

# Public Interest Update

**Spring 2014**  “Placing the public interest above self-interest is the hallmark of a profession”... Eddie Stamp, 1983...

## Special points of interest:

- \* Highlight from the Midyear meeting
- \* AICPA Subordination of Judgment and Dodd-Frank Whistleblowing Standards
- \* The Public Interest Section in Cyberspace!

## 2014 Midyear Meeting of the Public Interest Section a Big Success!

### To the Members and Friends of the Public Interest Section,

The 2014 Midyear Meeting of the Public Interest Section of the AAA was held on March 28-29, 2014 in San Diego, CA at the historic U.S. Grant Hotel that was built in 1910. Participants experienced the charm of the hotel and unique experience of living through a 5.1 earthquake in the L.A. area that was felt as far south as San Diego.



The meeting featured a Doctoral/New Scholar Consortium and one and one-half day program showcasing the best research papers received. The Coordinators of the Midyear meeting were Steve Mintz and Brian Shapiro. The Doctoral Consortium provided an opportunity for well-known scholars in public interest accounting to share academic points of view with doctoral students and new scholars. Through discussion of their life experiences, Sue Ravenscroft, Pat Kelly, and Brian Shapiro provided a thoughtful perspective on what it means to be a teacher and researcher at the university level given the professional obligations that exist in academe. The Consortium was coordinated by Charlie Cullinan.

The program began with a luncheon on Friday at which James Dalkin from the Government Accountability Office shared his insights on the role of standard setting in the public interest. A plenary session followed that featured a discussion of Regulation, Professional Standards and Professionalism in Accounting. The interactive session included presentations by Ed Howard from the Center for Public Interest Law at the University of San Diego who provided a critical assessment of business and government for failing in its public interest obligations. Martin Martinoff from the Institute of Chartered Accountants in England and Wales addressed the role of the auditing profession in the 21st century. Bill Thomas shared with the group the experiences in Texas with its ethics education requirement for university students and continuing professional education.



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Karen Pincus, Past President of AAA

On Saturday, the program began with forum papers that provided an opportunity for authors to share their research and gain insight on how to strengthen their papers for future publication. The luncheon speaker was Kirk Hanson, the director of the Markkula Center for Applied Ethics at Santa Clara University. Kirk spoke about his experiences in developing ethics programs for corporations and other organizations and evaluating whether these programs are having their desired effect of improving the ethical environment in business. A highlight of the luncheon session was the presentation of the Best Paper Award to Charlie Cullinan, Lois Mahoney, and Pamela Roush for “Corporate Social Responsibility Performance and

Shareholder Voting on Corporate Social Responsibility Proposals.” Following lunch, Karen Pincus, the Immediate Past President of AAA, brought us up to date with new initiatives at the Association including moving towards a “Thought Leadership” model.

A rewarding part of the meeting was its ability to attract new scholars to the public interest family: two papers were presented by doctoral candidates and several participants were from foreign countries including Luxembourg, Lebanon, Saudi Arabia and Taiwan. New friendships were formed and old ones renewed. We all look forward to the 2015 Midyear Meeting.



## AICPA Subordination of Judgment and Dodd-Frank Whistleblowing Standards



Dr. Steve Mintz

Orfalea College of Business at Cal Poly, San Luis Obispo

The passage of the Dodd-Frank Financial Reform Act of 2010 and a recent revision of Interpretation 102-4 of the AICPA Code of Professional Conduct dramatically changes the landscape of how accounting professionals, especially auditors and audit firms, are affected by the subordination of judgment standard and the confidentiality obligation of accounting professionals. A violation of integrity and objectivity occurs when a CPA subordinates her judgment to others. Historically, Interpretation 102-4 applied solely to internal accountants and auditors. With the revision that went into effect on August 31, 2013, a violation of integrity and objectivity would occur even when there is no internal disagreement – i.e., the external auditor CPA firm unanimously supports a client’s position because the CPA firm subordinated its collective judgment.

Interpretation 102-4 provides express guidance to minimize or avoid subordination of judgment when differences exist on accounting matters that would be material information to users of the financial statements. Such differences of opinion could arise between: (1) subordinates and superiors in the financial statement issuing organization; (2) within the external auditor CPA firm; or (3) between the management of the Company and the external audit organization. What is new is that the revised Interpretation now applies to CPA’s serving in an external audit function at CPA firms as well as accountants and internal auditors in industry that have always been covered by the standard.

One motivation for the change is the passage of Dodd-Frank. The Act protects whistleblowers that “voluntarily” provide the SEC with “original information” about a violation of federal securities laws that leads to a successful enforcement proceeding. Under US Code Section 78a, the successful enforcement action must result in monetary sanctions of more than \$1 million. Section 922 of Dodd-Frank provides an award for whistleblowers who meet certain criteria of “not less than 10

# Whistle- blowing

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percent and not more than 30 percent, in total, of what has been collected of the monetary sanctions imposed in the section.”

Under certain potentially broad circumstances, internal accountants and auditors can be eligible to become Dodd-Frank whistleblowers, based on the information they learn about misconduct at their entities. For example, an internal auditor may believe that disclosure is necessary to prevent the company from engaging in conduct that is likely to cause substantial injury to the entity or investors.

The application of Dodd-Frank whistleblowing provisions to external auditors

and audit firms is controversial. The Act permits auditors or an employee associated with the auditor/firm to make a whistleblower submission alleging that the auditor/firm failed to assess, investigate or report wrongdoing in accordance with Section 10A of the Securities and Exchange Act of 1934, or that the auditor/firm failed to follow other professional standards. If the whistleblower makes such a 10A submission, the whistleblower will be able to obtain an award not only from a successful enforcement action against the auditing firm, but also from any successful action against the firm’s engagement client. In allowing such claims, the goal of the SEC is “to help insure that wrongdoing by the firm or its employees is reported on a timely

fashion” (SEC Release no. 34-64545, 140-141).

Accounting academics should be aware that Dodd-Frank now permits employees of an accounting firm that perform an audit for a public company to become whistleblowers against the firm if that firm fails to comply with its obligations under the securities laws to report unlawful conduct occurring at the public company being audited. The position of the SEC is that the important gatekeeper role that auditors play in the securities markets overrides the confidentiality obligation that exists in professional standards. The result may be to establish a chilling effect on the relationship between the audit personnel and their firm.

## The Public Interest Section in Cyberspace!

Welcome to the Public Interest Section's social media initiative. We are delighted to announce the "soft launch" of a pilot demonstration project that establishes an internet communication platform for our Section. The hub of our social media activities is a Wordpress blog that is currently located at

<http://aaapis.wordpress.com/>



For the next three months, we plan to post content on the home page of that web site. If you prefer to view our postings as email messages, you are welcome to go to that web page and utilize the "Follow Blog via Email" widget in the right margin to enter your email address. We plan to explore the use of supplemental electronic distribution methodologies as well.

Please use the "Contact Us!" link near the top of that web page to let us know if you are interested in contributing any content to our blog. We hope to discuss this demonstration project at our upcoming Business Meeting in Atlanta. Hopefully, at that time, our Section members will approve our plans to transition from our current "pilot" phase to a "permanent platform" phase. Thank you for your time and support of our Section. And once again, welcome to our new online service!



**Dr. Michael L. Kraten**  
Providence College

## Join us at the Annual Meeting!



### Annual Meeting Registration is Now Open!

Join us in Atlanta for the 2014 Annual Meeting. You can register easily right online. [Click Here](#) for more details about registration. The early registration deadline is **June 17, 2014** at 11:59pm EDT. Registration closes on **July 16, 2014** at 4:00pm EDT.

*See you in Atlanta!*