

Nebraska State Board of Public Accountancy
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Ethics Examination Requirement for Certificate Issuance per Title 288 Rules Chapter 6 006

This is an individual examination. Do not collaborate with anyone. Do not keep a copy of this examination, and do not keep a copy of your answers. If you have questions, contact the Board at 402-471-3595 or 800-564-6111. Submit a printed copy of your responses with your Certificate Application and your Citizen Attestation Form. You will be notified with your results but your graded examination will not be returned to you; however, the suggested correct responses will be sent to you for educational purposes. You may use any written, publicly available sources to answer the examination questions.

Overview

Adherence to professional ethics is a crucial responsibility of every CPA. There are a variety of sources for professional ethics:

- Nebraska Board of Public Accountancy Rules and Regulations, specifically Chapter 5 http://www.sos.ne.gov/rules-and-regs/regsearch/Rules/Board_of_Public_Accountancy/Title-288/Chapter-05.pdf
- AICPA Code of Professional Conduct (<http://www.aicpa.org/research/standards/codeofconduct/pages/default.aspx>)
- Rules for Regulatory Agencies, such as the IRS (Circular 230), Public Companies Accounting Oversight Board, etc.

CPAs are subject to all of these different ethical rules depending on the context of the engagement and the nature of the services provided. For example, a Nebraska CPA who is engaged to render an opinion on financial statements would at a minimum be subject to the Nebraska Rules of Professional Conduct, but may also be subject to the rules of the PCAOB if the client is publicly traded, as well as the AICPA Code of Professional Conduct if the CPA is a member of the AICPA. If the matter involves federal taxation, Circular 230 would apply, and again if the CPA is a member of the AICPA, the Statements on Standards for Tax Services (SSTs) of the AICPA would apply. **IT IS THE CPA'S RESPONSIBILITY TO RECONCILE ALL THE POSSIBLE ETHICAL RULES THAT MAY APPLY!**

The Nebraska Board of Public Accountancy (<http://www.nbpa.ne.gov>) [generally referred to as the “State Board”] is a governmental agency established by Nebraska statute to regulate the practice of public accountancy in the state of Nebraska. It has the authority to

- oversee the registration process for candidates to sit for the CPA examination,
- issue permits to practice public accountancy,

- regulate mandatory continuing education requirements for CPAs,
- administer the Quality Enhancement Program, and
- discipline CPAs who fail to adhere to professional ethics.

The State Board is a regulatory agency, and it oversees “licensees” (not only people who have licenses to practice as a CPA, but also any person who, through their actions or words, are holding themselves out as a CPA in Nebraska). The persons the State Board regulates are subject to its rules, regardless of whether that person is a member of the AICPA or a State Society of CPAs. In fulfilling its regulatory function, the State Board has a variety of procedures to follow in investigating potential violations of the Rule of Professional Conduct. It can impose sanctions ranging from a decision to take no action in a particular case to cancellation of the active permit to practice as a CPA or obtaining an injunction against non-licensed individuals who inappropriately hold themselves out as practicing public accounting.

The Nebraska Society of CPAs (<http://www.nescpa.org>) [generally referred to as the “State Society”] is the professional membership association of CPAs in Nebraska. Although in some states there is an overlap of regulatory and professional functions by a single organization, in Nebraska there is no direct, formal connection between the State Board and the State Society. The State Society works closely with the AICPA on a variety of interest areas, such as advocacy, benefits programs, and other professional matters. The State Society also is a major sponsor of CPE programs in Nebraska.

The purpose of this ethics examination is to demonstrate that you are familiar with the Rules of Professional Conduct that apply to Nebraska CPAs. You should have access to Chapter 5 of Title 288 of the Rules and Regulations of Nebraska (http://www.sos.ne.gov/rules-and-regs/regsearch/Rules/Board_of_Public_Accountancy/Title-288/Chapter-05.pdf) as you complete the following questions.

Examination

1. Read Section 003. The standards for support for a tax position contained in Circular 230 are that there is a reasonable basis of support for the position (generally 20-25% likely). The standards for support for a tax position contained in the AICPA SSTs are that there is a realistic possibility of success for the position (generally 33 1/3% likely). Which of the following is a true statement about the Nebraska Integrity and Objectivity rule for CPAs (only one answer is true)?
 - a. The Nebraska standard is the same as the Circular 230 standard.
 - b. The Nebraska standard is the same as the AICPA standard.
 - c. The Nebraska standard is not as rigorous as the Circular 230 standard.
 - d. The Nebraska standard is more rigorous than the AICPA standard.
2. Read Section 005.01 Internal Revenue Code § 7216 imposes misdemeanor criminal penalties for improper disclosure or use of certain taxpayer information. The AICPA Code of Professional Conduct in Section 1.700.001 addresses the handling of confidential

client information. Both of these requirements generally prohibit disclosure of client information to a third party without advance permission from the client. Which of the following is a true statement?

- a. A licensee may never disclose any client information without advance written permission from the client.
- b. A licensee must always provide the IRS with any information it requests about a client's tax records.
- c. A licensee need not comply with a subpoena if on advice of counsel the subpoena is invalid or unenforceable.
- d. A licensee may decline to provide the Board with client information requested as part of a formal disciplinary inquiry unless the client provides advanced written permission.

3. Read Section 005.03 and Sections 1.510 through 1.510.050.02 of the AICPA Code of Professional Conduct. Concerning these rules, which of the following statements is true?

- a. Licensees in public practice may charge clients on a contingent fee basis provided the professional service they are performing is not an attest service.
- b. A licensee who charges two unrelated clients different fees for similar, but not identical, services will not be in violation of the contingent fee rule if the fee disparity is based on the complexity of the issues handled.
- c. A CPA licensed in Nebraska who is a member of the AICPA may not charge a results-based fee for assisting a client in protesting to the appropriate county officials the assessed value of the client's property.
- d. A CPA licensed in Nebraska who is a member of the AICPA will violate the contingent fee rules if the CPA's spouse provides services to an attest client on a contingent fee basis.

4. Read Section 007.01 and AICPA 1.400 through 1.400.240.01. Which of the following would not likely be considered an act discreditable to the profession? In all cases assume the individual practitioner is both a Nebraska licensee and a member of the AICPA in public practice.

- a. Able is sued for sexual harassment by a staff member under Able's supervision. All appeals have been duly considered and the judgment stands.
- b. Baker has a very public affair and as a result is in divorce proceedings.
- c. Charleston has not filed personal or firm tax returns for three years, and as a result is sanctioned by the Office of Professional Responsibility of the IRS by being suspended from practice before the IRS for 6 months.
- d. Dolan was accused of and sued for negligence in the performance of professional accounting services. Dolan failed to require the client to correct materially false statements in the financial statements. To avoid notoriety, Dolan settled out of court. The settlement was accepted by the judge in dismissal of the case and no further actions are pending.
- e. Everest is short 10 CPE hours for the most recent reporting period. On the CPE report to the State Board, Everest includes 10 hours of personal development activities (which is below the 16 hour maximum) for acting as the adult leader for a church youth group. On the form Everest lists a course name and sponsor that

are fabricated. Everest knows the audit rate of licensees is 1%, so assumes the odds are this will not be detected.

5. Read Section 007.03 and AICPA 1.800. Which of the following would be an allowable form of organization or name for a CPA practice? In all cases assume the individual practitioner is both a Nebraska licensee and a member of the AICPA in public practice.
- a. The firm of Able, Baker and Charlie, CPAs, was formed 40 years ago when all three named CPAs created a practice. Able died ten years ago, and Baker died last year. Charlie may continue to use the name Able, Baker and Charlie for up to two years after Baker's death.
 - b. In an attempt to create positive public perceptions, Weil, CPA, Dew, CPA and Reight, CPA create a firm name of Weal Duit Wright, CPAs.
 - c. Jones, CPA recently left practice with a large firm to start an individual practice. Jones has only one employee and no other CPAs in this practice. Jones could properly designate this practice unit "Jones and Associates, CPAs."
 - d. Millbank, CPA, and Moore, CPA have practiced as the Millbank and Moore, CPAs partnership for many years. Two years ago Moore decided to surrender his CPA certificate because he no longer wished to comply with licensing requirements. The firm continues to practice as Millbank and Moore, CPAs.