Does the New AICPA Ethics Codification Still Need Work?

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Several years ago the GAAP codification reorganized U.S. accounting standards from over 100 separate pronouncements into a single 90-section resource. Now, the AICPA Professional Ethics Executive Committee (PEEC) is close to finalizing an ethical standards codification. Like the GAAP codification, the PEEC does not intend the codification to change standards, but to make them more useful.

Following a format similar to the International Ethics Standards Board for Accountants (IESBA) ethics code, the PEEC sought to organize the AICPA Code of Professional Conduct (the "code") into four sections:

- Preface
- Part 1 – Members in Public Practice
- Part 2 – Members in Business
- Part 3 – Other Members

The twenty-five page preface largely consists of principles and definitions. Beyond the preface, the remaining three sections deal with members according to their work status. It defines public practice members as providing covered services to clients. The ***members in business*** section applies to any AICPA member working in industry, education, nonprofit or any other area not included under public practice, even as a volunteer. The "other members" section applies only to people who are retired or unemployed.

While the codification improves the old code in several ways, other opportunities remain. Here are some key things you may want to know about the codification.

Accessibility

The AICPA bills the codification as "intuitively organized". It is. The new code makes finding some issues much faster. It does not mean the revision is more readable. The AICPA sought to improve readability, eliminating legal terms and speaking an active voice. While AICPA staff created a better-organized standard, the codification is actually less readable according to the widely accepted Flesch Reading Ease score.

Some states require insurance contracts to have a Flesch score of 40 on a 100-point scale. One hundred is very readable. A document with a 40 reading ease score would test a high school graduate's reading ability. The old AICPA code had a very low 20.8 Flesch score, challenging most CPAs comprehension. The proposed codification's score is even lower, earning 19.0.

The independence section is particularly confusing. Generally, accounting ethics rules expect independence only for accountants doing attestation work, such as external and internal auditors. The codification appears to expect independence from all public practice CPAs, including management consultants. An AICPA staff person confirms this is not the codification's intent. We may see revised independence wording when the PEEC finalizes the revisions in the first quarter 2014.

Threats Based Approach

Like the previous AICPA code, the codification takes a threats-based approach, identifying six types of threats to ethical behavior:

- Adverse interest threat
- Advocacy threat
- Familiarity threat
- Self-interest threat
- Self-review threat
- Undue influence threat

These threats appeared in the old ethics code's definitions section. The codification integrates the threats discussion into the sections covering both public practice CPAs and members and business. The net result is a greater emphasis on the threats-based approach and greater clarity about how they apply to each member category.

This approach resembles the risk-based approach used in audits or enterprise risk management. The codification expects members to identify threats to their ethical behavior and attempt to remove or mitigate them.

While there has been no real change in expectations of how accountants should behave, the improved format is likely to increase dialog about threats to ethical behavior.

Whistleblowing

Our profession has long recognized the conflict between an accountant's duty to protect the public and the duty to protect a client or employer's secrets. Ethics experts know that protecting the public is a key characteristic of "professional" professions. Since the

"Accounting Crisis of 2001 - 2002", many people have argued accountants should have some moral duty to report illegal acts to government authorities, particularly when internal processes fail to correct the problem.

Generally, accounting ethical standards do not allow public practice accountants to report their client's illegal acts to government agencies. However, ethical standards sometimes allow corporate accountants to become whistleblowers. Past AICPA staff opinions acknowledged that blowing the whistle might be appropriate, given the right facts. The codification conspicuously avoids this issue.

In the Penn State University scandal, we clearly saw the public expected individuals to report illegal acts to outside authorities when necessary to prevent further wrongdoing. As long as our profession's ethical standards require us to protect clients or employers who break the law, the public will sometimes view us as part of the problem, rather than part of the solution.

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