Standard issues: aicpa

Standard Issues: AICPA The American Institute of Certified Public Accountants has created a code of professional conduct that all certified public accountants must follow. This code of conduct lists the responsibilities CPAs have when working with a company's financial information. The AICPA also includes information regarding the integrity, objectivity, independence and due care that CPAs must use when working in the accounting industry. The AICPA offers an ethics course for accountants to refresh their understanding of accounting ethics. The AICPA professional code of conduct is designed to protect the individual and users of the company’s financial information.

The accounting scandals of Enron, WorldCom and Sunbeam during the early 2000s highlighted some significant deficiencies regarding individual accounting ethics. In order to combat the negative perceptions of the accounting industry arising from these scandals, the AICPA began focusing more attention on developing the ethical standards of individual accountants. The professional code of conduct requires CPAs to exhibit unwavering ethical behavior in the businessenvironment. Although the AICPA code of professional conduct is an ethical standard governing the public accounting industry, private companies may also choose to develop an accounting ethics manual. Companies can choose to use the AICPA code of conduct as the basic framework for their internal accounting ethics manual. They may also choose to create or develop specific standards for their employees to follow when handling sensitive financial information. This manual can help companies prevent significant legal liabilities from employee actions.

A written ethical code of conduct for accountants benefits more than just the individual company or public accounting firm. Companies operating under strict accounting ethical standards may be able to increase their relevance or economic footprint in the business environment through the positive goodwill generated through strong accounting ethics. A strong ethical stance can set an example that a company is unwilling to advance its business through the use of inappropriate employee actions. Rule 101, one of the most important aspect of the AICPA is that a member in public practice shall be independent in the performance of professional services as required by the standards promulgated by bodies designated by Council. Independence is a highly subjective term because it concerns an individual’s ability to act with integrity and objectivity. Integrity relates to an auditor’s honesty, while objectivity is the ability to be neutral during the conduct of the engagement and the preparation of the auditor’s report. Two facets of independence are independence in fact and independence in appearance.

The second general standard of generally accepted auditing standards requires that an auditor be independent in mental attitude in all matters relating to the engagement. In essence, the second standard embraces the concept of independence in fact. However, independence in fact is impossible to measure, since it is a mental attitude; the Code of Professional Conduct takes a more pragmatic approach to the concept of independence. Being independent in fact and in appearance means that one not only is unbiased, impartial, and objective but also is perceived to be that way by others. While applicable to all accounting professionals, independence is especially important for CPAs in public practice. The AICPA's rules pertaining to independence for CPAs who perform audits are detailed and technical. For instance, a CPA lacks independence and thus may not audit a company if he or she (or the spouse or dependents) owns stock in that company and/or has certain other financial or employment relationships with client.

In regard to Rule 102, in the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflicts of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others. Rule 102 is very broad on purpose. The Code of Professional Conduct could not possibly proscribe every action that is to be avoided. In light of the strict principles and rules of the AICPA, accounting ethics has been deemed difficult to control as accountants and auditors must consider the interest of the public which relies on the information gathered in audits while ensuring that they remained employed by the company they are auditing. They must consider how to best apply accounting standards even when faced with issues that could cause a company to face a significant loss or even be discontinued. Due to several accounting scandals within the profession, critics of accountants have stated that when asked by a client " what does two plus two equal? the accountant would be likely to respond " what would you like it to be? ". This thought process along with other criticisms of the profession's issues with conflict of interest, have led to various increased standards ofprofessionalismwhile stressing ethics in the work environment.

From the 1980s to the present there have been multiple accounting scandals that were widely reported on by the media and resulted in fraud charges, bankruptcy protection requests, and the closure of companies and accounting firms. The scandals were the result of creative accounting, misleading financial analysis, as well as bribery. For example, various companies had issues with fraudulent accounting practices, including Enron, WorldCom and AIG. One of the most widely-reported violation of accounting ethics involved Enron, a multinational company, that for several years had not shown a true or fair view of their financial statements. Their auditor Arthur Andersen signed off on the validity of the accounts despite the inaccuracies in the financial statements. When the unethical activities were reported, not only did Enron dissolve but Arthur Andersen also went out of business. Enron's shareholders lost $25 billion as a result of the company's bankruptcy.

Although only a fraction of Arthur Anderson's employees were involved with the scandal, the closure of the firm resulted in the loss of 85, 000 jobs. This is a perfect example of the consequences of not abiding by the AICPA code of conduct.