



## NATIONAL SOCIETY OF ACCOUNTANTS

### RULES OF PROFESSIONAL CONDUCT AND OFFICIAL INTERPRETATIONS

The National Society of Accountants is a professional organization comprised of accountants in public practice throughout the United States and in several foreign countries. The Society is dedicated to the concept that its members adhere to the highest professional standards in the conduct of their practices. Public consumers, business and government now rely upon the public accounting profession more than ever for the complete and accurate presentation of financial information, schedules, and reports, as well as judgment in business matters. Each member of the Society accepts this responsibility and pledges to abide by the Rules of Professional Conduct and the Interpretations thereof as contained herein.

In all instances where reference is made to a “member,” it shall be deemed to include the member personally, a partnership or professional corporation of which he may be a member, or any of his employees. References to the male gender shall also be construed to refer to the female gender.

There will be instances where a particular matter is not specifically covered by the Rules or Interpretations, and these instances should be submitted to the Ethics and Grievance Committee for guidance. Every member who is uncertain as to the application of any Rule should contact the NSA office. The circumstances will be submitted to the Ethics and Grievance Committee, which will render an advisory opinion.

The Rules of Professional Conduct are rules of reason and should be interpreted with reference to the conduct of the public practice of accountancy in the highest ethical manner, thereby instilling confidence in the client that his accounting affairs are handled in a competent, ethical and prudent fashion.

The Interpretation accompanying each Rule explains and clarifies the meaning and purpose of the Rule. The Interpretations are intended as guides. The text of each Rule is controlling.

For purposes of these Rules of Professional Conduct the following definitions shall apply:

**“Audit”** means an examination of financial statements of an entity conducted in accordance with generally accepted auditing standards to determine whether, in the accountant’s opinion, the statements conform with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting.

**“Review”** means to perform an inquiry and analytical procedures that permit the accountant to determine that there are no material modifications that should be made to financial statements in order for them to be in conformity with generally accepted accounting principles or, if applicable, with another comprehensive basis of accounting.

**“Compilation of a financial statement”** means presenting in the form of a financial statement information

that is the representation of any other person without the accountant's undertaking to express any assurance on the statement.

**"Commission"** means compensation, except a referral fee, for recommending or referring any product or service to a client when the product or service is supplied by another person or party.

**"Trade name"** means a name used to designate a business enterprise.

## **I. RELATIONS WITH CLIENTS AND THE PUBLIC RULE NO. 1: CONFIDENTIALITY**

Members of this Society shall not violate the confidential relationship between themselves and their clients or former clients.

### **Interpretation No. 1**

Mutual confidence between a client and his accountant is one of the accounting profession's finest characteristics and greatest assets. This Rule is intended to prohibit discussion of the client's or former client's business and/or personal affairs with an unauthorized person outside of general and public common knowledge. Even in this area, the member should avoid all statements that would tend to formulate an opinion in the mind of the hearer.

Information of any nature about a client or his business, or his personal affairs, should not be disclosed to anyone by the member without the client's consent except as required by federal or state law. Should the information be such as to have a material adverse effect on any report or tax return being prepared by the member, and the client will not consent to the disclosure of the information, the member should consider refusing to prepare the report or tax return and withdraw from the assignment. The member should first use every available means to persuade the client to disclose the information.

Work papers are solely owned and controlled by each member. Should a member be succeeded by another accountant for any reason, the work papers of the member shall not be disclosed to the successor accountant without the client's authorization.

This Rule shall in no way be construed to affect a member's compliance with a validly issued subpoena or summons enforceable by court order.

## **RULE NO. 2: CONTINGENT FEES**

Professional services shall not be offered or rendered to a client for a contingent fee during any period when the professional service consists of an audit engagement, a review engagement, or a compilation engagement, including the period of time covered by any historical financial statements involved while performing an audit, a review, or a compilation engagement. This Rule applies also to an offer to accept, or the accepting of, a contingent fee for the preparation of original or amended tax returns or claims for tax refunds. A contingent fee means a fee established for the performance of any service pursuant to an arrangement whereby 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. This Rule does not apply to cases involving federal, state, or other taxes in which the findings and conclusions are those of the tax authorities and not those of the member, nor does this Rule apply to fees to be fixed by courts or other public authorities which are of an undetermined amount at the time the engagement is undertaken.

## **Interpretation No. 2**

A fee based upon the result obtained where the member's professional services consist of an audit engagement, a review engagement, or a compilation engagement, may not only affect the independence of the member but may also impugn the integrity and ethical behavior of the member. The member must avoid any action that might engender suspicion that his services are being influenced by the expected size of the potential fee. It is of paramount importance that the client is confident that the member is exercising his best professional efforts and skills in the client's behalf.

## **RULE NO. 3: INDEPENDENCE – (IS A SPECIFIC CALL TO EACH ENGAGEMENT AND CLIENT)**

A member or a firm of which the member is a partner or shareholder shall not express an opinion on, nor perform a review or compilation of, financial statements of an enterprise unless he and his firm are independent of such enterprise. Accordingly, a member shall not express an opinion or perform a review or compilation of financial statements of an enterprise financed in whole or in part by public distribution of securities, or on financial statements for use as a basis of credit if he or a member of his immediate family owns or is committed to acquire a substantial financial interest in the enterprise, or during the period covered by an audit, review, or compilation in which he has been a director, officer or employee. If a member is not independent with respect to the engagement, the lack of independence should be noted in the transmittal letter or accountant's report accompanying the financial statements.

## **Interpretation No. 3**

The prime factor to be considered in this Rule is whether the member is "independent" in appearance as well as in fact. A temptation could be present to tinge a report if the member's own financial position were to be affected. The reader of the report is entitled to know the relationship of the member to the client so that he can draw his own conclusions. The fact that a member is a director of a religious, charitable, civic, or other type of non-profit organization will prevent him from acting as an independent accountant. The member should either decline the engagement or should fully disclose his relationship in the transmittal letter.

## **II. OPERATING PRACTICES RULE NO. 4: USE OF FIRM NAME**

A member shall not allow any person to practice in his corporate, partnership or individual name who is not a partner, professional corporation co-shareholder, or any employee.

## **Interpretation No. 4**

Public accounting is the rendition of personal services for which an individual accountant or his business entity (partnership or corporation) assumes full liability and responsibility, not only for his acts but also for those under his jurisdiction or control. The Rule is intended to assure the client that the member who renders an opinion on an audit, or a report on a review or compilation of financial statements, is the one who made the examination (or who caused it to be made), or who performed the services required, and who assumes responsibility for it. This Rule does not prevent a member from engaging the services of another accountant provided the member supervises the work done and the engagement is on a professional basis between the two accountants.

*EXAMPLE*—Should a member refer work to another accountant who is not on his staff or in his employ, he should advise the other accountant that the work must be returned to the member for transmittal to the

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client. The other accountant should be advised his status is that of an independent contractor, engaged by the member—not the client. If the other accountant reports directly to the client, it would be a violation of this Rule.

*EXAMPLE*—Two or more accountants who share the same office should not indicate in any way that they are partners, unless an actual partnership exists. To do otherwise might mislead the client, the public, and credit grantors, and reflect adversely on the accounting profession.

## **RULE NO. 5: CONFLICT OF INTEREST**

A member who renders professional services including, but not limited to, an audit engagement, a review engagement, or a compilation engagement, shall not at the same time engage in any business activity or occupation which would create a conflict of interest while performing the aforementioned professional services.

## **III. PROMOTIONAL PRACTICES RULE NO. 6: COMMISSIONS**

A member shall not accept a commission from any person or client for whom the member concurrently offers to render or renders a professional service where the professional service consists of an audit engagement or a review engagement (including the period of time covered by any historical financial statements involved while performing an audit or a review engagement), nor accept a commission where the member performs a compilation of a financial statement when the member expects or reasonably might expect that a third party will use the compiled financial statement, and the member's compilation report or transmittal does not disclose a lack of independence.

### **Interpretation No. 6**

The Rule prohibits a member from accepting a commission from a client for any purpose when the member offers to render or renders a professional service to the client, which may consist of an audit engagement, a review engagement, or a compilation engagement as defined in this Rule.

This Rule does not prohibit payments to the member for the purchase of an accounting practice, nor does it prohibit retirement payments to a member formerly engaged in the public practice of accounting or payments to his heirs or estate.

In instances where it is permissible for a member to accept a commission for the sale of goods or services, the member shall make disclosure of the fact of receipt of commission to the person or client to whom the member recommends or refers a product or service to which the commission relates.

## **RULE NO. 7: ADVERTISING AND SOLICITATION**

A member 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.

### **Interpretation No. 7-1**

Advertising must be factual, informative and objective. It may include, but is not limited to, the following information about the member's firm, applicable state law and regulations permitting:

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- (a) Names, addresses, telephone numbers, number of partners, shareholders, or employees, office hours, foreign language competence, and date the firm was established;
- (b) Services offered and fees charged for such services, including hourly rates and fixed fees;
- (c) Educational and professional attainments, including date and place of license, registration or certification, schools attended, dates of graduation, degrees received, and memberships in professional associations;
- (d) Enrollment to practice before the IRS to the extent allowed by Treasury Department Circular No. 230;
- (e) Accreditation by the Accreditation Council for Accountancy and Taxation.

### **Interpretation No. 7-2**

Advertising or other forms of solicitation that are false, misleading, or deceptive, or contain any other representation that would likely cause a reasonable person to misunderstand or be deceived, are not in the public interest and are prohibited.

### **Interpretation No. 7-3**

#### (a) *Titles*

(1.) When a member is licensed by the state board of accountancy, the member should use the title conferred under state law for the public practice of accountancy.

(2.) When a member is not licensed, the preferable title is "Accountant," if not prohibited under state law. In those few instances where state law prohibits the title "Accountant" for individuals not licensed, it is suggested that appropriate titles may include "Business and Tax Services," "Financial Services," "Estate Planning," or such other appropriate title that reflects the member's concentration of practice or best describes the services that the member renders.

Announcement cards and/or advertisements consistent with this Rule may be used when opening an office, when a new person is added to the firm, when one moves to a new location and on similar occasions. The announcement cards may be distributed to clients, prospective clients, family and personal friends, and others with whom the accountant has contact on a professional basis such as bankers, lawyers, financial planners and other accountants.

#### (b) *Enrolled Status and Accreditation*

A firm may indicate "Enrolled to Represent Taxpayers before the Internal Revenue Service" or "Enrolled to Practice before the Internal Revenue Service" to the extent permissible by Treasury Department Circular No. 230 so long as all persons whose names appear are enrolled to practice. If all are not enrolled agents, then the indication must be made in a manner to clearly show which persons are, in fact, enrolled. An asterisk would be an appropriate means of making this clear. The same is true for the indication of accredited status as an Accredited Tax Preparer, an Accredited Tax Advisor, an Accredited Business Accountant, an Accredited Business Advisor, or an Accredited Certified Senior Advisor. The phrase "Accredited by the Accreditation Council for Accountancy and Taxation," or the titles "Accredited Business Accountant," "Accredited Business Advisor," "Accredited Tax Advisor," or "Accredited Certified Senior Advisor" may be used where permissible under state law. Accreditation is for individuals only. The "Accredited by the Accreditation Council for Accountancy and Taxation" designation may not be used to imply that a corporation or firm is accredited.

## **RULE NO. 8: FIRM NAMES**

A member who engages in the public practice of accountancy may use any form of entity allowed by law or regulation. The firm name used shall not be misleading.

### **Interpretation No. 8**

A member shall not mislead the public with regard to the type of entity under which the member conducts his practice. The terms "and associates" and "and company" are terms that indicate a partnership or a corporate form of business entity. A member who practices as a sole proprietorship misleads the public into believing that he practices as a partnership when the terms "and associates" and "and company" are utilized. Names of one or more past partners or shareholders may, however, be included in the firm name of a successor partnership or corporation. A partner surviving the death or withdrawal of all other partners may continue to practice under the partnership name for the duration permitted under state law.

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

A member may practice under a trade name providing the member complies with state (or local) fictitious trade name laws.

## **RULE NO. 9: PROFESSIONAL REFERRALS**

A member who receives an engagement for services by referral from another accountant shall not discuss or accept an extension of his services beyond the specific engagement without first consulting with the referring accountant.

### **Interpretation No. 9**

A member who receives an engagement for services by referral from another accountant shall not accept the client's request to extend his service beyond the specific engagement without notifying the referring accountant, nor shall he seek to obtain any additional engagement from the client.