Ohio Professional Standards and Responsibilities
Course Information

Course Title: Ohio Professional Standards and Responsibilities

Learning Objectives:
- Recognize which social responsibility is the obligation to do what is right, just, and fair
- Identify what type of threat occurs when a CPA feels pressure from aggressive members of upper management to provide misleading or materially false financial information
- Pinpoint which corporation was accused of excluding bank debt from financial statements
- Discern how often a lead or coordinating audit partner or reviewing auditor is required to rotate
- Recognize a requirement of Title III of the Sarbanes-Oxley Act
- Determine the possible penalty for failure to maintain audit or review work papers for at least five years
- Recognize situations in which a fee is considered contingent
- Pinpoint the minimum penalty for violating the confidentiality of client information
- Ascertain the number of days an Ohio permit holder has to comply with a client’s written request for records
- Spot an act which would be considered discreditable
- Recognize expectations of members under Article I of the Code of Professional Conduct
- Identify a scenario which is a violation of the rules set forth by the Ohio State Society of CPAs Code of Professional Conduct

Prerequisites: None

Program Level: Overview

Program Content: This course contains an overview of ethical concepts, surveys relating to employee misconduct, recent accounting fraud cases, an outline of large corporate accounting scandals, pertinent sections from the Sarbanes-Oxley Act of 2002, Chapter 4701 – Accountancy Board Law, Chapter 4701-11 – Ohio State Board of Accountancy Ethical Standards, and the Ohio Society of CPAs Code of Professional Conduct. Some of the topics discussed in this course are: the retention and maintenance of work papers, the requirements for maintaining an active registration when using the title of designation, the rules regarding commissions and referral fees, confidential information, contingent fees, acts discreditable, along with the public expectations of the responsibilities of CPAs, and the enforcement of rules on ethics.

Advance Preparation: None

Recommended CPE Credit: 3 hours
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Chapter 1
Overview of Ethics

Learning Objectives

- Recognize which social responsibility is the obligation to do what is right, just, and fair
- Identify what type of threat occurs when a CPA feels pressure from aggressive members of upper management to provide misleading or materially false financial information

Introduction

This chapter emphasizes the importance of business ethics and the need for corporate social responsibility. Many factors lead to ethical violations in the workplace and the surveys provided within the text indicate that company tactics and/or upper management play a significant role in employee misconduct. The accounting profession faces its own unique set of threats for compromising compliance. This chapter outlines those threats and the possible safeguards to reduce and/or eliminate these threats. Finally, a review of two recent cases in accounting fraud provides insight into how accounting fraud occurs within an organization and the penalties involved.

Ethical Concepts

Business ethics involves the principles, values, and standards that guide how people and institutions should act in the world of commerce. The following are common issues facing businesses today:

- **Corporate Governance:** The relationship between all stakeholders in an organization. Among these stakeholders are the shareholders, directors, and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law.
- **Fiduciary Duty:** A legal obligation of one party, someone entrusted with the care of money or property, to act in the best interest of another.
- **Corporate Social Responsibility:** Initiative to assess and take responsibility for the company’s effects and impact on social welfare. Encompasses a company’s economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility.

In light of large corporate scandals that have negatively impacted the economy and further deteriorated investor and public trust, it is imperative that organizations take steps that reflect a positive corporate social responsibility and go beyond what is required by regulators. The following pyramid outlines the four responsibilities businesses to follow in order to fulfill the public’s expectations of corporate social responsibility.
In order for organizations to achieve corporate social responsibility, there must be an understanding of the factors that lead to unethical acts and a full understanding of employees’ perceptions of ethics in the workplace. This understanding is imperative since misconduct by employees in the workplace can negatively impact key stakeholders, such as investors, creditors, employees, customers, suppliers, and the community. The following diagram outlines many of the factors that may lead to ethical violations in the workplace:

A 2008 survey by KPMG (blind, national survey of 5,065 working adults in all level of job responsibilities, 16 various job functions, 13 types of industry sectors, and 4 thresholds of organizational size; 1.4% margin of error) outlines many of the reasons employees commit unethical actions in the workplace.

Every two years, the Ethics Resource Center releases a national ethics survey concerning business ethics. The 2009 National Business Ethics Survey® (telephone survey of 2,852 employees in the for-profit sector; margin of error 1.8%) provides insight into how employees view misconduct in the workplace. The results from these surveys reveal:

- **Percentage of respondents observing red flag behavior**
  - Respondents included employees in high-risk areas, such as executives, finance and accounting, internal audit, legal, procurement/contracts, and sales
  - Red flags included material fraud or questionable actions
  - 30% of the respondents observing a red flag did NOT report the behavior
  - 85.6% observed no red flags, while 8.6% observed one red flag

- **Correlation of misconduct and not reporting misconduct due to company tactics**
  - Companies that participate in recessionary tactics had a rise in misconduct by 26% and a rise of non-reporting of misconduct by 15%

- **Types of retaliation experienced from reporting misconduct**
  - Over 50% reported retaliation from management
  - Over 60% experienced retaliation from employees
  - Over 60% were excluded from decisions and work activities

- **The change over the years in the percentage of the workforce perceiving pressure to commit misconduct since 1994**
  - Indicates a continuation of decline of pressure to commit misconduct
  - 6% decline in pressure since the year 2000

- **Perceptions of management accountability**
  - Less than 50% perceive that all levels of management are strongly accountable

- **Correlation of top management talking about ethics and employees not observing misconduct**
  - Indicates that misconduct declines when management talks about the importance of ethics
Overview of Ethics

- **Correlation of employees feeling there is too little government oversight and level of ethical culture**
  - Employees working in a weak ethical culture feel that there is not enough government oversight.

The following charts reveal the full findings of various ethical surveys conducted by the Ethics Resource Center:

### Percentage of U.S. Workforce Observing Red Flag Behavior (2009)

<table>
<thead>
<tr>
<th>Red Flags</th>
<th>Percentage</th>
</tr>
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<tbody>
<tr>
<td>0 Red Flags</td>
<td>85.6%</td>
</tr>
<tr>
<td>1 Red Flag</td>
<td>8.6%</td>
</tr>
<tr>
<td>2 - 3 Red Flags</td>
<td>3.8%</td>
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<tr>
<td>4 - 5 Red Flags</td>
<td>1.1%</td>
</tr>
<tr>
<td>6 - 8 Red Flags</td>
<td>0.9%</td>
</tr>
</tbody>
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*Source: Ethics Resource Center (ERC) – 2009 National Business Ethics Survey®

### Percent of U.S. Workforce Observing Misconduct and Not Reporting Misconduct Based on Company Tactics (2009)

- **No Company Tactics**
  - Misconduct: 29%
  - Non-Reporting: 24%

- **At Least One Company Tactic**
  - Misconduct: 55%
  - Non-Reporting: 39%
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*Source: Ethics Resource Center (ERC) – 2009 National Business Ethics Survey®

### Specific Forms of Retaliation Experienced as a Result of Reported Misconduct (2009)

- Your supervisor or management excluded you from decisions and work activity: 62%
- Other employees gave you a cold shoulder: 60%
- You were verbally abused by your supervisor or someone else in management: 55%
- You almost lost your job: 48%
- You were not given promotions or raises: 43%
- You were verbally abused by other employees: 42%
- You were relocated or reassigned: 27%
- Any other form or retaliation: 20%
- You were demoted: 18%
- You experienced physical harm to your person or property: 4%

*Source: Ethics Resource Center (ERC) – 2009 National Business Ethics Survey®

### Percentage of U.S. Workforce Perceiving Pressure to Commit Misconduct (NBES Survey Years 1994 - 2009)

- 1994: 28%
- 2000: 14%
- 2003: 11%
- 2005: 11%
- 2007: 10%
- 2009: 8%

* Differences in the wording of the answer choices may account for higher numbers in 1994

*Source: Ethics Resource Center (ERC) – 2009 National Business Ethics Survey®
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Perceptions of Accountability for All Levels of Management (2009)

Percentage of U.S. Workforce Perceiving Top Management Talks About Ethics and NOT Observing Misconduct (NBES Survey Years 2000 - 2009)

*Source: Ethics Resource Center (ERC) – 2009 National Business Ethics Survey ®
The above mentioned surveys demonstrate how pressures from management, company tactics, and/or “tone at the top” play a significant role in employee misconduct, and they further stress the importance of ethical education, guidelines, and policies. Although not every ethical decision will be a direct benefit to an organization’s finances, acting ethically will have a greater impact in the long run. The list below outlines the many of the benefits of maintaining an ethical organization.

10 Reasons Why a Business Should Remain Ethical

#1 “The Right Thing To Do”
#2 Organizational Foundation That Reflects Excellence
#3 Customer Trust & Loyalty
#4 Protection of Brand & Reputation
#5 Investor Confidence
#6 Employee Recruitment, Retention & Performance
#7 Business Partner Trust
#8 Public Acceptance & Recognition
#9 Ability to Self-Regulate
#10 Litigation Prevention
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**Ethics and the Accounting Profession**

Members of the accounting profession face a unique set of ethical dilemmas due to pressures to meet earnings goals/expectations and may experience temptations to commit fraudulent acts for personal financial gain or to cover-up fraudulent acts of others. Fraudulent financial reporting/activities or “cooking the books” often involves one or more following techniques:

- **Overstating Revenues:** Accelerating earnings by recording future sales on current financial statements, and recording investment income, proceeds received as loans, or fictitious sales as revenue
- **Asset Misappropriation:** May include manipulating accounts by creating false invoices, theft (cash or equivalent, credit notes, data, and other property), payroll fraud and ghost employees, and false expense claims
- **Inflating Assets:** Involves inflating net worth of assets by means of inappropriate depreciation schedules
- **Understating Expenses:** Technique of capitalizing costs overtime versus expensing a cost in the current period, capitalizing normal operating costs, and failing to either write down or write off impaired assets
- **Overstating Expenses:** Method of accelerating expenses into the current period through means of depreciation, amortization, and depletion
- **Off-Balance Sheet Transactions:** A method of hiding assets or liabilities so they do not appear on the balance sheet
- **Synthetic Leases:** A type of operating lease that is not recorded as a liability, but instead is classified as an expense
- **Cookie Jar Accounting:** Using reserves from good years to offset losses in bad years
- **Channel Stuffing:** An avenue to inflate sales by sending retailers more products than they can sell by means of distribution channels
- **Improper Disclosure:** Failing to properly disclose related party transaction, executive compensation, structured financial deals, etc.
- **Nonrecurring Expenses:** A deceptive method of classifying an expense as nonrecurring and manipulating it to appear as excess reserves that are later used as future income.
Making Ethical Decisions

Members of the accounting profession have various ethical standpoints, which may result in a different set of actions taken for resolving dilemmas. When facing an ethical issue or situation, it is important to thoroughly evaluate the problem in order to avoid exposure to significant business risks and threats to compliance. The American Institute of CPAs (AICPA) sets forth standards for conduct as a guide to assist accountants in understanding the responsibilities and expectations of the profession and to prevent misconduct. The following information may be used to assist with identifying the types of threats compromising compliance, safeguards to reduce and/or eliminate these threats, action steps for threats compromising compliance, and further guidance on how to properly resolve ethical issues by using the AICPA’s Ethics Decision Tree for CPAs in Business in Industry.

Types of Threats Compromising Compliance

**Self-Review Threat**
- Threat of not properly evaluating the results of a service performed, and the member will rely on improperly evaluated results in forming a judgment as part of providing the service

**Advocacy Threat**
- Threat of compromising objectivity by promoting a client or employer's position or opinion to the extent that it compromises objectivity

**Adverse Interest Threat**
- Threat of member lacking objectivity due to the differing of the member's interest and the client's interest

**Familiarity Threat**
- Threat of long/close relationships with clients or employer will cause member to sympathize and/or be accepting of client's work

**Undue Influence Threat**
- Threat of member subordinating judgment to client/employer/3rd party due to (1) reputation or expertise, (2) aggressive or dominate personality, or (3) attempts to exercise excessive influence over member

**Self-Interest Threat**
- Threat of member acting in manner adverse to the interests of firm/employer/client/public due to member's immediate or close family member's financial interest or other relationship with a client or employer

*Source: American Institute of CPAs*
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Safeguards to Reduce and/or Eliminate Threats Compromising Compliance

Safeguards Created by Profession, Legislation, or Regulation
- Peer Review
- Preapproval of Allowable Nonaudit Services by Audit Committee
- Quality Control Reviews
- Rotations of Senior Members on Attest Engagements

Safeguards in the Work Environment
- Concurring Partner Review
- Strong Internal Controls
- Ethical Guidelines, Policies, & Procedures
- Tone at the Top

Action Steps for Threats Compromising Compliance

Identify Threats
- Determine if a relationship or circumstance creates a threat

Evaluate the Significance of a Threat
- Evaluate whether a reasonable & informed 3rd party would conclude the threat to compromise compliance

Indentify & Apply Safeguards
- Apply appropriate safeguard(s) to either reduce the threat to an acceptable level or properly eliminate the threat

*Source: American Institute of CPAs*
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Identify Issue
NOTE: If the issue related to a disagreement or dispute relating to the preparation of financial statements or the recording of transactions, the CPA should refer to AICPA Ethics Ruling 102, specifically Interpretation 102-4 on "Subordination of Judgment" for guidance.

Does company have an Ethics policy and process in place to give you guidance?

Consider following this decision tree

Give strong consideration to following the company's guidance. If you choose to deviate, be prepared to justify why deviated, and document it.

Talk to your manager

Was the result satisfactory

Talk to another sr. exec that you trust

Was the result satisfactory

Talk to the company's Ethics Committee if one exists

Was the result satisfactory

Talk to the Audit Comm of the Board if one exists. If not, talk to the BoD

Was the result satisfactory

AICPA's Ethics Decision Tree
For CPAs in Business & Industry

Do you need to take additional steps?

Take action and consider whether the issue is resolved

Review the decision tree and take your discussion to the next higher level in the organization. Repeat as appropriate

Was the result satisfactory

Do you need to take additional steps?

Yes

Yes

No

No

Yes

No

Yes

No

Yes

No

No

Yes
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When speaking with your manager or a more senior executive, carefully gauge your satisfaction with the response. Bear in mind that your manager or other executive might be a party to the situation that you have observed, so approach the response with the necessary degree of professional skepticism.

It appears you have successfully managed your way through this challenge. It is recommended that you maintain and secure all documentation related to this matter as described in your records retention policy or as recommended by your legal counsel in case the issue resurfaces. Has the organization’s processes, internal control system, and culture changed in response to this matter? Are these changes sufficient to minimize the recurrence of a challenge like this one? Evaluate your answers and consider consulting with management, an outside mentor or other neutral party whom you respect.

Consider whether it is appropriate for you to continue your employment at this company. Consider the severity and implications of the issue you have identified and whether it should be reported to the outside accountants, regulatory agency, bank or other lending institution, owner or investor committee, BoD, or another party.

Ethics Hotline
The AICPA Professional Ethics Team maintains a hotline for members to make inquiries about the Code of Conduct, and for advice when facing situations that challenge their professional ethics. To access the Ethics Hotline dial 1-888-777-7077 and follow the prompts to be routed to the Ethics team.

Notice to Readers
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*Source: American Institute of CPAs, Inc.

Recent Cases in Accounting Fraud

Case 1
Case No.: 11-CV-2016 EFM/JPO & 11-CV-02017
Case Filed: January 1, 2011
Corporation: NIC, Inc.
   Delaware Corporation based in Olathe, Kansas
Defendants:
   Jeffery S. Fraser – Positions held at NIC, Inc.: CEO (1992-1999 & 2002-2008), Chairman of the Board of Directors (Inception-2008 ), Member of Board of Directors (Inception-2009), Member of NIC Disclosure Committee
   Eric J. Bur – Positions held at NIC, Inc.: CFO (2001-2007), Member of NIC’s Disclosure Committee

Facts Presented:
Fraser co-founded NIC, Inc. and later retired in 1999, but continued to serve as Chairman of the Board of Directors. In 2002, NIC, Inc. was close to bankruptcy and the Board requested Frasier return as CEO, in
Overview of Ethics

which he agreed to take a nominal salary of $1 (years 2002 and 2003) and $5,500 (years 2004 and 2005). From 2002 until 2005, more than $1.18 million in perquisites to Fraser were not disclosed.

Allegations against Fraser:
- Undisclosed perquisites included:
  - $4,000 per month to live in a ski lodge in Wyoming
  - Monthly cash payments for a rental house owned by an entity Fraser controlled
  - Paid personal expenses including vacations, computers, vehicles, commuting by aircraft, and day-to-day living expenses for Frasier and his family and friends
  - Frazier’s use of the company credit card to charge personal expenses and reimbursements for expenses that did not occur

Allegations against Herington
- Was serving as Chief Operating Officer
- Failed to adequately address concerns regarding Fraser’s expense reporting
- Reviewed and/or signed public filings that failed to disclose Fraser’s perquisites

Allegations against Bur:
- Serving as Chief Financial Officer
- Allowed NIC, Inc. to pay Fraser’s expenses knowing he did not submit proper documentation
- Was alerted from a department employee that Fraser’s expenses were not business related
- Reviewed, signed and/or certified public filings that failed to disclose Fraser’s perquisites

Allegations against Kovzan:
- Was serving as Chief Accounting Officer
- Authorized NIC, Inc.’s payment of Fraser’s personal expenses
- By-passed NIC, Inc.’s internal controls and other policies required of the CEO to document the business purpose of his expenses or was reckless in the fact of not knowing Fraser’s expenses were false
- Prepared, reviewed and/or signed NIC, Inc.’s materially false proxy statements, annual reports, and registration that underreported Fraser’s compensation
- Made false statements to NIC, Inc.’s independent auditors

Allegations against NIC, Inc.
- Failed to correct known expense reporting problems by Fraser
- Failed to disclose or force repayment of Fraser’s perquisites
- Failed to provide accurate material information in public filings regarding Fraser’s perquisites
- Failed to disclose to investors that internal reviews concluding that Frasier misclassified expenses

SEC Charges/Fines/Settlement – Litigation Release No. 21809
- NIC, Inc.: $500,000 civil penalty and hiring of an independent consultant to recommend improvements to policies, procedures, controls, and training relating to:
  - Payment of expenses
  - Handling whistleblower complaints
  - Related party transactions
- Fraser: $1,184,246 in disgorgement; $358,844 in prejudgment interest; $500,000 civil penalty; barred from serving as an officer or director of a public company
- Herrington: $200,000 civil penalty
- Bur: $75,000 civil penalty and prohibition of appearing or practicing before the Commission as an accountant (may reapply after one year)
- Kovzan: Commission action is ongoing with the SEC seeking a permanent injunction, disgorgement, civil penalties, prejudgment interest, and officer and director bar
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What Went Wrong?

Weak Internal Policies & Control

- Requirements specifically outlined in the NIC, Inc.'s Code of Ethics, which are referenced in the company's proxy statement and posted on the company's website, were directly violated
- Violation #1: Corporate credit cards were not used solely for business purposes
- Violation #2: CEO, CFO and CAO did not ensure full disclosure in filings with the Commission
- Violation #3: CEO, CFO and CAO did not establish adequate disclosure controls to make certain all material information is included in reports and public communications
- Violation #4: CEO, CFO and CAO did not bring any violations of the Code of Ethics and weaknesses/concerns about internal controls to the Audit Committee
- Violation #5: CEO, CFO and CAO did not ensure that independent auditors were aware of material misstatements or omissions in draft reports
- Violation #6: Fraser violated the policy requiring all employees to maintain proper documentation for expenses exceeding $10

Red Flags Ignored

- Mid-2002, NIC's Assistant Controller alerted Bur of Fraser's improper reporting of expenses
- August 2003: NIC's Assistant Controller e-mailed Bur alerting him of Fraser's credit card expenses including personal items (gun vault, toys, and ski lift tickets)
- September 2003: NIC's Assistant Controller provided a detailed list of Fraser's charges of personal items (vitamin supplements and gym membership fees)
- October 2003, NIC's Assistant Controller e-mailed Bur about Fraser's undocumented expenses in excess of $140,000
- October 2003: An e-mail from NIC's Assistant Controller warned Bur that "[a] number of these credit card and other expenses would completely flame employees, our customers, the board, and investors if they were aware. Hopefully, none of this is selected for audit and I won't have to explain the business purpose for these items" and advised that NIC, Inc. "eliminate the personal credit card expenses" and instead provide Fraser with "pay for performance"
- January 2004: Bur received a second copy of the above mentioned e-mail
- June 2004: Bur expresses concern to NIC, Inc.'s CAO and Herington received spreadsheets from the general ledger including Fraser's personal expense items
- November 2004: Herington received an e-mail from NIC executive questioning renewing a lease on Fraser's company-paid condo
- July 2005: The finance department submitted a list of Fraser's expenses to Herington questioning whether they were business related
- April 2006: NIC's Assistant Controller warned Herington in an e-mail about risks of income tax fraud charges due to lack of documentation of business purpose for expenses
- May 2006: Bur sent an e-mail warning Herington that there was a "great concern within the accounting department regarding [Fraser's] expense reports" and concern that someone might "whistleblow this situation" and Bur's concerns addressed in an e-mail to Herington stated that employees "feel that [Fraser] appears to ripping off the company and is not required to follow the same rules that every else (including the execs) has to follow"
- August 2006: NIC's General Counsel warned Herington in an e-mail that "lack of documentation.. denies the company the ability to defend itself against any assertions that the amounts charged are perks or additional compensation to Fraser" and "the manner in which these affairs of the company have been allowed to be conducted indicate at least a potential failure of, or absence of, effective internal controls, which may render the company's financials incapable of certification by our outside auditors, or cause damaging public disclosures, or both"
- September 2006: NIC's Assistant Controller further expressed concerns to Bur about past expenses of Frasers and stated that "[A]s a management team it appears we're going to whitewash the historical issue"
CASE 2

Case No.: 11-CV-00092-DGC
Case Filed: January 13, 2011
Corporation: NutraCea, et al.
California corporation based in Phoenix, Arizona
Defendants: Bradley D. Edson, former CEO and Member of the Board of Directors
Todd C. Crow, former CFO
Joanne D. Kline, former Controller
Scott Wilkinson, former Director of Financial Services
Margie Adelman, former Senior Vice President & Secretary

Facts Presented:
In 2007, NutraCea materially misstated product sales revenues in order to meet earnings and/or gross sales expectations. The SEC complaint alleges that NutraCea, Edson, Crow and Adelma falsified sales revenues and alleges that Kline and Wilkinson recorded the false revenues, therefore engaging in improper accounting practices.

Allegations against NutraCea, Edson, Adelman, Kline, and Wilkenson:
- Booked $2.6 million in false sales to Bi-Coastal Pharmaceutical Corporation in the 2nd quarter of 2007, which resulted in an overstatement of 35% of product sales revenue
- Bi-Coastal’s president (client of NutraCea) was told by Edson to falsify his financial statements to reflect a net worth high enough to support the false sales
- Former COO of NutraCea paid the down payment of the Bi-Coastal’s false sale of $2.6 million
- Improperly recorded revenue on a bill and hold transaction of a $1.9 million sale of a product to ITV Global, Inc. in the 4th quarter of 2007, which resulted in an overstatement of 36.8% product sales revenue
- The overstatement of revenues also resulted in a misstatement of operating loss by over 89% in the 2nd quarter of 2007, over 17.6% in the 3rd quarter of 2007, and close to 7% in the fiscal year of 2007

SEC Charges/Fines/Settlement – Litigation Release No. 21819
- Edson: $100,000 civil penalty; $350,000 of bonus reimbursement to NutraCea; consented to a permanent officer and director bar
- Adelman: Consented to a five year officer and director bar
- Kline: $25,000 civil penalty; consented to suspension of appearing or practicing before the Commission as an accountant (may apply for reinstatement after one year)
- Wilkinson: $25,000 civil penalty; consented to suspension of appearing or practicing before the Commission as an accountant (may apply for reinstatement after one year)
- Crow: Commission action is ongoing with the SEC seeking a permanent injunction, a civil penalty, and an officer and director bar
Overview of Ethics

What Went Wrong?

Improper Accounting Practices

• "Tone at the Top" from Edson was to do what is necessary to ensure NutraCea meets earnings goals and expectations
• Sale to Bi-Coastal was improperly booked due to failing to follow the four basic criteria for revenue recognition: (1) evidence that an arrangement exists, (2) delivery has occurred, (3) seller's price to buyer is fixed or determinable, and (4) assurance of collectability, which the collection of the receivable stemming from the transaction in this case could not be classified as reasonably assured
• Requested that Bi-Coastal's president falsify their financial statements by $15 million more than the net worth originally stated by Bi-Coastal in order to reflect an ability to pay
• Misled auditors by arranging a loan from a former COO of NutraCea to look like a down payment from Bi-Coastal
• In late 2007, NutraCea improperly booked a sale of 150,000 units of a product to ITV for over $1.9 million when the product was not manufactured by the end of 2007 and was not shipped to the buying company
• In August 2007 and in March 2008, Edson, Crow, Kline and Wilkinson misled auditors and the management representation letter related to Perry-Smith's review indicated that "(1) the interim financial information was presented in accordance with accounting principles generally accepted in the U.S.; (2) all financial records and related data were made available to Perry-Smith; and (3) they had no knowledge of any fraud or suspected fraud affecting NutraCea involving management, employees who have significant roles in the internal control, or others where fraud could have a material effect on the interim financial information"

Red Flags Ignored

• Edson informed Bi-Coastal's President (company NutraCea falsified sales) that "he had several avenues of potential distribution for these products and that [Bi-Coastal was] never going to take possession of them and that at a later date [Edson] was going to sell the products to a third party
• Edson informed Bi-Coastal's president that "the only way that [Edson] could book the sale and the auditors would be able to accept the sale and book the sale for that period of time was if a substantial deposit was made for that amount, because of Bi-Coastal's lack of financial strength"
• June 2007: NutraCea's former COO attempted to tell Crow of his loan for Bi-Coastal's down payment, in which Crow replied "I don't want to hear this"
• July 2007: Kline attempted to discuss the loan with Crow and stated that Crow covered his ears and said "No, no, no, no, no, no, no, no, no. I don't want to hear it"
• Kline did not discuss the loan with anyone else or with Perry-Smith or the audit committee due to fear of termination
• Adelman began communicating concerns of booking revenue in 2007 on a sale of a product NutraCea could not manufacture by the end of 2007 and was told by Edson "not to worry, that it was common practice to obtain letters like this and we had done it prior"
• Early 2008: Adelman again went to Edson concerned with booking revenue for a product that was not manufactured by the end of 2007 and was told "not to worry" since NutraCea had a letter from the client stating they had taken possession of the product. Adelman also told Edson about conversations with Kline and Edson responded by instructing her "not to have that conversation with Joanne and to be very careful about what [Adelman] said"
• Kline and Wilkenson both discussed concerns about the transactions not amounting to a valid sale
• Kline informed Crow that she was bothered "that [NutraCea was] recording a sale when everything [she] heard and saw led [her] to believe there was not inventory to sell...if this issue were ever to come up, and [she] was under oath and had to testify...that [she] would have to say [she] had strong reasons to believe the sale was not valid"
Review Questions

1. Which of the following responsibilities in Pyramid of Corporate Social Responsibility contributes resources to the community and improves the quality of life?
   A. Philanthropic Responsibility
   B. Ethical Responsibility
   C. Legal Responsibility
   D. Economic Responsibility

2. Of the threats compromising compliance, which one involves the threat of a member’s close relationships with a client will cause the member to be more accepting of the client’s work?
   A. Undue Influence Threat
   B. Familiarity Threat
   C. Self-Interest Threat
   D. Self-Review Threat

3. Which of the following did the majority of the respondents surveyed respond was the root cause of misconduct in the workplace?
   A. Are seeking to bend the rules or steal for their own personal gain
   B. Lack familiarity with the standards that apply to their jobs
   C. Feel pressure to do “whatever it takes” to meet business targets
   D. Believe the code of conduct is not taken seriously

4. According to a survey, which of the following statements is true regarding the correlation between observing misconduct and not reporting misconduct based on company recessionary tactics?
   A. Companies with at least one company tactic experienced a decrease in non-reporting of employee misconduct
   B. Companies with at least one company tactic experienced an increase in non-reporting of employee misconduct
   C. Companies with no company tactics experienced an increase in non-reporting of employee misconduct
   D. There is no correlation between company tactics and non-reporting of employee misconduct

5. What percentage of those surveyed stated they were not given a promotion or raise as a form of retaliation experienced due to reporting misconduct?
   A. 18%
   B. 27%
   C. 43%
   D. 62%
Review Answers

1. A. **Correct.** The philanthropic responsibility reflects being a good corporate citizen by contributing resources to the community and improving the quality of life.
   B. Incorrect. Ethical responsibility involves being ethical and a business’s obligation to do what is right, just, and fair.
   C. Incorrect. Legal responsibility involves obeying the law and playing by the rules of the game.
   D. Incorrect. Economic responsibility involves being profitable and is the foundation upon which all others rest.

2. A. Incorrect. Undue influence threat involves the threat of a member subordinating judgment to a client/employer/3rd party due to (1) reputation or expertise, (2) aggressive or dominate personality, or (3) attempts to exercise excessive influence over the member.
   B. **Correct.** Familiarity threat is a threat of long/close relationships with clients will cause a member to sympathize and/or be accepting of a client’s work.
   C. Incorrect. Self-interest threat is a threat of a member acting in a manner adverse to the interests of firm/employer/client/public due to a member’s immediate or close family member’s financial interest or other relationship with a client or employer.
   D. Incorrect. Self-review threat is a threat of a member not properly evaluating the results of a service performed and that the member will rely on improperly evaluated results in forming a judgment as part of providing the service.

3. A. Incorrect. The majority of respondents did not indicate that the root cause of employee misconduct is “Seeking to bend the rules or steal for their own personal gain” (34%).
   B. Incorrect. The majority of respondents did not indicate that the root cause of employee misconduct is “Lack of familiarity with the standards that apply to their jobs” (51%)
   C. **Correct.** The majority of respondents did indicate that the root cause of employee misconduct is employees “Feel pressure to do “whatever it takes” to meet business targets” (59%).
   D. Incorrect. The majority of respondents did not indicate that the root cause of employee misconduct is that employees “Believe the code of conduct is not taken seriously” (51%).

4. A. Incorrect. Companies with at least one company tactic experienced an increase in the non-reporting of employee misconduct, not a decrease in non-reporting.
   B. **Correct.** Companies with at least one company tactic experienced an increase in the non-reporting of employee misconduct. The survey indicates that companies that have recessionary tactics will also have an increase in employee misconduct that will not be reported. Companies that do not have recessionary tactics appear to have fewer non-reported employee misconduct incidences.
   C. Incorrect. Companies that do not have recessionary tactics appear to have fewer incidences of non-reporting of employee misconduct.
   D. Incorrect. There appears to be a correlation between company tactics and non-reporting of employee misconduct.

5. A. Incorrect. Of those surveyed, 18% responded “You were demoted.”
   B. Incorrect. Of those surveyed, 27% responded “You were relocated or reassigned.”
   C. **Correct.** Of those surveyed, 43% responded “You were not given promotions or raises.”
   D. Incorrect. Of those surveyed, 62% responded “Your supervisor or management excluded you from decisions and work activity.”
Chapter 2
Sarbanes-Oxley Act of 2002

Learning Objectives

- Pinpoint which corporation was accused of excluding bank debt from financial statements
- Discern how often a lead or coordinating audit partner or reviewing auditor is required to rotate
- Recognize a requirement of Title III of the Sarbanes-Oxley Act
- Determine the possible penalty for failure to maintain audit or review work papers for at least five years

Introduction

The Sarbanes-Oxley Act of 2002, also known as SOX, was enacted on July 30, 2002 due to the discovery of corporate and accounting scandals that had a major impact on investors and the securities market. One of the primary objectives of the Act is to protect investors and restore public confidence in the securities market. Reforms mandated by the Act serve to improve financial disclosures, reduce corporate and financial fraud, and create the Public Company Accounting Oversight Board (PCAOB). This chapter outlines pertinent Titles of the Act and the penalties involved with violations of the Act.

Noteworthy Accounting Scandals

Recent accounting scandals of large corporations not only had an effect on the direct stakeholders of the organizations, but also had a much larger effect on the economy and investor trust in the securities market. Some of the largest scandals of the past decade include:

- Inflation of revenues
- Channel stuffing
- Misrepresentation of assets, liabilities, and/or expenses
- Failure to disclose appropriate material information
- Off-balance sheet transactions
- Insider trading
- Improper accounting practices
- Improper bonus use

The following table outlines the fraudulent activities of high profile litigation cases brought by the U.S. Securities and Exchange Commission in federal court:
<table>
<thead>
<tr>
<th>Company</th>
<th>Years</th>
<th>Misconduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aldephia Communications</td>
<td>1999-2001</td>
<td>$2.3 billion in bank debt was excluded from financial statements and was shifted to off-balance sheet, unconsolidated affiliates. Provided misstatements in press releases, earnings reports, and Commission filings inflating information Wall Street uses to evaluate cable companies. Conceded self-dealing with the founder's family using corporate funds for Rigas Family Stock purchases and purchases of luxury condominiums.</td>
</tr>
<tr>
<td>Bristol-Myers Squibb</td>
<td>2000-2001</td>
<td>Inflated revenues from the first quarter of 2000 - fourth quarter 2001. Accused of “channel-stuffing” in order to meet sales and earning targets. Improperly recognized $1.5 billion in revenue from sales. Used “cookie jar” reserves to inflate earnings.</td>
</tr>
<tr>
<td>Enron</td>
<td>2001</td>
<td>Public statements about the company’s financial position were false and misleading. Concealed losses incurred by Enron Energy Services (EES) by manipulating business segment reporting. Kenneth Lay (former Chairman &amp; CEO) knew of material nonpublic information and with this information was able to generate unlawful proceeds exceeding $90 million.</td>
</tr>
<tr>
<td>HealthSouth</td>
<td>1999-2002</td>
<td>Overstated earnings since 1999 by at least $1.4 billion to meet Wall Street expectations. Assets overstated by at least $800 million (10%) in 3rd Quarter of 2002. CEO certified financial statements that were materially false and misleading.</td>
</tr>
<tr>
<td>K-Mart</td>
<td>1999-2001</td>
<td>Failed to disclose reckless purchase of $850 million in excess inventory which was found materially misleading. Misrepresented liquidity problems and did not pay vendors on time.</td>
</tr>
<tr>
<td>Lehman Brothers</td>
<td>2000-2001</td>
<td>Bonuses of six senior research analysts were linked to revenue from Investment Banking which was generated by companies they covered. The integrity of analysts’ ratings, price targets, and research reports were unfavorably affected due to financial incentives and corporate pressure on analysts. The company failed at supervising research analysts and establishing company policies for appropriate ethical conduct.</td>
</tr>
<tr>
<td>Peregrine Systems</td>
<td>2000-2002</td>
<td>Reported inflated product revenue in filings with the Commission and others. Portrayed the company as having strong sales growth and hiding its failure in order to reach revenue forecasts. Senior officers sold over $11 million and $24 million in Peregrine stock at the expense of public investors. Recorded millions of dollars of revenue improperly on nonbinding agreements with “channel partners.”</td>
</tr>
<tr>
<td>Tyco International</td>
<td>1996-2002</td>
<td>Operating income was inflated by at least $500 million. Performed improper accounting practices in regards to acquisitions. Undervalued acquired assets, overvalued acquired liabilities, and misused accounting rules in regards to the establishment and utilization of purchase accounting reserves. Used various reserves as adjustments to improve financial results and earnings reported to the public. Connection fees that Tyco’s ADT Security Services Inc. subsidiary charged to dealers lacked economic substance and were improperly added to Tyco’s income statement. Failure to disclose certain executive compensation, executive indebtedness, and related party transactions of former senior management.</td>
</tr>
</tbody>
</table>
## Highlights of the Sarbanes-Oxley Act of 2002

### SARBANES-OXLEY ACT OF 2002

<table>
<thead>
<tr>
<th>Title I – Public Accounting Oversight Board</th>
<th>Establishes five-member board (two members CPAs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Public accounting firms that participate in preparing or issuing any audit report for a public company must register</td>
</tr>
<tr>
<td></td>
<td>Audit work papers and other information related to the audit must be retained for seven years</td>
</tr>
<tr>
<td></td>
<td>Requires a second partner review and approval of audit reports</td>
</tr>
<tr>
<td></td>
<td>Annual inspections for public accounting firms providing audit reports for over 100 issuers and at least every three years for fewer than 100 issuers</td>
</tr>
<tr>
<td></td>
<td>Public accounting firms must pay a registration fee and an annual fee</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Title II – Auditor Independence</th>
<th>It is unlawful for a registered accounting firm to provide non-audit services that include:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Bookkeeping or other services related to the accounting records or financial statements of the audit client</td>
</tr>
<tr>
<td></td>
<td>• Financial information systems design and implementation</td>
</tr>
<tr>
<td></td>
<td>• Appraisal or valuation or services, fairness opinions, or contribution-in-kind reports</td>
</tr>
<tr>
<td></td>
<td>• Actuarial services</td>
</tr>
<tr>
<td></td>
<td>• Internal audit outsourcing services</td>
</tr>
<tr>
<td></td>
<td>• Management functions or human resources</td>
</tr>
<tr>
<td></td>
<td>• Broker or dealer, investment advisor, or investment banking services</td>
</tr>
<tr>
<td></td>
<td>• Legal services and expert services unrelated to the audit</td>
</tr>
<tr>
<td></td>
<td>May engage in tax services or other services IF gets preapproval</td>
</tr>
<tr>
<td></td>
<td>Lead or coordinating audit partner or the reviewing audit partner must rotate every five consecutive years</td>
</tr>
<tr>
<td></td>
<td>Reports to the audit committee of the issuer must include: (1) all critical accounting policies and practices used, (2) alternative treatments of financial information within GAAP that have been discussed with management the ramifications of such alternative disclosures and treatments, and (3) other written communications between the firm and the issuer that is material</td>
</tr>
<tr>
<td></td>
<td>The following individuals cannot have been employed by the registered independent public accounting firm and participated in any capacity in the audit during the one year period preceding...</td>
</tr>
</tbody>
</table>
### Sarbanes-Oxley Act of 2002

<table>
<thead>
<tr>
<th>Title III – Corporate Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each member of the audit committee of the issuer shall be a member of the board of directors of the issuer, and shall otherwise be independent</td>
</tr>
<tr>
<td>In order to remain independent, members of the audit committee must not:</td>
</tr>
<tr>
<td>- Accept any consulting, advisory, or other compensatory fee from the issuer</td>
</tr>
<tr>
<td>- Be an affiliated person of the issuer or subsidiary</td>
</tr>
<tr>
<td>Audit committees shall establish procedures for:</td>
</tr>
<tr>
<td>- Receipt, retention, and treatments of complaints regarding accounting, internal accounting controls, or audit matters</td>
</tr>
<tr>
<td>- Confidential submission of concerns regarding questionable accounting or auditing matters by employees</td>
</tr>
<tr>
<td>Audit committees shall engage in independent counsel or other advisors in order to properly carry out its duties</td>
</tr>
<tr>
<td>Each issuer must provide appropriate funding for the audit committee</td>
</tr>
<tr>
<td>CEOs and CFOs are required to certify that they have reviewed the annual report and it does not contain false statements or any omissions of material facts</td>
</tr>
<tr>
<td>Any officer or director cannot fraudulently influence, coerce, manipulate, or mislead any independent public or certified accountant engaged in the audit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Title IV – Enhanced Financial Disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reports are to be prepared in accordance with GAAP and reflect all material correcting adjustments that have been identified by a registered public accounting firm</td>
</tr>
<tr>
<td>Financial reports shall disclose all material off-balance sheet transactions, arrangements, obligations, and other relationships that may have a material current or future effect on the financial</td>
</tr>
</tbody>
</table>
Financial information filed with the Commission or any public disclosure or press release shall be presented in a manner:

- That does not contain false statements of a material fact or may not omit to state a material fact
- Reconciles it with the financial condition and the results of operations under GAAP

Prohibits personal loans to any director or executive officer (or equivalent)

Requires disclosures of transactions involving directors, officers, and principal stockholders, which includes any person directly or indirectly the beneficial owner of more than 10% of any class of any equity security

Each annual report shall contain an internal control report that includes:

- The responsibility of management for establishing and maintaining adequate internal controls and procedures for financial reporting
- An assessment of the effectiveness of the internal control structure and procedures of the issuer
Sarbanes-Oxley Act of 2002

**CRIMINAL PENALTIES ENHANCED**

<table>
<thead>
<tr>
<th>BEHAVIOR</th>
<th>SENTENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>The alteration, destruction, concealment of any records with the intent of obstructing a federal investigation</td>
<td>Fine and/or up to 10 years imprisonment</td>
</tr>
<tr>
<td>Failure to maintain audit or review “workpapers” for at least five years</td>
<td>Fine and/or up to 5 years imprisonment</td>
</tr>
<tr>
<td>Anyone who “knowingly executes, or attempts to execute, a scheme” to defraud a purchaser of securities</td>
<td>Fine and/or up to 10 years imprisonment</td>
</tr>
<tr>
<td>Any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements</td>
<td>Fine of up to $1,000,000 and/or up to 10 years imprisonment</td>
</tr>
<tr>
<td>If “willfully” violates</td>
<td>Fine of up to $5 million and/or up to 20 years imprisonment</td>
</tr>
<tr>
<td>Two or more persons who conspire to commit any offense against or to defraud the U.S. or its agencies</td>
<td>Fine and/or up to 10 years imprisonment</td>
</tr>
<tr>
<td>Any person who “corruptly” alters, destroys, conceals, etc., any records or documents with the intent of impairing the integrity of the record or document for use in an official proceeding</td>
<td>Fine and/or up to 20 years imprisonment</td>
</tr>
<tr>
<td>Mail and wire fraud</td>
<td>Increase from 5 to 20 years imprisonment</td>
</tr>
<tr>
<td>Violating applicable Employee Retirement Income Security Act (ERISA) provisions</td>
<td>Various lengths depending on violation</td>
</tr>
</tbody>
</table>

*Source: New York State Society of CPAs; www.nysscpa.org/oxleyact2002.htm*
Review Questions

1. Of the accounting scandals information provided, which corporation failed to disclose certain executive compensation, executive indebtedness, and related party transactions of former senior management?
   A. Bristol-Myers Squibb
   B. HealthSouth
   C. Peregrine Systems
   D. Tyco International

2. At least how often are inspections required for public accounting firms providing audit reports for fewer than 100 issuers?
   A. At least every year
   B. At least every two years
   C. At least every three years
   D. At least every five years

3. Which Title of the Sarbanes-Oxley Act requires a second partner review and approval of audit reports?
   A. Title I – Public Accounting Oversight Board
   B. Title II – Auditor Independence
   C. Title III – Corporate Responsibility
   D. Title IV – Enhanced Financial Disclosures

4. Which of the following is a true statement regarding the issuer’s audit committee members?
   A. One member must be an affiliated person of the issuer
   B. Members are to receive fees from the issuer for consulting services
   C. Members are not allowed to seek independent council if they need advice on how to properly carry out their duties
   D. Each member must be a member of the board of directors and otherwise independent

5. Which of the following is a provision of the Sarbanes-Oxley Act of 2002?
   A. Establishment of a seven-member Public Accounting Oversight Board
   B. Lead or coordinating audit partner or the reviewing audit partner must rotate every year
   C. Annual inspections for public accounting firms providing audit reports for over 100 issuers
   D. Audit work papers and other information relating to the audit must be retained for 10 years

6. What is the sentence for any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements?
   A. Fine up to $500,000 and/or up to 5 years imprisonment
   B. Fine up to $1 million and/or up to 10 years imprisonment
   C. Fine up to $1 million and/or up to 20 years imprisonment
   D. Fine up to $5 million and/or up to 10 years imprisonment
Review Answers

1. A. Incorrect. Bristol-Myers Squibb was charged with inflating revenues, channel-stuffing, and using cookie jar reserves.
   B. Incorrect. HealthSouth was charged for the CEO certifying materially false and misleading financial statements and charged with overstating earnings and assets.
   C. Incorrect. Peregrine Systems was charged for senior officers selling millions in stocks at the expense of public investors and charged with inflating and improperly recording revenue.
   D. Correct. Tyco International was charged with failing to disclose certain executive compensation, executive indebtedness, and related party transactions of former senior management.

2. A. Incorrect. Inspections of public accounting firms for over 100 issuers are at least once every year, while inspections of public accounting firms with fewer than 100 issuers are at least every three years.
   B. Incorrect. Inspections of public accounting firms for over 100 issuers are at least once every year, while inspections of public accounting firms with fewer than 100 issuers are at least every three years.
   C. Correct. Inspections of public accounting firms with fewer than 100 issuers are at least every three years.
   D. Incorrect. Inspections of public accounting firms for over 100 issuers are at least once every year, while inspections of public accounting firms with fewer than 100 issuers are at least every three years.

3. A. Correct. Title I – Public Accounting Oversight Board requires a second partner review and approval of audit reports.
   B. Incorrect. Requiring a second partner review and approval of audit reports falls under the requirements of Title I – Public Accounting Oversight Board. Title II – Auditor Independence reflects factors that relate to the requirements pertaining to independence of public accounting firms.
   C. Incorrect. Requiring a second partner review and approval of audit reports falls under the requirements of Title I – Public Accounting Oversight Board. Title III – Corporate Responsibility relates to the requirements of the audit committee and the requirements of officers and directors.
   D. Incorrect. Requiring a second partner review and approval of audit reports falls under the requirements of Title I – Public Accounting Oversight Board. Title IV – Enhanced Financial Disclosures relates to the requirements of financial reports, press releases, and disclosure of information to the public.

4. A. Incorrect. Title III of the Sarbanes-Oxley Act of 2002 prohibits any audit committee member of the issuer to be an affiliated person of the issuer or subsidiary.
   B. Incorrect. Title III of the Sarbanes-Oxley Act of 2002 prohibits any audit committee member to receive fees from the issuer for consulting services.
   C. Incorrect. Title III of the Sarbanes-Oxley Act of 2002 encourages audit committee members to engage in independent council in order to properly carry out their duties.
   D. Correct. Title III of the Sarbanes-Oxley Act of 2002 requires that each member be a member of the board of directors and otherwise independent.
5. A. Incorrect. The Sarbanes-Oxley Act of 2002 requires a five-member Public Accounting Oversight Board, not a seven-member board.
   B. Incorrect. The Sarbanes-Oxley Act of 2002 requires the reviewing audit partner must rotate every five consecutive years, not every year.
   C. Correct. The Sarbanes-Oxley Act of 2002 requires annual inspections for public accounting firms providing audit reports for over 100 issuers.
   D. Incorrect. The Sarbanes-Oxley Act of 2002 requires that audit work papers and other information relating to the audit must be retained for 5 years, not 10 years.

6. A. Incorrect. The sentence for any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements is a fine of up to $1 million and/or up to 10 years imprisonment, not a fine up to $500,000 and/or up to 5 years imprisonment.
   B. Correct. The sentence for any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements is a fine of up to $1 million and/or up to 10 years imprisonment.
   C. Incorrect. The sentence for any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements is a fine of up to $1 million and/or up to 10 years imprisonment, not a fine up to $1 million and/or up to 20 years imprisonment.
   D. Incorrect. The sentence for any CEO or CFO who “recklessly” violates his or her certification of the company’s financial statements is a fine of up to $1 million and/or up to 10 years imprisonment, not a fine up to $5 million and/or up to 10 years imprisonment.
Learning Objectives

- Recognize situations in which a fee is considered contingent
- Pinpoint the minimum penalty for violating the confidentiality of client information
- Ascertain the number of days an Ohio permit holder has to comply with a client’s written request for records
- Spot an act which would be considered discreditable
- Recognize expectations of members under Article I of the Code of Professional Conduct
- Identify a scenario which is a violation of the rules set forth by the Ohio State Society of CPAs Code of Professional Conduct

Introduction

This chapter discusses the role of the Accountancy Board of Ohio and that of the Ohio Society of CPAs (OSCPA). It further outlines the regulations set forth under Chapter 4701 – Accountancy Board Law, Chapter 4701-11 – Ohio State Board of Accountancy Ethical Standards, and the Ohio Society of CPAs Code of Professional Conduct.

Accountancy Board of Ohio

The Accountancy Board of Ohio consists of nine members (eight CPAs). Accountancy law gives the Board authorization to create and enforce rules and regulations that govern the practice of public accounting in the state of Ohio. The responsibilities of the Accountancy Board of Ohio include:

- Determining the requirements for the:
  - CPA examination
  - CPA certification
  - CPA licensing
  - Public accounting firm registration
- Conducting disciplinary hearings when CPAs and/or public accounting firms violate accountancy laws

The following two sections outline the Accountancy Standards and the Ethics Standards set forth by the Board and the penalties and actions of the Board when violations occur.

Chapter 4701: Accountancy Board Law

4701.01 Accountancy board law definitions.

As used in this chapter:

(A) “Practice of public accounting” means performing or offering to perform any engagement that will result in the issuance of an attest report and, with respect to a person who holds a CPA certificate, PA registration, foreign certificate, or firm registration, any other services involving the use of accounting or auditing skills as established by rules adopted by the accountancy board.

(B) “Public accounting firm” means a sole proprietorship, a partnership, a limited liability company, a professional association, a corporation-for-profit, or any other business organization that is engaged in the practice of public accounting in this state.
(C) "Opinion report" means any opinion on a financial statement that is expressed in accordance with generally accepted auditing standards as to the fairness of presentation of information and that is used for guidance in financial transactions, for accounting, or for assessing the status or performance of commercial and noncommercial enterprises, whether public, private, or governmental.

(D) "Peer review" means a study, appraisal, or review of one or more aspects of the professional work of a public accounting firm that meets the standards and requirements set forth by the accountancy board.

(E) "Review report" means either of the following:

1. Any review report on a financial statement that is issued with respect to any of the following:
   a. Interim financial information in accordance with generally accepted auditing standards;
   b. The financial information of a nonpublic entity in accordance with statements on standards for accounting and review services;
   c. The reliability of another party's written assertion in accordance with statements on standards for attestation engagements.

2. Any other review report on a financial statement that is not described in division (E)(1) of this section and that is issued in accordance with standards promulgated by the American institute of certified public accountants.

(F) "Compilation report" means any compilation report on a financial statement that is issued with respect to financial information of a nonpublic entity in accordance with statements on standards for accounting and review services as promulgated by the American institute of certified public accountants.

(G) "Examination report" means any examination report on a financial statement that is issued with respect to another party's written assertion in accordance with statements on standards for attestation engagements as promulgated by the American institute of certified public accountants.

(H) "Agreed-upon procedures report" means any report that is on a financial statement and that is based on agreed-upon procedures issued with respect to another party's written assertion in accordance with statements on standards for attestation engagements as promulgated by the American institute of certified public accountants.

(I) "Qualified firm" means a sole proprietorship, partnership, professional association, corporation-for-profit, limited liability company, or other business organization in which the individuals who own a majority of the business organization interests in the business organization and control the business organization hold an Ohio permit or a foreign certificate.

(J) "Own" means any direct or indirect ownership of an equity interest in a public accounting firm or qualified firm.
(K) "Control" or "controlled" means the right to exercise the majority of the voting equity interests in a public accounting firm or qualified firm with respect to any matter.

(L) "Equity interest" means any capital interest or profit interest in a sole proprietorship, partnership, professional association, corporation-for-profit, limited liability company, or other business organization.

(M) "Ohio permit" means a permit to practice public accounting issued under division (A) of section 4701.10 of the Revised Code that is not revoked or suspended.

(N) "Ohio registration" means the registration under division (B) of section 4701.10 of the Revised Code of a holder of a CPA certificate or PA registration who is not in the practice of public accounting in this state.

(O) "Firm registration" or "registered firm" means registration as a public accounting firm under section 4701.04 of the Revised Code.

(P) "PA registration" means registration as a public accountant under section 4701.07 of the Revised Code that is not revoked or suspended.

(Q) "CPA certificate" means a certificate issued under section 4701.06 or 4701.061 of the Revised Code that is not revoked or suspended.

(R) "Foreign certificate" means a certificate of a certified public accountant issued under the laws of another state.

(S) "Attest report" means an opinion report, review report, compilation report, examination report, agreed-upon procedures report, or any similar report prepared in accordance with standards established by the American institute of certified public accountants with respect to a financial statement or other financial information.

(T) "Person" means any individual, corporation-for-profit, business trust, estate, partnership, limited liability company, professional association, or other business organization.

(U) Technical terms that define specific public accounting engagements have the same meanings as in the professional standards promulgated by the American institute of certified public accountants.

(V)(1) "Good moral character" means the combination of personal traits of honesty, integrity, attention to duty, forthrightness, and self-restraint that enables a person to discharge the duties of the accounting profession fully and faithfully.

(2) A history of dishonest acts or felonious acts or convictions is sufficient to prove lack of good moral character if that history demonstrates by a preponderance of the evidence that the person lacks one or more of the personal traits referred to in division (V)(1) of this section. A person who has a felony conviction related to one or more of those personal traits bears the burden of establishing the person's present good moral character, including the person's full and complete rehabilitation subsequent to the conviction. If less than one year has passed since the
(3) In determining whether a person who has a felony conviction has met the person’s burden of proof described in division (V)(2) of this section, the accountancy board may consider the following factors:

(a) The person’s path toward professional licensing following completion of the person’s sentence;

(b) The nature and degree of the person’s academic achievements;

(c) The nature and degree of the person’s employment following completion of the person’s sentence;

(d) The person’s degree of self-sufficiency following completion of the person’s sentence;

(e) The nature and degree of the person’s other responsibilities following completion of the person’s sentence;

(f) The person’s conviction for any other criminal offense since completion of the person’s sentence for the person’s first felony conviction;

(g) Whether the person’s application or presentation contains any inconsistencies or misleading explanations that convince the board that either the person or the person’s attorney is trying to keep the board from acquiring a true, though damaging, representation of the person’s character;

(h) The nature and circumstances of the dishonest acts or felonious acts or convictions of the person;

(i) Any other specifically identifiable information that the board determines to be relevant to the person’s ability to discharge the duties of the accounting profession fully and faithfully.

Effective Date: 03-30-1999

4701.02 Accountancy board.

There is hereby created the accountancy board, consisting of nine members appointed by the governor with the advice and consent of the senate. Eight of the members shall be certified public accountants of whom:

(A) At least two shall be in active public accounting practice in public accounting firms having offices only in this state;
Ohio Rules

(B) At least two shall be in active public accounting practice in public accounting firms having offices in at least one-half of the states;

(C) At least two shall not be engaged in the public practice of accounting. One member of the board shall be a representative of the general public who has never had any direct relationship with the accounting profession except as a user of the services of accountants from time to time. Not more than one member shall be affiliated with the same accounting firm, and all members of the board shall be citizens of the United States and residents of the state. Terms of office shall be for seven years, each term commencing on the twenty-first day of October and ending on the twentieth day of October. Each member shall hold office from the date of his appointment until the end of the term for which he was appointed. Any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall hold office for the remainder of such term. Any member shall continue in office subsequent to the expiration date of his term until his successor takes office, or until a period of sixty days has elapsed, whichever occurs first. No person who has served one complete seven-year term shall be eligible for reappointment. The governor may, after hearing, remove any member of the board for neglect of duty or other just cause.

Effective Date: 04-16-1993

4701.03 Enforcement powers of board - compensation - bond.

(A) The accountancy board annually shall elect a president, secretary, and treasurer from its members. The board may adopt and amend rules for the orderly conduct of its affairs and for the administration of this chapter. The board may adopt and amend rules defining the practice of public accounting, rules of professional conduct appropriate to establish and maintain a high standard of integrity and dignity in registrants and certificate holders under this chapter, and rules regulating the sole proprietorship, partnership, limited liability company, professional association, corporation-for-profit, or other legal entity practice of public accounting. A majority of the board shall constitute a quorum for the transaction of business.

(B) The board shall keep and hold open for public inspection all records of its proceedings.

(C) The board may employ any clerks that are necessary to assist it in the performance of its duties and the keeping of its records. If the board employs an executive director, the executive director shall be paid in accordance with pay range 18 of schedule E-1 of section 124.152 of the Revised Code, or, if the director was employed and being paid on June 28, 2003, in accordance with step 7 in pay range 18 of schedule E-1 of former section 124.152 of the Revised Code and continued to be so paid on June 29, 2003, the executive director shall be paid in accordance with pay range 18 of salary schedule E-1 for step seven only of section 124.152 of the Revised Code.

Effective Date: 06-29-2004

The amendment to this section by 129th General Assembly File No. 10, SB 5, § 1 was rejected by voters in the November, 2011 election.
4701.04 Registration.

(A) No public accounting firm shall engage in the practice of public accounting in this state unless it registers with the accountancy board and pays a registration fee set by the board.

<table>
<thead>
<tr>
<th>Board Action &amp; Penalties</th>
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<tbody>
<tr>
<td><strong>Unlawful Practice – Failure to Obtain a Firm Registration</strong></td>
</tr>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.</td>
</tr>
</tbody>
</table>

(B) Public accounting firms shall apply for initial registration within ninety days after formation or within ninety days after the commencement of practicing public accounting in this state. All public accounting firms shall renew their registration triennially. All public accounting firms shall submit with their initial and renewal registration applications all of the following:

1. A list of the names, addresses, and certificate or registration numbers of all individuals who hold an Ohio permit and who own an equity interest in the public accounting firm or are employed by the public accounting firm;

2. A list of the names and addresses of each person who does not hold an Ohio permit or a foreign certificate and who owns an equity interest in the public accounting firm if the person’s principal place of business is located in this state;

3. A statement that the public accounting firm and each person who owns an equity interest in the public accounting firm or is employed by the public accounting firm and who does not hold an Ohio permit or a foreign certificate is in compliance with divisions (C) and (D) of this section.

(C) A public accounting firm shall satisfy all of the following requirements in order to register:

1. Except as provided in division (C)(5) of this section, each partner, shareholder, member, or other person who owns an equity interest in the public accounting firm shall hold an Ohio permit or a foreign certificate.

2. The chief executive of any office of a public accounting firm located in or doing business in this state shall hold an Ohio permit or a foreign certificate.

3. Each individual in a public accounting firm who signs any attest report issued from an office of the public accounting firm located in this state shall hold an Ohio permit.

4. An individual who owns an equity interest in the public accounting firm or is employed by the public accounting firm and who holds an Ohio permit or a foreign certificate, or a qualified firm that owns an equity interest in the public accounting firm, shall assume ultimate responsibility for any attest report issued from an office of the public accounting firm located in this state.
(5) Any person who does not hold an Ohio permit or a foreign certificate and who holds an equity interest in the public accounting firm shall satisfy the conditions set forth in division (D) of this section.

(6) The public accounting firm shall provide for the transfer of the equity interest owned by persons who do not hold an Ohio permit or a foreign certificate to either the public accounting firm or to another person who owns an equity interest in the firm if a person who does not hold an Ohio permit or a foreign certificate withdraws from or ceases to be employed by the public accounting firm. The public accounting firm may make payments in connection with the person’s withdrawal from the firm to that person or, if that person is deceased or dissolved, to the person’s estate or successor in interest.

(D) A person who does not hold an Ohio permit or a foreign certificate may own an equity interest in a public accounting firm if all of the following conditions are met:

(1) All of the individuals who hold an Ohio permit or a foreign certificate and who own equity interests in the public accounting firm, and qualified firms that own equity interests in the public accounting firm, own, in the aggregate, a majority of the equity interests in the public accounting firm and control the public accounting firm.

(2) The person does not assume or use any titles or designations specified in division (A) of section 4701.14 of the Revised Code. The person may designate or refer to the person as a shareholder, partner, member, principal, owner, or officer of the public accounting firm and also may use any other title that the board authorizes by rule.

(3) The person is not in violation of any standard regarding the character or conduct of that person that the board establishes by rule.

(4) The person’s participation in the business of the public accounting firm is the person’s principal occupation and consists of providing services to or on behalf of the public accounting firm, and the person is not functioning solely or predominately as a passive investor in the public accounting firm.

(5) The person has graduated with a baccalaureate or higher degree conferred by a college or university approved by the board.

(6) The person meets or exceeds the continuing education requirements that the board establishes by rule.

(7) A person who holds a professional license, registration, or certification issued by this state or another state complies with the requirements of that license, registration, or certification.

(8) The person abides by the code of conduct of the American Institute of Certified Public Accountants or a comparable code of professional conduct that the board adopts by rule.

(9) The person complies with all applicable provisions of this chapter and the rules adopted by the board.
(E) A person who owns a voting equity interest in a public accounting firm may not delegate, by proxy or otherwise, the duty to exercise any voting rights to a person that does not hold an Ohio permit or a foreign certificate or to a person that is not a qualified firm.

(F) As a condition for initial or renewal registration of a public accounting firm on and after January 1, 1993, the board, by rule, shall require that each public accounting firm undergo a peer review to determine the public accounting firm’s degree of compliance in the practice of public accounting with generally accepted accounting principles, generally accepted auditing standards, and other generally accepted technical standards, unless the public accounting firm meets one of the exceptions in division (J) of this section.

(G) The board shall adopt rules establishing guidelines for peer reviews. The rules shall do all of the following:

1. Designate a peer review committee consisting of accounting professionals to serve as advisors to the board and to ensure that the board’s guidelines are followed. The board may establish fair and reasonable compensation for the committee members to be paid for time they spend conducting committee business.

2. Require that the peer review be conducted by a reviewer that is both independent of the public accounting firm reviewed and qualified pursuant to board rules;

3. Require that the standards and practices applied by the reviewer be at least as stringent as those applied by the American Institute of Certified Public Accountants;

4. Prohibit the use or disclosure of information obtained by members of the board or a committee of peer reviewers during or in connection with the peer review process for purposes other than those related to determining the degree of compliance by the public accounting firm with generally accepted accounting principles, generally accepted auditing standards, and other generally accepted technical standards. Division (G)(4) of this section does not apply to the use or disclosure of information that is described in division (K)(3) of this section or that is necessary to comply with any provision of law.

(H)(1) If a peer review report indicates that a public accounting firm does not comply with standards and practices set forth in board guidelines, the board, in its discretion, may hold a hearing to review the results of the peer review report. If the board, after conducting the hearing, determines that the public accounting firm does not comply with the standards and practices, it may issue an order that requires both of the following:

<table>
<thead>
<tr>
<th>Board Action &amp; Penalties</th>
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<tbody>
<tr>
<td><strong>Substandard Peer Review Report</strong></td>
</tr>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing.</td>
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</table>

(a) Remedial or disciplinary action, which may include any of the following:
(i) Requiring employees of the public accounting firm to complete general or specific continuing professional education courses;

(ii) Requiring the public accounting firm to undergo peer review more frequently than triennially and peer review that is conducted in whole or part under the direct supervision of the board or its designee;

(iii) Any other remedial action specified by the board;

(iv) Imposing any disciplinary measures set forth in division (B) of section 4701.16 of the Revised Code.

(b) An affidavit from the public accounting firm submitted within the time specified by the board indicating completion of required remedial actions.

(2) Notwithstanding divisions (K)(1) and (2) of this section, all matters relating to the procedures for determining compliance with the standards and practices under division (H)(1) of this section are subject to Chapter 119. of the Revised Code, including the notice and conduct of any hearing and the issuance and appeal of any order.

(I) The public accounting firm reviewed shall pay for any peer review performed.

(J) The board may exempt a public accounting firm from the requirement to undergo a peer review if the public accounting firm submits to the board a written and notarized statement that the public accounting firm meets at least one of the following grounds for exemption identified in the statement:

(1) Within three years of the date of application for initial or renewal registration, the public accounting firm has been subject to a peer review acceptable to the board and conducted pursuant to standards not less stringent than review standards applied by the American institute of certified public accountants. The public accounting firm shall submit to the board a copy of the results of the peer review and any additional documentation required by the board. The board shall not require submittal of the working papers related to the peer review process.

(2) Within three years of the date of application for initial or renewal registration, the public accounting firm has undergone a peer review conducted in another state or foreign country. The public accounting firm shall submit to the board a copy of the results of the peer review and any additional documentation required by the board, including a detailed report of the procedures and standards applied by the reviewer.

(3) The public accounting firm has never practiced public accounting in this state or any other state or foreign country and will undergo a peer review within eighteen months of registration.

(4) The public accounting firm, on a schedule as required by rule adopted by the board, submits a report to the board that states all of the following:
(a) The public accounting firm does not undertake any engagement that will result in the issuance of an attest report.

(b) Within the next three years, the public accounting firm does not intend to undertake any engagement that will result in the issuance of any attest report.

(c) The public accounting firm agrees to notify the board within ninety days after accepting any engagement that will result in the issuance of any attest report and will undergo a peer review within one year after the acceptance of an engagement of that nature.

(5) Subject to the board’s approval, for reasons of personal health, military service, or other good cause, the public accounting firm is entitled to an exemption.

(K) In any civil action, arbitration, or administrative proceeding involving a public accounting firm, all of the following shall apply:

(1) The proceedings, records, and work papers of any reviewer, including board members and review committee members, involved in the peer review process are privileged and not subject to discovery, subpoena, or other means of legal process and may not be introduced into evidence.

(2) No reviewer, including board members and review committee members, involved in the peer review process shall be permitted or required to testify as to any matters produced, presented, disclosed, or discussed during or in connection with the peer review process or shall be required to testify to any finding, recommendation, evaluation, opinion, or other actions of those committees or their members.

(3) No privilege exists under this section for either of the following:

(a) Information presented or considered in the peer review process that was otherwise available to the public;

(b) Materials prepared in connection with a particular engagement merely because they subsequently are presented or considered as part of the peer review process.

(L) If a peer review report indicates that a public accounting firm complies with standards and practices set forth in board guidelines, the board shall destroy all documents and reports related to the peer review within thirty days after the board completes its review of the report. If a peer review report indicates that a public accounting firm does not comply with those standards and practices, the board shall retain all documents and reports related to the peer review until completion of the next peer review.

Effective Date: 03-30-1999
### Board Action & Penalties

<table>
<thead>
<tr>
<th>Failure to Renew Firm Registration – Attest Firms</th>
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<tbody>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $2,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.</td>
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</tbody>
</table>

Renewal deadline without late fee (renewal fee $30): October 31
August 1-January 31: Late fee (Late fees: $150 for firms with 1-4 CPAs; $360 for firms with 5-9 CPAs; $900 for firms with 10+ CPAs)
After January 31: Late fee (Late fees: $300 for firms with 1-4 CPAs; $720 for firms with 5-9 CPAs; $1,800 for firms with 10+ CPAs)

<table>
<thead>
<tr>
<th>Failure to Meet Requirements for Ownership of a Public Accounting Firm</th>
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<tbody>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].</td>
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<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.</td>
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<tr>
<th>Failure to Meet Non-licensee Ownership Requirements by a Public Accounting Firm</th>
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<tbody>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].</td>
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<tr>
<th>Failure to Obtain Professional Liability Insurance</th>
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<tbody>
<tr>
<td><strong>Minimum Penalty</strong> - Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> - Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
</tbody>
</table>

### 4701.05 Compensation and expenses of board.

Each member of the accountancy board shall be paid an amount fixed pursuant to division (J) of section 124.15 of the Revised Code for each day or portion thereof spent in the discharge of his official
duties and shall be reimbursed for his actual and necessary expenses incurred in the discharge of such duties.

Effective Date: 10-22-1980

The amendment to this section by 129th General Assembly File No. 10, SB 5, § 1 was rejected by voters in the November, 2011 election.

4701.06 Requirements for CPA certificate.

The accountancy board shall grant the certificate of “certified public accountant” to any person who satisfies the following requirements:

(A) The person is a resident of this state or has a place of business in this state or, as an employee, is regularly employed in this state. The board may determine by rule circumstances under which the residency requirement may be waived.

(B) The person has attained the age of eighteen years.

(C) The person is of good moral character.

(D) The person meets the following requirements of education and experience:

(1)(a) Prior to January 1, 2000, graduation with a baccalaureate degree conferred by a college or university recognized by the board, with a concentration in accounting that includes related courses in other areas of business administration, or what the board determines to be substantially the equivalent of the foregoing;

(b) On and after January 1, 2000, graduation with a baccalaureate or higher degree that includes successful completion of one hundred fifty semester hours of undergraduate or graduate education. The board by rule shall specify graduate degrees that satisfy this requirement and also by rule shall require any subjects that it considers appropriate. The total educational program shall include an accounting concentration with related courses in other areas of business administration, as defined by board rule.

(2)(a) The experience requirement for candidates meeting the educational requirements set forth in division (D)(1)(a) or (b) of this section is one year of experience satisfactory to the board in any of the following:

(i) A public accounting firm;

(ii) Government;

(iii) Business;

(iv) Academia.
(b) Except as provided in division (D)(2)(c) of this section, the experience requirement for any candidate who, on and after January 1, 2000, does not meet the educational requirement set forth in division (D)(1)(b) of this section is four years of experience described in division (D)(2)(a) of this section. The experience requirement for any candidate who, prior to January 1, 2000, does not meet the educational requirement set forth in division (D)(1)(a) of this section is two years of experience described in division (D)(2)(a) of this section.

(c) On and after January 1, 2000, the experience requirement for any candidate who, subsequent to obtaining a baccalaureate or higher degree, other than a baccalaureate or higher degree described in division (D)(1)(b) of this section, successfully completes coursework that meets the educational requirement set forth in division (D)(1)(b) of this section is two years of experience described in division (D)(2)(a) of this section.

(E) The person has passed an examination that is administered in the manner and that covers the subjects that the board prescribes by rule. In adopting the relevant rules, the board shall ensure to the extent possible that the examination, the examination process, and the examination’s passing standard are uniform with the examinations, examination processes, and examination passing standards of all other states and may provide for the use of all or parts of the uniform certified public accountant examination and advisory grading service of the American institute of certified public accountants. The board may contract with third parties to perform administrative services that relate to the examination and that the board determines are appropriate in order to assist the board in performing its duties in relation to the examination. None of the educational requirements specified in division (D) of this section apply to a candidate who has a PA registration, but the experience requirement for the candidate who does not meet those educational requirements is four years of the experience described in division (D)(2)(a) of this section. Prior to January 1, 2000, the board shall waive the educational requirement set forth in division (D)(1)(a) of this section for any candidate if it finds that the candidate has attained the equivalent education by attendance at a business school, by self-study, or otherwise, and if it is satisfied from the results of special examinations that the board gives the candidate to test the candidate’s educational qualifications that the candidate is as well equipped, educationally, as if the candidate met the applicable educational requirement specified in division (D)(1)(a) of this section. On and after January 1, 2000, the board shall waive the educational requirement set forth in division (D)(1)(b) of this section for any candidate if the board finds that the candidate has obtained from an accredited college or university approved by the board, either an associate degree or a baccalaureate degree, other than a baccalaureate degree described in division (D)(1)(b) of this section, with a concentration in accounting that includes related courses in other areas of business administration, and if the board is satisfied from the results of special examinations that the board gives the candidate to test the candidate’s educational qualification that the candidate is as well equipped, educationally, as if the candidate met the applicable educational requirement specified in division (D)(1)(b) of this section. The board shall provide by rule for the general scope of any special examinations for a waiver of the educational requirements under division (D)(1)(a) or (b) of this section and may obtain any advice and assistance that it considers appropriate to assist it in preparing and grading those special examinations. The board may use any existing examinations or may prepare any number of new examinations to assist in determining the equivalent training of a candidate. The board by rule shall prescribe any special examinations for a waiver of the educational requirements under division (D)(1)(a) or (b) of this section and the passing score required for each examination. The board shall hold the examination referred to in division (E) of this section and the special examinations for a
waiver of the educational requirements under division (D)(1)(a) or (b) of this section as often as the board determines to be desirable, but the examination referred to in division (E) of this section shall be held not less frequently than once each year. The board by rule may provide for granting credit to a candidate for satisfactory completion of an examination that a licensing authority of another state gave in one or more of the subjects referred to in division (E) of this section. A candidate who has met the educational requirements, or with respect to whom they either do not apply or have been waived, is eligible to take the examination referred to in division (E) of this section without waiting until the candidate meets the experience requirements, provided the candidate also meets the requirements of divisions (A) and (C) of this section. A candidate for the certificate of certified public accountant who has successfully completed the examination under division (E) of this section has no status as a certified public accountant, unless and until the candidate has the requisite experience and has received a certificate as a certified public accountant. The board shall determine and charge a fee for issuing the certificate that is adequate to cover the expense. The board by rule may prescribe the terms and conditions under which a candidate who passes part but not all of the examination may retake the examination. It also may provide by rule for a reasonable waiting period for a candidate's reexamination. The applicable educational and experience requirements under division (D) of this section shall be those in effect on the date on which the candidate first sits for the examination. The board shall charge a candidate a reasonable fee, to be determined by the board, that is adequate to cover all rentals, compensation for proctors, and other administrative expenses of the board related to examination or reexamination, including the expenses of procuring and grading the examination provided for in division (E) of this section and for any special examinations for a waiver of the educational requirements under division (D)(1)(a) or (b) of this section. Fees for reexamination under division (E) of this section shall be charged by the board in amounts determined by it. The applicable fees shall be paid by the candidate at the time the candidate applies for examination or reexamination. Any person who has received from the board a certificate as a certified public accountant and who holds an Ohio permit shall be styled and known as a “certified public accountant” and also may use the abbreviation “CPA.” The board shall maintain a list of certified public accountants. Any certified public accountant also may be known as a “public accountant.”

Persons who, on the effective date of an amendment of this section, held certified public accountant certificates previously issued under the laws of this state shall not be required to obtain additional certificates under this section but shall otherwise be subject to all provisions of this section, and those previously issued certificates, for all purposes, shall be considered certificates issued under this section and subject to its provisions. The board may waive the examination under division (E) of this section and, upon payment of a fee determined by it, may issue a certificate as a “certified public accountant” to any person who possesses the qualifications specified in divisions (A), (B), and (C) of this section and what the board determines to be substantially the equivalent of the applicable qualifications under division (D) of this section and who is the holder of a certificate as a certified public accountant, then in full force and effect, issued under the laws of any state, or is the holder of a certificate, license, or degree in a foreign country that constitutes a recognized qualification for the practice of public accounting in that country, that is comparable to that of a certified public accountant of this state, and that is then in full force and effect.

Effective Date: 09-29-1999
4701.061 Alternative requirements for CPA certificate.

Notwithstanding anything to the contrary in section 4701.06 of the Revised Code, the accountancy board shall grant a certificate of “certified public accountant” to any public accountant who meets all the following requirements:

(A) The public accountant applies to the board for the certificate under this section.

(B) At the time of application and the time that the certificate is granted, the public accountant holds an Ohio permit.

(C) At the time of application, any public accounting firm that employs the public accountant or in which the public accountant has an interest is registered and meets the applicable peer review requirements of the board under section 4701.04 of the Revised Code.

(D) For not less than one hundred twenty months, the public accountant has held an Ohio permit and has completed and reported to the board all applicable continuing education hours required by section 4701.11 of the Revised Code and the rules adopted pursuant to that section.

Effective Date: 03-30-1999

4701.07 Requirements for public accountant registration.

The accountancy board shall register as a public accountant any person who meets all the following requirements:

(A) The person is a resident of this state or has a place of business in this state.

(B) The person has attained the age of eighteen years.

(C) The person is of good moral character.

(D) The person holds a baccalaureate or higher degree conferred by a college or university recognized by the board, with a concentration in accounting, or with what the board determines to be substantially the equivalent of the foregoing; or with a nonaccounting concentration supplemented by what the board determines to be substantially the equivalent of an accounting concentration, including related courses in other areas of business administration. The board may waive the educational requirement for any candidate if it finds that the candidate has attained the equivalent education by attendance at a business school or two-year college, by self-study, or otherwise, and if it is satisfied from the result of a special written examination that the board gives the candidate to test the candidate’s educational qualifications that the candidate is as well equipped, educationally, as if the candidate met the applicable educational requirement specified in this division. The board may provide by rule for the general scope of these examinations and may obtain any advice and assistance that it considers appropriate to assist it in preparing and grading the special examinations. The board may use any existing examinations or may prepare any number of new examinations to assist it in determining the equivalent training of a candidate. The board by rule may prescribe the special examinations and the passing score required for each examination.
(E) The person has completed two years of public accounting experience, satisfactory to the board, in any state in practice as a public accountant or in any state in employment as a staff accountant by anyone practicing public accounting, or other experience in private or governmental accounting that, in the opinion of the board, will be the equivalent of that public accounting practice, or any combination of those types of experience, except that the experience requirement is only one year of the experience described in this division for any candidate holding a master’s degree in accounting or business administration from a college or university recognized by the board, if the candidate has satisfactorily completed the number of credit hours in accounting, business administration, economics, and any related subjects that the board determines to be appropriate and if either of the following applies:

(1) The person has passed the uniform national society of public accountants examination or a comparable examination approved by the public accountant members of the accountancy board.

(2) The person has passed the accounting practice and auditing sections of the uniform CPA examination. The examination described in division (E)(1) of this section shall be held by the board and shall take place as often as the board determines but shall not be held less frequently than once each year. The board shall charge a candidate an application fee, to be determined by the board, that is adequate to cover all rentals, compensation for proctors, and other expenses of the board related to examination or reexamination except the expenses of procuring and grading the examination. In addition, the board shall charge the candidate an examination fee to be determined by the board, that is adequate to cover the expense of procuring and grading the examination. Fees for reexamination under division (E) of this section also shall be charged by the board in amounts determined by it to be adequate to cover the expenses of procuring and grading the examinations. The applicable fees shall be paid by the candidate at the time the candidate applies for examination or reexamination.

(F) The person applied, on or before April 16, 1993, for registration as a public accountant. The board shall determine and charge a fee for registration under this section that is adequate to cover the expense. The board in each case shall determine whether the applicant is eligible for registration. Any individual who is so registered and who holds an Ohio permit shall be styled and known as a “public accountant” and may use the abbreviation “PA.”

A person who, on the effective date of an amendment of this section, holds a valid registration as a public accountant issued under the laws of this state shall not be required to obtain additional registration under this section but shall otherwise be subject to all provisions of this section. That registration, for all purposes, shall be considered a registration issued under this section and subject to its provisions.

Effective Date: 03-30-1999

4701.08 License applicant to comply with RC Chapter 4776.

(A) As used in this section, “license” and “applicant for an initial license” have the same meanings as in section 4776.01 of the Revised Code, except that “license” as used in both of those terms refers to the types of authorizations otherwise issued or conferred under this chapter.
(B) In addition to any other eligibility requirement set forth in this chapter, each applicant for an initial license shall comply with sections 4776.01 to 4776.04 of the Revised Code. The accountancy board shall not grant a license to an applicant for an initial license unless the applicant complies with sections 4776.01 to 4776.04 of the Revised Code and the board, in its discretion, decides that the results of the criminal records check do not make the applicant ineligible for a license issued pursuant to section 4701.06, 4701.061, 4701.07, 4701.09, or 4701.10 of the Revised Code.

Effective Date: 04-16-1993; 2007 HB104 03-24-2008

4701.09 Foreign applicants.

The accountancy board may, in its discretion, upon the payment of a fee not to exceed seventy-five dollars, permit the registration of any person of good moral character who is the holder of a certificate, license, or degree in a foreign country constituting a recognized qualification for the practice of public accounting in such country. A person so registered shall use only the title under which he is generally known in his own country, followed by the name of the country from which he received his certificate, license, or degree.

Effective Date: 09-30-1974

4701.10 Issuing permits to practice.

(A) The accountancy board, upon application, shall issue Ohio permits to practice public accounting to holders of the CPA certificate or the PA registration. Subject to division (H)(1) of this section, there shall be a triennial Ohio permit fee in an amount to be determined by the board not to exceed one hundred fifty dollars. All Ohio permits shall expire on the last day of December of the year assigned by the board and, subject to division (H)(1) of this section, shall be renewed triennially for a period of three years by certificate holders and registrants in good standing upon payment of a triennial renewal fee not to exceed one hundred fifty dollars.

(B) The accountancy board may issue Ohio registrations to holders of the CPA certificate and the PA registration who are not engaged in the practice of public accounting. Such persons shall not convey to the general public that they are actively engaged in the practice of public accounting in this state. Subject to division (H)(1) of this section, there shall be a triennial Ohio registration fee in an amount to be determined by the board but not exceeding fifty-five dollars. All Ohio registrations shall expire on the last day of December of the year assigned by the board and, subject to division (H)(1) of this section, shall be renewed triennially for a period of three years upon payment by certificate holders and registrants in good standing of a renewal fee not to exceed fifty-five dollars.

(C) Any person who receives a CPA certificate and who applies for an initial Ohio permit or Ohio registration more than sixty days after issuance of the CPA certificate may, at the board’s discretion, be subject to a late filing fee not exceeding one hundred dollars.

(D) Any person to whom the board has issued an Ohio permit who is engaged in the practice of public accounting and who fails to renew the permit by the expiration date shall be subject to a late filing fee not exceeding one hundred dollars for each full month or part of a month after the expiration date in which such person did not possess a permit, up to a maximum of one thousand two hundred
dollars. The board may waive or reduce the late filing fee for just cause upon receipt of a written request from such person.

(E) Any person to whom the board has issued an Ohio permit or Ohio registration who is not engaged in the practice of public accounting and who fails to renew the permit or registration by the expiration date shall be subject to a late filing fee not exceeding fifty dollars for each full month or part of a month after the expiration date in which such person did not possess a permit or registration, up to a maximum of three hundred dollars. The board may waive or reduce the late filing fee for just cause upon receipt of a written request from such person.

(F) Failure of a CPA certificate holder or PA registration holder to apply for either an Ohio permit or an Ohio registration within one year from the expiration date of the Ohio permit or Ohio registration last obtained or renewed, or one year from the date upon which the CPA certificate holder was granted a CPA certificate, shall result in suspension of the CPA certificate or PA registration until all fees required under divisions (D) and (E) of this section have been paid, unless the board determines the failure to have been due to excusable neglect. In that case, the fee for the issuance or renewal of the Ohio permit or Ohio registration, as the case may be, shall be the amount that the board shall determine, but not in excess of fifty dollars plus the fee for each triennial period or part of a period the certificate holder or registrant did not have either an Ohio permit or an Ohio registration.

<table>
<thead>
<tr>
<th>Board Action &amp; Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Failure to Renew Individual CPA License within One Year</strong></td>
</tr>
<tr>
<td><strong>Minimum Penalty</strong> – CPA Certificate placed in administrative suspension until all late filing fees are paid.</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Applicable only if additional violation is found.</td>
</tr>
</tbody>
</table>

(G) The board by rule may exempt persons from the requirement of holding an Ohio permit or Ohio registration for specified reasons, including, but not limited to, retirement, health reasons, military service, foreign residency, or other just cause.

(H)(1) The board by rule:

(a) May provide for the issuance of Ohio permits and Ohio registrations for less than three years’ duration at prorated fees;

(b) Shall add a surcharge to the Ohio permit and Ohio registration fee imposed pursuant to this section of at least fifteen dollars but no more than thirty dollars for a three-year Ohio permit or Ohio registration, at least ten dollars but no more than twenty dollars for a two-year Ohio permit or Ohio registration, and at least five dollars but no more than ten dollars for a one-year Ohio permit or Ohio registration.

(2) Each quarter, the board, for the purpose provided in section 4743.05 of the Revised Code, shall certify to the director of budget and management the number of Ohio permits and Ohio registrations issued or renewed under this chapter during the preceding quarter and the amount equal to that number times the amount of the surcharge added to each Ohio permit and Ohio registration fee by the board under division (H)(1) of this section.
4701.11 Continuing education.

The accountancy board may adopt rules requiring that each applicant for an Ohio permit shall have demonstrated to the satisfaction of the board that the applicant has maintained a high level of professional competence by the completion of programs of continuing education satisfactory to the board during the period immediately prior to the application for the permit. The board shall not require more than one hundred twenty hours of those programs over any three-year period for applicants possessing an Ohio permit. For purposes of this section, the board shall not approve any continuing education courses for which fees are charged and that are sponsored by an accounting association in this state unless those courses are open to all persons registered or certified under this chapter and unless the fees charged are reasonable for all persons desiring to take the courses. The board may issue an Ohio permit for less than three years to any person who is unable to complete continuing education hours required for renewal of a triennial Ohio permit for good cause, as established by rule. The Ohio permit shall be conditioned upon the completion of all required continuing education hours during the period for which the Ohio permit is issued.

Effective Date: 03-30-1999

4701.12 Advertisements.

The display or uttering by a person of a card, sign, advertisement, or other printed, engraved, or written instrument or device, bearing a person’s name in conjunction with the words “certified public accountant” or any abbreviation of those words, or “public accountant” or any abbreviation of those words, shall be prima-facie evidence in any action brought under section 4701.18 or 4701.99 of the Revised Code that the person whose name is so displayed caused or procured the display or uttering of that card, sign, advertisement, or other printed, engraved, or written instrument or device, and that the person is holding self out to be a certified public accountant or a public accountant holding an Ohio permit. In any action, evidence of the commission of a single act prohibited by this section shall be sufficient to justify an injunction or a conviction without evidence of a general course of conduct.

Effective Date: 03-30-1999

4701.13 Publication of annual register.

The accountancy board shall publish annually a printed register. The printed register shall contain in separate lists the names and business addresses of all certified public accountants and public accountants holding Ohio permits as of the date of preparation of the register.

Effective Date: 03-30-1999

4701.14 Unauthorized practice.

(A) Except as permitted by rules adopted by the accountancy board, no individual shall assume or use the title or designation “certified public accountant,” “certified accountant,” “chartered accountant,” “enrolled accountant,” “licensed accountant,” or “registered accountant,” or any other title or designation likely to be confused with “certified public accountant,” or any of the abbreviations
“CPA,” “PA,” “CA,” “EA,” “LA,” or “RA,” or similar abbreviations likely to be confused with “CPA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the individual is a certified public accountant, unless the individual holds a CPA certificate and holds an Ohio permit. However, an individual who possesses a foreign certificate, has registered under section 4701.09 of the Revised Code, and holds an Ohio permit may use the title permitted under the laws of the individual’s other licensing jurisdiction, followed by the name of the jurisdiction.

<table>
<thead>
<tr>
<th>Board Action &amp; Penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unlawful Practice – Suspended Certified Public Accountant</strong></td>
</tr>
<tr>
<td><strong>Minimum Penalty</strong> – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $2,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners. Penalty assumed to be maximum unless mitigating circumstances are applicable.</td>
</tr>
</tbody>
</table>

| **Unlawful Practice-Unlicensed Individual or Firm** |
| File charges against respondent with appropriate local prosecutor or police department. |

| **Unlawful Practice – Failure to Obtain an Ohio Permit** |
| **Minimum Penalty** – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8]. |
| **Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners. |

(B) Except as permitted by rules adopted by the board, no individual shall assume or use the title or designation “public accountant,” “certified public accountant,” “certified accountant,” “chartered accountant,” “enrolled accountant,” “registered accountant,” or any other title or designation likely to be confused with “public accountant,” or any of the abbreviations “PA,” “CPA,” “CA,” “EA,” “LA,” or “RA,” or similar abbreviations likely to be confused with “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the individual is a public accountant, unless the individual holds a PA registration and holds an Ohio permit, or unless the individual holds a CPA certificate. An individual who holds a PA registration and an Ohio permit may hold self out to the public as an “accountant” or “auditor.”

(C) Except as provided in divisions (C)(1), (2), (3), and (4) of this section, no partnership, professional association, corporation-for-profit, limited liability company, or other business organization not addressed in this section that is practicing public accounting in this state shall assume or use the title or designation “certified public accountant,” “public accountant,” “certified accountant,” “chartered accountant,” “enrolled accountant,” “licensed accountant,” “registered accountant,” or any other title or designation likely to be confused with “certified public accountant” or “public accountant,” or any of the abbreviations “CPA,” “PA,” “CA,” “EA,” “RA,” or “LA,” or similar abbreviations likely to be confused with “CPA” or “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the business organization is a public accounting firm.
Unlawful Practice – Former Public Accounting Firm
File charges against respondent with appropriate local prosecutor or police department.

(1)(a) A partnership may assume or use the title or designation “certified public accountant,” the abbreviation “CPA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the partnership is composed of certified public accountants if it is a registered firm, if a majority of its partners who are individuals hold a CPA certificate or a foreign certificate, and if a majority of the owners of any qualified firm that is a partner hold a CPA certificate or a foreign certificate.

(b) A partnership may assume or use the title or designation “public accountant,” the abbreviation “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the partnership is composed of public accountants if it is a registered firm, if a majority of its partners who are individuals hold a PA registration, a CPA certificate, or a foreign certificate, and if a majority of the owners of any qualified firm that is a partner hold a PA registration, a CPA certificate, or a foreign certificate.

(2)(a) A professional association incorporated under Chapter 1785. of the Revised Code may assume or use the title or designation “certified public accountant,” the abbreviation “CPA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the professional association is composed of certified public accountants if it is a registered firm, if a majority of its shareholders who are individuals hold a CPA certificate or a foreign certificate, and if a majority of the owners of any qualified firm that is a shareholder hold a CPA certificate or a foreign certificate.

(b) A professional association incorporated under Chapter 1785. of the Revised Code may assume or use the title or designation “public accountant,” the abbreviation “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the professional association is composed of public accountants if it is a registered firm, if a majority of its shareholders who are individuals hold a PA registration, a CPA certificate, or a foreign certificate, and if a majority of the owners of any qualified firm that is a shareholder hold a PA registration, a CPA certificate, or a foreign certificate.

(3)(a) A corporation-for-profit incorporated under Chapter 1701. of the Revised Code may assume or use the title or designation “certified public accountant,” the abbreviation “CPA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the corporation is composed of certified public accountants if it is a registered firm, if a majority of its shareholders who are individuals hold a CPA certificate or a foreign certificate, and if a majority of the owners of any qualified firm that is a shareholder hold a CPA certificate or a foreign certificate.

(b) A corporation incorporated under Chapter 1701. of the Revised Code may assume or use the title or designation “public accountant,” the abbreviation “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the corporation is composed of public accountants if it is a registered firm, if a majority of the shareholders who are individuals hold a PA registration, a CPA certificate, or a foreign certificate, and if a
majority of the owners of any qualified firm that is a shareholder hold a PA registration, a CPA certificate, or a foreign certificate.

(4)(a) A limited liability company organized under Chapter 1705. of the Revised Code may assume or use the title or designation “certified public accountant,” the abbreviation “CPA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the limited liability company is composed of certified public accountants if it is a registered firm, if a majority of its members who are individuals hold a CPA certificate or a foreign certificate, and if a majority of the owners of any qualified firm that is a member hold a CPA certificate or a foreign certificate.

(b) A limited liability company organized under Chapter 1705. of the Revised Code may assume or use the title or designation “public accountant,” the abbreviation “PA,” or any other title, designation, words, letters, abbreviation, sign, card, or device tending to indicate that the limited liability company is composed of public accountants if it is a registered firm, if a majority of the members who are individuals hold a PA registration, CPA certificate, or a foreign certificate, and if a majority of the owners of any qualified firm that is a member hold a PA registration, a CPA certificate, or a foreign certificate.

(D) No individual shall sign, affix, or associate the individual’s name or any trade or assumed name used by the individual in the individual’s profession or business to any attest report with any wording indicating that the individual is an accountant or auditor, or with any wording accompanying or contained in the attest report that indicates that the individual has expert knowledge in accounting or auditing or expert knowledge regarding compliance with conditions established by law or contract, including, but not limited to, statutes, ordinances, regulations, grants, loans, and appropriations, unless the individual holds an Ohio permit. However, this division does not prohibit any officer, employee, partner, or principal of any organization from affixing the officer’s, employee’s, partner’s, or principal’s signature to any statement or report in reference to the financial affairs of that organization with any wording designating the position, title, or office that the individual holds in that organization. This division also does not prohibit any act of a public official or public employee in the performance of the public official’s or public employee’s duties.

(E) No person shall sign, affix, or associate the name of a partnership, limited liability company, professional association, corporation-for-profit, or other business organization not addressed in this section to any attest report with any wording accompanying or contained in the attest report that indicates that the partnership, limited liability company, professional association, corporation-for-profit, or other business organization is composed of or employs accountants or auditors or persons having expert knowledge in accounting or auditing or expert knowledge regarding compliance with conditions established by law or contract, including, but not limited to, statutes, ordinances, regulations, grants, loans, and appropriations, unless the partnership, limited liability company, professional association, corporation-for-profit, or other business organization is a registered firm.

(F) No individual who does not hold an Ohio permit shall hold self out to the public as an “accountant” or “auditor” by use of either or both of those words on any sign, card, or letterhead, in any advertisement or directory, or otherwise, without indicating on the sign, card, or letterhead, in the advertisement or directory, or in the other manner of holding out that the person does not hold an Ohio permit. An individual who holds a CPA certificate and an Ohio permit may hold self out to the
public as an “accountant” or “auditor.” However, this division does not prohibit any officer, employee, partner, or principal of any organization from describing self by the position, title, or office the person holds in that organization. This division also does not prohibit any act of a public official or public employee in the performance of the public official’s or public employee’s duties.

(G) No partnership, professional association, corporation-for-profit, limited liability company, or other business organization not addressed in this section that is not entitled to assume or use the title “certified public accountant” or “public accountant” under division (C) of this section shall hold itself out to the public as a partnership, professional association, corporation-for-profit, limited liability company, or other business organization not addressed in this section as being composed of or employing “accountants” or “auditors” by use of either or both of those words on any sign, card, or letterhead, in any advertisement or directory, or otherwise, without indicating on the sign, card, or letterhead, in the advertisement or directory, or in the other manner of holding out that the partnership, professional association, corporation-for-profit, limited liability company, or other business organization is not a registered firm and is not permitted by law to practice as a public accounting firm.

(H) No person shall assume or use the title or designation “certified public accountant” or “public accountant” in conjunction with names indicating or implying that there is a partnership or in conjunction with the designation “and Company” or “and Co.” or a similar designation if, in any of those cases, there is in fact no bona fide partnership entitled to designate itself as a partnership of certified public accountants under division (C)(1)(a) of this section or as a partnership of public accountants under division (C)(1)(b) of this section. However, a sole proprietor or partnership that was on October 22, 1959, or a corporation that on or after September 30, 1974, has been, lawfully using a title or designation of those types in conjunction with names or designations of those types, may continue to do so if the sole proprietor, partnership, or corporation otherwise complies with this section.

(I)(1) Notwithstanding any other provision of this chapter, an individual whose principal place of business is not in this state and who holds a valid foreign certificate as a certified public accountant shall be presumed to have qualifications substantially equivalent to this state’s CPA requirements and shall have all of the privileges of a holder of a CPA certificate and an Ohio permit without the need to obtain a CPA certificate and an Ohio permit if the accountancy board has found and has specified in its rules adopted pursuant to division (A) of section 4701.03 of the Revised Code that the CPA requirements of the state that issued the individual’s foreign certificate are substantially equivalent to this state’s CPA requirements.

(2) Any individual exercising the privilege afforded under division (I)(1) of this section hereby consents and is subject, as a condition of the grant of the privilege, to all of the following:

(a) The personal and subject matter jurisdiction of the accountancy board;

(b) All practice and disciplinary provisions of this chapter and the accountancy board’s rules;

(c) The appointment of the board that issued the individual’s foreign certificate as the individual’s agent upon whom process may be served in any action or proceeding by the accountancy board against the individual.
(3) The holder of a CPA certificate and an Ohio permit who offers or renders attest services or uses the holder’s CPA title in another state shall be subject to disciplinary action in this state for an act committed in the other state for which the holder of a foreign certificate issued by the other state would be subject to discipline in the other state.

(4) The holder of a foreign certificate who offers or renders attest services or uses a CPA title or designation in this state pursuant to the privilege afforded by division (I)(1) of this section shall be subject to disciplinary action in this state for any act that would subject the holder of a CPA certificate and an Ohio permit to disciplinary action in this state.

Effective Date: 03-30-1999

4701.15 Employees.

Nothing contained in sections 4701.01 to 4701.19, inclusive, of the Revised Code, shall prohibit any person not a certified public accountant or public accountant from serving as an employee of, or an assistant to, a certified public accountant or public accountant or partnership composed of certified public accountants or public accountants or a foreign accountant registered under section 4701.09 of the Revised Code; provided that such employee or assistant does not issue any accounting or financial statement over his name. Nothing contained in sections 4701.01 to 4701.19, inclusive of the Revised Code, shall prohibit a certified public accountant or a registered public accountant of another state, or any accountant who holds a certificate, degree, or license in a foreign country, constituting a recognized qualification for the practice of public accounting in such country, from temporarily practicing in this state on professional business incident to his regular practice outside the state; provided, that such temporary practice is conducted in conformity with the regulations and rules of professional conduct promulgated by the accountancy board.

Effective Date: 01-10-1961

4701.16 Disciplinary actions.

(A) After notice and hearing as provided in Chapter 119. of the Revised Code, the accountancy board may discipline as described in division (B) of this section a person holding an Ohio permit, an Ohio registration, a firm registration, a CPA certificate, or a PA registration or any other person whose activities are regulated by the board for any one or any combination of the following causes:

(1) Fraud or deceit in obtaining a firm registration or in obtaining a CPA certificate, a PA registration, an Ohio permit, or an Ohio registration;

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**Board Action & Penalties**

<table>
<thead>
<tr>
<th>Continuing Education Verification Violation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimum Penalty</strong> – Correction of violation; Assessment of late fee applicable to the date the licensee completes the continuing education requirement; Administrative Fine [7]- $500 minimum if the licensee complies with the cease and desist order, $1,000 if the licensee does not comply with the cease and desist order, plus Professional Standards and Responsibilities course [8]. The Board may assess an additional fine based upon the number of continuing education credits the respondent lacks-minimum fine $10 for each credit the licensee is short of the required amount.</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation of CPA certificate, particularly if licensee fails to attend hearing.</td>
</tr>
</tbody>
</table>
## Fraud or Deceit in Obtaining Certificate / Permit / Registration (Also applicable to falsification of continuing education reports)

**Minimum Penalty** – Revocation stayed [5]. Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation or application denied [1].

(2) Dishonesty, fraud, or gross negligence in the practice of public accounting;

### Board Action & Penalties

**Dishonesty, Fraud or Gross Negligence in the Practice of Public Accounting**

**Minimum Penalty** – Revocation stayed [5]; Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1].

(3) Violation of any of the provisions of section 4701.14 of the Revised Code;

(4) Violation of a rule of professional conduct promulgated by the board under the authority granted by this chapter;

### Board Action & Penalties

**Willful Violation of a Rule or Regulation Promulgated by the Board**

Minimum/Maximum Penalty – See specific statute or regulation violated for recommended penalty.

**Certified Public Accountant Examination Irregularities**

**Minimum Penalty** – Probationary conditions on initial license (if not yet licensed) or revocation, stayed with conditions (if already licensed); Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Denial of admission to examination or revocation of CPA certificate/license if issued.

**Failure to Notify Board of Change of Address**

**Minimum Penalty** – Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Administrative Fine [7]: $500 minimum.

**Failure to Respond to Board Communication**

**Minimum Penalty** – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.

**Retention of Client Records**

**Minimum Penalty** – Reprimand [6]; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.

**Commissions**

**Minimum Penalty** – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.
<table>
<thead>
<tr>
<th>Violation</th>
<th>Minimum Penalty</th>
<th>Maximum Penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent Fees</td>
<td>Correction of Violation; Administrative Fine - $500 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Report Not Conforming to Professional Standards</td>
<td>Administrative Fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Substandard Peer Review Report</td>
<td>Administrative Fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Unauthorized Disclosure of Confidential Information</td>
<td>Reprimand [6]; Administrative Fine - $500 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation stayed [5].</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>Reprimand [6]; Administrative fine - $500 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Failure to Comply with Professional Standards</td>
<td>Administrative fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Independence</td>
<td>Correction of Violation; Administrative Fine - $500 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1], particularly if licensee fails to attend hearing.</td>
</tr>
<tr>
<td>Fiscal Dishonesty or Breach of Fiduciary Responsibility of any kind</td>
<td>Revocation stayed [5]; Administrative Fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1].</td>
</tr>
<tr>
<td>Knowing Preparation, Publication, or Dissemination of False, Fraudulent, or Materially Misleading Financial Statements, Reports, or Information</td>
<td>Revocation stayed [5]; Administrative Fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1].</td>
</tr>
<tr>
<td>Embezzlement, Theft, Misappropriation of Funds or Property, or Obtaining Money, Property or other Valuable Consideration by Fraudulent Means or False Pretenses</td>
<td>Revocation stayed [5]; Administrative Fine - $1,000 minimum, plus Professional Standards and Responsibilities course.</td>
<td>Revocation [1].</td>
</tr>
</tbody>
</table>

(5) Conviction of a felony under the laws of any state or of the United States;
### Board Action & Penalties

**Conviction of a Felony unrelated to the practice of a CPA**
- **Minimum Penalty** – Revocation stayed [5]; Administrative Fine [7]—$1,000 minimum, plus Professional Standards and Responsibilities course [8].
- **Maximum Penalty** – Revocation [1].

(6) Conviction of any crime, an element of which is dishonesty or fraud, under the laws of any state or of the United States;

**Conviction of any Crime Substantially Related to the Qualifications, Functions, and Duties of a CPA / PA (involving dishonesty or fraud)**
- **Minimum Penalty** – Revocation stayed [5]; Administrative fine [7]—$1,000 minimum, plus Professional Standards and Responsibilities course [8].
- **Maximum Penalty** – Revocation [1].

(7) Cancellation, revocation, suspension, or refusal to renew authority to practice as a certified public accountant, a public accountant, or a public accounting firm by any other state, for any cause other than failure to pay registration fees in that other state;

**Cancellation, Revocation, or Suspension of CPA certificate by any other State or Foreign Country**
- **Minimum Penalty** – Revocation stayed [5]; Administrative Fine [7]—$1,000 minimum, plus Professional Standards and Responsibilities course [8].
- **Maximum Penalty** – Revocation [1].

(8) Suspension or revocation of the right to practice before any state or federal agency;

**Suspension or Revocation of the Right to Practice before any Governmental Body or Agency**
- **Minimum Penalty** – Revocation stayed [5]; Administrative Fine [7]—$1,000 minimum, plus Professional Standards and Responsibilities course [8].
- **Maximum Penalty** – Revocation [1].

(9) Failure of a holder of a CPA certificate or PA registration to obtain an Ohio permit or an Ohio registration, or the failure of a public accounting firm to obtain a firm registration;

**Failure to Renew Firm Registration – Attest Firms**
- **Minimum Penalty** – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $2,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].
- **Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.

Renewal deadline without late fee (renewal fee $30): October 31
August 1-January 31: Late fee (Late fees: $150 for firms with 1-4 CPAs; $360 for firms with 5-9 CPAs; $900 for firms with 10+ CPAs)
After January 31: Late fee (Late fees: $300 for firms with 1-4 CPAs; $720 for firms with 5-9 CPAs; $1,800 for firms with 10+ CPAs)

**Failure to Renew Firm Registration – Attest Firms**

**Minimum Penalty** – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $2,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.

Renewal deadline without late fee (renewal fee $30): October 31
August 1-January 31: Late fee (Late fees: $150 for firms with 1-4 CPAs; $360 for firms with 5-9 CPAs; $900 for firms with 10+ CPAs)
After January 31: Late fee (Late fees: $300 for firms with 1-4 CPAs; $720 for firms with 5-9 CPAs; $1,800 for firms with 10+ CPAs)

**Failure to Renew Individual CPA License within One Year**

**Minimum Penalty** – CPA Certificate placed in administrative suspension until all late filing fees are paid.

**Maximum Penalty** – Applicable only if additional violation is found.

(10) Conduct discreditable to the public accounting profession or to the holder of an Ohio permit, Ohio registration, or foreign certificate;

### Board Action & Penalties

**Certification of Applicant’s Experience by an Unlicensed CPA**

**Minimum Penalty** – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing

**Failure to Comply with Board Disciplinary Order**

**Minimum Penalty** - Compliance with Board Order; Administrative Fine-minimum $500, plus Professional Standards and Responsibilities course [8] if not already completed.

**Maximum Penalty** - Revocation stayed [5] until completion of all penalties. Penalty assumed to be minimum unless aggravating circumstances are applicable

**Unlawful Advertising**

**Minimum Penalty** – Correction of Violation; Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.

**Fiscal Dishonesty or Breach of Fiduciary Responsibility of any kind**

Minimum Penalty – Revocation stayed [5]; Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].

Maximum Penalty – Revocation [1].

**Knowing Preparation, Publication, or Dissemination of False, Fraudulent, or Materially Misleading Financial Statements, Reports, or Information**

Minimum Penalty – Revocation stayed [5]; Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1].
Embezzlement, Theft, Misappropriation of Funds or Property, or Obtaining Money, Property or other Valuable Consideration by Fraudulent Means or False Pretenses
Minimum Penalty – Revocation stayed [5]; Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].
Maximum Penalty – Revocation [1].

Conduct discreditable to the public accounting profession or to the holder of an Ohio permit, Ohio registration, or firm registration
Minimum Penalty – Revocation stayed [5]; Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].
Maximum Penalty – Revocation [1].

(11) Failure of a public accounting firm to comply with section 4701.04 of the Revised Code.

<table>
<thead>
<tr>
<th>Board Action &amp; Penalties</th>
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</thead>
<tbody>
<tr>
<td><strong>Failure to Renew Firm Registration – Attest Firms</strong></td>
</tr>
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| **Failure to Obtain Professional Liability Insurance** |
| Minimum Penalty – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8]. |
| Maximum Penalty – Revocation [1], particularly if licensee fails to attend hearing. |

| **Failure of a Public Accounting Firm to Inform the Board of an Adverse or Second Modified Peer Review Report** |
| Minimum Penalty – Compliance with Board Order; Administrative Fine-minimum $2,500, plus Professional Standards and Responsibilities course [8]. |
| Maximum Penalty – Revocation of firm registration. Penalty assumed to be minimum unless aggravating circumstances are applicable. |
Ohio Rules

Substandard Peer Review Report

Minimum Penalty – Administrative Fine [7]-$1,000 minimum, plus Professional Standards and Responsibilities course [8].

Maximum Penalty – Revocation [1], particularly if licensee fails to attend hearing.

(B) For any of the reasons specified in division (A) of this section, the board may do any of the following:

1. Revoke, suspend, or refuse to renew any CPA certificate or PA registration or any Ohio permit, Ohio registration, or firm registration;

2. Disqualify a person who is not a holder of an Ohio permit or a foreign certificate from owning an equity interest in a public accounting firm or qualified firm;

3. Publicly censure a registered firm or a holder of a CPA certificate, a PA registration, an Ohio permit, or an Ohio registration;

4. Levy against a registered firm or a holder of a CPA certificate, a PA registration, an Ohio permit, or an Ohio registration a penalty or fine not to exceed five thousand dollars for each offense. Any fine shall be reasonable and in relation to the severity of the offense.

5. In the case of violations of division (A)(2) or (4) of this section, require completion of remedial continuing education programs prescribed by the board in addition to those required by section 4701.11 of the Revised Code;

6. In the case of violations of division (A)(2) or (4) of this section, require the holder of a CPA certificate, PA registration, or firm registration to submit to a peer review by a professional committee designated by the board, which committee shall report to the board concerning that holder’s compliance with generally accepted accounting principles, generally accepted auditing standards, or other generally accepted technical standards;

7. Revoke or suspend the privileges to offer or render attest services in this state or to use a CPA title or designation in this state of an individual who holds a foreign certificate.

(C) If the board levies a fine against or suspends the certificate of a person or registration of a person or firm for a violation of division (A)(2) or (4) of this section, it may waive all or any portion of the fine or suspension if the holder of the CPA certificate, PA registration, or firm registration complies fully with division (B)(5) or (6) of this section.

Effective Date: 09-05-2001

4701.17 Reissuance of revoked certificate.

Upon application in writing and after hearing pursuant to notice, the accountancy board may reissue or reinstate a certificate to a certified public accountant whose certificate has been revoked or suspended or reregister anyone whose registration has been revoked or suspended. The board may require a reasonable waiting period, commensurate with the offense, before a certificate holder or registrant
whose certificate or registration has been revoked or suspended may apply to have the certificate or registration reissued or reinstated. The board may require compliance with any or all requirements of section 4701.06 of the Revised Code, including the taking of any examination described in division (E) of that section as a prerequisite for recertification. The board may require compliance with any or all of the requirements of section 4701.07 of the Revised Code, including the taking of any examination described in division (E) of that section as a prerequisite for reregistration.

Effective Date: 10-22-1980

4701.18 Injunctions.

Whenever in the judgment of the accountancy board any person has engaged, or is about to engage, in any acts or practices which constitute, or will constitute, a violation of section 4701.14 of the Revised Code, the board may make application to the appropriate court for an order enjoining such acts or practices, and upon a showing by the board that such person has engaged, or is about to engage, in any such acts or practices, an injunction, restraining order, or such other order as may be appropriate shall be granted by such court without bond.

Effective Date: 01-10-1961

4701.19 Records.

(A) All statements, records, schedules, working papers, and memoranda made by a certified public accountant or public accountant incident to or in the course of professional service to clients by the accountant, except reports submitted by a certified public accountant or public accountant to a client, shall be and remain the property of the accountant in the absence of an express agreement between the accountant and the client to the contrary. No statement, record, schedule, working paper, or memorandum of that nature shall be sold, transferred, or bequeathed without the consent of the client or the client’s personal representative or assignee to any person other than one or more surviving partners or new partners of the accountant.

(B) The statements, records, schedules, working papers, and memoranda made by a certified public accountant or public accountant incident to or in the course of performing an audit of a public office or private entity, except reports submitted by the accountant to the client, are not a public record. Statements, records, schedules, working papers, and memoranda that are so made in an audit by a certified public accountant or public accountant and that are in the possession of the auditor of state also are not a public record. As used in this division, “public record” has the same meaning as in section 149.43 of the Revised Code.

Effective Date: 03-30-1999

4701.20 Depositing receipts.

All receipts of the accountancy board shall be deposited in the state treasury to the credit of the occupational licensing and regulatory fund, except that any payment made to the board in connection with an application for examination or for a permit, registration, or certificate shall be deposited only after the board approves the application. In the event the application is not approved, the board shall
return the payment to the applicant. All vouchers of the board shall be approved by the board president or executive secretary, or both, as authorized by the board.

Effective Date: 09-16-1998

4701.21 Fees in excess of statutory amounts.

The accountancy board, subject to the approval of the controlling board and except for fees required to be established by the board at amounts “adequate” to cover designated expenses, may establish fees in excess of the amounts provided in sections 4701.01 to 4701.99 of the Revised Code, provided that such fees do not exceed the amounts permitted by these sections by more than fifty per cent.

Effective Date: 07-01-1982

4701.22 Written examination designed to determine competency.

Whenever any statute, regulation or rule requires that any report, financial statement, or document for any department, division, board, commission, or agency of this state or any political subdivision thereof be prepared by a certified public accountant, such requirement shall be construed to mean public accountant or certified public accountant. Except that to certify financial statements for qualification of contractors for the department of transportation, a public accountant holding a valid registration issued in this state must have certified a financial statement submitted to the department of transportation by an applicant contractor for the previous year, or furnish evidence that he has received a passing score as the result of a written examination designed to determine competency, prescribed and administered by the accountancy board of Ohio.

Effective Date: 09-30-1974

4701.26 Certified public accountant education assistance program - fund.

(A) As used in this section:

(1) “Accounting education program” means a course of study that satisfies the requirements set forth in rules adopted by the accountancy board.

(2) “Enrolls” or “enrolled” means that the scholarship applicant has registered for classes and has paid at least a portion of the tuition or fees.

(3) “Fifth year” means any time after an applicant’s completion of a minimum number of semester or quarter hours as prescribed by the board by rule.

(4) “Other students” means students who demonstrate a financial need as determined by the certified public accountant education assistance advisory committee.

(B) The accountancy board shall establish the certified public accountant education assistance program, the purpose of which is to provide, on and after January 1, 1998, scholarships to minority
and other students enrolled in their fifth year of an accounting education program at institutions approved by the board by rule adopted in accordance with Chapter 119. of the Revised Code.

(C) There is hereby created in the state treasury the certified public accountant education assistance fund, which shall consist of all money transferred to it pursuant to section 4743.05 of the Revised Code and all investment earnings of the fund. The fund shall be used by the board to provide scholarships and to pay costs related to the administration of the program in accordance with division (B) of this section.

(D) The board shall adopt rules in accordance with Chapter 119. of the Revised Code to establish all of the following:

(1) Eligibility criteria for receipt of a scholarship;

(2) Scholarship application procedures;

(3) The amounts in which scholarships may be provided and the total amount that may be provided to an individual;

(4) The total amount of scholarships that can be made each year;

(5) The percentage of the money in the fund that must remain in the fund at all times as a fund balance;

(6) The means by which the program may be used to recruit individuals, including high school students, who are members of minority groups to enter an accounting education program or the accounting profession;

(7) The means by which other matters incidental to the operation of the program may be approved, including the authorization of necessary expenses incurred in the operation of the program.

(E) The receipt of a scholarship under this section shall not affect a student’s eligibility for any other assistance, or the amount of that assistance, but the rules of the board may provide for taking other assistance received into consideration when determining a student’s eligibility for a scholarship under this section.

Effective Date: 12-02-1996

4701.27 [Repealed].

Effective Date: 12-02-1996

4701.28 Effect of child support default on certificate or permit.

On receipt of a notice pursuant to section 3123.43 of the Revised Code, the accountancy board shall comply with sections 3123.41 to 3123.50 of the Revised Code and any applicable rules adopted under
section 3123.63 of the Revised Code with respect to a certificate or permit issued pursuant to this chapter.

Effective Date: 03-22-2001

4701.29 Conduct of investigations.

(A) The accountancy board may investigate whether a person has violated any provision of this chapter or rule adopted under it before commencing a disciplinary proceeding pursuant to section 4701.16 of the Revised Code or taking legal action pursuant to section 4701.18 of the Revised Code. An investigation under this section is not subject to Chapter 119. of the Revised Code. The board may appoint a committee of board members or staff employed by the board to conduct an investigation. notwithstanding any statute or rule to the contrary, a board member who participates in an investigation may participate actively in any hearing or proceeding to the same extent as a board member who did not participate in the investigation.

(B) During an investigation, the board may administer oaths, order the taking of depositions, issue subpoenas, compel the attendance and testimony of a person at a deposition, and compel the production of any form of documentary evidence or record. Subpoenas and orders to compel under this section may be served by a designee of the board or by certified mail, return receipt requested, to the residence or place of business of the individual, professional association, firm, corporation, partnership, sole proprietorship, limited liability company, or other business organization named in the subpoena or order.

(C)(1) Any witness who appears in response to a subpoena of the board may request, and shall receive within a reasonable time after making the request, the fees and mileage provided for under section 119.094 of the Revised Code.

(2) If a person fails to comply with a subpoena or order issued by the board under this section, the board may apply to the Franklin county court of common pleas for an order compelling compliance with the board’s subpoena or order. Upon application by the board and upon evidence of the person’s failure to comply, the court shall compel the appearance of the persons or the production of the documents named in the board’s subpoena or order in accordance with the Rules of Civil Procedure. The court also may issue any contempt citation and sanction the court deems appropriate.

(D) The investigative proceedings of the board under this section are not a public record under section 149.43 of the Revised Code, are confidential, and are not subject to discovery in any civil or administrative action or proceeding.

Effective Date: 03-30-1999; 2008 HB525 07-01-2009

4701.99 Penalty.

Whoever violates section 4701.14 of the Revised Code is guilty of a misdemeanor of the first degree.

Effective Date: 09-30-1974
Chapter 4701-11: Ohio State Board of Accountancy Ethics Standards

4701-11-01 Independence.

(A) An Ohio permit holder shall be independent in the performance of audits of public companies as required by applicable standards issued by the “Securities and Exchange Commission” and published on that agency’s website (www.sec.gov).

(B) An Ohio permit holder shall be independent in the performance of professional services for government agencies and entities receiving significant federal financial assistance as required by applicable standards issued by the “Comptroller General of the United States” and published on the “Government Accountability Office” website (www.gao.gov).

(C) An Ohio permit holder shall be independent in the performance of professional services, excluding those referenced in paragraph (A) or (B) of this rule, as required by the “Code of Professional Conduct” issued by the “American Institute of Certified Public Accountants” and published on that organization’s website (www.aicpa.org).

Effective: 09/14/2007
R.C. 119.032 review dates: 06/29/2007 and 09/14/2012
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03
Prior Effective Dates: 1/17/75, 9/19/94, 8/5/99, 10/22/04

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Independence</strong></td>
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<tr>
<td>Minimum Penalty – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].</td>
</tr>
<tr>
<td>Maximum Penalty – Revocation [1], particularly if licensee fails to attend hearing.</td>
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</table>

4701-11-02 Confidential client information.

(A) An Ohio permit holder shall not disclose any confidential information obtained in the course of a professional engagement except with the consent of the client.

(B) This rule shall not be construed:

1. To relieve an Ohio permit holder of the obligation to comply with Chapter 4701-9 of the Administrative Code,

2. To affect in any way the compliance with a validly issued subpoena or summons enforceable by order of a court,

3. To prohibit review of the professional practice of an Ohio permit holder as part of a peer review, or...
(4) To preclude an Ohio permit holder from responding to any inquiry made by the professional ethics committee or trial board of a professional accounting organization of which the Ohio permit holder is a member, by a duly constituted investigative or disciplinary body of a state CPA society, or under state statutes.

(C) Members of the accountancy board, a professional accounting organization ethics committee or trial board described in paragraph (B)(4) of this rule, as well as professional practice reviewers, shall not disclose any confidential client information which comes to their attention in disciplinary proceedings or otherwise in carrying out their official responsibilities. However, this prohibition shall not restrict the exchange of information with an aforementioned duly constituted investigative or disciplinary body.

Effective: 04/28/2011
R.C. 119.032 review dates: 02/10/2011 and 04/28/2016
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03
Prior Effective Dates: 1/17/75, 9/22/93, 1/1/99, 8/5/99, 10/22/04

<table>
<thead>
<tr>
<th>Unauthorized Disclosure of Confidential Information</th>
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</thead>
<tbody>
<tr>
<td>Minimum Penalty – Reprimand [6]; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].</td>
</tr>
<tr>
<td>Maximum Penalty – Revocation stayed [5].</td>
</tr>
</tbody>
</table>

4701-11-03 Contingent fees.

(A) An Ohio permit holder or registered firm shall not:

(1) Practice public accounting for a contingent fee for, or receive such a fee from, a client for whom any of the following professional engagements are performed:

(a) An audit or review of a financial statement.

(b) A compilation of a financial statement when the Ohio permit holder expects, or reasonably might expect, that a third party may use the financial statement and if the Ohio permit holder’s compilation report does not disclose a clear lack of independence.

(c) A report in accordance with the attestation standards defined in rule 4701-9-05 of the Administrative Code.

(d) An agreed-upon-procedures report on a financial statement.

(2) Prepare an original or amended tax return or claim for a tax refund for a contingent fee.

(B) The prohibitions outlined in paragraph (A)(1) of this rule apply during the period in which the Ohio permit holder or the Ohio permit holder’s registered firm is engaged to perform any of the services
described in paragraphs (A)(1)(a), (A)(1)(b), or (A)(1)(c) of this rule, as well as during any period covered by any historical financial statements associated with those services.

(C) A contingent fee is a fee established for the performance of any service pursuant to an agreement in which no fee will be charged unless a specified finding or result is attained, or in which the amount of the fee is otherwise dependent upon the finding or result of such service. However, an Ohio permit holder’s fees may vary depending, for example, on the complexity of the services rendered.

(D) Fees are not regarded as being contingent if fixed by courts or other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

Eff 1-17-75; 11-3-93; 8-5-99; 10-22-04
Rule promulgated under: RC 119.03
Rule authorized by: RC 4701.03
Rule amplifies: RC 4701.03
R.C. 119.032 review dates: 08/06/2004 and 10/22/2009

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**Board Action & Penalties**

**Contingent Fees**

**Minimum Penalty** – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.

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**4701-11-04 Commissions and referral fees.**

(A) An Ohio permit holder shall not, for a commission, recommend or refer to a client any product or service, nor shall the Ohio permit holder, for a commission, recommend or refer any product or service to be supplied by a client, nor shall the Ohio permit holder receive a commission when the Ohio permit holder or the Ohio permit holder’s registered firm concurrently performs for that client any of the following professional services:

(1) An audit or review of a financial statement.

(2) A compilation of a financial statement when the Ohio permit holder expects, or reasonably might expect, that a third party may use the financial statement where the Ohio permit holder’s compilation report does not disclose a lack of independence.

(3) An attestation engagement defined in rule 4701-9-05 of the Administrative Code.

(B) The prohibitions outlined in paragraph (A) of this rule apply during the period in which the Ohio permit holder is engaged to perform any of the services described in paragraph (A) of this rule as well as during any period covered by any historical financial statements involved with those services.

(C) An Ohio permit holder who is not prohibited by this rule from performing services for or receiving a commission from a client and who is paid or expects to be paid a commission by the client shall
disclose that fact to any person or entity to whom the Ohio permit holder recommends or refers a product or service to which the commission relates.

(D) Any Ohio permit holder who accepts a referral fee for recommending or referring any services of an Ohio permit holder to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

(E) A commission is compensation for recommending or referring any product or service to be supplied by another person. A referral fee is compensation for recommending or referring any service of an Ohio permit holder to any person.

Effective: 04/28/2011
R.C. 119.032 review dates: 02/10/2011 and 04/28/2016
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03
Prior Effective Dates: 1/17/75, 11/3/93, 8/5/99, 10/22/04

### Board Action & Penalties

**Commissions**

**Minimum Penalty** – Correction of Violation; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].

**Maximum Penalty** – Revocation [1], particularly if licensee fails to attend hearing.

4701-11-05 Form of practice and name.

(A) An Ohio permit holder may practice public accounting, whether as an owner or employee, only in the form of a sole proprietorship, a partnership, limited liability company, professional association, corporation, or other legal entity whose characteristics conform to the Revised Code and rules of the board.

(B) A public accounting firm shall not practice using any name that is misleading to the public with respect to either the size of the firm or the type of services provided.

(C) Names of one or more retired or deceased partners, shareholders or members may be included in the registered firm name of a successor public accounting firm.

(D) A public accounting firm that uses a fictitious name must register that name with the board.

Replaces: 4701-11-05
Effective: 09/14/2007
R.C. 119.032 review dates: 09/14/2012
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03
Prior Effective Dates: 1/17/75, 9/1/78, 9/19/94, 8/5/99, 10/22/04
4701-11-06 Retention of client records.

(A) If a client makes a written request for records from a registered firm or Ohio permit holder, the registered firm or Ohio permit holder shall comply with the request within thirty days after receipt of the request. The thirty-day deadline may be extended by the board if the registered firm or Ohio permit holder requests an extension of time in accordance with paragraph (I) of this rule.

(B) A client’s records are any accounting or other records belonging to the client that were provided to the registered firm or Ohio permit holder by or on behalf of the client, as well as records defined in paragraph (E) of this rule as client records.

(C) The workpapers of the registered firm or Ohio permit holder include, but are not limited to, the following:

(1) The registered firm’s or Ohio permit holder’s notes or memos regarding the engagement;

(2) Records kept by the registered firm or Ohio permit holder of procedures applied, tests performed, information obtained, and pertinent conclusions reached in the engagement;

(3) Analyses and schedules prepared by the client at the registered firm’s or Ohio permit holder’s request, and;

(4) Audit programs, audit analyses and memoranda, letters of confirmation and representation, abstracts of company documents, and schedules or commentaries either prepared or obtained by the registered firm or Ohio permit holder.

(D) Workpapers may also be in the form of data stored on discs, tapes, films, or any media other than paper. Workpapers are considered to be the registered firm’s or Ohio permit holder’s property. In the event of a dispute between the registered firm or Ohio permit holder and the client concerning records, the board will determine whether or not a document may be classified either as a registered firm’s or Ohio permit holder’s workpaper, or as a client record.

(E) Workpapers may contain information that is not reflected in the client’s books and records, with the result that the client’s financial information is incomplete. These records are defined as client records, and may include but are not limited to:

(1) Adjusting, closing, combining or consolidating journal entries;

(2) Depreciation and amortization schedules, including tax carryforward information; and

(3) Information normally contained in books of original entry, as well as general ledgers and subsidiary ledgers.

(F) If the registered firm or Ohio permit holder has converted client information onto computer files for use with the registered firm’s or Ohio permit holder’s software and the registered firm or Ohio permit holder has not been paid for professional services rendered, then the registered firm or Ohio permit holder is under no obligation to provide the client with electronic files or a copy of any
software. If the client has paid the registered firm or Ohio permit holder for professional services rendered, then the registered firm or Ohio permit holder must provide a copy of all relevant electronic data files to the client.

(G) If the registered firm or Ohio permit holder has provided the information described in paragraph (B) or (E) of this rule to the client, then the registered firm or Ohio permit holder need not comply with further client requests for the same information.

(H) The registered firm or Ohio permit holder may demand that agreed-upon fees be paid prior to providing any information described in paragraph (E) of this rule if there is an engagement letter or other documented understanding prepared prior to the engagement and communicated to the client that states the specific fee payment arrangements for providing such information.

(I) In the event of a dispute between the client and a registered firm or Ohio permit holder over the return of records described in paragraph (E) of this rule, the registered firm or Ohio permit holder may request an extension of the deadline specified in paragraph (A) of this rule in order to mediate the dispute. The request must be filed within thirty days of the date the records retention complaint is filed with the board. The mediation must be conducted before a mediator mutually agreeable to and selected by the parties, and must be completed within sixty days of the date the complaint is filed with the board. The mediator may be the executive director of the board or a designee if the parties agree. If either party is dissatisfied with the recommendations of the mediator, that party may request a hearing before the board.

Effective: 07/31/2008
R.C. 119.032 review dates: 05/15/2008 and 07/31/2013
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03

<table>
<thead>
<tr>
<th>Retention of Client Records</th>
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<tbody>
<tr>
<td><strong>Minimum Penalty</strong> – Reprimand [6]; Administrative Fine [7]-$500 minimum, plus Professional Standards and Responsibilities course [8].</td>
</tr>
<tr>
<td><strong>Maximum Penalty</strong> – Revocation [1], particularly if licensee fails to attend hearing.</td>
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</table>

4701-11-07 Board communications.

(A) All official communications from the board are mailed to a person’s last address of record as maintained by the board. If the mail is not returned to the board, the person will be considered by the board to have received such official communications, to be aware of the contents of such official communications, and to be responsible for any actions required of them by such official communications. If a person notifies the board in writing of a failure to receive the official communication, the board will resend the official communication to the person. The board will not extend any deadlines nor abate any penalties unless it feels appropriate circumstances exist.
(B) Any change in a person’s name or address must be submitted to the board in writing.

(C) Official communications that require a response, unless otherwise specifically designated by the board, shall require a response within fifteen business days. A business day is defined as any day, Monday through Friday excluding state holidays, that the board office is open.

(D) The board will not be responsible for any delays in communications or in the filing of any other documents or fees submitted by or on behalf of a person which are caused by any third party, whether it be an individual or an organization.

(E) For purposes of this rule, “person” shall have the same meaning as in division (T) of section 4701.01 of the Revised Code.

Effective: 04/28/2011
R.C. 119.032 review dates: 02/10/2011 and 04/28/2016
Promulgated Under: 119.03
Statutory Authority: 4701.03
Rule Amplifies: 4701.03
Prior Effective Dates: 4/27/92, 8/5/99, 10/22/04

<table>
<thead>
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<th>Board Action &amp; Penalties</th>
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<tr>
<td><strong>Failure to Notify Board of Change of Address</strong></td>
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<td><strong>Minimum Penalty</strong> – Professional Standards and Responsibilities course [8].</td>
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<tr>
<td><strong>Maximum Penalty</strong> – Administrative Fine [7]: $500 minimum.</td>
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<tr>
<td><strong>Failure to Respond to Board Communication</strong></td>
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**4701-11-08 Incompatible occupations. [Rescinded].**

Rescinded eff 10-22-04

**4701-11-09 Acts discreditable.**

(A) Section 4701.03 of the Revised Code provides that the board may promulgate rules consistent with the goal of maintaining a high standard of integrity and dignity in the accounting profession.

(B) This rule applies to acts by a person holding an Ohio permit, Ohio registration, CPA certificate, PA registration, or firm registration, by a person holding a foreign certificate whose activities are regulated by the board, or by an owner of a public accounting firm equity interest who does not hold an Ohio permit, Ohio registration, CPA certificate, PA registration, foreign certificate, or firm registration.
(C) The following acts by any person defined in paragraph (B) of this rule are determined by the board as conduct discreditable to the accounting profession as stated in division (A)(10) of section 4701.16 of the Revised Code:

(1) Using deceptive representations in connection with the performance of services.

(2) Representing that services are of a particular standard when they are not.

(3) Promoting one’s professional services or registered firm in any manner which is inconsistent with upholding a high standard of integrity and dignity in the accounting profession, including, but not limited to:

   (a) Misrepresenting facts or failing to disclose relevant facts.

   (b) Creating false or unjustified expectation of favorable results.

   (c) Implying abilities not supported by valid educational background, professional attainments, or licensing recognition.

   (d) Implying the ability to influence improperly any court, tribunal or other public body or official.

(4) Engaging in any deceptive trade practice prohibited by law.

(5) Committing fraud or deceit in the act of verifying a CPA candidate’s experience in accordance with paragraph (C) of rule 4701-7-05 of the Administrative Code, or making any false statement with respect to such verification.

(6) Holding out to the public that an accounting credential issued in a foreign country is in good standing if that credential has been suspended or revoked under the laws of the foreign country.

(7) Being convicted of a felony or any crime involving dishonesty or fraud under the laws of a foreign country.

(8) Failing to follow specialized professional engagement requirements of governmental bodies, commissions, or regulatory agencies.

(9) Assuming responsibility for, associating with, or preparing materially false and misleading financial statements, associated financial data, or accounting entries.

(10) Failing to file a tax return or failing to remit taxes collected on behalf of others in a timely manner.

(D) The acts by a certified public accountant or public accountant outlined in the provisions of paragraph (C) of this rule are not intended to limit the scope of division (A)(10) of section 4701.16 of the Revised Code with respect to investigations concerning alleged discreditable conduct.
Board Action & Penalties

Unlawful Advertising

Minimum Penalty – Correction of Violation; Professional Standards and Responsibilities course [8].

Maximum Penalty – Revocation [1], particularly if licensee fails to attend hearing.

4701-11-10 Application of ethics rules to non-CPA owners.

(A) Pursuant to division (D)(8) of section 4701.04 of the Revised Code, a person who holds an equity interest in a public accounting firm, but does not hold an Ohio permit or a foreign certificate, shall be subject to either the “Code of Professional Conduct” issued by the “American Institute of Certified Public Accountants” and published on that organization’s website (www.aicpa.org), or a comparable code of conduct applicable to the person’s profession.

(B) The person described in paragraph (A) of this rule shall also be subject to the provisions of Chapter 4701-9 and Chapter 4701-11 of the Administrative Code as though the person held an Ohio permit or a foreign certificate.

Replaces: 4701-11-10
Effective: 04/28/2011
R.C. 119.032 review dates: 04/28/2016
Promulgated Under: 119.03
Statutory Authority: 4701.04
Rule Amplifies: 4701.04
Prior Effective Dates: 8/5/99, 10/22/04

Board Action & Penalties

Failure to Meet Non-licensee Ownership Requirements by a Public Accounting Firm

Minimum Penalty – Administrative Fine [7]: Normally $500 if licensee complies with cease and desist order, $1,000 if licensee does not comply with cease and desist order, plus Professional Standards and Responsibilities Course [8].

Maximum Penalty – Revocation [1], particularly if licensee fails to attend hearing. Revocation applies to firm registration and individual CPA certificates of firm owners.

The Ohio Society of CPAs (OSCPA)

The Ohio Society of CPAs was established in 1908 and represents approximately 22,000 CPAs. The OSCPA works closely with state and federal legislators and acts as an advocate for CPAs and for the public interest. The following are some of the programs and services offered by the OSCPA:

- Offers programs for continuing professional education
- Protects CPA credentials
- Creates awareness for CPAs as financial experts
- Advocates for CPAs and those served by CPAs
- Provides public financial information and education
The Board’s mission is to evaluate and investigate complaints against CPAs and PAs that are licensed in the state of Ohio. The purpose of investigations is to ensure consumers and users receiving the services of CPAs and PAs are of quality and consistency. The Board reserves the right to revoke, suspend, or refuse to renew a license or certificate of any CPA or PA that violates the rules, regulations, or statutes of the accountancy law.

Members of the OSCPA meet the statutory and regulatory requirements set forth for CPAs and strive for the highest standards of professional and ethical performance.

Ohio Society of CPAs Code of Professional Conduct

Jul 21, 2011

As adopted September 15, 1988 and amended through January 1994

Composition, Applicability, and Compliance

The Code of Professional Conduct of The Ohio Society of Certified Public Accountants consists of two sections – (1) the Principles and (2) the Rules. The Principles provide the framework for the Rules, which govern the performance of professional services by members. The Board of Directors of The Ohio Society of Certified Public Accountants and the Council of the American Institute of Certified Public Accountants are authorized to designate bodies to promulgate technical standards under the Rules, and the Bylaws require adherence to those Rules and standards.

The Code of Professional Conduct was adopted by the membership to provide guidance and rules to all members – those in public practice, in industry, in government and in 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.

Preamble

Membership in The Ohio Society of Certified Public Accountants (OSCPA) 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 The Ohio Society of Certified Public Accountants express the profession's recognition of its responsibilities to the public, to clients, and to 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 The Ohio Society of Certified Public Accountants 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, honor the public trust, 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 The Ohio Society of Certified Public Accountants 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 the 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.

In order to accomplish this, members should:

1. Practice in firms that have in place internal quality control procedures to ensure that services are competently delivered and adequately supervised.
2. 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.
3. Assess, in their individual judgments, whether an activity is consistent with their role as professionals - for example, it is a reasonable extension or variation of existing services offered by the member or others in the profession.

**Rule 101. Independence**

A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by AICPA Council or the OSCPA Board of Directors.
Interpretation of Rule 101

Interpretation 101–1. Independence shall be considered to be impaired if, for example, a member had any of the following transactions, interests, or relationships:

A. During the period of a professional engagement or at the time of expressing an opinion, a member of a member's firm

1. Had or was committed to acquire any direct or material indirect financial interest in the enterprise.
2. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise.
3. Had any joint, closely held business investment with the enterprise or with any officer, director or principal stockholders thereof that was material in relation to the member's net worth or to the net worth of the member's firm.
4. Had any loan to or from the enterprise or any officer, director, or principal stockholder of the enterprise. This proscription does not apply to the following loans from a financial institution when made under normal lending procedures, terms, and requirements:
   a) Loans obtained by a member or a member's firm that are not material in relation to the net worth of such borrower.
   b) Home mortgages.
   c) Other secured loans, except loans guaranteed by a member's firm which are otherwise unsecured.

B. During the period covered by the financial statements, during the period of the professional engagement, or at the time of expressing an opinion, a member or a member's firm

1. Was connected with the enterprise as a promoter, underwriter or voting trustee, as a director or officer, or in any capacity equivalent to that of a member of management or of an employee.
2. Was a trustee for any pension or profit–sharing trust of the enterprise.

The above examples are not intended to be all-inclusive.

Rule 102. Integrity and Objectivity

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.

Rule 201. General Standards

A member shall comply with the following standards and with any interpretations thereof by bodies designated by AICPA Council or the OSCPA Board of Directors:

1. Professional Competence. Undertake only those professional services that the member or the member's firm can reasonably expect to be completed with professional competence.
2. Due Professional Care. Exercise due professional care in the performance of professional services.
3. Planning and Supervision. Adequately plan and supervise the performance of professional services.
4. **Sufficient Relevant Data.** Obtain sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

**Rule 202. Compliance with Standards**

A member who performs auditing, review, compilation, management advisory, tax, or other professional services shall comply with standards promulgated by bodies designated by AICPA Council or the OSCPA Board of Directors.

**Rule 203. Accounting Principles**

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 in order 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 AICPA Council or the OSCPA Board of Directors to establish such principles that has 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 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.

**Rule 301. Confidential Client Information**

A member in public practice shall not disclose any confidential client information without the specific consent to the client.

This rule shall not be construed (1) to relieve a member of the members professional obligations under rules 202 and 203, (2) to affect in any way the member's obligation to comply with a validly issued and enforceable subpoena or summons, (3) to prohibit review of a member's professional practice under AICPA or OSCPA authorization, or (4) to preclude a member from initiating a complaint with or responding to any inquiry made by a recognized investigative or disciplinary body.

Members of a recognized investigative or disciplinary body and professional practice reviewers shall not use to their own advantage or disclose any member's confidential client information that comes to their attention in carrying out their official responsibilities. However, this prohibition shall not restrict the exchange of information with a recognized investigative or disciplinary body or affect, in any way, compliance with a validly issued and enforceable subpoena or summons.

**Rule 302. Contingent Fees**

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 might 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 (2) prepare an original or amended tax return or claim for a tax refund for a contingent fee for any client.
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 above and the period covered by any historical financial statements involved in any such listed services.

Except as stated in the next sentence, 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 specified 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 other public authorities, or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

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

**Rule 501. Acts Discreditable**

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

**Rule 502. Advertising and Other Forms of Solicitation**

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, overreaching, or harassing conduct is prohibited.

**Rule 503. Commissions and Referral Fees**

A. **Prohibited commissions.** A member in public practice shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission, when the member or the member's firm also performs for that client (a) an audit or review of a financial statement; or (b) 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 member's compilation report does not disclose a lack of independence; or (c) an examination of prospective financial information. This prohibition applies during the period in which the member is engaged to perform any of the services listed above and the period covered by any historical financial statements involved in such listed services.

B. **Disclosure of permitted commissions.** A member in public practice who is not prohibited by this rule from performing services for or receiving a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the member recommends or refers a product or service to which the commission relates.

C. **Referral fees.** Any member who accepts a referral fee for recommending or referring any service of a CPA to any person or entity or who pays a referral fee to obtain a client shall disclose such acceptance or payment to the client.

**Rule 505. Form of Practice and Name**

A member may practice public accounting only in the form of a proprietorship, a partnership, or a professional corporation whose characteristics conform to resolutions of AICPA Council or the OSCPA Board of Directors.
A member shall not practice public accounting under a firm name that is misleading. Names of one or more past partners or shareholders may be included in the firm name of a successor partnership or corporation. Also, a partner or shareholder surviving the death or withdrawal of all other partners or shareholders may continue to practice under such name which includes the name of past partners or shareholders for up to two years after becoming a sole practitioner.

A firm may not designate itself as "Members of The Ohio Society of Certified Public Accountants" unless all of its partners or shareholders are members of the Society.

**Applicability**

The bylaws of The Ohio 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.

**Client.** The person(s) or entity which retains a member or his firm, engaged in the practice of public accounting, for the performance of professional services.

**Council.** The Council of the American Institute of Certified Public Accountants.

**Enterprise.** Any person(s) or entity, whether organized for profit or not, for which a CPA provides services.

**Financial statements.** Statements and footnotes related thereto that purport to show financial position which relates to a point in time or changes in financial position which relate to a period of time, and statements which use a cash or other incomplete basis of accounting. Balance sheets, statements of income, statements of retained earnings, statements of changes in financial position, and statements of changes in owners' equity are financial statements.

Incidental financial data included in management advisory services reports to support recommendations to a client and tax returns and supporting schedules do not, for this purpose, constitute financial statements; and the statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.

**Firm.** A proprietorship, partnership, or professional corporation or association engaged in the practice of public accounting, including individual partners or shareholders thereof.

**Institute.** The American Institute of Certified Public Accountants.

Interpretations of rules of conduct. Pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct.

**Member.** A member or associate of The Ohio Society of Certified Public Accountants.

**Practice of public accounting.** Holding out to be a CPA or public accountant and at the same time performing for a client one or more types of services rendered by public accountants. The term shall not be limited by a more restrictive definition which might be found in the accountancy law under which a member practices.

**Professional services.** One or more types of services performed in the practice of public accounting.
APPENDIX A

Council Resolution Designating Bodies to Promulgate Technical Standards

Financial Accounting Standards Board

WHEREAS: In 1959 the Council designated the Accounting Principles Board to establish accounting principles, and

WHEREAS: The Council is advised that the Financial Accounting Standards Board (FASB) has become operational, it is

RESOLVED: That as of the date hereof the FASB, in respect of statements of financial accounting standards finally adopted by such board in accordance with its rules of procedure and the bylaws of the Financial Accounting Foundation, be, and hereby is, designated by this Council as the body to establish accounting principles pursuant to rule 203 and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under rule 202 of the Rules of the Code of Professional Conduct of the American Institute of Certified Public Accountants provided, however, any accounting research bulletins, or opinions of the accounting principles board issued or approved for exposure by the accounting principles board prior to April 1, 1973, and finally adopted by such board on or before June 30, 1973, shall constitute statements of accounting principles promulgated by a body designated by Council as contemplated in rule 203 of the Rules of the Code of Professional Conduct unless and until such time as they are expressly superseded by action of the FASB.

Governmental Accounting Standards Board

WHEREAS: The Governmental Accounting Standards Board (GASB) has been established by the board of trustees of the Financial Accounting Foundation (FAF) to issue standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities, and

WHEREAS: The American Institute of Certified Public Accountants is a signatory to the agreement creating the GASB as an arm of the FAF and has supported the GASB professionally and financially, it is

RESOLVED: That as of the date hereof, the GASB, with respect to statements of governmental accounting standards adopted and issued in July 1984 and subsequently in accordance with its rules of procedure and the bylaws of the FASB, be, and hereby is, designated by the Council of the American Institute of Certified Public Accountants as the body to establish financial accounting principles for state and local governmental entities pursuant to rule 203, and standards on disclosure of financial information for such entities outside financial statements in published financial reports containing financial statements under rule 202.

AICPA Committees and Boards

WHEREAS: The membership of the Institute has adopted rules 201 and 202 of the Rules of the Code of Professional Conduct, which authorizes the Council to designate bodies to promulgate technical standards with which members must comply.
Ohio Rules

Accounting and Review Services Committee

RESOLVED: That the AICPA accounting and review services committee is hereby designated to promulgate standards under rules 201 and 202 with respect to unaudited financial statements or other unaudited financial information of an entity that is not required to file financial statements with a regulatory agency in connection with the sale or trading of its securities in a public market.

Auditing Standards Board

RESOLVED: That the AICPA auditing standards board is hereby designated as the body authorized under rules 201 and 202 to promulgate auditing and attest standards and procedures.

RESOLVED: The auditing standards board shall establish under statements on auditing standards the responsibilities of members with respect to standards for disclosure of financial information outside financial statements in published financial reports containing financial statements.

Management Advisory Services Executive Committee

RESOLVED: That the AICPA management advisory services executive committee is hereby designated to promulgate standards under rules 201 and 202 with respect to the offering of management advisory services, provided, however, that such standards do not deal with the broad question of what, if any, services should be proscribed.

AND FURTHER RESOLVED: That any Institute committee or board now or in the future authorized by the Council to issue enforceable standards under rules 201 and 202 must observe an exposure process seeking comment from other affected committees and boards, as well as the general membership.

APPENDIX B

Council Resolution Concerning Professional Corporations or Associations

RESOLVED: That the characteristics of a professional corporation as referred to in rule 505 of the Code of Professional Conduct are as follows:

1. **Ownership.** All shareholders of the corporation or association shall be persons engaged in the practice of public accounting as defined by the Code of Professional Conduct. Shareholders shall at all times own their shares in their own right and shall be the beneficial owners of the equity capital ascribed to them.

2. **Transfer of Shares.** Provision shall be made requiring any shareholder who ceases to be eligible to be a shareholder to dispose of all his or her shares within a reasonable period to a person qualified to be a shareholder or to the corporation or association.

3. **Directors and Officers.** The principal executive officer shall be a shareholder and a director, and to the extent possible, all other directors and officers shall be certified public accountants. Lay directors and officers shall not exercise any authority whatsoever over professional matters.

4. **Conduct.** The right to practice as a corporation or association shall not change the obligation of its shareholders, directors, officers, and other employees to comply with the Code of Professional Conduct established by the American Institute of Certified Public Accountants.
Review Questions

1. According to the Accountancy Board Law, 4701.04 Registration, within how many days must the initial registration be done for the formation of a public accounting firm?
   A. 30 days
   B. 60 days
   C. 90 days
   D. 120 days

2. What are the minimum and maximum penalties for knowingly preparing materially misleading financial statements?
   A. Minimum penalty – Fine of $500 minimum and a course in Professional Standards and Responsibilities; Maximum penalty – Fine of $2,000
   B. Minimum penalty – Fine of $750 minimum and a course in Professional Standards and Responsibilities; Maximum penalty – Revocation
   C. Minimum penalty – Fine of $1,000 minimum and a course in Professional Standards and Responsibilities; Maximum penalty – Revocation
   D. Minimum penalty – Fine of $1,000 minimum and a course in Professional Standards and Responsibilities; Maximum penalty – Fine of $5,000

3. What is the minimum penalty, as stated under the Ohio State Board of Accountancy Ethics Standards, for violating independence?
   A. No fine, but must take a course in Professional Standards and Responsibilities
   B. A minimum fine of $500, in addition to taking a course in Professional Standards and Responsibilities
   C. A minimum fine of $1,000, in addition to taking a course in Professional Standards and Responsibilities
   D. A minimum fine of $2,000, in addition to taking a course in Professional Standards and Responsibilities

4. Which of the following is correct regarding commissions and referral fees?
   A. A commission is a type of compensation received for recommending or referring any service of an Ohio permit holder to any person
   B. A referral fee is a type of compensation received for recommending or referring any product or service to be supplied by another person
   C. A referral fee is a type of compensation received for recommending or referring any service of an Ohio permit holder to any person
   D. Commissions and referral fees both are a type of compensation received for recommending or referring any service of an Ohio permit holder to any person

5. Which of the following statements does NOT accurately reflect workpapers?
   A. Workpapers are considered to be the property of the client
   B. Workpapers may contain information that is not reflected in the client’s books and records
   C. Workpapers may be in a form other than paper, such as in the form of data stored on discs, tapes, films, or other types of media
   D. Workpapers may include procedures applied, tests performed, information obtained, and pertinent conclusions reached in an engagement
6. What Article, under the Code of Professional Conduct, requires a member of the Ohio Society of CPAs to observe both the form and the spirit of technical and ethical standards?
   A. Article I – Responsibilities
   B. Article II – The Public Interest
   C. Article III – Integrity
   D. Article IV – Objectivity and Independence

7. Which of the following general standards involves undertaking only professional services that a member or a member’s firm have the aptitude to complete?
   A. Professional Competence
   B. Due Professional Care
   C. Planning and Supervision
   D. Sufficient Relevant Data

8. Which of the following is considered a violation of Rule 505 – Form of Practice and Name of the OSCPA’s Code of Professional Conduct?
   A. Names of one or more of the past partners or shareholders are included in the firm name of a successor partnership or corporation
   B. A partner or shareholder surviving the death or withdrawal of all other partners or shareholders continue to practice under such name for up to two years after becoming a sole practitioner
   C. A member practices public accounting under a firm name that is not considered misleading to the public
   D. A firm designates itself as “Members of The Ohio Society of Certified Public Accountants” and only 50% of partners or shareholders are members of the society
Review Answers

1. A. Incorrect. Public accounting firms must apply for initial registration within 90 days after formation, not 30 days after formation.
   B. Incorrect. Public accounting firms must apply for initial registration within 90 days after formation, not 60 days after formation.
   C. **Correct.** Public accounting firms must apply for initial registration within 90 days after formation.
   D. Incorrect. Public accounting firms must apply for initial registration within 90 days after formation, not 120 days after formation.

2. A. Incorrect. The minimum penalty is not a fine of $500 minimum and a course in Professional Standards and Responsibilities with a maximum penalty of a $2,000 fine. The penalties involved for this violation are a fine of $1,000 minimum and a course in Professional Standards and Responsibilities with a maximum penalty of revocation.
   B. Incorrect. The minimum penalty is not a fine of $750 minimum and a course in Professional Standards and Responsibilities, but the maximum penalty is correct in that it is revocation. The penalties involved for this violation are a fine of $1,000 minimum and a course in Professional Standards and Responsibilities with a maximum penalty of revocation.
   C. **Correct.** The penalties involved for this violation are a fine of $1,000 minimum and a course in Professional Standards and Responsibilities with a maximum penalty of revocation.
   D. Incorrect. The minimum penalty is a fine of $1,000 minimum and a course in Professional Standards and Responsibilities, but the maximum penalty is not a $5,000 fine. The penalties involved for this violation are a fine of $1,000 minimum and a course in Professional Standards and Responsibilities with a maximum penalty of revocation.

3. A. Incorrect. The penalty would not only include taking a course in Professional Standards and Responsibilities, but it would also include an administrative fine of $500 (minimum).
   B. **Correct.** The penalty involved in violations of independence is a minimum of a $500 administrative fine and a requirement to take a course in Professional Standards and Responsibilities.
   C. Incorrect. The penalty involved in violations of independence is a minimum of a $500 administrative fine and a requirement to take a course in Professional Standards and Responsibilities, not a minimum fine of $1,000 plus the course.
   D. Incorrect. The penalty involved in violations of independence is a minimum of a $500 administrative fine and a requirement to take a course in Professional Standards and Responsibilities, not a minimum fine of $2,000 plus the course.

4. A. Incorrect. A referral fee, not a commission, is a type of compensation received for recommending or referring any service of an Ohio permit holder to any person.
   B. Incorrect. A referral fee is a type of compensation received for recommending or referring any service of an Ohio permit holder to any person and is not received for recommending or referring any product or service to be supplied by another person.
   C. **Correct.** A referral fee is a type of compensation received for recommending or referring any service of an Ohio permit holder to any person.
   D. Incorrect. Only referral fees are considered a type of compensation that is received for recommending or referring any service of an Ohio permit holder to any person. Commission fees are a type of compensation received for recommending or referring any product or service to be supplied by another person.
Ohio Rules

5. A. **Correct.** This is not an accurate statement reflecting workpapers. Workpapers are considered to be the property of the registered firm or Ohio permit holder.

B. **Incorrect.** This is a true statement regarding workpapers. In the event that a client’s financial information is incomplete, the workpapers may contain information that is not reflected in the client’s books and records.

C. **Incorrect.** This is a true statement regarding workpapers. Workpapers may be in a form different than paper, such as in the form of data stored on discs, tapes, films, or other media.

D. **Incorrect.** This is a true statement regarding workpapers. Workpapers may include procedures applied, tests performed, information obtained, and pertinent conclusions reached in an engagement.

6. A. **Incorrect.** Article I – Responsibilities involves members exercising sensitive professional and moral judgments in all their activities when carrying out their responsibilities.

B. **Incorrect.** Article II – The Public Interest involves a member’s obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.

C. **Correct.** Article III – Integrity requires a member to observe both the form and the spirit of technical and ethical standards and to maintain and broaden public confidence by performing responsibilities with the highest sense of integrity.

D. **Incorrect.** Article IV – Objectivity and Independence requires a member to maintain objectivity and be free of conflicts of interest, and also requires a member to maintain the appearance of independence.

7. A. **Correct.** Professional competence involves undertaking only those professional services that a member or member’s firm can reasonably expect to be completed with professional competence.

B. **Incorrect.** Due professional care involves a member to have adequate knowledge and to exercise diligence or due professional care in the performance of professional services.

C. **Incorrect.** Planning and supervision involves a member to adequately plan and supervise the performance of professional services.

D. **Incorrect.** Sufficient relevant data involves a member obtaining enough relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.

8. A. **Incorrect.** Names of one or more of the past partners or shareholders may be included in the firm name of a successor partnership or corporation and is not a violation against Rule 505.

B. **Incorrect.** A partner or shareholder surviving the death or withdrawal of all other partners or shareholders may continue to practice under such name for up to two years after becoming a sole practitioner and is not a violation against Rule 505.

C. **Incorrect.** A member should practice public accounting under a firm name that is not considered misleading to the public and this is not a violation of Rule 505.

D. **Correct.** This is a violation of Rule 505 due to the fact that all partners or shareholders must be members of the Society in order for a firm to designate itself as “Members of The Ohio Society of Certified Public Accountants”.
Glossary

A

**Adverse interest threat:** Threat of member lacking objectivity due to the differing of the member’s interest and the client’s interest.

**Advocacy threat:** Threat of compromising objectivity by promoting a client or employer’s position or opinion to the extent that it compromises objectivity.

**Agreed-upon procedures report:** Any report that is on a financial statement and that is based on agreed-upon procedures issued with respect to another party’s written assertion in accordance with statements on standards for attestation engagements as promulgated by the American Institute of Certified Public Accountants.

**Asset misappropriation:** A form of accounting fraud that includes manipulating accounts by creating false invoices, theft (cash or equivalent, credit notes, data, and other property), payroll fraud and ghost employees, and false expense claims.

**Attest report:** An opinion report, review report, compilation report, examination report, agreed-upon procedures report, or any similar report prepared in accordance with standards established by the American Institute of Certified Public Accountants with respect to a financial statement or other financial information.

B

**Best practices:** Those procedures and behaviors generally agreed upon by reasonably prudent and competent persons to be the preferred approach to providing a particular professional service. So called “best practices” relevant to a professional service provided by a member may be promulgated by other professional associations or similar organizations. Best practices will vary depending upon the skill level and position of the member, the nature of the engagement, the industry, practicality and cost-benefit among other factors.

**Business ethics:** The principles, values, and standards that guide how people and institutions should act in the world of commerce.

C

**Channel stuffing:** A form of accounting fraud that involves an avenue to inflate sales by sending retailers more products than they can sell by means of distribution channels.

**Client:** The person(s) or entity which retains a member or his firm, engaged in the practice of public accounting, for the performance of professional services.

**Client provided records:** Accounting or other records, including but not limited to photocopies, emails, faxes, computer disc or other electronic formats belonging to the client that were provided to the member by or on behalf of the client.
**Client records prepared by the member:** Accounting or other records (for example, tax returns, general ledgers, subsidiary journals, and supporting schedules such as detailed employee payroll records and depreciation schedules) that the member was engaged to prepare for the client.

**Close relative:** A close relative is a parent, sibling, or nondependent child.

**Commissions and referral fees:** Commission means any compensation paid by a third party to the member, except a referral fee, for recommending or referring any product or service to be supplied by another person.

**Compilation report:** Any compilation report on a financial statement that is issued with respect to financial information of a nonpublic entity in accordance with standards for accounting and review services as promulgated by the American Institute of Certified Public Accountants.

**Confidential client information:** Any information obtained from current, former, and prospective clients in a professional capacity which is not generally available to the public, whether or not the CPA is actually formally engaged to provide professional services. Information obtained from a person seeking to engage a member to offer professional services falls within this definition.

**Confidential employer information:** Any information obtained during the course of employment if use of such information is restricted by the employer through a written policy, or law, and if such information is not generally available to the public.

**Control:** The right to exercise the majority of the voting equity interests in a public accounting firm or qualified firm with respect to any matter.

**Cookie jar accounting:** A form of accounting fraud that involves using reserves from good years to offset losses in bad years.

**Corporate governance:** The relationship between all stakeholders in an organization. Among these stakeholders are the shareholders, directors, and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law.

**Corporate social responsibility:** Initiative to assess and take responsibility for the company’s effects and impact on social welfare. Encompasses a company’s economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility.

**Council:** The Council of the American Institute of Certified Public Accountants.

**Covered member:** A covered member is:
   a. An individual on the attest engagement team;
   b. An individual in a position to influence the attest engagement;
   c. A partner or manager who provides nonattest services to the attest client beginning once he or she provides ten hours of nonattest services to the client within any fiscal year and ending on the later of the date (i) the firm signs the report on the financial statements for the fiscal year during which those services were provided or (ii) he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis;
   d. A partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
   e. The firm, including the firm’s employee benefit plans; or
   f. An entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles [GAAP] for consolidation purposes) by any of the
individuals or entities described in (a) through (e) or by two or more such individuals or entities if they act together.

**CPA certificate:** A certificate issued under section 4701.06 or 4701.061 of the Revised Code that is not revoked or suspended.

**E**

**Economic responsibility:** The responsibility of businesses to be profitable, and it is the foundation upon which all other rest.

**Enterprise:** Any person(s) or entity, whether organized for profit or not, for which a CPA provides services.

**Ethical responsibility:** The obligation of businesses to do what is right, just and fair and avoid harm.

**Ethics rulings:** Guidance issued by the AICPA ethics division in the form of questions and answers concerning the scope and application of the rules and interpretations of the Code of Professional Conduct.

**Equity interest:** Any capital interest or profit interest in a sole proprietorship, partnership, professional association, corporation-for-profit, limited liability company, or other business organization.

**Examination report:** Any examination report on a financial statement that is issued with respect to another party’s written assertion in accordance with statements on standards for attestation engagements as promulgated by the American Institute of Certified Public Accountants.

**F**

**Familiarity threat:** Threat of long/close relationships with clients or employer will cause member to sympathize and/or be accepting of the client’s work.

**Fiduciary duty:** A legal obligation of one party, someone entrusted with the care of money or property, to act in the best interest of another.

**Financial institution:** A financial institution is considered to be an entity that, as part of its normal business operations, makes loans to the general public.

**Financial statements:** Statements and footnotes related thereto that purport to show financial position which relates to a point in time or changes in financial position which relate to a period of time, and statements which use a cash or other incomplete basis of accounting. Balance sheets, statements of income, statements of retained earnings, statements of changes in financial position, and statements of changes in owners’ equity are financial statements. Incidental financial data included in management advisory services reports to support recommendations to a client and tax returns and supporting schedules do not, for this purpose, constitute financial statements; and the statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.

**Firm:** A proprietorship, partnership, or professional corporation or association engaged in the practice of public accounting, including individual partners or shareholders thereof.
**Firm registration:** Registration as a public accounting firm under section 4701.04 of the Revised Code.

**Foreign certificate:** A certificate of a certified public accountant issued under the laws of another state.

**Good moral character:** The combination of personal traits of honesty, integrity, attention to duty, forthrightness, and self-restraint that enables a person to discharge the duties of the accounting profession fully and faithfully.

**Immediate family:** Immediate family is a spouse, spousal equivalent, or dependent (whether or not related).

**Improper disclosure:** A form of accounting fraud involving the failure to properly disclose related party transaction, executive compensation, structured financial deals, etc.

**Individual in a position to influence the attest engagement:** An individual in a position to influence the attest engagement is one who:
- a. Evaluates the performance or recommends the compensation of the attest engagement partner;
- b. Directly supervises or manages the attest engagement partner, including all successively senior levels above that individual through the firm’s chief executive;
- c. Consults with the attest engagement team regarding technical or industry-related issues specific to the attest engagement; or
- d. Participates in or oversees, at all successively senior levels, quality control activities, including internal monitoring, with respect to the specific attest engagement.

**Inflating assets:** A form of accounting fraud that involves the net worth of assets being inflated by means of inappropriate depreciation schedules.

**Institute:** The American Institute of Certified Public Accountants. Interpretations of rules of conduct. Pronouncements issued by the division of professional ethics to provide guidelines concerning the scope and application of the rules of conduct.

**Interpretations of rules of conduct:** Pronouncements issued by the Board of Directors to provide guidelines concerning the scope and application of the rules of conduct.

**Investee:** The term investee means (a) a subsidiary or (b) an entity over which an investor has the ability to exercise significant influence.

**Investor:** The term investor means (a) a parent, (b) a general partner, or (c) a natural person or corporation that has the ability to exercise significant influence.

**Joint closely held investment:** A joint closely held investment is an investment in an entity or property by the member and the client (or the client’s officers or directors, or any owner who has the
ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property.

**K**

**Key position:** A key position is a position in which an individual:

a. Has primary responsibility for significant accounting functions that support material components of the financial statements;

b. Has primary responsibility for the preparation of the financial statements; or

c. Has the ability to exercise influence over the contents of the financial statements, including when the individual is a member of the board of directors or similar governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

d. For purposes of attest engagements not involving a client's financial statements, a key position is one in which an individual is primarily responsible for, or able to influence, the subject matter of the attest engagement, as described above.

**L**

**Legal responsibility:** The responsibility of businesses to play by the rules of the game and recognize that law is society's codification of what is right and wrong.

**Loan:** A loan is a financial transaction, the characteristics of which generally includes, but is not limited to, an agreement that provides for repayment terms and a rate of interest. A loan includes, but is not limited to, a guarantee of a loan, a letter of credit, a line of credit, or a loan commitment.

**M**

**Manager:** A manager is a professional employee of the firm who has either of the following responsibilities:

a. Continuing responsibility for the overall planning and supervision of engagements for specified clients.

b. Authority to determine that an engagement is complete subject to final partner approval if required.

**Member:** A member or associate of The Ohio Society of Certified Public Accountants.

**Member’s working papers:** Include, but are not limited to, audit programs, analytical review schedules, and statistical sampling results, analyses, and schedules prepared by the client at the request of the member.

**N**

**Nonrecurring expenses:** A form of accounting fraud when classifying an expense as nonrecurring and manipulating it to appear as excess reserves that are later used as future income.

**Normal lending procedures, terms, and requirements:** Normal lending procedures, terms, and requirements relating to a covered member's loan from a financial institution are defined as lending procedures, terms, and requirements that are reasonably comparable with those relating to loans of a similar character committed to other borrowers during the period in which the loan to the covered member is committed. Accordingly, in making such comparison and in evaluating whether a loan was
made under normal lending procedures, terms, and requirements, the covered member should consider all the circumstances under which the loan was granted, including:
  1. The amount of the loan in relation to the value of the collateral pledged as security and the credit standing of the covered member
  2. Repayment terms
  3. Interest rate, including points
  4. Closing costs
  5. General availability of such loans to the public

O

**Off balance sheet transactions:** A form of accounting fraud that involves hiding assets or liabilities so they do not appear on the balance sheet.

**Ohio permit:** A permit to practice public accounting issued under division (A) of section 4701.10 of the Revised Code that is not revoked or suspended.

**Ohio registration:** The registration under division (B) of section 4701.10 of the Revised Code of a holder of a CPA certificate or PA registration who is not in the practice of public accounting in this state.

**Opinion report:** Any opinion on a financial statement that is expressed in accordance with generally accepted auditing standards as to the fairness of presentation of information and that is used for guidance in financial transactions, for accounting, or for assessing the status or performance of commercial and noncommercial enterprises, whether public, private, or governmental.

**Overstating expenses:** A form of accounting fraud involving a method of accelerating expenses into the current period through means of depreciation, amortization, and depletion.

**Overstating revenues:** A form of accounting fraud involving the acceleration of earnings by recording future sales on current financial statements, and recording investment income, proceeds received as loans or fictitious sales as revenue.

**Own:** Any direct or indirect ownership of an equity interest in a public accounting firm or qualified firm.

P

**PA registration:** Registration as a public accountant under section 4701.07 of the Revised Code that is not revoked or suspended.

**Partner:** A partner is a proprietor, shareholder, equity or non-equity partner or any individual who assumes the risks and benefits of firm ownership or who is otherwise held out by the firm to be the equivalent of any of the aforementioned.

**Peer review:** A study, appraisal, or review of one or more aspects of the professional work of a public accounting firm that meets the standards and requirements set forth by the accountancy board.

**Period of the professional engagement:** The period of the professional engagement begins when a member either signs an initial engagement letter or other agreement to perform attest services or
begins to perform an attest engagement for a client, whichever is earlier. The period lasts for the entire
duration of the professional relationship (which could cover many periods) and ends with the formal or
informal notification, either by the member or the client, of the termination of the professional
relationship or by the issuance of a report, whichever is later. Accordingly, the period does not end with
the issuance of a report and recommence with the beginning of the following year's attest engagement.

**Person:** Any individual, corporation-for-profit, business trust, estate, partnership, limited liability
cOMPANY, professional association, or other business organization.

**Philanthropic responsibility:** Responsibility of businesses to contribute resources to the community
and to improve the quality of life.

**Practice of public accounting:** Holding out to be a CPA or public accountant and at the same time
performing for a client one or more types of services rendered by public accountants. The term shall not
be limited by a more restrictive definition which might be found in the accountancy law under which a
member practices.

**Professional services:** One or more types of services performed in the practice of public accounting.

**Public accounting firm:** A sole proprietorship, a partnership, a limited liability company, a
professional association, a corporation-for-profit, or any other business organization that is engaged in
the practice of public accounting in this state.

**Qualified firm:** A sole proprietorship, partnership, professional association, corporation-for-profit,
limited liability company, or other business organization in which the individuals who own a majority of
the business organization interests in the business organization and control the business organization
hold an Ohio permit or a foreign certificate.

**Referral fee:** Compensation for recommending or referring any service of a CPA to any person.

**Self-Interest threat:** Threat of a member acting in a manner adverse to interests of the
firm/employer/client/public due to the member's immediate or close family member's financial interest
or other relationship with a client or employer.

**Self-Review threat:** Threat of not properly evaluating the results of a service performed, and a member
will rely on improperly evaluated results in forming a judgment as part of providing the service.

**Stakeholder:** The investors, employees, customers, supplier, community, government, and trade
associations or others that have a direct interest in an organization.

**Supporting records:** Information not reflected in the client's books and records that are otherwise not
available to the client with the result that the client's financial information is incomplete. For example,
supporting records include adjusting, closing, combining, or consolidating journal entries (including
computations supporting such entries) that are produced by the member during an engagement (for
example, an audit).
**Synthetic leases:** A form of accounting fraud that involves a type of operating lease that is not recorded as a liability, but instead is classified as an expense.

**Understating expenses:** A form of accounting fraud that involves capitalizing costs over time versus expensing a cost in the current period, capitalizing normal operating costs, and failing to either write down or write off impaired assets.

**Undue influence threat:** Threat of member subordinating judgment to client/employer/3rd party due to (1) reputation or expertise, (2) aggressive or dominate personality, or (3) attempts to exercise excessive influence over member.
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