

FROM: "Manny Norman, Sr. Sys. Prgmr., LT",
INTERNET:NORMAN_MANNY@EMUVAX.EMICH.EDU
TO: Multiple recipients of list PRFCMP-L, INTERNET:PRFCMP-
L@UTKVM1.BITNET
DATE: 12/28/95 6:00 PM

Re: Re: Delays

Sender: owner-prfcmp-l@utkvm1.utk.edu
Received: from wnt.dc.lsoft.com (wnt.dc.lsoft.com [205.186.43.7]) by arl-img-
1.compuserve.com (8.6.10/5.950515)
id RAA09360; Thu, 28 Dec 1995 17:53:46 -0500
Message-Id: <199512282253.RAA09360@arl-img-1.compuserve.com>
Received: from PEACH.EASE.LSOFT.COM (205.186.43.4) by wnt.dc.lsoft.com
(LSMTP for Windows NT v1.0a) with SMTP id 88807260 ; Thu, 28 Dec 1995 17:47:20 -
0500
Date: Thu, 28 Dec 1995 17:49:12 -0500
Reply-To: Professional Competence Standards Task Force
<PRFCMP-L@UTKVM1.BITNET>
Sender: Professional Competence Standards Task Force
<PRFCMP-L@UTKVM1.BITNET>
From: "Manny Norman, Sr. Sys. Prgmr.,
LT" <NORMAN_MANNY@EMUVAX.EMICH.EDU>
Subject: Re: Delays
To: Multiple recipients of list PRFCMP-L <PRFCMP-L@UTKVM1.BITNET>

Extracts from AICPA Standards Manual

My apologies for the lateness of this information. I made the notes
some months ago but have had an incredibly busy last few months. Fortunately,
I have a short respite over the Christmas break and will now take this
opportunity to get this across to all of you.

Firstly, may I wish everybody in the group the compliments of the
season.

The following consists of excerpts from the American Institute of
Certified Public Accountants Professional Standards Manual which, I feel,
may be relevant to our task. Occasionally there is some interpretation on
my part. Much of it is in a summary or precis form:

U. S. AUDITING:

General Standards:

1. The audit is to be maintained by a person or persons having adequate technical training and proficiency as an auditor.
2. In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.
3. Due professional care is to be exercised in the performance of the audit and the preparation of the report.

Standards of Field Work

1. The work is to be adequately planned, and assistants, if any, are to be properly supervised. (My observation with relevance to our profession: Consider when putting novices on a project team).

Standards of Reporting

Present fairly in accordance with generally accepted Accounting principles. Adequacy of disclosure.

In general standards: consider nature of standards, training and proficiency, independence, performance of work done (due care).

In standards of field work: consider planning and supervision, substantive tests (very important!), errors and irregularities, using work of specialist, illegal acts of client. Acknowledge sources.

Factors to be considered before applying substantive tests.
Communication between predecessor and successor auditors (in our case, programmers, analysts, etc.)

Responsibility to detect and report errors and irregularities (both in the product and in the behavior of the producer).

Professional skepticism. Evaluation of test results. Evaluating the work of others.

Using the Work of Specialists:

Decision whether to use that work.
Using the findings.
Acknowledging the specialist.

Litigation, claims and assessments:

Knowledge of Federal, State and local laws and regulations - compliance with these. The auditor's consideration of an Entity's ability to continue as a going concern (in Computing, consultant should consider the feasibility of what the customer wants to do and what consequences this may have).

CODE OF PROFESSIONAL CONDUCT

Principles of Professional Conduct - (Articles)

1. Responsibility

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities

2. 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.

3. Integrity

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity. (This, I consider, to be of paramount importance).

4. 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.

5. Due Care

A member should observe the professional, 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.

6. 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.

Rules - Applicability:

The bylaws of the AICPA require that members adhere to the rules of the Code of Professional Conduct and that members must be prepared to justify departure from those rules.

Independence, Integrity and Objectivity:

Ethics rulings: acceptance of a gift. Conflicts of interest.
Family relationships. Special favors.

Other Responsibilities:

Advertising and other forms of solicitation.
Disclosure of client information (client confidentiality).
Commissions - Fees in payment for services.
Member interviewed by the Press.
Responsibilities of partners.

Membership of Association:

Admission to membership - Requirements.
Retention of membership - Requirements.
Certification of membership.
Rescindment of membership - Procedures for this.
Resignation of membership.
Whether membership is required to practice.

Quality Control:

Establishment of Quality Control policies and procedures.
Assignment of personnel to engagements.
Consultation. Supervision. Hiring.
Professional Development. Advancement.
Acceptance and continuance of clients. Inspection.

The following are extracts (and some rephrasing) from some relevant (in my opinion!) sections of the Professional Standards Manual:

Section 510

- 7091.01 ... ultimately lies in the results that are produced. These results must be judged from the standpoint of society as a whole, and not merely from that of any one group of interested persons.
- 7091.02 ... must be adapted to meet changes as they occur.
- 7092.03 ... uniformity is a worthwhile goal. ... but should not be pursued to the exclusion of other benefits.
- 7092.04 ... changes of objectives and conditions will lead to the adoption of new procedures. Consequently, diversity of practice may continue as new procedures are adopted before the old ones become obsolete.
- 7092.05 Principal objective ... narrow areas of difference and inconsistency. ... Further development and recognition of generally accepted principles.

Section 520 - Rules of Conduct

- 7010.01 Rule 203. Deals with departure from established accounting principles, e. g., making statements that a financial statement is presented in conformity with generally accepted principles when that does not appear to be the case. The person making such a statement must demonstrate that departure from the norm can be justified in this instance.
- 7010.02 Rule 203 was adopted to require compliance with accounting principles promulgated by the body designated to establish such principles.
- 7010.03 It recognizes that it may be difficult to anticipate all the circumstances to which such principles might be applicable. It recognizes that there may be occasions where literal application of pronouncements may be misleading. (My observation: Such a situation could lead to a revision of the principles involved).
- 7010.04 How we define "usual circumstances" should be a matter of professional judgement.

Section 1021

7171.01 Statement of Principles - purpose. Intended to provide a basis for enhanced understanding of broad fundamentals.

7186.19 Generally accepted accounting principles.

7187.24 Dynamic nature of financial accounting (For computing: rapidly changing technology).

7190.28 Use of financial accounting information.

Section 1026

7261.01 Generally accepted accounting principles incorporate the consensus at a particular time ... resources available ...

7263.07 Pervasive principles specify the general approach accountants take to recognition and measurement of events that affect the financial position and results of operations of enterprises.

(As you can imagine, by the numbers, there are a lot of sections).

The following are taken from "Morality in Accounting" by Riahi Belkaoui:

From the preface - opening sentence:

... deemed vital to users' decision making.

Page 1. ... the idea of neutrality in preparation ... and the idea of justice in outcome.

D. R. Scott (1941): "Accounting rules, procedures and techniques should be fair, unbiased and impartial. They should not serve a special interest."

Page 2. Fairness connotes compliance with generally accepted ... principles and ... standards.

Page 26. Utilitarian Ethics: An action is considered to be morally right or wrong solely on the consequences that result from that action.

Page 27. Deontological Ethics: An action is considered morally right if it conforms with a proper moral rule. An action that violates the rule, but results in beneficial consequences is still considered wrong.

Page 28. Schrag: The language of morality is the language of responsiveness and responsivity and if there is to be talk of and 'ethics' in all this, it will need to be an ethics of the fitting response.

Page 35. Those who are inclined to ascribe a much higher level of altruism to the motives of professionals have long insisted that the essence of professionalism is to put the public's interest ahead of self interest. A dedication to serving others is regarded as essential in laying claim to being a professional, and a professional has an obligation to be concerned about sub-standard behavior, whether or not it is actionable under the law.

I hope that this has some useful bearing on our mission.

Manny.