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On Saturday afternoon I completed the online, required for all CPAs in Texas, *Personal and Professional Ethics for Texas CPAs*, written by Dr. Raymond J. Clay. This is a four hour course required by the Texas State Board of Public Accountancy for all Texas CPAs. The class actually took me slightly more than four hours, either because I don't remember as well as I once did or because I found the class interesting and made notes as I went along. That's right, I made notes. That's right, I found the class interesting. Most people I know take the class because it's required and no other reason but I found it extremely interesting.

As I went through the class numerous passages literally jumped off the page at me as I had already written one or more articles regarding that very subject. I'll list a few. From the very start, Dr. Clay states that "As service providers, we need to be aware of our responsibility to the public. We are trusted to satisfy the expectations of third parties who avail themselves of our services and our employers who put faith in our abilities and our integrity. People come to us with little knowledge of what CPAs do and less knowledge of how we do it. Thus, when they ask us to perform an audit, review, or compilation or prepare their tax return they have no real knowledge of what it takes to accomplish those tasks or what the finished product should look like. They are relying on us as CPAs to satisfy expectations they are totally unfamiliar with. When we think about it, our responsibility is quite significant."ⁱⁱ In my article *Why People Don't Trust Real Estate Agents, CPAs, Dentists, Auto Repair Shops, or almost anyone else? Why Would They? Part I*ⁱⁱ, dated March 1, 2016, I noted that whenever a customer or client (us) hires a professional, the customer ordinarily knows very little, or certainly not enough to perform the work himself, about the task at hand and that the customer believes that he can trust the professional to not take advantage, or otherwise enrich himself, at our expense. We expect to pay the professional a fair price for his efforts and we expect that our interests will come first in the matter. As Dr. Clay states, "We are trusted to satisfy the expectations of third parties who avail themselves of our services and our employers who put faith in our abilities and integrity." Unfortunately for our profession, this is not always the

case. Do CPAs ever take advantage of the less knowledgeable client? Sometimes it happens.

Dr. Clay goes on to say "Integrity means to be true at all times to high moral principles and to be consistent in attitudes, behaviors, and speech. The following three steps are essential for a person to act with integrity.

1. Discern what is right and wrong.
2. Act on what you have discerned is right, even if it entails a personal cost.
3. Openly declare that you're acting on your understanding of what you have discerned to be right."ⁱⁱⁱ

Of course (1) and (3) are relatively simple. They require no risk on the part of the CPA. Most of us know right from wrong and most of us have no problem telling others that we're acting on our understanding of what we have discerned to be right. But number 2, that's the hard one. How many of us act on what we know is right even if it entails a personal cost to us. I wrote about this in *Why People Shouldn't Always Trust Their CPA. Between a Rock and a Hard Place. Ethics in Public Accounting! Part 3*^{iv}, dated May 2, 2016. In this article I discuss the Enron scandal, the nature of the scandal and how it was allowed to fester and then explode, taking down not only Enron and Arthur Andersen but millions of employees and investors as well. In the final analysis, the accounting group rolled over and accepted what they knew were serious financial statement issues and even illegal acts. Why did they do it? My example provides, if not **THE** reason, a reason. They rolled over because they were not willing to act on what they had discerned was right, not if acting on it entailed a personal cost. They violated the most important step in Dr. Clay's discussion of *Integrity*. And we all know what happened next.

Chapter 3 is the discussion of Principles, General Standards and Core Values of the AICPA Code of Professional Conduct and the Accounting Profession. Section 3A discusses the Principles of the AICPA Code of Professional Conduct and is where the rubber really meets the road in this entire course. Nothing is more important. For the CPA, the Code of Professional Conduct should be paramount, akin to The Cadet Honor Code at the United States Military Academy at West Point which reads, "A CADET WILL NOT LIE, CHEAT, STEAL, OR TOLERATE THOSE WHO DO."

It was the CPA's willingness to work and live by that code that placed the profession, year after year, very high on the list of admired professions in the public's mind.

Do all CPAs run their business with the Code occupying a prominent place in the business model? Of course not, anymore than all physicians live by their code, "Do No Harm". I'd love to have a dollar for every time I've heard a CPA state, "The people who write these rules and FASBs live in an

The Public Interest: Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism. The public interest is defined as the collective well-being of the community of people and institutions the profession serves. A dedication to professional excellence by CPAs in performing professional services is essential in honoring the public trust.

ivory tower. The people on the ground can't operate that way. Now, you take old Joe Blow. I like to go to him for consultations. He lives in the real world and gives real world solutions." One can draw one's own conclusions regarding that statement. But what it has always meant to me is, "I don't like the rule so there must be some way to circumvent it. And this guy always finds a way." As Dr. Clay states, "Some CPAs pay little or no attention to the Principles or General Standards because, to these CPAs, they represent nothing more than glowing rhetoric designed to influence the image of CPAs in the eyes of their constituents. They view them as descriptions and definitions that governing bodies are required to promote, but are impossible to apply in the competitive environment in which CPAs are required to practice."^v

It's clear that everyone in practice has to decide for himself/herself which attitude he/she will adopt. Will the CPA operate under the spirit of the Principles, doing what's right, even if the right thing may be detrimental

financially or professionally to the CPA or will the CPA consider the Principles nothing more than rhetoric to be included prominently in the personnel manual and then ignored in practice?

Chapter 4 has to do with the Texas Rules of Professional Conduct which serve to flesh out the AICPA Code of Professional Conduct. One section under Chapter 4 which I found most interesting was Accounting Principles (501.61) (Amended to be effective October 10, 2012, 37 Tex Reg 8017) and reads, "A certificate or registration holder shall not issue a report asserting that financial statements are presented in accordance with generally accepted accounting principles (GAAP) if such statements contain a departure from GAAP which has a material effect on the financial statements taken as a whole."^{vi} This is pretty clear.

Following this passage we read that "Financial statements may contain a departure from GAAP if the certificate or registration holder can demonstrate that due to unusual circumstances the financial statements would otherwise have been misleading.

When a CPA feels a departure from GAAP is warranted, he/she must describe the departure, the approximate effects thereof, if practicable, and the reasons why compliance with GAAP would result in a misleading financial statement."^{vii}

So the standards give the CPA certain leeway to decide, on his own, that a departure from GAAP is warranted in the financial statements. But what the standards do not provide is a method for the CPA to hide a departure from GAAP in the belief that he won't get caught.

This may be the single most violated rule governing CPAs. Every CPA who performs attest work has obtained a new client whose financial statements contain a material misstatement. Reasons for the misstatement include 1) it is nothing more than the CPA's unfamiliarity with the rule, 2) the misstatement is deliberate, at times designed to cover up a prior mistake made by the CPA, 3) at times a sop to an unreasonable client, and 4) one of many other reasons. This may be

the most egregious, and damaging violation to the CPA profession. In my article, *The Risk to Me if Something Goes Wrong!*^{viii} I wrote about the tendency of certain CPAs to assess risk as, “I know the financial statements are materially misstated. In fact I may even have proposed an entry to create or increase the misstatement. All my work points to the fact that the statements are materially misstated. But, I have decided that, due to my perception of the company’s financial strength, the risk of some adverse result is very low and because of that the Risk to Me if Something Goes Wrong is very low and I’m going to go ahead and sign the audit report letter, thus giving assurance to the public that there is

nothing wrong. Even though I know there is something wrong.”

This is an outstanding class and Dr. Clay is to be commended. Of course it’s possible that my enthusiasm also comes from my interest in human nature.

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ⁱ *Personal and Professional Ethics for Texas CPAs*, Dr. Raymond Clay, page 4.

ⁱⁱ *Why People Don’t Trust Real Estate Agents, CPAs, Dentists, Auto Repair Shops, or almost anyone else? Why Would They? Part 1*, Robert L. Ramey, <https://1drv.ms/b/s!AuDZOJdMUgpUhROQ5zeIVF84yDIX>

ⁱⁱⁱ *Personal and Professional Ethics for Texas CPAs*, Dr. Raymond Clay, page 10.

^{iv} *Why People Shouldn’t Always Trust Their CPA. Between a Rock and a Hard Place. Ethics in Public Accounting! Part 3*, Robert L. Ramey, <https://1drv.ms/b/s!AuDZOJdMUgpUhsFloZit5hyJVZtl>

^v *Personal and Professional Ethics for Texas CPAs*, Dr. Raymond Clay, page 36.

^{vi} *Personal and Professional Ethics for Texas CPAs*, Dr. Raymond Clay, page 46.

^{vii} *Personal and Professional Ethics for Texas CPAs*, Dr. Raymond Clay, page 47.

^{viii} *The Risk to Me if Something Goes Wrong!*, Robert L. Ramey, <https://1drv.ms/b/s!AuDZOJdMUgpUiAk9mrupJwdmVz8x>