

Professional Ethics in Action

Jeanne H. Yamamura, CPA, MIM, PhD

- Shortened attention spans
- Due to constant multitasking on digital devices



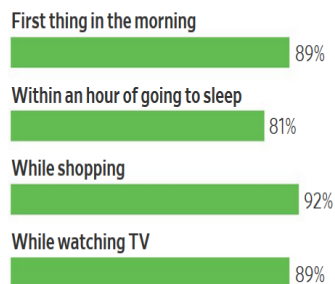
Ethics research

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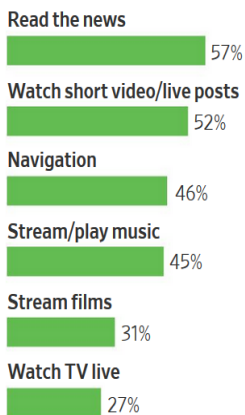
Device Addiction

Individuals check their mobile phones 47 times per day.

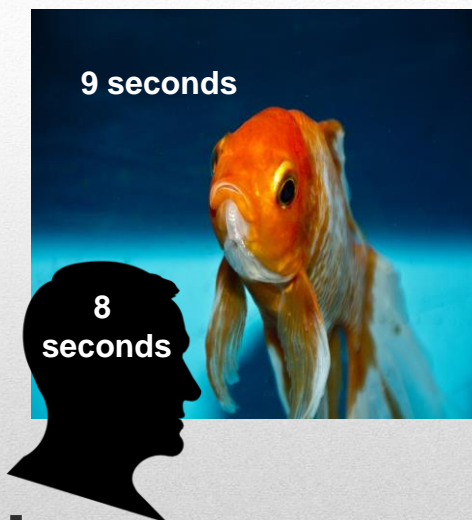


More Than Calls

Cellphones have increasingly become part of our daily routines.



- Remember the goldfish?
- Later debunked
- But ...



Ethics research

- Effective financial decision-making requires
 - Information
 - Concentration
 - Reflection



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- Today – massive amounts of information
- Drowning in data
- **Critical requirement – ability to properly process**
- Multitasking (and its side effects)
- Poor financial decision-making and bad choices!



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5 ways to improve financial decision-making

1. Avoid multitasking
2. Pick the right time of day
3. Focus on most relevant information
4. Think about the big picture
5. Keep away from the phone

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- Research by Shiv & Fedorikhin
 - When you ask people to remember a few extra numbers
 - Much more likely to pick chocolate cake instead of fruit salad
- Why?
 - Use up mental bandwidth in remembering numbers
 - Nothing left to resist immediate gratification



Limits on mental bandwidth

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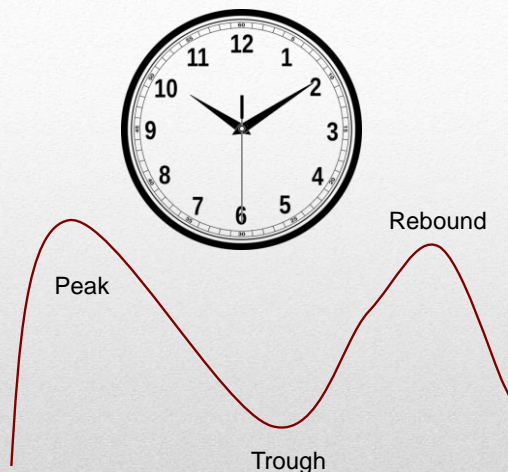
- Financial decisions often require difficult trade-offs
 - Additional investment risk vs. potential reward
 - Sell business now, sell later
- Multitasking interferes with reflexive thought process
 - Constant interruptions/distractions
 - Use up mental bandwidth
- Non-optimal decisions!

1. Avoid multitasking

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- Attention span fluctuates
- Don't make decisions when juggling different tasks
- Less bandwidth available



2. Pick the right time of day

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- Decisions often made on immediately available information
 - Not the most relevant information
- “What you see is all there is”
- Can lead to
 - Focus on ST results
 - Overreacting to market news

DISCOVER Discover Card
Account number ending in 1234
Open Date: Oct 24, 2014. Close Date: Nov 23, 2014
Cardmember Since 2008
Page 1 of 4

| ACCOUNT SUMMARY | | PAYMENT INFORMATION | |
|----------------------|-----------------|---------------------|-------------------|
| Previous Balance | \$6,770.89 | New Balance | \$943.21 |
| Payments and Credits | \$5,836.00 | Minimum Payment Due | \$33.00 |
| Purchases | \$7.82 | Payment Due Date | December 18, 2014 |
| Balance Transfers | \$0.00 | | |
| Cash Advances | \$0.00 | | |
| Fees Charged | \$0.50 | | |
| Interest Charged | \$0.91 | | |
| New Balance | \$943.21 | | |

Minimum Payment Warning: If you make only the minimum payment each period, you will stay more in interest and it will take you longer to pay off your balance. For example:

| If you make no additional charges using this card and each month you pay the minimum payment | You will pay off the balance about in the | And you will end up paying an additional total amount in about |
|--|---|--|
| 3 years | | \$1,100 |

If you would like information about credit counseling services, call 1-800-347-1121.

<https://www.discover.com/credit-cards/resources/how-to-read-a-credit-card-statement/>

Including minimum payment results in lower payments (anchor bias)

3. Focus on most relevant information

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- Mere presence of phone changes our behavior
- Study 1: People perform worse on financial literacy tests when given questions on mobile device
 - Why? Tendency to think and read faster on phone, continually scrolling for more stimulation
- Study 2: Subjects with a phone nearby performed significantly worse on measures of attention, working memory, and fluid intelligence
 - Why? Proximity of phone causes us to monitor it
- Leave your phone far, far away when making financial decisions

4. Keep away from the phone

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- How does this relate to ethics and the workplace?
 - Ethical decisions are also tough decisions
 - Also likely to require information, concentration, and reflection
 - Remember the negative impact of mobile devices on complex decisions
- When making difficult decisions, put your phone away!

Phones and ethics in the workplace

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For government accountants, auditors, analysts, directors, and managers, paying full attention while making ethical decisions will promote ethical behavior



Ethics research

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- Recognize new ethical questions related to technology
- Review recent regulatory changes in ethics guidance for CPAs
- Discuss common ethical problem areas
- Test your knowledge of common ethical requirements

Today's objectives



New ethical challenges



3-CPO



Ava

Artificial intelligence

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1. Increased productivity
2. Reduction in tedious tasks
3. Error reduction
4. Enables breakthroughs

AI benefits

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- Automated assistant
 - Schedules meetings
 - Books Uber
 - Takes minutes
- Zoom.ai users claim
 - Productivity increased by 14%
 - Savings \$16,000 per \$100,000 employee



1. Increased productivity

- Perform intensive manual tasks without human intervention
- Reduction in operating and manpower costs
- Physical inventory taking – drones fly through warehouse, scan items, and check for misplaced items
 - Time reduction @ Walmart – 1 month to 24 hours



2. Reduction in tedious tasks

- Reduces (or eliminates) human intervention
- Resulting in less or no human error
- 2014 – Heartbleed bug - simple coding error allowing access
- AI can test software and learn while testing



3. Error reduction

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- Finds connections and deeper meaning in data
- Spots patterns and trends
- For example – disaster management
 - One Concern – 85% accuracy in 15 minutes
 - Predicts future damage for range of disaster scenarios
 - Used for prevention and structure reinforcement



4. Enables breakthroughs

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1. Data requirements
2. Biases in data
3. Black box
4. Moral dilemmas

AI drawbacks

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- Enormous amounts of data required
- Collection of data presents risk
 - Trade secrets
 - Personal privacy
- Plus - AI only as good as data used to train it

1. Data requirements

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- Biases everywhere
- Can “taint” data
- WSJ 10/25/19 “Racial Bias Found in Hospital Algorithm”
 - Provided by Optum
 - Objective: To find patients with chronic illness and better manage overall health
 - Black patients less likely to get extra medical help, even when more sick
 - Cost used to rank patients and spending higher for white patients with similar conditions

2. Biases in data

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- Little to no transparency
- Proprietary code not available to public
- Lack of explainability – leading to no trust
- Watson for Oncology
 - Doctors didn’t trust results due to lack of understanding how results obtained



3. Black box

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Poses new set of moral questions

- If an autonomous vehicle hits a car or a pedestrian, who is at fault?
- If biases were present in the data, is it still OK to use it?
- Who does personal data belong to?

4. Moral dilemmas

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- Strategeion – NFP software company
- Founded by small group of Army veterans
- To create jobs and improve lives via online platform where vets stay in touch and share experiences
- Employees mainly ex-military
 - High job satisfaction, little turnover

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- Strategeion
 - Listed by Wealth Magazine in “100 Best Companies to Work For” 2 years in a row
 - Big surge in job inquiries
 - Especially from civilian candidates
 - 100 applications for each open position
 - HR overwhelmed

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- Strategeion engineers
 - Created PARiS – a system with natural language processing and machine learning capabilities
 - Identified best candidates by looking for markers in resumes
 - HR trained system using resumes from current and prior employees marking them excellent or really bad in professional attributes and fit

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- PARiS implemented
 - HR thrilled – no more long hours reading resumes
 - After a few weeks, candidate lists produced looked just like those HR would have put together
 - Over time, less need to check PARiS, automatic operation

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- Hara
 - Promising and hard-working computer science student from Athens, GA
 - Crafted resume to reflect civic commitments and experience with NFPs that advocate for wheelchair users, like her
 - Received immediate automated rejection from PARiS
 - Surprised as her strong academic qualifications + civic activities and NFP experience should have made her a perfect fit
 - Wrote to company asking for feedback

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- HR
 - Also puzzled by PARiS rejection
 - Hara judged to be on par with very best company employees
 - Requested engineers to find out why Hara rejected

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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- Engineers
 - Answer was “sports”
 - Strong positive correlation between participation in athletics and military service
 - PARiS had learned to connect history of playing sports with “good fit”
 - Hara had no sports history (used wheelchair plus no interest in sports)

Exercise #1 - Hiring

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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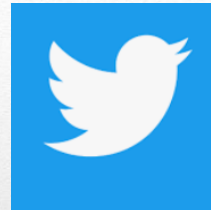
1. PARiS promised to make the hiring process more efficient. Are there other values that might also be important? What do organizations risk losing if they focus solely on efficiency?
2. Biased data sets pose a problem for ensuring fairness in AI systems. Given the organization's demographics, what could Strategieion's engineers have done to counteract the skewed employee data? Whose responsibility is it to ensure good data?

Questions

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Adapted from AI Ethics Case: Hiring by Machine
<https://aiethics.princeton.edu>

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Social media

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- Positive impact on an organization
 - Adds a new way to provide customer service
 - Enables outreach to a bigger audience
 - Creates word of mouth
 - Very effective in creating brand awareness
 - Boosts brand loyalty

The good

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- Negative effects on an organization
 - Mistakes cannot be erased easily
 - It's hard to create a cohesive brand image
 - Managing social media takes \$\$ and time
 - No control over what others do
 - Bad customer reviews can be damaging

The bad

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Employee posts

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- Often invited by management
- Increases employee engagement
- Free advertising for the organization/firm
- Provides a look at organizational culture (in a positive way)



Employee posts

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- Employers could be liable for employee posts
- Employees may share negative job information
- Everyone has access to posted information
- Social media is everywhere and expanding its reach
- Internet posts may last forever

BUT

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- Thinking of just firing the malcontents who posted negatively?
- National Labor Relations Board (NLRB)
 - Employer efforts to control employee posts often violate employee rights
 - Specifically, right to engage in “protected” activity under the National Labor Relations Act

Facebook firings

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- Written guidelines
- No general, blanket prohibitions
- Specific bans, e.g., trade secrets, customer lists, technological data
- Examples of inappropriate postings
- OK to ban bullying, discrimination, retaliation
- Allow employees to “friend” co-workers on personal social media pages
- No asking employees for social media accounts and passwords

Every organization needs a social media policy

NLRB guidelines

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1. How protected are employees who post in social media? In other words, is it OK to discipline or fire them?
2. What measures has my organization taken to manage social media?
3. What problems have we encountered in trying to manage social media for our organization?

Exercise #2: Questions

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- Data – now a valuable resource – the “new oil”
- Provides massive economic power to companies that produce and control data
- Creates information advantage in global competition



Data responsibility

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- Collected 24/7
 - Directly from customers
 - Indirectly from tracking customers
 - From other companies
- Data sources include
 - Smartphones, wearables, IoT
 - Voice and facial identification
 - Computers
 - GPS
 - Retail transactions

Customer data

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- Important to manage and control data
- Need for high-quality data
 - Clearly and consistently labeled and identified
 - Retrievable

Data as a valuable resource

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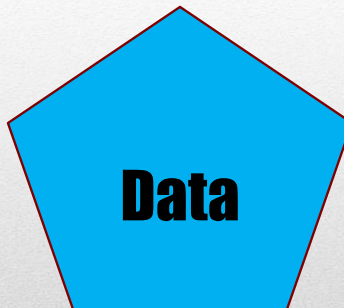
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Where is it being collected?

Who is collecting it?

How is it being labeled and stored?

What is being collected?



What tools are being used for collection?

Need to know

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- EU General Data Protection Regulation (GPDR)
 - Effective 5/25/18
- California Consumer Privacy Act
 - Effective 1/1/20





Data privacy regulations

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PwC Comparison of GDPR and CCPA

| | GDPR | | CCPA |
|---|--|---|---|
| Scope | EU personal data processed |  | California residents' personal data collected; consumer data in scope starting January 2020 and employee and business-to-business data in scope starting January 2021 |
| Right to access | Right to access all EU personal data processed |  | Right to access California personal data collected in last 12 months, delineated between sold and transferred |
| Right to portability | Must export and import certain EU personal data in a user-friendly format |  | All access requests must be exported in user-friendly format, but there is no import requirement |
| Right to correction | Right to correct errors in EU personal data processed |  | Not included in CCPA |
| Right to stop processing | Right to withdraw consent or otherwise stop processing of EU personal data |  | Right to opt-out of selling personal data only; must include opt-out link on website |
| Right to stop automated decision-making | Right to require a human to make decisions that have a legal effect |  | Not included in CCPA |
| Right to stop third-party transfer | Right to withdraw consent for data transfers involving second purposes of special categories of data |  | Right to opt-out of selling personal data to third parties |
| Right to erasure | Right to erase EU personal data, under certain conditions |  | Right to erase personal data collected, under certain conditions |
| Right to equal services and price | At most, implicitly required |  | Explicitly required |
| Private right of action damages | No floor or ceiling |  | Floor of \$100 and ceiling of \$750 per consumer per data breach incident |
| Regulator enforcement penalties | Ceiling of 4% of global annual revenues |  | Up to \$2,500 per unintentional violation and \$7,500 per intentional violation |

 Narrower
  Broader
  Similar
  Absent

APIPA 2020 Source: <https://www.pwc.com/us/en/services/consulting/cybersecurity/california-consumer-privacy-act.html>

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- U of Colorado professor – Terrance Boulton
- \$3.3 mm government research project – helping military better identify and thwart terrorists
 - Long-range facial recognition
 - Enable detection of car or vest bombers who are on watch list

Exercise #3 – U of CO

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- UnConstrained College Students Dataset
 - Secretly photographed college students, employees, and visitors on public sidewalks at university
 - 16,000 images of 2,400 people
 - 1,700 “matched identities” – same person more than once
 - Used hidden camera set up in building 500 feet away

Exercise #3 – U of CO

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- Photos released to Research Consortium 5 years after taken
- No personal info
- Collected in public areas



https://gazette.com/news/uccs-to-start-in-person-classes-in-august-with-some-instruction-to-remain-remote/article_e170b222-a6b9-11ea-8718-2f74a031080c.html

Exercise #3 – U of CO

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1. Do we have privacy rights when in public?
2. What do “personal data” include?
3. Should we be able to control our personal data?

Exercise #3: Questions

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Coming Changes in Ethical Standards

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- Changes effective
 - In 2021
 - In 2022

AICPA Code of Professional Conduct

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2021

Changes effective in 2021

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- 
- **Effective for years beginning after December 15, 2020 (COVID-delay)**
 - Early implementation allowed
 - Leases between **certain** covered members and attest clients
 - Attest engagement team
 - Members in position to influence
 - Firm

Leases

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- When new lease started or lease renegotiated during period of professional engagement, independence impaired UNLESS ALL conditions met
 - Lease at market terms and established at arms' length
 - Lease not material to any party
 - Consider all leases between covered member and attest client in aggregate
 - Lease amounts paid as required and lease terms met

Leases – new or renegotiated

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- Require evaluation
- If significant threats, employ safeguards
- Include leases
 - Started or renegotiated **before** professional engagement
 - Began before becoming covered member
 - Began before becoming attest client or affiliate
 - Started or renegotiated **during** professional engagement and now material

Existing leases

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Changes effective in 2022

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- Effective years beginning after December 15, 2021 (COVID-delay)
- New interpretations related to state and local government entities

State and local government affiliates

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When auditing a state or local government, which entities must auditor be independent of?

- Currently, funds and component units included in government FS UNLESS another auditor reported on fund/component unit and reference made in report

Issue addressed

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- Auditor must be independent of affiliates of state and local government attest clients.
- “Affiliates” have increased.

Requirements

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- Affiliates
 - Entities included in FS where no reference made
 - Entities included in FS where reference made and
 - Entity material to FS and client has **“more than minimal influence”** over accounting/financial reporting processes of entity

Affiliates

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- Affiliates
 - Material entities excluded from FS (but required to be included) where client has **“more than minimal influence”** over accounting/financial reporting processes

Affiliates

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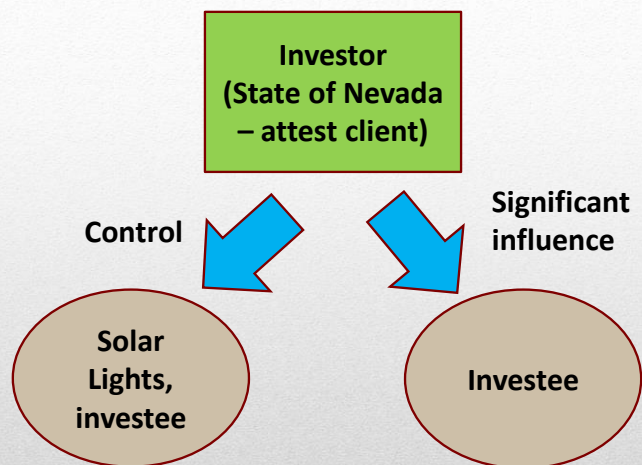
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- Affiliates
 - Investor (client or affiliate) has an investment in investee and
 - Controls investee, unless investment trivial and inconsequential to client FS OR
 - Has significant influence over investee and investment material to client FS

Affiliates

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Affiliates

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- Presumed over funds and blended component units
- Evaluated on case-by-case basis for discretely presented component units
- Evaluation factors include
 - Preparation of FS
 - Operational control over entity
 - Separate or same accounting systems
 - Client’s ability to direct/control entity board
 - Client’s financial involvement with entity

“More than minimal influence”

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- May result from
 - Covered member’s IFM in key position with nonaffiliate that includes client in its FS and nonaffiliate provides accounting and/or internal controls to client
 - Member or firm is considering providing financial information system design services to nonaffiliate when same system would be used by client
 - Covered member has financial interest in nonaffiliate that includes client in its FS and nonaffiliate prepares FS for client
 - Client participates in partnership or joint venture
 - Covered member owns utility bonds issued by nonaffiliate and client is responsible for payment of debt service
- Require independence threat evaluation

Nonaffiliate independence problems

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- Effective January 1, 2022 (COVID-delay)
- Early implementation allowed
- Expands auditor ability to provide information systems services to attest clients

Information systems services

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- When auditor involved with **financial** information systems of attest client



Independence may be impaired

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- System that “aggregates source data or generates information that is significant to either the financial statements or processes as a whole”
- Includes tools that calculate results **unless**
 - Tool only performs discrete calculations;
 - Client evaluates and accepts responsibility for input and assumptions; **and**
 - Client has sufficient information to understand calculation and results.

Financial information system

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- NAS involving nonfinancial systems allowed
- AS LONG AS
 - No management responsibilities assumed,
 - Ongoing function not outsourced to member,
 - AND
 - “Nonattest Services” requirements met

Allowed NAS for attest clients

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- Installation/configuration of commercial-off-the-shelf (COTS) financial information system, e.g., Quickbooks
- Use of 3rd party application program interface (API) to link legacy or COTS financial information system software, e.g., Salesforce.com API to your sales system
- Use of 3rd party vendor application to perform data translation services for a COTS financial information system, e.g., using app to pull inventory data from multiple devices in your system
- Performance of individually separate, distinct, and not ongoing maintenance, support or monitoring service engagements for financial or nonfinancial systems/networks

Allowed NAS - examples

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- Factors to consider
 - Will the systems controls or output be subject to attest procedures?
 - Does the system generate data that becomes an input to FS?
 - Does the system gather data used by management to make decisions that directly affect financial reporting?
 - Is the system part of ICFR?

Is the system financial?

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AICPA exposure drafts

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- ED issued March 10, 2017
- Comments by May 12, 2017
- New interpretations for members in public practice and business
- Effective one year from last day of month published in Journal of Accountancy

ED Responding to non-compliance with laws and regulations (NOCLAR)

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- What should you do if you detect or suspect noncompliance with laws and regulations?



ED responding to non-compliance with laws and regulations

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- Which laws and regulations are we talking about?
 - Directly affect FS
 - Fundamental to business operations
 - Ability to stay in business
 - Avoidance of substantial penalties
- Not personal misconduct unrelated to business

ED responding to non-compliance with laws and regulations

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Examples

- Fraud, corruption, and bribery
- Money laundering
- Securities markets and trading
- Banking and other financial products and services
- Data protection
- Tax and pension liabilities and payments
- Environmental protection
- Public health and safety

ED responding to non-compliance with laws and regulations

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Members in Public Practice

For any type of service provided

1. Obtain an understanding
2. Discuss with appropriate level of management and, if appropriate, those in governance
3. Advise client to take action to address NOCLAR
4. If required by law/regulation, report to authorities
5. If management response inappropriate, consider withdrawal
6. If group attest or audit/review, additional communications may be required
7. Document judgments and actions

ED responding to NOCLAR

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- Members in Business
 - Senior professional accountants (directors, officers, senior employees)
 - Below senior professional accountants

ED responding to NOCLAR

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| Step | Senior | Below |
|---|--------|-------|
| 1. Obtain an understanding | X | X |
| 2. Discuss with immediate superior (or higher if superior involved) to determine how to address | X | X |
| 3. Communicate with those charged with governance and fix the NOCLAR | X | |
| 4. Determine if disclosure to external auditor needed | X | X |
| 5. If management response inappropriate, consider further action, e.g., informing parent company, resigning | X | |
| 6. Documentation encouraged | X | X |

Members in business

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- ED issued December 7, 2018
- Comments by March 7, 2019
- New interpretation addressing staff loaned to attest clients
- Proposed effective date – 6 months from last day of month published in J of A

ED staff augmentation arrangements

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- Independence threats posed when staff provided to attest clients
- Major areas of concern
 - How services are provided
 - Whether staff members appear to be client employees

ED staff augmentation arrangements

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- Client designation of senior-level person with suitable SKE responsible for selecting, supervising, and evaluating work performed
- Loaned staff cannot
 - Assume management responsibilities
 - Perform prohibited services
- “Loan” is *short* period of time

Requirements

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- Consider
 - Period of time services provided
 - Whether services provided to other clients during same time period
 - How frequently services performed at client’s location
 - Whether services discrete or recurring

Is “employee” appearance created?

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- Threats identified and evaluated
- Safeguards to consider
 - Banning NAS staff from audit team
 - Not allowing NAS staff to audit areas where NAS services provided
 - Rotating loaned staff
 - Monitoring work performed by loaned staff

Threat evaluation and safeguards

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- Loaned staff
 - Identified as client employee
 - Directories or other client publications
 - Correspondence including email, letterhead, and internal communications
 - Referred by title or description as supervising or being in charge of client business areas
 - Able to participate in client compensation or benefit plans

Independence impaired

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- ED issued May 1, 2020
- Comments by September 30, 2020
- New interpretation addressing client records
- Proposed effective date – 60 days after publication in J of A

ED records requests

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- Current requirement – client records must be returned to client upon request
 - Regardless of whether fees are due
 - Can charge fees for costs of providing
- Change to clarify – cannot withhold client records for nonpayment of costs of providing

ED records requests

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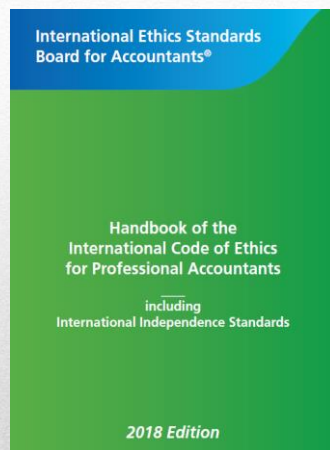
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- Change – if client records have already been returned to client and client requests copies again
 - CPA can withhold provision pending payment of costs of retrieval and copy
- Change – making client records available via portal (or for pickup) satisfies “return upon request” requirement

ED records requests

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IESBA

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- Revised Part 4B of the Code
 - Independence standards for assurance engagements other than audits and reviews
 - Issued January 3, 2020
 - Effective for periods commencing on or after June 15, 2021

International Code of Ethics for Professional Accountants

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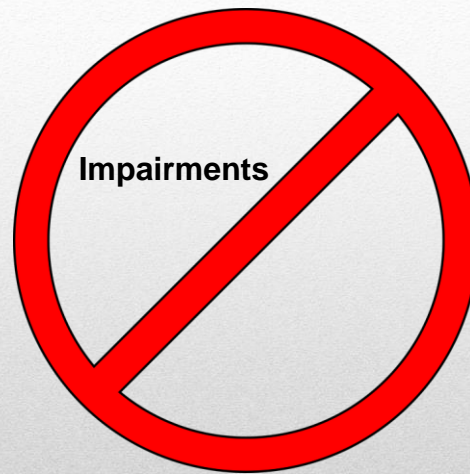
- Main revisions
 - Changed key terminology
 - Amended certain independence requirements
 - Clarified the parties to an assurance engagement and their roles and responsibilities, and the related independence requirements that apply
 - Distinguished between assurance engagement covered in Part 4A (audits and reviews) and Part 4B (other)

Part 4B - Independence

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- A firm performing an **assurance engagement** shall be independent of the **assurance client**.



Independence required

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- Expresses conclusion designed to enhance confidence in the subject matter
- May be attestation engagement or direct engagement
 - Attestation engagement – conclusion on subject matter or assertion
 - Direct engagement – conclusion on subject matter

Assurance engagement

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- Assurance engagement – responsible party
- Attestation engagement – party taking responsibility for subject matter information (might be same as responsible party)

Assurance client

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- Assurance on an entity's key performance indicators.
- Assurance on an entity's compliance with law or regulation.
- Assurance on performance criteria, such as value for money, achieved by a public sector body.
- Assurance on the effectiveness of an entity's system of internal control.
- Assurance on an entity's greenhouse gas statement.
- An audit of specific elements, accounts or items of a financial statement.

Examples of assurance engagements

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IESBA Exposure Drafts

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- ED issued January 21, 2020
- Comments by May 4, 2020
- Objective – to strengthen fee-related independence provisions of Code
- Proposed finalization – December 2020

ED Fee-Related Provisions

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- Specific provisions
 - Require that the audit fee be a standalone fee
 - Provision of other services should not influence the level of the audit fee



ED – Fee-Related Provisions

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- Specific provisions of the ED for *nonpublic entity clients*
 - When total fees from audit client > 30% of firm's total fees for 5 consecutive years, consider safeguards and apply if needed
 - Pre-issuance review of 5th year FS audit by outside accountant or professional body OR
 - Post-issuance review of 5th year FS audit by outside accountant or professional body
 - When total fees from audit client >30% of firm's total fees beyond 5 years, consider each year if safeguards needed and apply

ED – Fee-Related Provisions

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- Specific provisions of the ED for **public entity clients**
 - Require disclosure to those in governance when total fees received from client > 15% of the firm's total fees for two consecutive years
 - Determine if a pre-issuance review is needed when total fees received from a client > 15% of the firm's total fees (2nd year)
 - A post-issuance review would not be sufficient.
 - If total fees from a client >15% of the firm's total fees for more than 5 years, cease auditing

ED – Fee-Related Provisions

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- Specific provisions of the ED for **public entity clients**
 - Expanded fee communications to those in governance
 - Audit fees
 - Fees for NAS
 - Risk assessment of independence threats and actions taken

ED – Fee-Related Provisions

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- ED issued January 21, 2020
- Comments by May 4, 2020
- Objective – to clarify and strengthen NAS-related independence provisions of Code
- Proposed finalization – December 2020

ED Non-Assurance Services

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- Specific provisions of the ED for ***public entity clients***
 - No NAS work when self-review threat for audit of FS created
 - Even if outcome/result of NAS is immaterial
 - Additional information re independence impact to and prior approval of NAS by those charged with governance

ED – Non-Assurance Services

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- New and revised application material to aid in determining whether NAS will create a self-review threat
 - Added two factors relevant in evaluating threats
 - Manner in which NAS will be provided
 - Fees relating to provision of NAS

ED Non-Assurance Services

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- Specific provisions of the ED for ***all audit clients***
 - Prohibition against provision of tax or corporate finance advice
 - When
 - Effectiveness of advice is dependent on particular accounting treatment or presentation, and
 - Audit team has doubt about appropriateness of treatment/presentation
 - Regardless of materiality

ED – Non-Assurance Services

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- ED issued January 30, 2020
- Comments by March 16, 2020
- Objective – to identify qualifications for an engagement quality reviewer
- Proposed finalization – September 2020
- Accelerated to align with proposed effective date of ISQM 2

ED Objectivity of Quality Reviewers

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- Per IAASB
 - When engagement partner becomes the quality reviewer, significant threats to objectivity exist
 - Cooling off period appropriate to address
- Where should the cooling off requirement go?
 - Per IESBA - belongs in quality control standards, i.e., ISQM 2

ED Objectivity of Quality Reviewers

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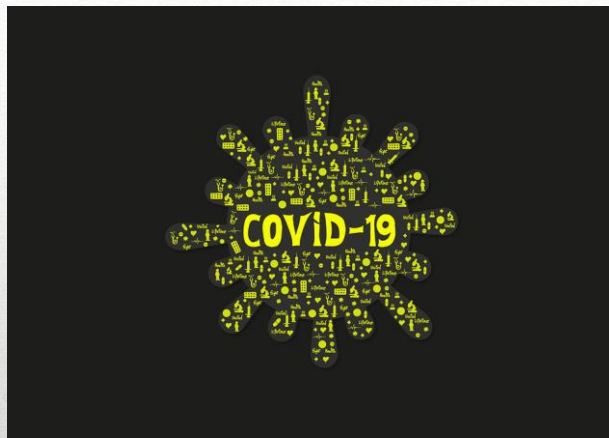
164

- Provides guidance on applying conceptual framework to address objectivity of engagement quality reviewer (EQR)
 - Discusses different types of threats to compliance with objectivity principle when appointing an EQR
 - Provides factors to use in evaluating the level of identified threats
 - Suggests safeguards to address threats

ED Objectivity of Quality Reviewers

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COVID Changes

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- Yellow Book – CPE Requirements
 - 80 hours of CPE every 2 years, including
 - 24 hours of CPE on government environment/auditing subject matter
 - 56 hours on subject matter that enhances professional expertise
 - 20 hours minimum in 1 year period

Yellow Book

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- Yellow Book – CPE Requirements
 - Effective 2/29/2020 – 12/31/20:
 - 6-month grace period for completing CPE
 - Waiver of 20-hour annual CPE requirement
 - Carryover of up to 40 hours, in excess of 80-hour requirement, to next CPE measurement period
 - If teleworking, may NOT use CPE exemption for illness, maternity/paternity/extended family leave, sabbaticals, LWP, foreign residency, military service, and disasters

Yellow Book

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- **SASs 134-140** – effective date delayed to **December 15, 2021**
 - SAS No. 134, **Auditor Reporting and Amendments**
 - SAS No. 135, **Omnibus Statement on Auditing Standards — 2019.**
 - SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of **Employee Benefit Plans** Subject to ERISA*
 - SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.*
 - SAS No. 138, *Amendments to the Description of the Concept of Materiality.*
 - SAS No. 139 & 140, *Amendments to Incorporate Auditor Reporting Changes From SAS No. 134*

AICPA SASs

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- 6-month extensions for peer reviews, corrective actions, and implementation plans with original due dates between Jan. 1 and Sept. 30, 2020
- Will monitor to see if additional extensions needed for those with due dates after Sept. 30, 2020
- No requirement to wait additional 6 months for peer review

AICPA Peer Review

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- Revenue recognition for private companies and NFPs - annual periods beginning after Dec. 15, 2019
- Lease accounting for private companies and NFPs – fiscal years beginning after Dec. 15, 2021

FASB

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- GASB 87 Leases postponed for 18 months
- Postponed for 1 year
 - GASB 83, Certain Asset Retirement Obligations.
 - GASB 84, Fiduciary Activities.
 - GASB 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements.
 - GASB 89, Accounting for Interest Cost Incurred Before the End of a Construction Period.
 - GASB 90, Majority Equity Interests.
 - GASB 91, Conduit Debt Obligations.
 - GASB 92, Omnibus 2020.
 - GASB 93, Replacement of Interbank Offered Rates.

GASB

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Other Changes

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- SSFS 1 issued
- Effective for engagements accepted on or after January 1, 2020
- Applies to professional services for “litigation” or “investigation”
- No provision of expert opinion for contingent fee while performing services in a litigation
- No provision of legal opinion re fraud or other – expert opinion OK

AICPA - Statement on Standards for Forensic Services

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CPA Exam

- Continuous CPA exam testing effective July 1, 2020
 - +20 testing days each quarter
 - More score release dates to be added
- Retakes allowed after score released
 - If substantial revision of exam, delayed score release

NASBA

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CPA Exam – Proposed Revisions

- 2019 practice analysis
- Impact of technology
 - Understanding business processes from inception to completion including automated aspects, risk identification and internal control mapping
 - The need for a digital and data-driven mindset and the use of data analytics, and
 - Increased reliance on System and Organization Controls for Service Organizations: Internal Control over Financial Reporting (SOC 1®) reports.

NASBA

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CPA Exam – Proposed Revisions

- Heavy impact on AUD and BEC
 - Blueprints to be reorganized to better integrate major business processes, including manual and IT systems and related internal controls
 - Data management, data governance, data relationships and reliance on SOC 1 reports added to BEC
 - Excel-based TBSs requiring sorting, filtering, and comparing of data sets added to AUD (originally Oct. 2020, now 2021)

NASBA

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CPA Exam – Proposed Revisions

- For future consideration
 - Remove written communications from BEC
 - Technical proficiency not evaluated
 - Remove governmental accounting and reporting from FAR
 - Specialized area

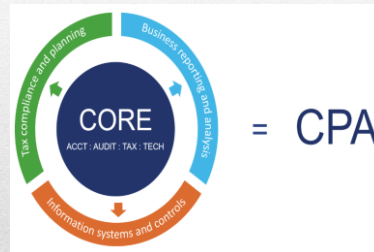
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CPA Evolution

- Proposed changes to CPA exam
 - 3 mandatory - accounting, auditing, tax & technology
 - 1 specialization
 - Business reporting & analysis
 - Information systems & controls
 - Tax compliance & planning



Source: <https://www.evolutionofcpa.org/>

NASBA and AICPA

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CPE changes

- The Statement on Standards for Continuing Professional Education (CPE) Programs – revised Dec. 2019
- Effective Dec. 31, 2019

NASBA

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CPE changes

- Added “adaptive learning self-study program”
 - A self study program that uses a computer algorithm, other predictive analytics tools, or learner-driven selections to orchestrate interaction with the learner and deliver customized learning activities to assist the learner in meeting the course’s stated learning

NASBA

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CPE changes

- Added table to identify minimum number of monitoring mechanisms required in group internet based program
- This session = 5

| Additional Credit | Additional Monitoring Mechanisms |
|-------------------|----------------------------------|
| 0.2 | 0 |
| 0.4 | 1 |
| 0.5 | 2 |
| 0.6 | 2 |
| 0.8 | 3 |
| Next full credit | 3 |

NASBA

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CPE

- Group internet-based program
 - Individual participation in synchronous learning with real time interaction of an instructor or subject matter expert and built-in processes for attendance and interactivity
 - Watching rebroadcast OK as long as instructor present and participants can ask questions and receive answers during the presentation AND take part in the interactive events

NASBA

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Image: Hong Kong University of Science and Technology

<https://spectrum.ieee.org/the-human-os/biomedical/devices/ai-tracks-emotions-in-the-classroom>

NASBA

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1. Keeping up with changes
2. Conflicts of interest

Common problem areas

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- So many rules! And continuous changes!
- Need to keep up with new standards



1. Keeping up with changes

2016, 2020 Alliance USA Conference

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- Failure to perform engagements properly
- Failure to account for and/or report transactions properly
- Failure to obtain required CPE

Resultant problems

- 80 hours every two years (40/year)
- Remember specific requirements – technical CPE



CPE requirements for CPAs

| Technical | | Non-Technical |
|---------------------------|--------------------------|--------------------------------------|
| Accounting | Information technology | Behavioral ethics |
| Accounting (governmental) | Management services | Business management and organization |
| Auditing | Regulatory ethics | Communications and marketing |
| Auditing (governmental) | Specialized knowledge | Computer software and applications |
| Business law | Statistics | Personal development |
| Economics | Taxes | Personnel/HR |
| Finance | | Production |

CPE – Technical v. Non-Technical

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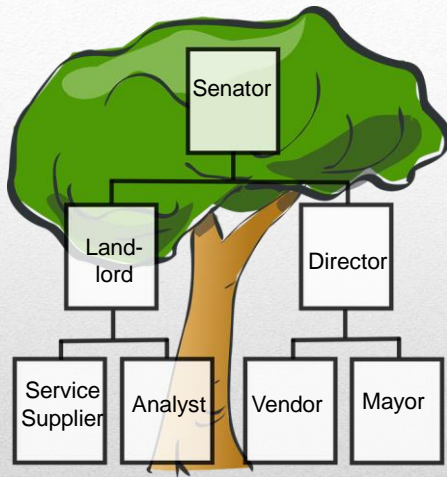
- Annual training plan
- Custom training plan for each employee
 - SKE for current position
 - SKE for advancement



Governments and audit offices

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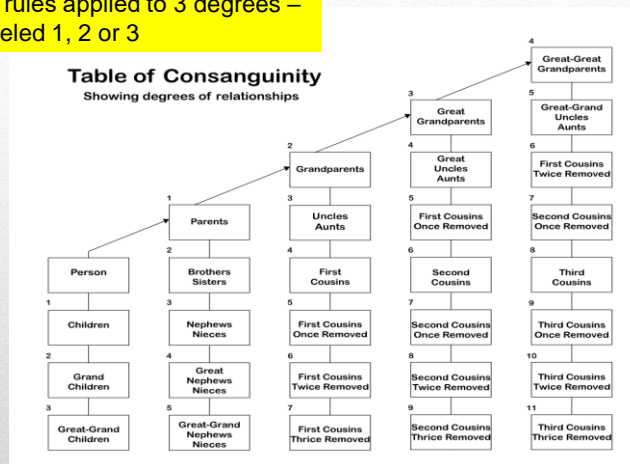
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- Small islands
- Where everybody knows your name
- And you may be related to a large % of the population
- And have financial interests with the rest of the population

2. Conflicts of interest

Guam's gift rules applied to 3 degrees – any box labeled 1, 2 or 3



By SVG remake by WClarke based on original by User:Sg647112c - Own work, CC BY-SA 4.0, <https://commons.wikimedia.org/w/index.php?curid=54804980>

3 degrees of consanguinity

- General rule – disclose and get permission
- Know your government’s rules
 - Who are related parties of interest?
 - Who is considered to be “immediate family”?
 - What is a “financial interest”?
- Follow them!

2. Conflicts of interest

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- When making difficult decisions, put your phone away!
- Remember your responsibilities related to AI creation and data
- Use social media appropriately and effectively
- Remember the State and Local Government affiliates changes coming up in the future

Key Takeaways

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- Audit firms may want to sell you additional information systems services
- New standards on forensic services were issued
- COVID changes ongoing
- Look up my government's rules for conflict of interest and family members

Key Takeaways

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