

AICPA Professional Ethics Executive Committee Meeting (PEEC)

Highlights of May 8 - 9, 2008 Open Meeting

Proposed Framework for the Fundamental Principles of the Code of Professional Conduct (the Code)

Many questions about the Proposed Framework for the Fundamental Principles of the Code (the Proposed Framework) were raised during exposure. To be responsive to the feedback, the PEEC task force (among other things) did the following:

- Considered ways to integrate the proposed framework with the *Conceptual Framework for AICPA Independence Standards* (Independence Framework).
- Clarified terms and the application of the Proposed Framework.
- Expanded the task force to include representatives of other AICPA committees, namely the Business and Industry Executive Committee, the Technical Issues Committee, Forensic and Valuations Committee, and the Tax Executive Committee, and Cathy Allen of Audit Conduct.

The task force will continue to work on amending the Proposed Framework and addressing the following open issues:

- ***Enforceability of the principles of the AICPA Code.*** The task force will continue to explore options on which presentation would most clearly illustrate that the principles enforceable standards of conduct.
- ***The use of examples in the Proposed Framework.*** PEEC comments on this subject were mixed. The goal is to strike a balance between a purely principles-based framework with a sufficient amount of guidance members could use to implement the Proposed Framework. If examples are used, another question raised was where the guidance should reside, e.g., an appendix, frequently-asked-question (FAQ) document, etc.
- ***IFAC Conceptual Framework.*** Consider anticipated changes to the International Federation of Accountants (IFAC) Conceptual Framework resulting from its “Drafting Conventions” project.
- ***Public Interest Entities.*** Consider how / whether to define *Public Interest Entities*, which currently appears in a footnote in the Independence Framework.

Recognition of IASB as an Accounting Standard-Setter

- In May 2008, AICPA Council is expected to approve the recognition of the International Accounting Standards Board (IASB) as a standard-setter for accounting standards under Rule 202, *Compliance with Standards*, and Rule 203, *Accounting Principles*, of the AICPA Code.
- AICPA staff is researching state accountancy board regulations to determine whether they allow for the application of accounting principles other than US GAAP, e.g., standards issued by the Financial Accounting Standards Board (FASB). The staff is also holding discussions with NASBA (National Association of State Boards of Accountancy) on this subject.

Exposure Draft: Interpretation on Prohibited Indemnification and Similar Agreements Entered Into With Attest Clients

- The PEEC received 12 comment letters on the proposed interpretation under Rule 501 – *Acts Discreditable*, which would deem a failure to comply with requirements of government regulators that prohibit the use of certain indemnification and liability-limiting clauses an act discreditable to the profession.

AICPA Professional Ethics Executive Committee Meeting (PEEC)

Highlights of May 8 - 9, 2008 Open Meeting

- The task force added to the proposed interpretation that a member should not enter into an agreement containing a *prohibited* indemnification or other limitation of liability agreement with his or her employer's accounting firm. The PEEC agreed with this change.
- The PEEC further revised the proposed interpretation to tighten the language and make it clearer.
- The PEEC agreed unanimously to approve the proposed interpretation, as revised.
- The final standard, which becomes effective on July 31, 2008, is available at www.aicpa.org/download/ethics/EDITED-Adopted_501-8_final.pdf.

Network Firms

The PEEC discussed at length the issue of a common brand name that is part of a firm's name and whether satisfying that criterion alone should make an association a "network," which would require all firms in the network to be independent of each other's audit and review clients. Members expressed their views on whether certain disclosures (on the firm's letterhead or as part of its web site) would sufficiently inform the user of an audit or review report about the issuing firm's relationship with other associated firms, i.e., such that the user would not expect that the firm was part of a larger, closely-knit network of firms. (Similar to the network firms task force, PEEC members did not achieve consensus on this issue.)

The task force will continue to work on the proposal and report back to the PEEC in July 2008.

Accounting and Review Services Committee's (ARSC) Reliability Task Force

The PEEC heard a report on the activities of the Accounting and Review Services Committee's (ARSC) Reliability Task Force (Task Force). The Task Force consists of representatives of the ARSC, PEEC, Auditing Standards Board (ASB), Private Companies Practice Section (PCPS), as well as academia, financial statement preparers and users. Its charge was to make a recommendation to ARSC on whether to proceed with the development of a standard that would permit a member to perform a *limited assurance engagement* when the member or his or her firm's independence is impaired due to the performance of control activities or other control procedures. A framework, based on integrity, expertise and objectivity, with some level of independence required and a focus on improving the reliability of financial statements, would be used. No changes would be made to the AICPA Code. In May, the Task Force recommended that a joint task force move forward to develop such a standard and the ARSC agreed to do so. A PEEC member will participate in the joint task force.

Government Accountability Office (GAO) Advisory Council on Government Auditing Standards

- Earlier this year, the GAO held an open meeting of the GAO Advisory Council on Government Auditing Standards (Council). Among other things, the GAO staff asked the Council for its feedback regarding:
 - Possible use of a risk-based independence framework.
 - Definitions of personal, external, and organizational impairments to independence.

AICPA Professional Ethics Executive Committee Meeting (PEEC)

Highlights of May 8 - 9, 2008 Open Meeting

- What to do with the GAO's independence frequently-asked-questions (FAQs) document.
- Governmental mandates requiring government auditors to perform audits of entities with which they are associated.
- Convergence with other bodies' (e.g., IFAC, AICPA) independence standards
- Lisa Snyder (Director, AICPA Professional Ethics Division) offered assistance to the GAO staff if and when they consider these issues.
- Ms. Snyder's expectation is that the GAO staff may make significant changes to their independence rules although her understanding is that there are no plans to revise the Yellow Book at this time.
- PEEC agreed that staff should continue to monitor this matter.

Independence Implications for XBRL Assurance Services

Members of the XBRL Assurance Services Committee sought guidance from PEEC on which types of XBRL-related activities would or would not impair independence. Noting that a task force was formed at the last PEEC open meeting to address this issue, the PEEC agreed to accelerate the project and to also work on a joint task force with members of the Center for Audit Quality (CAQ).

For More Information

The complete agenda of the May 8-9 open meeting is available at:
www.aicpa.org/download/ethics/Open_May_2008_Agenda.pdf.

Next Open Meeting

The next open meeting of the PEEC will be held on July 24-25, 2008 in Denver, Colorado.

The material in this publication is provided with the understanding that the author and publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought. The author and publisher make no representations, warranties, or guarantees as to and assume no responsibility for the content or application of the material contained herein, and expressly disclaim all liability for any damages arising out of the use of, reference to, or reliance on such material. You may reprint material in this newsletter as long as it is unaltered and credited to the author and AUDIT CONDUCT. If being reproduced electronically, the following link must also be included: www.auditconduct.com.

AUDIT X CONDUCT