Consideration: Good Moral Character (ORC 4701.01)

(1) "Good moral character" means the combination of personal traits of honesty, integrity, attention to duty, forthrightness, and self-restraint that enables a person to discharge the duties of the accounting profession fully and faithfully.

(2) A history of dishonest acts or felonious acts or convictions is sufficient to prove lack of good moral character if that history demonstrates by a preponderance of the evidence that the person lacks one or more of the personal traits referred to in division (V)(1) of this section. A person who has a felony conviction related to one or more of those personal traits bears the burden of establishing the person's present good moral character, including the person's full and complete rehabilitation subsequent to the conviction. If less than one year has passed since the completion of the person's sentence on a felony conviction, including any period under a community control

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sanction or post-release control, the board may delay any determination of the person's good moral character until one year has passed from the time of the completion of that sentence.

(3) In determining whether a person who has a felony conviction has met the person's burden of proof described in division (V)(2) of this section, the accountancy board may consider the following factors:

- (a) The person's path toward professional licensing following completion of the person's sentence;
- (b) The nature and degree of the person's academic achievements;
- (c) The nature and degree of the person's employment following completion of the person's sentence;
- (d) The person's degree of self-sufficiency following completion of the person's sentence;
- (e) The nature and degree of the person's other responsibilities following completion of the person's sentence;
- (f) The person's conviction for any other criminal offense since completion of the person's sentence for the person's first felony conviction;
- (g) Whether the person's application or presentation contains any inconsistencies or misleading explanations that convince the board that either the person or the person's attorney is trying to keep the board from acquiring a true, though damaging, representation of the person's character;
- (h) The nature and circumstances of the dishonest acts or felonious acts or convictions of the person;
- (i) Any other specifically identifiable information that the board determines to be relevant to the person's ability to discharge the duties of the accounting profession fully and faithfully.

What is Ethics

1. Professional ethics focuses on what?
 - a. Rules governing behavior within a particular profession
 - b. Doing what is best in a particular profession
 - c. Taking actions that comply with applicable laws and regulation
 - d. Identifying how to minimize the negative impact of a situation

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2. Professional ethics is best learned by?
- Attending an ethics class
 - Reading and then signing a code of conduct
 - Exploring ethical dilemmas and learning how to develop a course of action
 - Watching what others do
-
-
-

3. Which one of the attributes is not included within the definition of good moral character?
- Honesty
 - Integrity
 - Self-restraint
 - Principles
-
-
-

What makes you trustworthy

- 1) Which of these companies have appeared on the Forbes 100 Most Trustworthy Companies in America every year since 2012?
- Daktronics
 - MASCO Corp
 - Big Lots
 - BJs Restaurants

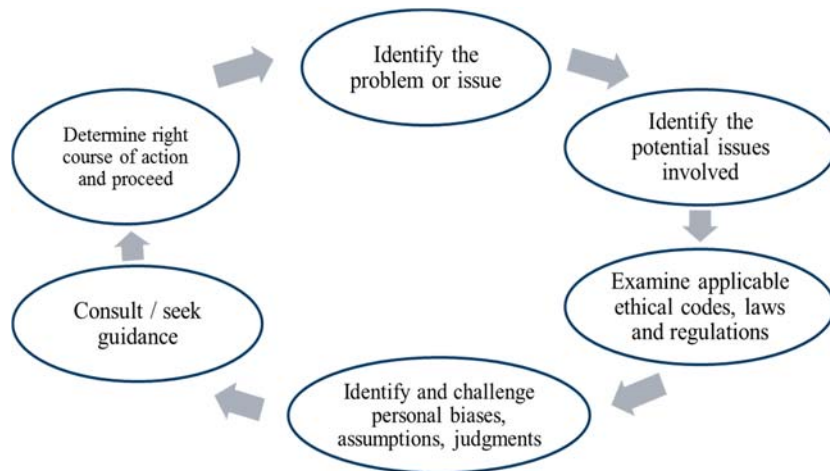
The Forbes 100 Most Trusted Companies listed is compiled by evaluating 2,300 non-financial companies worth at least \$250 million on their accounting and governance practices.

- 2) Which of these Ohio-based companies appeared on the 2017 Forbes 100 Most Trustworthy Companies in America for the first time?
- Daktronics
 - Lancaster Colony Corp.
 - Big Lots
 - Convergys
- 3) Of the 22 professions ranked in an annual Gallup survey for public perception of whether the profession had high or very high honesty and ethical standards, which profession is consistently high-ranked?
- Accountants

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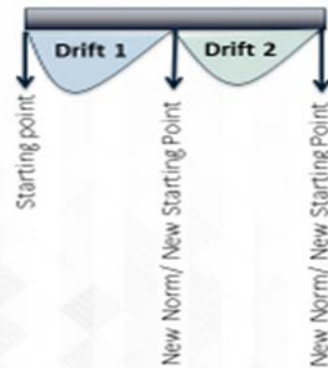
- b. Nurses
 - c. Bankers
 - d. Teachers
- 4) Who would you be inclined to trust more
- a. CPA with experience in with several years of experience at a well-known public accounting firm?
 - b. CFO of a publicly-traded company who had prior public accounting experience, including SEC reporting experience, and has been receptive to auditors comments and recommended adjustments?
 - c. An Internal Audit Director with a reputation of engaging in difficult conversations and asking the next question?
 - d. An Auditor who has been recognized as a subject matter expert in a complex area of accounting?

Ethical Decision-Making: What's the Process?



Ethical Decision-Making: How Drift Happens

- Small, “minor” exceptions made
 - Just this once
 - It’s nothing more than a rounding error
 - Everyone pads just a little bit
- A new norm is established
- Pattern repeats



4701.01 What does it mean to you to be a CPA

(<http://codes.ohio.gov/orc/4701>)

1. CPA Designation and Permit to Practice (4701.06, .07, .08, .09.14)
2. What is Public Accounting (4701-01 (A), 4701-7-04)
3. What are Regulated Services (4701-01(A), 4701-7-04)
4. What do others expect / think of CPAs

Participant Questions:

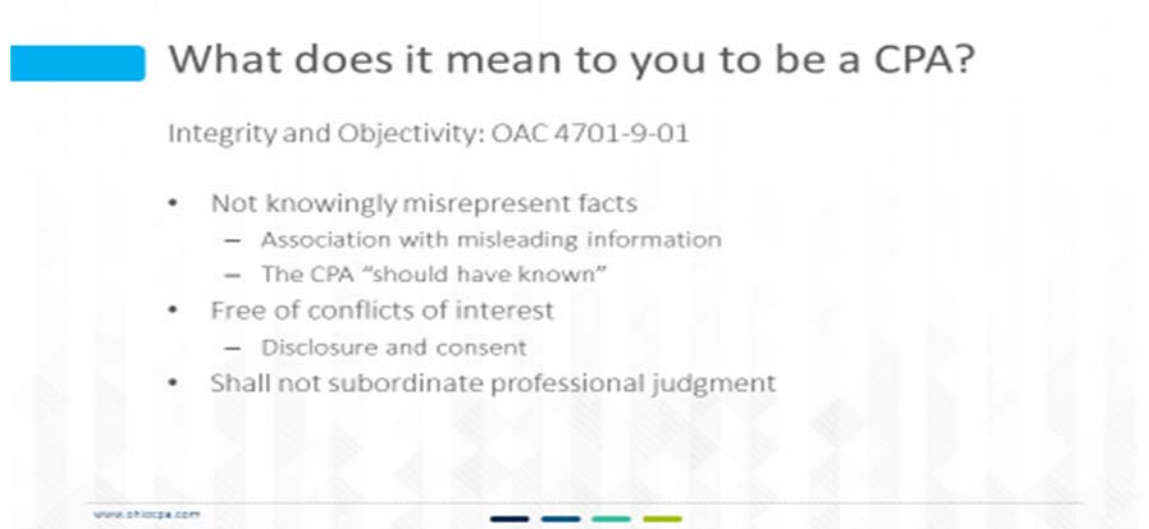
1. What words are commonly used to describe you as a finance professional?
 - Discussion – what drives this perception?
 - Discussion – what risks does this perception create for us personally and for the profession?
2. What attributes (traits) contribute to the profession’s trustworthiness?
 - Discussion – why

Jot additional thoughts here:

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5. What Core Values Are You Expected to Have (Principles)?

a. 4701-9-01 Integrity and Objectivity (<http://codes.ohio.gov/oac/4701-9>)



b. 4701-9-02 Professional Competence

6. What are some of the biases that interfere with our thinking, making it more difficult for us to be objective?

Case Studies: Application of Ethics

Case Study # 1: Forecasted Information

You're the finance manager of a private company that has performed well enough in its sector that it's attracted the attention of a public company, and has received an acquisition inquiry. The CFO wants to position the company favorably and asks you as the Finance manager to produce a revenue forecast that is highly unrealistic. Part of the impetus for this request is the disappointing income in the current quarter.

In addition, the revenue request, you've noticed some trends in your financial analysis that has you concerned. The tax provision isn't trending as you'd expect. You also notice that there doesn't seem to be accruals for some liabilities that you're expecting to affect income in the 3rd and 4th quarter. When you voice these concerns to the CFO, those concerns are dismissed. You're asked to submit forecasted financial statements (income statement, balance sheet, and cash flows) with the adjusted revenue amounts by the end of the day, for the CFO to use in negotiations with the acquiring company.

Questions:

- 1) What's at stake?
- 2) What concerns would you have as the Finance Manager?
- 3) What actions should the Finance Manager take to get resolution?

Case Study # 2: Business Line Results

You're a corporate staff accountant for a company with multiple business lines. A close relative of the finance director leads a business line that is struggling. The finance director has asked you to channel profits from one business line to this struggling business line to hide the significant loss experienced in the current quarter. Specifically, the finance director has asked you to create invoices for services that have not been provided, knowing that those invoices will be reversed after the end of the quarter.

The company is a closely-held private company, and business line results are used to determine bonus payments. The company is also considering a change in its ownership structure as part of its succession planning.

Questions:

- 1) What's at stake?
- 2) What concerns would you have as the staff accountant?
- 3) What actions should the staff accountant take to get resolution?

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Professional Competence (OAC 4701-09-02)

What does it mean to you to be a CPA?

Professional Competence: OAC 4701-9-02

- Only provide services can reasonably expect to perform with professional competence
- Due professional care
- Sufficient relevant data to support conclusions



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How do you develop and maintain your own professional competence?

What do you do to encourage your staff to develop and maintain their professional competence?

Compliance with Professional Standards (OAC 4701-9-03, 4701-9-09)

Which professional standards apply to the services that you provide?

The Formula for trustworthiness

General Notes and Follow-up Actions

Part II: CPA Licensing Rules

What tends to get Ohio CPA's disciplined?

1. Late renewing
2. Failed CPE Audit
3. Criminal conviction
4. Action taken by a government agency

How do you turn \$1,000 into \$5,000 (ORC: 4701.16)?

5. Don't update records
6. Don't open return address
7. Don't track reporting date
8. Don't keep evidence

Complying with CPE Requirements as Individuals and Providers

1. How much CPE do you need?

Complying with CPE Requirements as Individuals and Providers ORC 4701-11, OAC 4701-15

WHAT DO YOU NEED?	
✓	Contributes to your professional competence
✓	120 credits every 3 years
✓	20 credit hour minimum annually
✓	24 credits in tax if serve on engagement
✓	24 credits in A&A if serve on engagement
✓	3 hours professional standards & responsibilities

2. CPE calculations and other nuances

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Complying with CPE Requirements as Individuals and Providers ORC 4701-11, OAC 4701-15

CONTINUING CPE REQUIREMENTS	
✓	50 minutes = 1 credit
✓	Instructor receives up to 3 times credit, 90 credit max
✓	Self-study requires an examination, can earn in .2 increments
✓	Retain documentation for previous reporting cycle
✓	120 hours to return to active permit after inactive
✓	ABO can grant extension

3. What counts as evidence to prove CPE completion?

4. What should you expect to receive from a CPE provider to help you comply with requirements?

5. What if records are destroyed?

- If you don't have evidence, then you didn't take it and don't sign the form attesting that you did.
- Need to use a credible provider that is in a position to comply with the recordkeeping requirements
- You should be able to go back to that provider to get evidence of completion
- Use an online service (e.g. OSCPA transcript) to track all CPE regardless of provider

6. What does it mean to be inactive?

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- You have to state that you are inactive if you use the CPA designation, immediately following and as prominent as anything else
- Can't perform public accounting or be associated with a public accounting firm or have the appearance of being associated with a public accounting firm. Appearance would include maintaining and operating out of office space at your old firm, using their letterhead for correspondence, etc.
- No moonlighting or accepting "one-off items" ; not even for a friend or relative
- To become active again, you have to apply with the State Board of Accountancy and complete the 120 hours of CPE

Offering CPA Services to the Public

It's not okay to color outside the lines; this is one area where creative license is not allowed.

Keep Your Firm Out of Trouble

Register: register your firm

Regard: (know and comply with) the rules that apply to your firm

Review: Establish a self-review process and participate in peer review, if required

Respond: reply to all inquiries and requests for information by the noted deadline

Firm Registration (ORC 4701.04, 4701-13)

When is registration required?

What requirements accompany registration?

1. _____
2. _____
3. _____
4. _____

Peer Review (ORC 4701.04, OAC 4701.13)

What level of services requires peer review? What about preparation services?

1. _____
2. _____

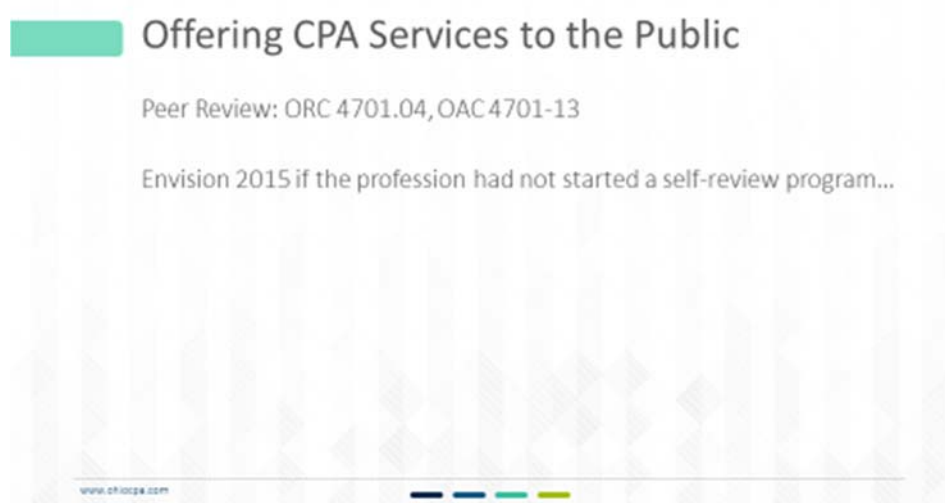
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3. _____
4. _____

What are the compliance hot topics associated with peer review?

1. _____
2. _____
3. _____
4. _____

Why do we need peer review anyway?



Future of practice monitoring, what can you expect?

AICPA Future of Practice Monitoring Concept Paper:

<http://www.aicpa.org/interestareas/peerreview/pages/futureofpracticemonitoring.aspx>

AICPA Enhancing Audit Quality Initiative:

<http://www.aicpa.org/interestareas/peerreview/pages/eaq.aspx>

CPA: Wear It Proudly but Carefully

We should be proud of our CPA permit but we also need to but we also need to be careful that we don't use the designation in ways that are misleading. Today's environment presents some interesting challenges as it relates to accurately representing yourself and your firm. Use the following questions as a quick self-assessment tool.

1. How are you presenting yourself on social media sites like Linked In, Facebook, and Twitter?

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Follow-up actions required

No issues or concerns

2. What do you say on your website, in your about your, in any testimonials that are reflected?

Follow-up actions required

No issues or concerns

3. What expectations arise or what responsibilities may be implied within the volunteer work that you do because you're a CPA? Are there false assurances there?

Follow-up actions required

No issues or concerns

4. What does your Firm Name imply?

Follow-up actions required

No issues or concerns

5. Does your advertising violate any of these restrictions?

(a) Misrepresenting facts or failing to disclose relevant facts.

(b) Creating false or unjustified expectation of favorable results.

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- (c) Implying abilities not supported by valid educational background, professional attainments, or licensing recognition.
 - (d) Implying the ability to influence improperly any court, tribunal or other public body or official.
 - (e) Engaging in any deceptive trade practice prohibited by law.
- Follow-up actions required
- No issues or concerns

What does Google say?

Another great check you should do periodically is to google yourself and your company. See what results appear and what picture they present collectively.

- Follow-up actions required
- No issues or concerns

Part III: Ethics and Independence Rules

Understand all the ethics rules that apply can be a bit of a challenge. Many professional standards are incorporate by reference (GAAP, GAAS, Independence) and in some cases bright lines are blurred. Part of your responsibility before you except a client or an engagement is to understand which rules apply to you so that you can accurately assess whether there are any issues.

What do The Rules Say?

The Ethics Puzzle (Professional Standards: OAC 4701-9-02 – 4701-9-09, OAC 4701-11-01)

How do these different rules come together?

Are there any bright lines or have they blurred?

GAAS	Independence	Conceptual Framework
GAAP	AICPA Codification	Threats & Safeguards

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AICPA Codification: Conceptual Framework

The conceptual framework developed by the AICPA for use when the rule or other guidance do not address a particular situation, is built upon a basic three-step process.

1. What's the applicable threat?
2. What's the significance of the threat?
3. What, if any, safeguards can be applied to reduce threats down to an acceptable level.

Threats and Safeguards

Seven threats have been identified within the Conceptual Framework. For each of these threats, the conceptual framework identifies potential safeguards that could reduce the significance of the threat. In some cases, threats cannot be reduced to an acceptable level and other actions would have to be taken. There is a separate framework for Members in Public Practice and for Members in Business.

What do The Rules Say?

AICPA Conceptual Framework: Threats and Safeguards



Conceptual Framework for Members in Public Practice:

<http://pub.aicpa.org/codeofconduct/resourceseamlesslogin.aspx?prod=ethics&tdoc=et-cod&tptr=et-cod1.000.010>

Conceptual Framework for Members in Business

<http://pub.aicpa.org/codeofconduct/resourceseamlesslogin.aspx?prod=ethics&tdoc=et-cod&tptr=et-cod2.310.005>

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Threats & Safeguard Example: Increased Consulting Services

Services	201x	201y	201z
Attest	\$25,000	\$25,000	\$25,000
Consulting	\$10,000	\$50,000	\$150,000

Discussion Questions:

1. Given the trend in consulting services over a number of years as opposed to a steady amount of attest services, is there a threat posed by the threat posed by increased consulting services?
2. If there is a threat, are there any effective safeguards that could be established?

Client/Engagement/Project Acceptance

Your company has embarked on an ambitious plan to redesign their operational practices including opening new accounts, calculating fees, and billing and collections. Because of your expertise with the current processes they ask for your assistance with process definition, internal control selection, and process documentation. Operating in this role could place you in a position of having to audit your own work in the future as you plan to transfer out of your current role to become the head of Internal Audit within the next 6 months. Given these facts:

Discussion Questions:

1. Should you accept the project?
2. What are the ethical issues involved in evaluating the situation?

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Ethical Dilemmas

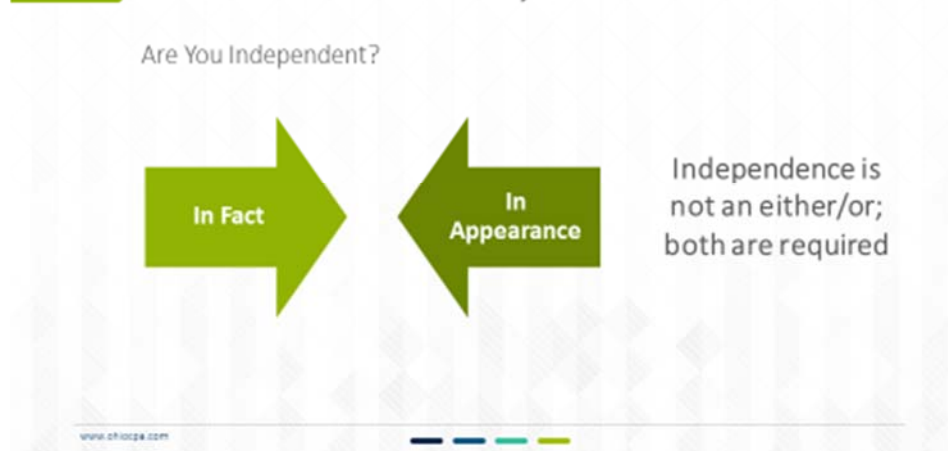
Ethical dilemmas often arise because of an issue of either independence or objectivity. There are three situations we can encounter when it comes to evaluating whether or not to accept a client, engagement, or project that would represent an ethical dilemma. In essence:

- You can be independent but not objective
- You can be objective but not independent
- You can be objective and independent, but not qualified or otherwise suited to do the work

Independence isn't just a matter of fact but also of appearance. Remember what we reviewed about the perception of CPAs. The public doesn't expect you to flirt with and come just in underneath the line.

Think about a situation where you felt that someone was skirting with the truth. How did this perspective influence how you felt about the person and the firm?

What Do the Rules Say?



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Independence Rules

There are different levels of independence required based on type of engagement (PCAOB/SEC, GAO, AICPA, Other Specialized Engagements). Know which rules apply before you agree to do the work.

Are These Issues?

- Engagement: Non-attest services - SEC versus AICPA
- Engagement: Financial statement preparation change (101-3) vs. compilation vs. write-up
- Engagement: Bookkeeping vs. public accounting
- Moonlighting

What Do the Rules Say: concepts and quick questions

Confidentiality: Know what constitutes confidential information. Also be aware of the ways that unintentional disclosure of confidential information can easily happen (see examples) and take reasonable precautions to prevent these situations from occurring.

Example 1: You check into Four Square which reveals your location and posts to Facebook. Only problem, you're a merger and acquisition specialist and that little tidbit just disclosed that you're at a company that has not announced any merger or acquisition activity.

Example 2: You're discussing a sensitive situation as you move between client meetings. This conversation is able to be overheard by those sharing the elevator with you as well as those that you've passed in the hallways or other public areas. They may not hear the entire conversation but there are just enough snippets for them to glean information that the client would not want publicly known.

Example 3: Your working on your laptop in the airport and on the plane and decide to get work done on your client. You pull up your client financials and beginning work not noticing the individuals around you that are able to see your screen.

Example 4: You receive a message from someone that you needed to respond to about another matter and without looking at the stream on it, you hit reply all. You just happen to include some attachments that were intended for a more limited audience.

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Commissions, contingent, referral fees: There are times when these arrangements aren't permitted. Know the restrictions and any disclosure requirements.

What do the Rules Say?

Commissions, contingent fees and referral fees: OAC 4701-11-03, .04

- Permitted except for:
 - Clients for whom perform engagements requiring independence
 - Original or amended tax return or claim for refund cannot be performed on contingent fee basis
- Must disclose acceptance or payment of fee

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Retention of client records: You are required to return client records within a certain timeframe. Know what records you're required to return, by when, and in what format.

What do the Rules Say?

Retention of client records: ORC 4701.19, OAC 4701-11-06

Type of Record	Examples	Requirement
CPA records	Engagement notes or memos Records on procedures applied, tests performed, conclusions Audit programs	Not required to provide to client even upon request
Work product of the CPA that the client needs to complete financial records	Adjusting, closing, or consolidating entries Depreciation/amortization schedules	Return within 30 days after receipt of request
Records provided by client	Accounting records, trial balances, client prepared schedules	Return within 30 days after receipt of request

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Acts discreditable: As a CPA, you're held to a high-level of professional and personal conduct. You can be disciplined for many reasons unrelated to the delivery of services. Be aware of the different types of acts discreditable that could result in sanctions, fines, suspensions, or any revocation.

What do the Rules Say?

What are Acts Discreditable?: OAC 4701-11-09

- Illegal acts
- Discipline by other regulatory or government bodies
- Doesn't have to relate to professional conduct



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Additional Notes:

Part IV: The Accountancy Board, Your CPA Permit, and You

The requirements when viewed as a series of short races are not nearly as daunting as when you view it as a long marathon. You can walk a 5k (3.1 miles) without much of a problem. If you walk 3.1 miles each week, you would've walked the equivalent of 6.2 marathons in the course of a year. That's how CPE compliance should be viewed. That's how keeping up with changes in the governing the profession should be viewed. Yes, a lot is expected of CPAs but it is possible to meet these expectations with continued vigilance and discipline.

The Accountancy Board has several responsibilities. You may be most familiar with their oversight of CPE compliance and license and registration renewal. Other responsibilities include modifying rules to address a changing environment and conducting disciplinary hearings.

ORC Chapter 119 Disciplinary Hearings: ORC 4701-16, OAC 4701-19-01, 02

- Public hearing with the due process of law
- Evidence is public record
- Wide variety of disciplinary actions, including revocation of certificate or permit; fines



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