

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 002. Which of the following statements is false about the Nebraska Independence rule for CPAs (only one answer is false)?
 - a. A CPA licensee will not be independent with respect to an audit client in which the CPA holds a direct or material indirect financial interest.
 - b. A CPA licensee will not be independent with respect to an audit client with whom the CPA is connected in any capacity as a member of management or as an employee.
 - c. A CPA licensee will not be independent with respect to an audit client with which the CPA has a loan arrangement unless the loan meets certain limited exceptions.
 - d. A CPA licensee signing the audit opinion who meets the independence standards will be independent regardless of any relationships that might exist between the audit client and other members of the CPA licensee’s firm.

2. Read Section 004. Which of the following statements is true (only one answer is true)?
- By virtue of an active permit to practice, a CPA is deemed to possess professional competence in all engagements regardless of personal experience and education.
 - A Nebraska CPA who is NOT a member of the AICPA does not need to follow the AICPA Statements on Auditing Standards when performing a financial statement audit.
 - A Nebraska licensee may never express an opinion on financial statements if there is any departure from GAAP contained in the statements.
 - CPAs may not be involved in any way in issuing forecasts about future transactions.
 - A CPA must conform to the professional standards promulgated by the AICPA that cover management advisory services and accounting and review services.
3. Read Section 005.02. Assume your client refuses to provide payment for services already rendered, and requests that you return certain records to the client. Which of the following is a false statement?
- If the records are a tax return you prepared for the client, you must comply with the request regardless of the fee dispute.
 - If the records are an audit report you prepared for the client, you must comply with the request regardless of the fee dispute.
 - If the records are electronic or paper format general journal entries prepared by the client, you must comply with the request regardless of the fee dispute.
 - If the records are your original workpapers that do not ordinarily constitute part of the client's books and records, you must comply with the request regardless of the fee dispute.
4. Read Section 006 and AICPA 1.600. Concerning these rules, which of the following statements is true?
- Smith, CPA, a Nebraska licensee who is also a member of the AICPA, recently was awarded the AICPA PFS designation. Smith would violate both the Nebraska and AICPA rules by referring to this designation in advertising for her services.
 - Brown, CPA, a Nebraska licensee who is also a member of the AICPA, prepares a printed information sheet during tax season that offers to provide tax preparation services for individual tax returns for a rate of \$100 upon the client meeting Brown's client investigation standards. Brown does not reveal that she has never performed this service for \$100 and in fact the average fee for such returns is \$500. Brown has not violated either the Nebraska or AICPA rules.
 - Jones, CPA, a Nebraska licensee who is also a member of the AICPA, indicates in a phone book advertisement page which offers to provide tax controversy professional representation services on a negotiated fee basis that she has over 30 years of experience in federal tax controversy matters, including service at the IRS as an appeals officer. Jones in fact has these experiences. Jones would not be in violation of the Nebraska nor AICPA rules.

- d. Nelson, who met all the education requirements prescribed under Nebraska law and the Nebraska Board of Public Accountancy, but who has no practice experience, recently was notified that he had passed the CPA examination. Nelson has joined the AICPA. Nelson may use the CPA designation after his name in public communications and advertising.

5. Read Section 007.02 and AICPA 1.520. Which of the following would be a violation of the Commission and Referral Fees rules? In all cases assume the individual practitioner is both a Nebraska licensee and a member of the AICPA in public practice.

- a. Blue provides tax services only to clients. Blue receives a referral fee from a vendor of accounting software products. Blue discloses the referral fee to the tax clients.
- b. Green takes title to a software product and then, in conformity with the licensing arrangement with the supplier, resells the product at a markup to audit clients.
- c. Orange provides tax services to clients. As part of these services, Orange pays a subcontractor for processing services and receive any necessary waivers from the client for such disclosures of client data under IRC § 7216. Orange bills the client for the amount of these subcontractor fees as well as for Orange's services, but does not disclose to the client the subcontractor costs as a separate line item in the services invoice.
- d. Red performs an audit for a client. Red receives a commission fee from a vendor of accounting software products for recommending the software to the client. Red discloses the commission fee arrangement to the client.