



# Code of Professional Conduct

## COMPOSITION, APPLICABILITY AND COMPLIANCE

The Code of Professional Conduct (the “Code of Professional Conduct”) of the California Society of Certified Public Accountants (“CalCPA”) consists of two sections: (1) Principles, and (2) Rules. The Principles and Rules conform to the Principles and Rules set forth in the Code of Professional Conduct of the American Institute of Certified Public Accountants (the “Institute”) and the California State Board of Accountancy. The Principles provide the framework for the Rules, which govern the performance of professional services by members. CalCPA is authorized to designate bodies to promulgate technical standards under the Rules. In the absence of specific designation by CalCPA or another authority, CalCPA authorizes the governing Council of the American Institute of Certified Public Accountants (the “Council”) to designate bodies to promulgate technical standards under the Rules. The Bylaws of CalCPA require adherence to those Rules and standards. The Bylaws and the Code of Professional Conduct are enforced pursuant to the terms of the Enforcement Procedures adopted by the Council of CalCPA.

The Code of Professional Conduct was adopted by the membership of CalCPA to provide guidance and rules to all members -- those in public practice, industry, government, and education—in the performance of their professional responsibilities.

Compliance with the Code of Professional Conduct, as with all standards in an open society, depends primarily on members’ understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the Rules.

## SECTION I. PRINCIPLES

### PREAMBLE

Membership in CalCPA is voluntary. By accepting membership, a certified public accountant assumes an obligation of self-discipline above and beyond the requirements of laws and regulations.

These Principles of the Code of Professional Conduct of CalCPA express the profession’s recognition of its responsibilities to the public, clients and colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.

### ARTICLE I—RESPONSIBILITIES

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

As professionals, certified public accountants perform an essential role in society. Consistent with that role, members of CalCPA have responsibilities to all those who use their professional services. Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public’s confidence and carry out the profession’s special responsibilities for self-governance. The collective efforts of all members are required to maintain and enhance the traditions of the profession.

### ARTICLE II—THE PUBLIC INTEREST

Members should accept the obligation to act in a way that will serve the public interest and demonstrate commitment to professionalism.

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 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 CalCPA 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.

### ARTICLE III—INTEGRITY

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions. Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality.

Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle.

Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: “Am I doing what a person of integrity would do? Have I retained my integrity?” Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment. Integrity also requires a member to observe the principles of objectivity and independence and of due care.

## ARTICLE IV—OBJECTIVITY AND INDEPENDENCE

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

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.

## ARTICLE V—DUE CARE

A member should observe the profession's technical and ethical standards, strive continually to improve competence and quality of services, and discharge professional responsibility to the best of the member's ability.

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 supervise adequately any professional activity for which he or she is responsible.

## ARTICLE VI—SCOPE AND NATURE OF SERVICES

A member in public practice should observe the Principles of the Code of Professional Conduct in determining the scope and nature of services to be provided.

The public interest aspect of certified public accountants services requires that such services be consistent with acceptable professional behavior for certified public accountants. Integrity requires that service and the public trust not be subordinated to personal gain and advantage. Objectivity and independence require that members be free from conflicts of interest in discharging professional responsibilities. Due care requires that services be provided with competence and diligence.

Each of these Principles should be considered by members in determining whether or not to provide specific services in individual circumstances. In some instances, they may represent an overall constraint on the non-audit services that might be offered to a specific client. No hard-and-fast rules can be developed to help members reach these judgments, but they must be satisfied that they are meeting the spirit of the Principles in this regard.

To accomplish this, members should:

- Practice in firms that have in place internal quality-control procedures to ensure that services are competently delivered and adequately supervised.
- Determine, in their individual judgments, whether the scope and nature of other services provided to an audit client would create a conflict of interest in the performance of the audit function for that client.
- Assess, in their individual judgments, whether an activity is consistent with their role as professionals (for example, is such activity a reasonable extension or variation of existing services offered by the member or others in the profession?)

## SECTION II. RULES

### APPLICABILITY

The Bylaws of the California Society of Certified Public Accountants require that members adhere to the rules of the Code of Professional Conduct. Members must be prepared to justify departures from these rules.

### INDEPENDENCE

**RULE 101.** A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by CalCPA.

### INTEGRITY AND OBJECTIVITY

**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.

## GENERAL STANDARDS

**RULE 201.** A member shall comply with the following standards and with any interpretations thereof by bodies designated by CalCPA.

- A. *Professional competence.* Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
- B. *Due professional care.* Exercise due professional care in the performance of professional services.
- C. *Planning and supervision.* Adequately plan and supervise performance of professional services.
- D. *Sufficient relevant data.* Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

## COMPLIANCE WITH STANDARDS

**RULE 202.** A member who performs auditing, review, compilation, management consulting, tax or other professional services shall comply with standards promulgated by bodies designated by CalCPA.

## ACCOUNTING PRINCIPLES

**RULE 203.** A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by CalCPA to establish such principles that have a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to the unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

## CONFIDENTIAL CLIENT INFORMATION

**RULE 301.** A member in public practice shall not disclose any confidential client information without the specific consent of the client.

This rule shall not be construed (1) to relieve a member of his or her professional obligations under Rules 202 and 203, (2) to affect in any way the member's obligations to comply with a validly issued and enforceable subpoena or summons, or to prohibit a member's compliance with applicable laws and government regulations, (3) to prohibit review of a member's professional practice under AICPA or CalCPA or Board of Accountancy authorization, or (4) to preclude a member from initiating a complaint with, or responding to any inquiry made by, the ethics division or trial of the AICPA or a duly constituted investigative or disciplinary body of CalCPA or State Board of Accountancy.

Members of any of the bodies identified in (4) above and members involved with professional practice reviews identified in (3) above shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out those activities. This prohibition shall not restrict members' exchange of information in connection with the investigative or disciplinary proceedings described in (4) above or the professional practice reviews described in (3) above.

## CONTINGENT FEES

**RULE 302.** A member in public practice shall not:

1. Perform for a contingent fee any professional services for, or receive such a fee from, a client for whom the member or the member's firm performs:
  - A. An audit or review of a financial statement; or
  - B. A compilation of a financial statement when the member expects or reasonably should expect that a third party will use the financial statement and the member's compilation report does not disclose a lack of independence; or
  - C. An examination of prospective financial information; or
  - D. Any other attest engagement when the member expects or reasonably should expect that a third party will use the related attestation report; or
  - E. Any other services requiring independence.
2. Prepare an original tax return for a contingent fee for any client.
3. Prepare an amended tax return, claim for tax refund, or perform other similar tax services for a contingent fee for any client.
4. Perform an engagement as a testifying expert for a contingent fee.

The prohibition in (1) above applies during the period in which the member or the member's firm is engaged to perform any of the services listed under (1) above and the period covered by any historical financial statements involved in any such listed services.

Except as stated in the next paragraph, a contingent fee is a fee established for the performance of any service pursuant to an arrangement in which no fee will be charged unless a specific finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service.

Solely for purposes of this rule, fees are not regarded as being contingent if fixed by courts or governmental entities acting in a judicial or regulatory capacity, or in tax matters if determined based upon the results of judicial proceedings or the findings of governmental agencies acting in a judicial or regulatory capacity or there is a reasonable expectation of substantive review by a taxing authority.

A member's fees may vary depending, for example, on the complexity of services rendered.

## ACTS DISCREDITABLE

**RULE 501.** A member shall not commit an act discreditable to the profession.

## ADVERTISING AND OTHER FORMS OF SOLICITATION

**RULE 502.** A member in public practice shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive. Solicitation by the use of coercion, over-reaching or harassing conduct is prohibited.

## COMMISSIONS AND REFERRAL FEES

**RULE 503.** Except as expressly permitted by this rule, a member engaged in the practice of public accounting shall not (1) pay a fee or commission to obtain a client or (2) accept a fee or commission for referring a client to the products or services of a third party.

A member engaged in the practice of public accountancy who is not performing any of the services set forth in subdivision (A) and who complies with the disclosure requirements of subdivision (B) may accept a fee or commission for providing a client with the products or services of a third party where the products or services of a third party are provided in conjunction with professional services

provided to the client by the member engaged in the practice of public accountancy. Nothing in this rule shall be construed to permit the solicitation or acceptance of any fee or commission solely for the referral of a client to a third party.

- A. A member engaged in the practice of public accountancy is prohibited from performing services for a client for a commission or from receiving a commission from a third party for providing the products or services of that third party to a client during the period in which the member also performs for that client any of the services listed below and during the period covered by any historical financial statements involved in those listed services:
1. An audit or review of a financial statement.
  2. A compilation of a financial statement when the member expects, or reasonably might expect, that a third party will use the financial statement and the compilation report does not disclose a lack of independence.
  3. An examination of prospective financial information.
- B. A member engaged in the practice of public accountancy who is not prohibited from performing services for a commission, or from receiving a commission, and who is paid or expects to be paid a commission, shall disclose that fact to any client or entity to whom the member engaged in the practice of public accountancy recommends or refers a product or service to which the commission relates.

Disclosure shall include, at a minimum, all of the following:

1. Be in writing and be clear and conspicuous.
  2. Be signed by the recipient of the product or service.
  3. State the amount of the commission or the basis on which it will be computed.
  4. Identify the source of the payment and the relationship between the source of the payment and the person receiving the payment.
  5. Be presented to the client at or prior to the time the recommendation of the product or service is made.
- C. For purposes of this rule, "fee" includes, but is not limited to, a commission, rebate, preference, discount, or other consideration, whether in the form of money or otherwise.

It is not the intent of CalCPA to diminish in any manner the duties of certified public accountants to clients, nor abrogate rules relating to objectivity.

## FORM OF ORGANIZATION AND NAME

**RULE 505.** A member may practice public accounting only in a form of organization permitted by state law or regulation whose characteristics conform to the resolutions of CalCPA.

A member shall not practice public accounting under a firm name that is misleading. Names of one or more past owners may be included in the firm name of a successor organization. A firm may not designate itself as "Members of the California Society of Certified Public Accountants" unless all of its CPA owners are members of CalCPA.

## ENFORCEMENT PROCEDURES

In accordance with the Bylaws of CalCPA, the Council of CalCPA has adopted the following Enforcement Procedures to enforce the Bylaws and the Code of Professional Conduct of CalCPA:

Any complaint filed against a member under the Bylaws or the Code of Professional Conduct shall be submitted in writing and referred to the state board of accountancy.

Neither CalCPA nor any of its members, agents or representatives shall be deemed to have made any representation as to the accuracy or completeness of any such complaint or other related documents or materials so submitted to the state board of accountancy and shall have no liability as a result of or in connection with any such submission or any proceedings by the state board of accountancy or its equivalent.

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