

Current Ethical Issues Affecting the Not-for-Profit Auditor

A Review of Ethics Matters Reaching the AICPA Ethics Committees

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The not-for-profit auditor should be aware of the types of matters that result in ethics complaints. The AICPA receives complaints from multiple sources: clients, regulators and others.

For the not-for-profit auditor the largest volume of complaints comes from government agencies.

This session will provide the auditor with examples of areas of typically higher risk that should be considered in managing not-for-profit audits.

Goal

- To heighten your awareness of the risks
- To prepare you better
- To help us all do better audits

Outline

- Main Sources of Ethics Rules
- The AICPA Ethics Enforcement Process
- The Highest Risks
- How to Avoid Problems
- Ten Tips for Ethical Audits

Main Sources of Ethics Rules

- AICPA/State Societies' Codes of Conduct
- Yellow Book
- DOL
- SEC/PCAOB
- State law

AICPA Code of Professional Ethics

- 101 – Independence
- 102 – Integrity and Objectivity
- 201 – General Standards (Competence, Care, Planning and Supervision, Sufficient Relevant Data)
- 202 – Compliance with Standards
- 203 – Accounting Principles
- 301 – Confidential Client Information
- 302 – Contingent Fees
- 501 – Acts Discreditable
- 502 – Advertising and Other Forms of Solicitation
- 503 – Commissions and Referral Fees
- 505 – Form of Organization and Name

State Societies' Codes of Professional Ethics

- May be identical to AICPA
- May be different
- Usually very close

Yellow Book / DOL

- Independence
- Documentation
- Training

State Law

- Accountancy Law
- State Boards of Accounting
- State Disciplinary Processes

The AICPA Ethics Enforcement Process

- Professional Ethics Executive Committee
 - Independence - Behavioral Standards Subcommittee
 - Technical Standards Subcommittee
- JEEP - Coordination between AICPA and State Societies
- Automatic Sanctions
- Investigation
 - Regular investigation
 - Government Enhanced Enforcement
- Sanctions

Form of sanction

- Letter of required corrective action
- Settlement agreement
- Referral to Joint Trial Board
- Publication
- Admonishment
- Suspension of Membership
- Termination of Membership

Components of Sanctions for Noncompliance

- In simpler cases:
 - CPE
- For the more egregious cases:
 - Requesting that a subsequent work product be submitted to see that the CPA has made progress in complying with professional standards.
 - Mandate pre-issuance review of the CPA's audit, attestation, and review and compilation practice.
 - Mandate accelerated peer review.
 - Restrict the CPA from performing peer reviews.
 - Restrict practice.
 - Publication of firm name.

Form of action – Government Enhanced Enforcement

- No further action
- No further action with comments
- Modified letter of required corrective action
- Full investigation

The Highest Risks

- Referrals from offices of Inspector General in relation to A-133 Audits
- Flow of referrals from:
 - US Department of Health and Human Services
 - US Department of Labor
 - Other
- Desk reviews of report only
- Full work paper reviews
- Currently there are 280 cases eligible for enhanced enforcement
- Seventy-three cases referred in 2007 through May 15

Findings

- Inadequate planning – selection of major programs
 - A Type A program MUST be treated as major if it (the exact CFDA number) has not been audited in either of the preceding two years
 - Proper clustering of programs must be done to get this right
 - If a program's CFDA number has changed, it is a new program
 - Proper computations when \$ numbers change between planning and final report

Findings - continued

- Lack of proper disclosure on reissued report
 - Dual dating
 - Explanation of changes and reason for reissuance
- OCBOA
 - Regulatory basis accounting – OCBOA that isn't
 - Not following AICPA requirements for reporting on OCBOA statements
- Lack of cooperation with Inspector General

Findings - continued

- No disclosure of basis of preparation of SEFA
- Lack of adequate CPE
- Lack of documentation in work papers
- Lack of footnote disclosure:
 - Restrictions on funds
 - Revenue recognition
- Reportable conditions identified in management letter but not in A-133/Yellow Book reports

Findings - continued

- Concurring reviewer findings
- Restrictions on internal control and compliance report fail to follow SAS 87
- Failure to document oral litigation follow-up
- Failure to document subsequent events review
- Failure to adequately document internal control over compliance; allowability of costs not reviewed; Matching, Level of Effort; Period of Availability of Federal Funds and Program Income

Findings - continued

- Inadequate financial statement disclosures. There were the following disclosure issues: Inadequate disclosure of prior period adjustment. Inadequate reporting entity footnote; Inadequate disclosure of the entity's policy regarding self-insurance. Inadequate disclosure of the entity's policy regarding the use of FASB pronouncements for proprietary fund activities. Inadequate disclosure regarding a change in accounting policy

U.S. Department Of Labor Referrals

- Inspector General selected a sample
- Referrals to come
- Over the last thirteen years the Department of Labor has referred over 300 cases to the AICPA
- Lack of compliance with the AICPA audit guide entitled "Audits of Employee Benefit Plans".
- These engagements are coming under increased scrutiny.

How to Avoid Problems

- Plan
- Supervise
- Review
- Train
- Read carefully
- Cooperate

Why?

- Failure to complete adequate continuing professional education courses.
- Professional competence.
- Cutting corners.
- Inadequate training of staff.

Ten Tips for Ethical Audits

1. Read the Compliance Supplement
2. Take Inspectors General seriously
3. If it's the first time, get training, get help
4. Never do just one of anything
5. Train your staff
6. Supervise your staff
7. Follow your own programs
8. No power-ticking
9. Clear all your review notes
10. Know what you are doing, don't do what you don't know

Summary

- We need to be careful
- We must train our staff
- It is easy to make silly mistakes – supervision and review is key
- Violations will receive sanctions from AICPA and State Societies
- Violations may result in sanctions from you State regulator