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## TITLE 872 INDIANA BOARD OF ACCOUNTANCY

### **Proposed Rule** LSA Document #06-65

#### DIGEST

Amends 872 IAC 1-2-1 to address the ethical requirements for licensees by incorporating by reference the June 1, 2005, pronouncements on professional standards of the American Institute of Certified Public Accountants (to apply to certified public accountants). Effective 30 days after filing with the Secretary of State.

#### **IC 4-22-2.1-5 Statement Concerning Rules Affecting Small Businesses**

##### **Estimated Number of Small Businesses Subject to This Rule:**

U.S. Census Bureau North American Standard Classification System 541211 Offices of Certified Public Accountants

U.S. Census Bureau North American Standard Classification System 541219 Other Accounting Services

The Indiana Board of Accountancy (Board) has the authority to promulgate rules governing the administration and enforcement of Indiana Code 25-2.1 and the conduct of licensees, including rules of professional conduct directed to controlling the quality and probity of the practice of accountancy by licensees, including independence, integrity, and objectivity, competence and technical standards, and responsibilities to the public and clients. There are 16,139 certified public accountants in the state of Indiana. Although the proposed rule affects the practices of certified public accountants specifically, small businesses for which these certified public accountants are employed will also be affected because of the licensees' compliance. There are approximately 1,460 accounting firms with permits to practice accountancy issued by the Board. Some businesses that do not have a certified public accountant employed would not be affected by this rule. Some businesses that employ certified public accountants and are affected by this rule are not small businesses so those businesses would not be included in this estimate. Therefore, the exact number of small businesses affected by this rule is less than 1,460. The costs imposed on these small businesses are because the licensed certified public accountants that are directly affected by this rule will have to comply with the most recent American Institute of Certified Public Accountants (AICPA) Professional Standards requirements as opposed to the version of the standards currently in effect.

##### **Estimated Average Annual Administrative Costs That Small Businesses Will Incur:**

The Board estimates that there will be no annual reporting, administrative costs, or record keeping requirements incurred by small businesses to comply with this rule because the small businesses are already complying with these professional standards as opposed to the version of the standards currently in effect.

##### **Estimated Total Annual Economic Impact on Small Businesses:**

The Board estimates that there will be an impact on small businesses as a result of compliance with this rule. In order to comply with this proposed rule, a certified public accountant may have to replace 2004 AICPA edition with the 2005 AICPA edition. Compliance with the new 2005 edition of the AICPA Professional Standards is not intended to have any compliance costs or will have only minimal compliance costs because certified public accountants are already complying these professional standards as opposed to the version of the standards currently in effect. Therefore, there are no viable alternative into carrying out the purpose of this proposed rule.

• Justification of Requirements or Costs on Small Businesses Where Rule Is Not Expressly Required by Law: The proposed rule was permitted by IC 25-2.1-2-15 for the Board to enforce and administer its article, including adopting rules of professional conduct directed to controlling the quality and probity of the practice of accountancy by licensees, including independence, integrity, and objectivity, competence and technical standards, and responsibilities to the public and clients. In addition, the American Institute of Certified Public Accountants Professional Standards is the national standard for professional accountancy practice that certified public accountants are expected to follow. The Board is incorporating these standards in their rules to keep current with the national standards.

• Supporting Data, Studies, or Analyses: The Board did not rely on any data, studies, or analyses in determining the imposition of the AICPA Professional Standards is necessary.

##### **Regulatory Flexibility Analysis of Alternative Methods:**

The proposed rule was permitted by IC 25-2.1-2-15 for the Board to enforce and administer its article, including adopting rules of professional conduct directed to controlling the quality and probity of the practice of accountancy by licensees, including independence, integrity, and objectivity, competence and technical standards, and responsibilities to the public and clients. The

purpose of this proposed rule is to have the national standards in effect in Indiana and applying to all certified public accountants so there are no less intrusive and cost effective methods for regulating the practice of accountancy.

**A. Establishment of less stringent compliance or reporting requirements for small businesses.**

The Board is incorporating these standards in their rules to keep current with the national standards. The standards established by AICPA are for all certified public accountants no matter the size of the business.

**B. Establishment of less stringent schedules or deadlines for compliance or reporting requirements for small businesses.**

Because there are no reporting requirements, there was no need to establish less stringent schedules or deadlines for small business compliance.

**C. Consolidation or simplification of compliance or reporting requirements for small businesses.**

There are no other reporting requirements imposed by the proposed rule. The standards established by AICPA are for all certified public accountants Indiana no matter the size of the business.

**D. Establishment of performance standards for small businesses instead of design or operational standards imposed on other regulated entities by the rule.**

The standards imposed by this rule were developed by the American Institute of Certified Public Accountants. The standards established by AICPA are for all certified public accountants no matter the size of the business.

**E. Exemption of small businesses from part or all of the requirements or costs imposed by the rule.**

This proposed rule does not impose additional reporting requirements or costs. The standards established by AICPA are for all certified public accountants no matter the size of the business.

## 872 IAC 1-2-1

SECTION 1. 872 IAC 1-2-1, AS AMENDED AT 29 IR 1214, SECTION 1, IS AMENDED TO READ AS FOLLOWS:

### 872 IAC 1-2-1 Rules of professional conduct; applicability

**Authority:** IC 25-2.1-2-15

**Affected:** IC 4-22-2; IC 23-1.5; IC 25-1-11-12; IC 25-2.1

Sec. 1. (a) In the interpretation and enforcement of this rule, the board will give consideration, but not necessarily dispositive weight, to relevant interpretations, rulings, and opinions issued by the following:

- (1) Boards of other jurisdictions.
- (2) Appropriately authorized committees on ethics of professional organizations.

(b) No licensee of the board shall violate the following standards for the competent practice of accounting appropriate to establish and maintain a high standard of integrity and dignity in the profession of public accountancy, which are incorporated by reference as if fully set out in this rule:

(1) The following pronouncements on professional standards set forth in the AICPA Professional Standards, Volumes 1 and 2 (June 1, ~~2004~~, **2005**), subject to the exceptions listed in subsection (c) (applicable to certified public accountants only):

(A) U.S. Auditing - AICPA, including the following:

(i) Statement on Auditing Standards - Introduction.

(ii) The General Standards.

(iii) The Standards of Field Work.

(iv) The First, Second, and Third Standards of Reporting.

(v) The Fourth Standard of Reporting.

(vi) Other Types of Reports.

(vii) Special Topics.

(viii) Compliance Auditing.

(ix) Special Reports of the Committee on Auditing Procedure.

(B) Statements on Standards for Attestation Engagements.

(C) Statements on Standards for Accounting and Review Services.

(D) Code of Professional Conduct.

(E) Statement on Standards for Consulting Services.

(F) Tax Services.

(G) Personal Financial Planning.

(2) Professional corporation act at IC 23-1.5.

(3) National Society of Accountants (NSA) Rules of Professional Conduct and Official Interpretations, May 2003, excluding the

interpretations and Rule 9 (professional referrals) (applicable to accounting practitioners and public accountants only).

(c) As incorporated by reference in subsection (b)(1), the AICPA professional standards are amended to read as follows:

- (1) ET 50 (Principles of Professional Conduct – Sections 51 through 57) is deleted.
- (2) The third paragraph of Rule 505 (Form of Organization and Name) is deleted.
- (3) The phrase “standards promulgated by bodies designated by Council”, or any similar reference, shall mean the standards incorporated by reference in subsection (b)(1).

(d) Notwithstanding the use of the word “should” in the AICPA pronouncements incorporated by reference in subsection (b)(1)(A) through (b)(1)(G), a certified public accountant must:

- (1) comply with the pronouncements; or
- (2) justify any departures therefrom.

(e) It shall be deemed incompetent practice contrary to high standards of integrity and dignity in the profession of certified public accountancy for a licensee of the board to be found by a court of competent jurisdiction to have engaged in accounting practices falling below professional standards in Indiana.

(f) As used in this rule, “member”, as used in the:

- (1) AICPA Professional Standards; and
  - (2) NSA Rules of Professional Conduct and Official Interpretations;
- means licensee.

(g) Where matters incorporated by reference in this section conflict with express provisions of:

- (1) IC 25-2.1 (accountancy act);
  - (2) IC 23-1.5 (professional corporation act); or
  - (3) rules adopted by the board;
- the express provisions control.

(h) No subsequent editions, amendments, supplements, or releases of the:

- (1) AICPA Professional Standards;
  - (2) NSA Rules of Professional Standards; or
  - (3) NSA Rules of Professional Conduct;
- will be in effect in Indiana or adopted by the board, except by following the rulemaking provisions of IC 4-22-2.

(i) The standards incorporated by reference in subsection (b) apply to conduct that occurs after ~~December 31, 2005~~: **September 30, 2006**. This subsection shall not be construed to extinguish the board’s authority to impose any sanction under IC 25-1-11-12 for conduct that occurred before ~~January 1, 2006~~: **October 1, 2006**, in violation of a previous version of this section.

(j) A copy of the AICPA Professional Standards and the NSA Rules of Professional Conduct are available for public inspection at the offices of the Indiana Professional Licensing Agency, 402 West Washington Street, Room W072, Indianapolis, Indiana 46204. Copies of the AICPA Professional Standards are available from the entity originally issuing the document, the American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, New York 10036-8775. Copies of the NSA Rules of Professional Conduct are also available from the entity originally issuing the document, the National Society of Accountants, 1010 North Fairfax Street, Alexandria, Virginia 22314. (*Indiana Board of Accountancy; Rule 69-1, 39; filed Jun 30, 1978, 9:54 a.m.: 1 IR 402; filed Aug 18, 1983, 3:20 p.m.: 6 IR 1932; filed May 1, 1984, 12:50 p.m.: 7 IR 1544; filed Mar 20, 1985, 3:25 p.m.: 8 IR 1040; filed Aug 28, 1986, 3:20 p.m.: 10 IR 68; filed Dec 11, 1992, 5:00 p.m.: 16 IR 1399; filed Feb 24, 1997, 4:00 p.m.: 20 IR 1736; filed Dec 18, 2000, 9:27 a.m.: 24 IR 1353, eff Feb 1, 2001; readopted filed Jun 22, 2001, 8:57 a.m.: 24 IR 3824; filed Nov 18, 2005, 9:40 a.m.: 29 IR 1214, eff Jan 1, 2006*)

### ***Notice of Public Hearing***

*Under IC 4-22-2-24, notice is hereby given that on July 21, 2006 at 10:15 a.m., at the Indiana Government Center-South, 402 West Washington Street, Conference Center Room 5, Indianapolis, Indiana the Indiana Board of Accountancy will hold a public hearing on proposed amendments to address the ethical requirements for licensees by incorporating by reference the June 1, 2005, pronouncements on professional standards of the American Institute of Certified Public Accountants (to apply to certified public*

accountants).

*The Indiana Board of Accountancy (Board) has the authority to promulgate rules governing the administration and enforcement of Indiana Code 25-2.1 and the conduct of licensees, including rules of professional conduct directed to controlling the quality and probity of the practice of accountancy by licensees, including independence, integrity, and objectivity, competence and technical standards, and responsibilities to the public and clients. The proposed rule simply incorporates the 2005 edition of AICPA Professional Standards as it applies to certified public accountants. AICPA is the national standard for professional accounting practice that certified public accountants are expected to follow. The Board is incorporating these standards in their rules to keep current with the national standards. The Board has not relied upon any data, studies, or analyses in determining the imposition of requirement or cost.*

*Copies of these rules are now on file at the Indiana Government Center-South, 402 West Washington Street, Room W072 and Legislative Services Agency, One North Capitol, Suite 325, Indianapolis, Indiana and are open for public inspection.*

Frances L. Kelly  
Executive Director  
Indiana Professional Licensing Agency