THE ETHICS APPLICABILITY, DEFINITIONS, INTERPRETATIONS, AND ETHICS RULINGS CONTAINED IN THIS DOCUMENT ARE EFFECTIVE ON AUGUST 31, 2013.

Ethics interpretations are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication of an interpretation or ethics ruling in the Journal of Accountancy constitutes notice to members. A member who departs from interpretations or rulings shall have the burden of justifying such departure in any disciplinary hearing.

The Professional Ethics Executive Committee has adopted the following revised Interpretation No. 102-4, “Subordination of Judgment by a Member,” under Rule 102, Integrity and Objectivity (AICPA, Professional Standards, ET sec. 102 par. .05).
Revised Interpretation Under Rule 102, Integrity and Objectivity
(Additions are shown in boldface italic, and deletions are stricken.)

.05 102-4—Subordination of judgment by a member

Rule 102 [ET section 102.01] prohibits a member from knowingly misrepresenting facts or subordinating his or her judgment when performing professional services for a client, for an employer, or on a volunteer basis. Although Rule 102 prohibits subordination of judgment to a client, this interpretation addresses differences of opinion between a member and his or her supervisor or any other person within the member’s organization.

Under this rule, if a member and his or her supervisor or any other person within the member’s organization have a disagreement or dispute—difference of opinion relating to the preparation of financial statements or the recording of transactions, application of accounting principles; auditing standards; or other relevant professional standards, including standards applicable to tax and consulting services or applicable laws or regulations, then self-interest, familiarity, and undue influence threats to the member’s compliance with Rule 102 may exist. The member should take the following steps to ensure that the situation does not constitute a subordination of judgment:

Accordingly, the member should apply appropriate safeguards so that the member does not subordinate his or her judgment when the member concludes the difference of opinion creates significant threats to the member’s integrity and objectivity.

In assessing the significance of any identified threats, the member should form a conclusion, after appropriate research or consultation, about whether the result of the position taken by the supervisor or other person

a. fails to comply with professional standards, when applicable;

b. creates a material misrepresentation of fact; or

c. may violate applicable laws or regulations.

If the member concludes that the position taken is not in compliance with professional standards but does not result in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would not be considered significant. However, the member should discuss his or her conclusions with the person taking the position.

If the member concludes that the position results in a material misrepresentation of fact or a violation of applicable laws or regulations, then threats would be considered significant. In such circumstances, the member should discuss his or her concerns with the supervisor. If the difference of opinion is still not resolved, then the member should discuss his or her concerns with the appropriate higher level(s) of management within the member’s organization (for example, the supervisor’s immediate superior, senior management, and those charged with governance).

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1A member in the practice of public accounting should refer to the Statements on Auditing Standards. For example, see SAS No. 22, Planning and Supervision (AU section 311), which discusses what the auditor should do when there are differences of opinion concerning accounting and auditing standards.
If after discussing such concerns with the supervisor and appropriate higher level(s) of management within the member’s organization, the member concludes that appropriate action was not taken, then the member should consider, in no specific order, the following safeguards to ensure that threats to the member’s compliance with Rule 102 are eliminated or reduced to an acceptable level:

- Determining whether any additional requirements exist under his or her employer’s internal policies and procedures for reporting differences of opinion.

- Determining whether any responsibilities exist to communicate to third parties, such as regulatory authorities or the employer’s (former employer’s) external accountant. In considering such communications, the member should be cognizant of his or her obligations under Interpretation No. 501-9, “Confidential Information Obtained From Employment or Volunteer Activities,” under Rule 501, Acts Discreditable [ET section 501.10], and Interpretation No. 102-3, “Obligations of a Member to His or Her Employer’s External Accountant,” under Rule 102 [ET section 102.04].

- Consulting with his or her legal counsel regarding his or her responsibilities.

- Documenting his or her understanding of the facts, the accounting principles, auditing standards, or other relevant professional standards involved or applicable laws or regulations and the conversations and parties with whom these matters were discussed.

If the member concludes that no safeguards can eliminate or reduce the threats to an acceptable level or if the member concludes that appropriate action was not taken, then he or she should consider his or her continuing relationship with the member’s organization and take appropriate steps to eliminate his or her exposure to subordination of judgment.

Nothing in this interpretation would preclude a member from resigning from the member’s organization at any time. However, resignation may not relieve the member of his or her responsibilities in the situation, including any responsibility to disclose to third parties, such as regulatory authorities or the employer’s (former employer’s) external accountant.

A member should use professional judgment and apply similar safeguards, as appropriate, to other situations involving a difference of opinion so that the member does not subordinate his or her judgment.

1. The member should consider whether (a) the entry or the failure to record a transaction in the records, or (b) the financial statement presentation or the nature or omission of disclosure in the financial statements, as proposed by the supervisor, represents the use of an acceptable alternative and does not materially misrepresent the facts. If, after appropriate research or consultation, the member concludes that the matter has authoritative support and/or does not result in a material misrepresentation, the member need do nothing further.

2. If the member concludes that the financial statements or records could be materially misstated, the member should make his or her concerns known to the appropriate higher level(s) of management within the organization (for example, the supervisor’s immediate superior, senior management, the audit committee or equivalent, the board of directors, the company’s owners). The member should consider documenting his or her
understanding of the facts, the accounting principles involved, the application of those principles to the facts, and the parties with whom these matters were discussed.

3. If, after discussing his or her concerns with the appropriate person(s) in the organization, the member concludes that appropriate action was not taken, he or she should consider his or her continuing relationship with the employer. The member also should consider any responsibility that may exist to communicate to third parties, such as regulatory authorities or the employer’s (former employer’s) external accountant. In this connection, the member may wish to consult with his or her legal counsel.

4. The member should at all times be cognizant of his or her obligations under interpretation 102-3 [ET section 102.04].