

This supplement **replaces pages 222-225 and pages 242-244** of your book (*Skills for Accounting and Auditing Research*, 2e) as described below to reflect the AICPA's revised Code of Conduct.

This supplement also offers **new Review Questions, new Exercises which replace Ch. 9 Exercises 1-2** from your text, and **new Case Studies including additional information for Case Study 9.1** in your text.

The following **replaces p. 222, AICPA PROFESSIONAL STANDARDS**, through **p. 225 preceding AICPA Auditing Standards (AU-C)**.

AICPA PROFESSIONAL STANDARDS

The AICPA refers to its body of professional services guidance as **professional standards**. This guidance includes, for example, standards for client service engagements (such as audit and consulting standards) and independence and ethics standards for all CPAs.

We will begin our discussion of the AICPA's professional standards with the Code of Conduct.

Code of Professional Conduct (ET)

Released in June 2014, the AICPA's **revised Code of Professional Conduct** (the "Code of Conduct" or the "Code") establishes mandatory ethics requirements applicable to all CPAs. The revised Code became effective on December 15, 2014.^A Individuals who violate provisions of the Code can be sanctioned by the AICPA.

As a professional, you should consult the Code whenever you face a potential ethics or independence issue. You've had enough training in previous accounting and auditing courses to know that CPAs are expected to fulfill their professional responsibilities with the utmost integrity. Trust your instincts and consult the Code if a situation or circumstance seems questionable to you.

The revised Code is available in .pdf format, and in an online interactive version, at aicpa.org. Go to Research, then Standards, then Code of Conduct. A no-cost login is required to access the online version of the Code.

^A Note that the Conceptual Framework portions of the Code have a delayed effective date of December 15, 2015, and early adoption is permitted.

The Revised Code Is Organized Into Three Parts

Guidance in the Code is organized into three **parts** and a **preface** (plus appendices), as follows:

- Preface (applies to all CPAs)
- Part 1 – Applies to CPAs in public practice
- Part 2 – Applies to CPAs in business
- Part 3 – Others (applies to retired or unemployed CPAs)

Part 1 of the Code applies to *members* (of the AICPA) who are in *public practice*. That is, CPAs engaged in performing professional services for a client must apply this part of the Code.

Part 2 of the Code applies to *members in business*. These are CPAs who work (either through employment, on a contractual basis, or as a volunteer) in areas such as industry, the public sector, education, the not-for-profit sector, or for regulatory or professional bodies.^B These individuals might work for the business as an executive, a staff member, in governance (such as on the company's Board), or in an advisory or administrative capacity.

Finally, Part 3 of the Code applies to members who are not in public practice, nor in business. Such members include individuals who are retired or unemployed.

In some cases, an accountant may have multiple roles (for example, working with two organizations) and thus would be subject to multiple parts of the Code.

Take a moment to complete the following **Now YOU Try**, on identifying parts of the Code.

**Now
YOU
Try
9A.1**

Identifying Parts of the Code

John is an auditor who works for a CPA firm. In his spare time, he also serves on the Board of Directors of his community's YMCA. This is an unpaid position.

Which part(s) of the Code apply to John? Explain.

The _____, because _____

Part _____, because _____

^B ET 0.400.32 (Definitions)

Part _____, because _____

When you see references to the Code of Conduct, you'll notice that the first number signifies what Part of the Code was consulted. ET 1.XXX, for example, refers to a reference from Part 1 of the Code. ET 0.XXX refers to guidance from the Code's Preface.

Next, let's look at what's included in the Code of Conduct.

The Preface – What's included?

The Code's Preface includes:

- The Principles of Professional Conduct
- Definitions
- A list of recent changes to the Code

The **Principles of Professional Conduct** (“**principles**”) acknowledge the CPA profession's responsibility to serve the public, and they establish a framework for individuals to apply specific rules in the Code. Following are select *principles* from the Code:

Section	Principle
The Public Interest, ET 0.300.030	Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate a commitment to professionalism.
Objectivity and Independence, ET 0.300.050	A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.
Due Care, ET 0.300.060	A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

The **definitions** in the Preface cover key terms used throughout the Code. Defined terms include, for example, *member*, *public practice*, *direct financial interest*, *client*, and so on. Wherever defined terms are used in the Code, they are presented in italics.

Next, given that the AICPA will continue to periodically update the Code, the Preface includes a list of recent Code **revisions** and additions^C. This list will be updated as changes are made to the Code.

^C ET 0.600 (New, Revised, and Pending Interpretations and Other Guidance)

Finally, the Preface includes the stated requirement that AICPA members must adhere to the *rules* and *interpretations* of the Code.

- 0.2 The AICPA bylaws require that *members* adhere to the ruled of the code . . . *Members* must be prepared to justify departures from these rules. (ET 0.100.010)
- 0.1 A *member* who departs from the *interpretations* shall have the burden of justifying such departure in any disciplinary hearing. (ET 0.100.020)^D

Rules and interpretations are located in parts 1, 2, and 3 of the Code. Let's take a look at these parts of the Code now.

Parts 1 and 2 of the Code – What's included?

Parts 1 and 2 of the Code include:

- Rules and interpretations
- Conceptual Frameworks
- Nonauthoritative guidance

Ethics rules (i.e., the “**rules of conduct**”) and **interpretations** build upon the Principles of Conduct from the Preface. *Rules* set forth the Code's requirements. *Interpretations* provide detailed guidance for applying specific rules. As stated in the Preface, CPAs must adhere to *both* rules and interpretations.

In circumstances where specific ethics interpretations are not available, CPAs should look to the Code's conceptual frameworks. The Code's three separate **conceptual frameworks** are as follows:

- Conceptual Framework for Members in Public Practice (ET 1.000.010)
- Conceptual Framework for Independence (ET 1.210.010)
- Conceptual Framework for Members in Business (ET 2.000.010)

It's worth noting that the three frameworks are quite similar in their construct, requiring CPAs to consider *threats* and *safeguards* in evaluating ethics issues. However, they're written in a way that is tailored to members applying that specific *part* of the Code.

Finally, grey shaded boxes in parts 1 and 2 of the Code offer links to **nonauthoritative guidance**. This is guidance that has not been through the AICPA's full due process, and thus should not override or replace use of the Code. However, it can assist researchers in applying the Code. Examples include the standard setter's basis for conclusions and Q&As.

^D In these excerpts, the terms *members* and *interpretations* are italicized, indicating that these terms are defined in the Code's definitions section.

Part 3 of the Code – What’s included?

Part 3 of the Code includes just a single rule (the **acts discreditable** rule: “A member shall not commit an act discreditable to the profession”) and related interpretations. Again, this part of the Code applies to CPAs who are not in public practice, nor in business.

The Code’s Appendices

Finally, the revised Code includes four appendices:

1. Appendix A designates certain accounting standard setters (such as the FASB) as authoritative.
2. Appendix B sets forth certain organizational requirements for CPA firms.
3. Appendix C includes a revision history table, detailing changes made to the Code since its adoption.
4. Appendix D maps sections of the revised Code to their location in the pre-2014 Code.

Take a moment to attempt the following **Now YOU Try**, on where to locate the Code’s conceptual frameworks.

**Now
YOU
Try**
9A.2

The Three Conceptual Frameworks

Looking at the ET references for the three Conceptual Frameworks, which two frameworks would you expect to find in Part 1 of the Code? State the full name of each framework.

The Conceptual Framework Approach

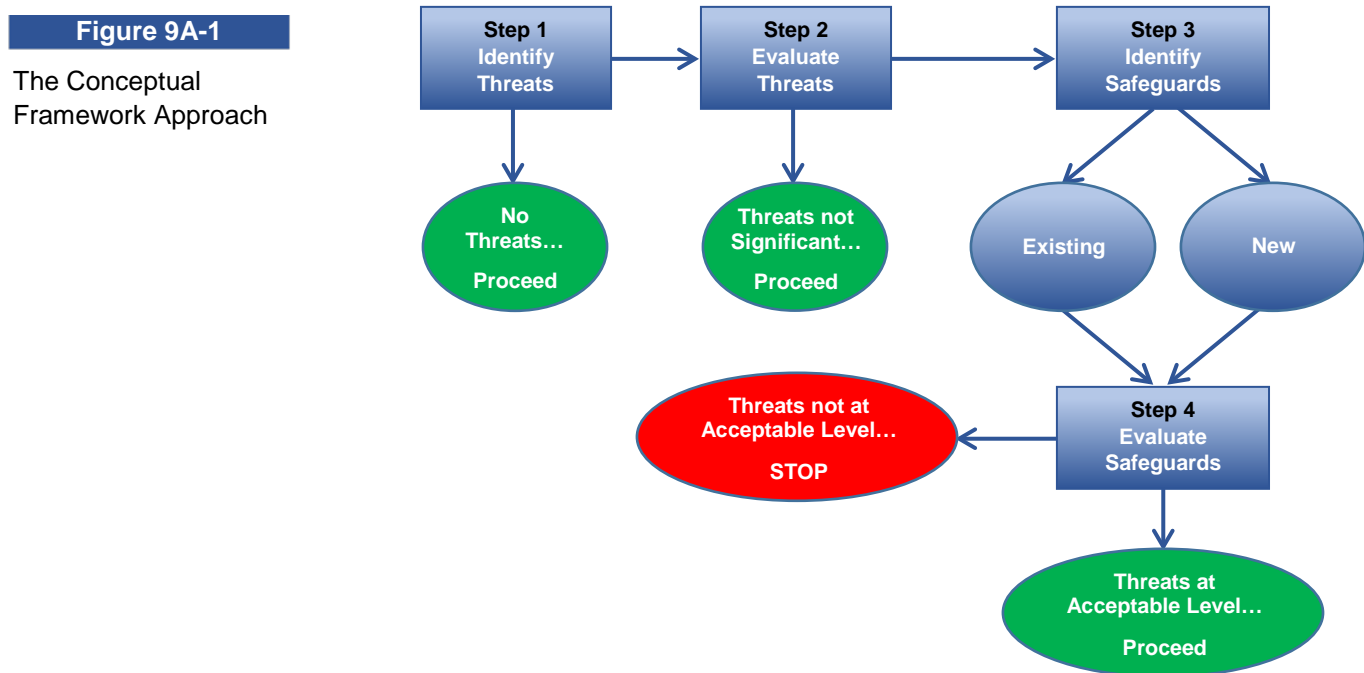
Recall that in circumstances where a specific ethics interpretation is not available, CPAs should evaluate a situation using one of the Code’s three conceptual frameworks. This is referred to as applying a **conceptual framework approach**.

Under this approach, CPAs should:

- First, identify *threats* to compliance with the rules;
- Next, evaluate the *significance* of these threats; and
- If the threats are at an unacceptable level, identify and apply *safeguards* to minimize these threats.

- In the event that safeguards do not reduce threats to an acceptable level, remove yourself from the situation (e.g., by declining an engagement, resigning from your employment, etc.).

Figure 9A-1 illustrates the conceptual framework approach.



Source: Ellen Goria, "Revised AICPA Code of Ethics...What's the Fuss?" *AICPA Journal of Accountancy*, Feb. 1, 2014. © 2014, American Institute of CPAs. Used by permission.

Knowledge Check ✓

- What are the four steps in the conceptual framework approach?
- In what circumstance should a researcher apply one of the Code's three conceptual frameworks?

Each of the Code's three conceptual frameworks provides examples of potential *threats* to compliance with the Code, and *safeguards* that could reduce the risk of these threats. Let's consider now what is meant by the terms *threats* and *safeguards*.

Threats

The Preface defines **threats** as follows:

In connection with independence, threats are relationships or circumstances that could *impair independence*. In connection with any rule but the "**Independence Rule**" [1.200.001], threats are relationships or circumstances that could compromise a *member's* compliance with the rules. (Source: ET 0.400.49)

For example, if your close friend asks you to serve as the auditor for his company, this should immediately raise a few red flags in your mind. The Code would describe these red flags as *threats*.

Threats are generally classified into one (or more) of seven broad categories (i.e., *threat types*), for members in public practice. The following **Now YOU Try** defines and provides examples of these categories.

**Now
YOU
Try**
9A.3

Understanding Types of Threats

1. Considering the definition provided for each threat category, draw a line connecting each threat category to an example illustrating this type of threat. Draw multiple lines if you encounter examples that could involve multiple threat categories.

Threat category		Example situations involving threats
Adverse interest threat: The <i>threat</i> that a <i>member</i> will not act with objectivity because the <i>member's</i> interests are opposed to the <i>client's</i> interests.	Example	The CPA advised management on the proper accounting for judgmental aspects of a merger transaction, and management accepts the CPA's recommendations.
Advocacy threat: The <i>threat</i> that a <i>member</i> will promote a <i>client's</i> interests or position to the point that his or her objectivity or <i>independence</i> is compromised.		A member's close friend is employed by the client.
Familiarity threat: The <i>threat</i> that, due to a long or close relationship with a <i>client</i> , a <i>member</i> will become too sympathetic to the <i>client's</i> interests or too accepting of the <i>client's</i> work or product.		The client is involved in a lawsuit against the CPA's firm.
Management participation threat: The <i>threat</i> that a <i>member</i> will take on the role of <i>client</i> management or otherwise assume management responsibilities.		The CPA performs bookkeeping services for the client.
Self-interest threat: The <i>threat</i> that a <i>member</i> could benefit, financially or otherwise, from an interest in, or relationship with, a <i>client</i> or persons associated with the <i>client</i> .		The client threatens to dismiss the CPA's firm from the engagement.
Self-review threat: The <i>threat</i> that a <i>member</i> will not appropriately evaluate the results of a previous judgment made or service performed or supervised by the <i>member</i> or an individual in the <i>member's firm</i> and that the <i>member</i> will rely on that service in forming a judgment as part of another service.		A CPA has a financial interest in the client, and the outcome of the engagement could affect the value of that interest.
Undue influence threat: The <i>threat</i> that a <i>member</i> will subordinate his or her judgment to an individual associated with a <i>client</i> or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the <i>member</i> .		The CPA firm endorses a client's services or products.

Source: ET 1.100.010 (Conceptual Framework for Members in Public Practice), par. .10-.16.

2. Identify one example from above that could involve multiple types of threats. Explain.

3. The Conceptual Framework for members in business includes six broad categories of threats, which are the same as those shown above but which exclude one. Which threat from the above list do you think is not included in the list for members in business, and why?

Safeguards

The Preface defines **safeguards** as follows:

Actions or other measures that may eliminate a *threat* or reduce a *threat* to an *acceptable level*. (Source: ET 0.400.43)

Recall that if identified threats are at an unacceptable level, the next step in the conceptual framework approach is to apply safeguards to minimize these threats. Three broad categories of safeguards exist for members in public practice:

1. Safeguards created by the profession, legislation, or regulation.
2. Safeguards implemented by the client.
3. Safeguards implemented by the firm, including firm policies and procedures.

The following **Now YOU Try** will familiarize you with these categories of safeguards.

**Now
YOU
Try**
9A.4

Understanding Safeguards

Draw lines matching each category of safeguard to *two* examples illustrating this safeguard.

Categories of safeguards	Example	Sample safeguard
Safeguards created by profession, legislation or regulation		State Board-required continuing education and training on independence and ethics rules.
Safeguards implemented by the client		Rotation of senior personnel who are part of the engagement team.
Safeguards implemented by the firm		The tone at the top emphasizes the client's commitment to fair financial reporting and compliance with the applicable laws, rules, regulations.
		The client has a strong governance structure, including an active audit committee, to ensure appropriate decision making, oversight, and communications regarding a firm's services.
		Professional standards and the threat of discipline.
		Internal policies and procedures relating to independence and ethics communications with audit committees or others charged with client governance.

Source: ET 1.100.010 (Conceptual Framework for Members in Public Practice), par. .17-.23.

Notably, only two categories of safeguards apply to members in business (ET 2.000.010):

1. Safeguards created by the profession, legislation, or regulation; and
2. Safeguards implemented by the employing organization.

Safeguards implemented by the employing organization could include, for example, the company's:

- Audit committee charter, including independent audit committee members, and its
- Internal policies and procedures related to purchasing controls

The following **Now YOU Try** walks through each step of the conceptual framework approach.

**Now
YOU
Try
9A.5**

Applying the Conceptual Framework Approach

Assume that Smith & Dunn, LLP has had a long association with an audit client, and the client is significant to the firm. Jeff Smith, founder and CPA, is concerned that this association could pose threats to the firm's compliance with the AICPA's ethics rule on independence.

Considering the preceding discussion of threats, safeguards, and the conceptual framework approach, respond to the following.

1. Assume that Jeff is unable to locate interpretations that relate to his issue. Next, Jeff should apply the:

This framework is located in ET _____.

2. Refer to Figure 9A-1. Jeff's first step in applying a conceptual framework approach is to: _____

3. Refer now to the types of threats listed in **Now YOU Try** 9A-3. Which of these threats might be present in this situation?

4. After identifying threats, Jeff must next evaluate:

5. If Jeff is not comfortable that the identified threats are at an acceptable level, he must

6. Safeguards in this case might include (brainstorm):

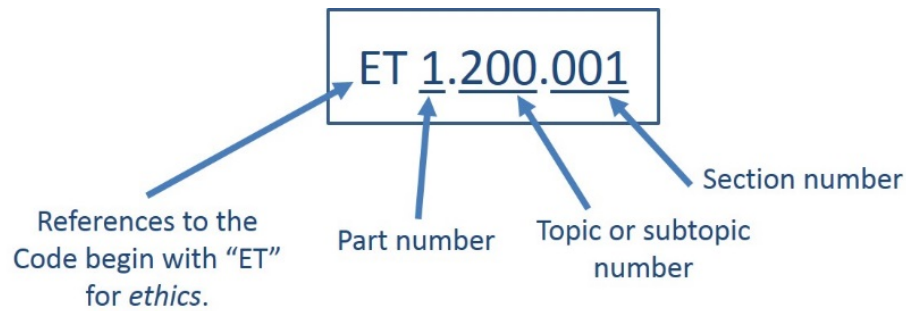
7. Finally, if these safeguards, new or existing, do not reduce the threat of noncompliance to an acceptable level, Jeff's firm should:

TIP from the Trenches

The best way to improve your comfort with the revised Code, and particularly the conceptual framework approach, is to read it. After reading this chapter, take a few minutes to click around the Code. Be sure to scan ET 1.000.010, which describes the conceptual framework approach.

How Is Guidance in the Code Organized?

Within the Code, guidance is organized into topics, subtopics, and sections. References to the Code use the following format:



In other words, this reference is to Part 1 of the Code, Topic 200 (Independence), Section 001.

Paragraphs are shown as 2-digit numbers, so ET 1.200.001.**01** means paragraph .01 of the Independence topic, section 001.

The difference between topics and subtopics in the Code's numbering system is subtle. *Topics* are the first level of subject matter you'll see listed after you click the plus sign next to Part 1 in the Code. Figure 9A-2 shows the list of topics included in Part 1 of the Code.

Figure 9A-2

Topics included in
Part 1 of the Code



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Notably, the conceptual frameworks for parts 1 and 2 are included in the *Introduction* topics (ET 1.000.010 and 2.000.010, respectively). Looking at Figure 9A-2, the Conceptual Framework for part 1 would be located within the branch 1.000 (Introduction).

Subtopics are accessible by clicking the + symbol, down one level further from topics. Figure 9A-3 depicts several of the subtopics available under topic 1.200, Independence. Notably, the conceptual framework for independence is located within ET 1.210.

Figure 9A-3

Several of the
subtopics available
under Topic 1.200,
Independence



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The third set of numbers in a Code reference denotes the section. Specifically:

- Sections numbered .001 are for *rules*.
- Sections numbered .005 tell you *how to apply the Conceptual Framework* to the rule.
- The Code's conceptual frameworks are located within section .010 of ET 1.000, 1.210, and 2.000.
- Other section numbers generally refer to ethics interpretations.

Knowledge Check ✓

III. Contrast the purpose of sections numbered .001, versus .005, versus other section numbers in the Code.

The following **Now YOU Try** walks through the Code's numbering system, and illustrates the application of an ethics rule, interpretation, and nonauthoritative guidance.

Now YOU Try 9A.6

Applying Rules and Interpretations from the Code of Conduct

Assume that you are performing an audit and want to engage an external valuation firm to assist in reviewing the fair values of the client's private equity investments. However, you are concerned about the risk of disclosing confidential client information to the valuation firm. You've decided to consult the Code of Conduct for guidance on *confidential client information*.

- The *Rule* briefly states the ethics requirement. Per **ET 1.700.001** (Confidential Client Information):

.01 A *member* in *public practice* shall not disclose any *confidential client information* without the specific consent of the *client*.

- **ET 1.700.005** addresses *how CPAs should apply the Conceptual Framework* to the confidential client information rule:

.01 In the absence of an *interpretation* of the "Confidential Client Information Rule" [1.700.001] that addresses a particular relationship or circumstance, a *member* should apply the "Conceptual Framework for Members in Public Practice" [1.000.010].

- *Interpretations* illustrate the application of the rule to a specific scenario. Per **ET 1.700.040** (Disclosing Information to a Third-Party Service Provider):

.01 When a *member* uses a *third-party service provider* to assist the *member* in providing *professional services*, *threats* to compliance with the "Confidential Client Information Rule" [1.700.001] may exist.

.02 *Clients* may not expect the *member* to use a *third-party service provider* to assist the *member* in providing the *professional services*. Therefore, before disclosing *confidential client information* to a *third-party service provider*, the *member* should do one of the following:

- a. Enter into a contractual agreement with the *third-party service provider* to maintain the confidentiality of the information and provide reasonable assurance that the *third-party service provider* has appropriate procedures in place to prevent the unauthorized release of confidential information to others... [Or:]
- b. Obtain specific consent from the *client* before disclosing *confidential client information* to the *third-party service provider*. [Explanation added]

- Finally, *nonauthoritative guidance* can assist researchers in applying and interpreting the Code. The following guidance is located just after **ET 1.700.040** in the Code.

A nonauthoritative basis-for-conclusions document that summarizes considerations that were deemed significant in the development of this interpretation is available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/BasisforConclusionsOutsourcing.pdf.

In addition, nonauthoritative sample client disclosure language that could be used to fulfill the requirement discussed in this interpretation is also available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/SampleDisclosure_Notification.pdf.

Considering the preceding excerpts, respond to the following.

1. What are two actions a member might take before disclosing confidential client information to a third-party service provider?

2. Could a researcher have answered question 1 using only the guidance in ET 1.700.001 (the ethics rule)? What value did interpretive guidance add to your ability to answer this question?

3. Recall that when a specific ethics interpretation is not available, CPAs should evaluate a situation using one of the Code's three conceptual frameworks.

i) Should a researcher apply a conceptual framework in this case, and which one would apply?

ii) Explain why a researcher should or should not consult the applicable conceptual framework for this issue.

4. Describe what each number means for the following reference to the Code: ET 1.700.001.01.

1 indicates that this guidance is from _____ of the Code.

.700 refers to the _____, Confidential Client Information.

.001 is the section number, which tells me that this is an ethics _____.

.01 is the _____ number.

5. What two sources of nonauthoritative guidance are referenced, to assist researchers in applying the authoritative rule and interpretation? How might each be useful to a researcher?

How Can I Search for Guidance in the Code?

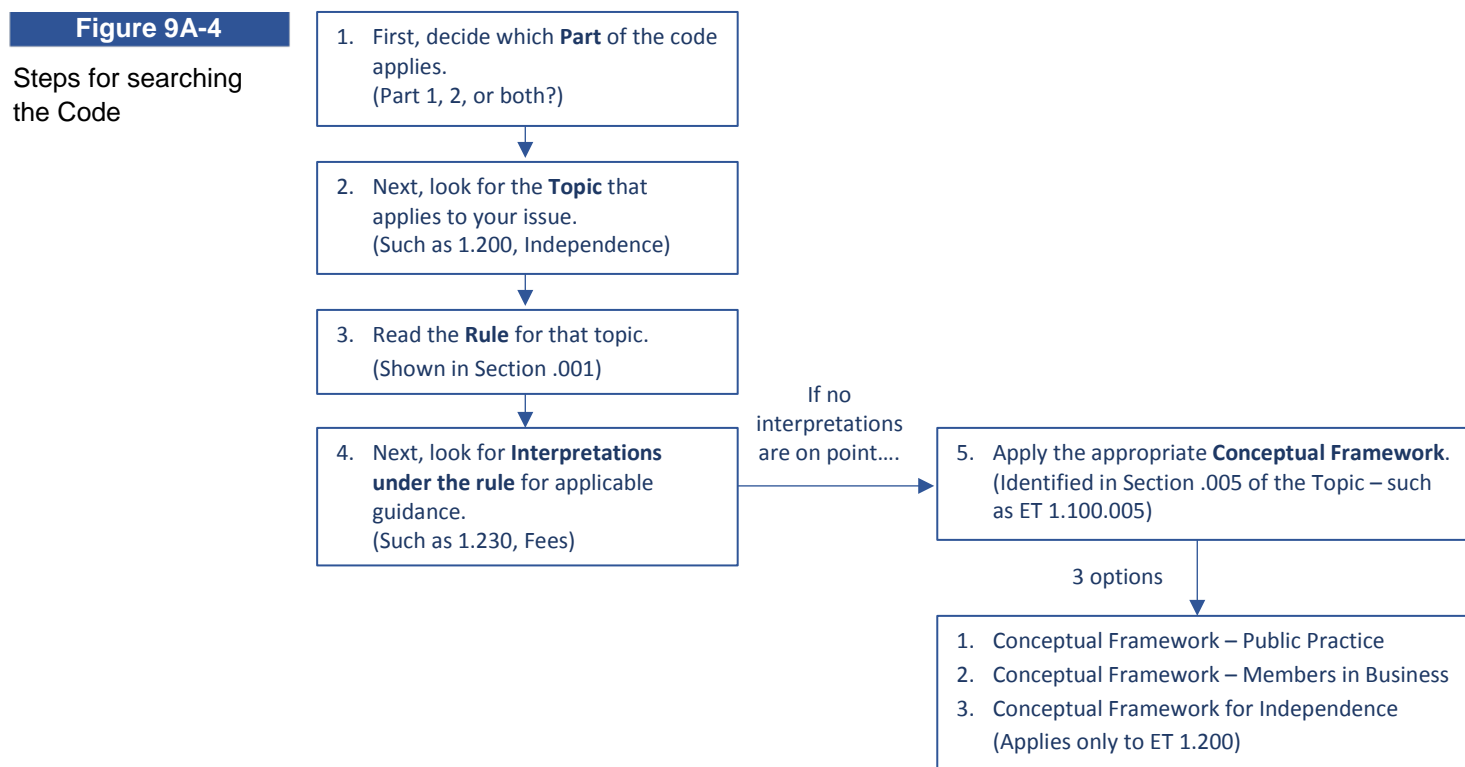
Researchers can *browse* to guidance within the Code or can perform *keyword searches*. This book advocates the use of user-directed, browse searches when possible, as these searches will improve your familiarity with the content and layout of the Code.

To search the Code using a browse approach, first decide which *part* of the Code applies: Part 1, for accountants in public practice? Part 2, for accountants in business? Or both?

Next, click on the topic and/or subtopic that appear most relevant and read the rule for that topic. Look for interpretations under the rule that relate to your specific issue. If no interpretations are available that are on point, you must then apply the appropriate Conceptual Framework (as identified in section .005 of the topic).

Keyword searches can easily be performed using the search bar (or advanced search option) within the Code.

Figure 9A-4 illustrates these steps.



[TIP] from the Trenches

While keyword searches are possible (and often quite useful) when navigating the Code, they can sometimes lead researchers to guidance that doesn't apply, or that doesn't make intuitive sense. One professor said that her students – asked to locate continuing education (CPE) requirements in the Code – who used keyword searches consistently responded with guidance from the wrong "Part" of the Code.

The lesson: If you *do* perform a keyword search, be sure you understand the context (part, topic, section, and related paragraphs) for the guidance you locate.

The Code Will Continue to Change

The AICPA's Professional Ethics Executive Committee (PEEC) will continue to update the Code as necessary to clarify its provisions or to reflect new ethics interpretations and rulings. As changes are approved and implemented, AICPA members are notified through updates in the *Journal of Accountancy*. Additionally, all recent changes to the Code will be listed in ET 0.600 (Preface – New Guidance).

TIP from the Trenches

Given that the PEEC will continually update the Code of Conduct, exercise caution if you choose to use the pdf version of this guidance. *Don't save the pdf to your computer*; rather, make a habit of going to www.aicpa.org to ensure that you are always accessing the latest version of the Code.

Proceed with p. 225 of your text, *AICPA Auditing Standards (AU-C)*, through **p. 242, APPLYING THE AUDIT RESEARCH PROCESS.**

Disregard p. 242, Now YOU Try 9.5, through **p. 244,** (including) *Debrief – Independence Example* section.

Proceed with p. 244, Now YOU Try 9.6.

The following provides **new** Review Questions, **new** Exercises which **replace Ch. 9 Exercises 1-2** from your text, and **new** Case Studies including **additional information for Case Study 9.1** in your text.

REVIEW QUESTIONS for the revised Code

Note: The following review questions are *in addition to* existing review questions 1-10 in your text.

11. What source of guidance applies to all CPAs, and relates to a CPA's own ethical conduct?
12. Explain the differences in the applicability of the Code's preface, versus Part 1, versus Part 2, and Part 3.
13. Briefly describe what information a researcher can expect to find in the Code's four appendices.
14. What are the Principles of Professional Conduct, and where are these located within the Code?
15. Describe the role of rules, interpretive guidance, and nonauthoritative guidance within the AICPA's Code of Conduct.
16. Identify the three Conceptual Frameworks that are included within the Code. In what ET sections are these Frameworks located?
17. What are the four steps in the *conceptual framework approach*, and when should a researcher use such an approach?
18. Explain the meaning of the terms *threats* and *safeguards* and provide two examples of each.
19. Must a CPA always apply safeguards after a threat has been identified? In what circumstance might a researcher *not* have to identify and apply safeguards?

EXERCISES for the revised Code

Note: The following exercises *replace (and add on to)* the existing Exercises 1-2 in your text.

Instructions: Answer the following in complete sentences using the AICPA's **revised** Code of Conduct, providing the ET references for each of your responses. For questions with multiple parts, include multiple ET references as appropriate.

1. *Using the Code*, provide an example of when a member in public practice might also be considered a member in business. Hint: This is in the introduction to one of the parts of the Code.
2. List three examples of individuals who are considered "covered members" in the Code's definitions section.
 - 2.1 Provide the Code reference to the rule that governs "acts discreditable" for "members in business."
 - 2.2 Provide the Code reference to the rule that requires even part time faculty members (who may be teaching this course to you!) to comply with the integrity and objectivity rule.
 - 2.3 Provide two examples of what is meant by the term "affiliate." Next, brainstorm: What terms might equate to this idea of "affiliate" in U.S. GAAP (accounting guidance)? (This is a 2-part question).
 - 2.4 Using the definitions section of the Code, describe in your own words what is meant by the term partner equivalent. Outside of the definitions section, describe one instance where this term is used.
 - 2.5 Scan Part 3 of the Code. To whom is this section applicable, and what is the primary focus of this section?
 - 2.6 What are the three broad categories of safeguards identified in Part 1 of the Code, in the Conceptual Framework for members in public practice? Which category of safeguard cannot be relied upon, by itself, to reduce threats to an acceptable level?
 - 2.7 Linda is a former big four auditor who chose to stay home with her children once she started a family. She has maintained her CPA license all the while and now performs part-time bookkeeping services for local businesses. What part(s) of the Code is Linda subject to, if any?
 - 2.8 Jim, a retired CPA, neglected to file his tax return this year. What does the Code say about this?
 - 2.9 According to Appendix A of the Code, which body has the AICPA designated as having the authority to set accounting standards under the Accounting Principles Rule (in ET 1.320 and 2.320 of the Code)? Include relevant excerpts from Appendix A to support your response.

CASE STUDY QUESTIONS for the revised Code

Note: The following *additional comments* are provided for Case Study 9.1 in your text. Cases 9.3-9.5 below are *new, additional cases*.

9.1 Auditor Independence ..., however to respond to this case, please consult not only auditing standards (AU-C), but also the AICPA's revised Code of Conduct.

9.3 Auditor Independence (Adapted from former **Now YOU Try** 9.5)

Facts: Assume that Jim White's recently-deceased grandfather left him an inheritance, which includes a direct investment in shares of WellCorp, his audit client. Jim is the partner on the WellCorp engagement; WellCorp is a privately-held company. Jim anticipates that, if necessary, the shares could be sold immediately.

Required: Determine 1) whether Jim is a *covered member* with respect to this client, and 2) whether it is appropriate for Jim to keep the inherited shares of WellCorp stock.

9.4 Records Requests Wilson & Smith, LLP has completed its audit procedures related to June 30, 20X1 year-end of CompuSoft, Inc. However, per the terms of its engagement letter with CompuSoft, fees are due and payable to Wilson & Smith before the audit report will be issued to the client. CompuSoft has not yet remitted payment for the audit. Wilson & Smith has refused to release its audit report until fees are paid. Is this refusal by Wilson & Smith appropriate under the Code of Conduct? What defined term would the applicable Code section use to describe the audit report, in this circumstance?

9.5 Processing Payroll for an Audit Client Collins & Harper, LLC serves as the independent auditor for Springfield Spirits, Inc ("Springfield"). Springfield has requested the firm's assistance with its payroll processing function. Springfield is being asked to perform this service while continuing to serve as Springfield's auditor.

Can Collins & Harper perform this nonattest service for Springfield? What considerations should Collins & Harper's management keep in mind when accepting and performing this service?