

Aicpa code of professional conduct essay sample

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Every industry has a set of rules, or code of conduct, that guides it and establishes rules to prevent professionals, as much as possible, to be ethical and true to their work. In the accounting world the AICPA, The American Institute of Certified Public Accountants, Code of Professional Conduct is considered to be the foundation of ethical reasoning in accounting. This is so because it is a code that has been established and agreed to by members of the AICPA. The key importance to this is that it's not a regulatory body issuing rules, the Code was established and agreed to voluntarily by CPAs who are members of the AICPA. The main objectives of the AICPA's Code of Professional Conduct states that a distinguishing mark of a profession is acceptance of its responsibility to the public. This imposes a public interest responsibility for CPAs. The public interest is defined as the collective well-being of the community of people and institutions the profession serves.

First let's understand what may lead to unethical practices. A few situations that may lead to unethical practices would be misleading financial analysis for personal gain, misuse of funds, overstating revenue, and understating expenses, overstating the value of corporate assets or understating the existence of liabilities, sometimes with the cooperation of officials in other corporations or affiliates. There are several reasons for someone or a company to consider performing unethical behavior, such as for self-interest—greed, an accountant may embezzle funds from his or her employer for financial gain, the Chief Financial Officer of a publicly traded corporation may prepare financial statements to appear as though the company is performing much better than it actually is, because he or she wants their stock portfolio to increase, an accountant may feel pressured from his or her client to report

false information or may be a Chief financial officer is experiencing demand for improvements from the board of directors, the company's president, owners, or stockholders; or he or she may be in fear of losing their job.

Back in 2002, the scandal of Enron and the WorldCom were two prime examples of unethical practices. Enron as we know was accused of numerous deals that were considered to be unethical, which included concealing debts so they would not be reflected on the company's accounts. WorldCom had so many unethical and fraudulent accounts that it led to one of the largest bankruptcy in history. Scandals as such, led to enforcing strictness of the Code, and increase of accountability in the CPA profession. The three most important purposes of the AICPA Code of Professional Conduct in my view are the following:

1. Rules related to Due Care
2. Rules related to Objectivity and Independence
3. Rules related to the Public Interest

Reason 1 Due Care:

Due Care simply refers to the degree of care which is expected from a reasonable person under the circumstances. CPAs should always exercise due care especially when working and even when planning. This helps create a trust in the client that the CPA is aware of all situations. This also helps the client be confident in the results produced by the CPA. As the Code states “ the quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and

diligence. It imposes the obligation to perform professional services to the best of a member's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public. Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence—of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.

Members should be diligent in discharging responsibilities to clients, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards. Due care requires a member to plan and

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supervise adequately any professional activity for which he or she is responsible.” (American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, 2011)

Reason 2 Objectivity and Independence:

Objectivity and Independence are key concepts to services provided by a CPA. If a CPA were to have issues with objectivity or independence, this could lead to a mistrust or break in the CPA client relationship. As the Code states “ objectivity is a state of mind, a quality that lends value to a member’s services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member’s objectivity in rendering attestation services.

Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare financial statements in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.

For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and

public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.

Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.” (American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, 2011)

Reason 3 Public Interest:

CPAs work closely with company stakeholders, and all of those who rely on CPAs to have public interest as primary. They form a trust with CPAs to keep public interest prior to self or even the company’s interest. The Code states this concept well as “ a distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession’s public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves. In discharging

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their professional responsibilities, members may encounter conflicting pressures from among each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served. Those who rely on certified public accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public.

They are expected to provide quality services, enter into fee arrangements, and offer a range of services—all in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct. All who accept membership in the American Institute of Certified Public Accountants commit themselves to honor the public trust. In return for the faith that the public reposes in them, members should seek continually to demonstrate their dedication to professional excellence.” (American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct, 2011) Ethics are the core of any successful business and/or profession. Governments, organizations and even Institutes set up guidelines or code of conducts. As explained in the paper above in the accounting world AICPA Code of Professional Conduct is considered to be the foundation of ethical reasoning in accounting. Every code of conduct has a purpose and main points. The most important rule is that codes, laws, and rules all need to be updated as times change and people learn to bend or break rules.

References

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American Institute of Certified Public Accountants. (2011). Code of Professional Conduct.

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