

Ethics Interpretation

Ethics interpretations and rulings are promulgated by the executive committee of the professional ethics division to provide guidelines as to 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 approved the release of two new ethics rulings—the first, **Ethics Ruling No. 112 under Rule 102 (AICPA, Professional Standards, ET sec. 191.224-.225)**, and the second, **Ethics Ruling No. 12 under Rule 201 and Rule 202 (AICPA, Professional Standards, ET sec. 291.023 - .024)**—to provide guidance with respect to a member’s responsibilities when using third-party service providers to provide professional services to clients. The committee has also revised **Ethics Ruling No. 1 under Rule 301 (AICPA, Professional Standards, ET sec. 391.001-.002)** to clarify and add provisions to the ruling; and deleted **Ethics Ruling No. 5 under Rule 301 (AICPA, Professional Standards, ET sec. 391.009 - .010)** of the Code of Professional Conduct. Added text is in boldface italics; deleted text is struck through.*

Transition

The provisions of these ethics rulings are effective for all professional services performed on or after July 1, 2005, except for professional services performed pursuant to agreements in existence on June 30, 2005 that are completed by December 31, 2005. Earlier application is encouraged.

ETHICS RULING NO. 112 UNDER RULE 102 – Integrity and Objectivity

112. Use of a Third-Party Service Provider to Assist a Member in Providing Professional Services

.224 Question—A member in public practice uses an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control (as defined by accounting principles generally accepted in the United States) or an individual not employed by the member (a third-party service provider) to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest services, including related clerical and data entry functions) to clients. Does Rule 102, Integrity and Objectivity [ET section 102], require the member to disclose the use of the third-party service provider to the client?

.225 Answer— Yes. The concept of integrity set forth in Rule 102, Integrity and Objectivity [ET section 102.01] and Article III, Integrity [ET section 54] requires a member to be honest and candid. Clients might not have an expectation that a member would use a third-party service provider to assist the member in providing the professional services. Accordingly, before disclosing confidential client information to a third-party service provider, a member should inform the client, preferably in writing, that the member may use a third-party service provider. This disclosure does not relieve the member from his or her obligations under Ethics Ruling No. 1 [ET section 391.001-.002] under Rule 301, Confidential Client Information [ET section 301.01]. If the client objects to the member’s use of a third-party service provider, the member should provide the professional services without using the third-party service provider or the member should decline the engagement.

A member is not required to inform the client when he or she uses a third-party service provider to provide administrative support services (for example, record storage, software application hosting, or authorized e-file tax transmittal services) to the member.

See Ethics Ruling No. 12 under Rule 201, General Standards, and Rule 202, Compliance With Standards [ET section 291.023-.024]; and Ethics Ruling No. 1 under Rule 301, Confidential Client Information [ET section 391.001-.002], for additional responsibilities of the member when using a third-party service provider.

ETHICS RULING NO. 12 UNDER Rule 201 – General Standards and Rule 202 – Compliance with Standards

12. Applicability of General and Technical Standards When Using a Third-Party Service Provider

.023 Question—What responsibility does a member in public practice have for complying with the general and technical standards under Rule 201, General Standards [ET section 201], and Rule 202, Compliance With Standards [ET section 202], when using an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control (as defined by accounting principles generally accepted in the United States) or an individual not employed by the member (a third-party service provider) to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest services, including related clerical and data entry functions) to clients?

.024 Answer—Using a third-party service provider to assist the member in providing professional services to clients does not in any way relieve the member from his or her responsibilities to comply with the requirements of Rules 201 and 202. Accordingly, the member remains responsible for the adequate oversight of all services performed by the third-party service provider and for ensuring that all professional services are performed with professional competence and due professional care. In addition, the member must adequately plan and supervise the professional services provided by the third-party service provider, obtain sufficient relevant data to support his or her work product and comply with all technical standards applicable to the professional services.

This ruling does not extend the member's responsibility for planning and supervising the work of a third-party service provider beyond the requirements of applicable professional standards, which may vary depending upon the nature of the member's engagement.

See Ethics Ruling No. 112 under Rule 102, Integrity and Objectivity [ET section 191.224-.225], and Ethics Ruling No. 1 under Rule 301, Confidential Client Information [ET section 391.001-.002], for additional responsibilities of the member when using a third-party service provider.

ETHICS RULING NO. 1 UNDER RULE 301 – Confidential Client Information

1. ~~Computer Processing of Clients' Returns~~ *Use of a Third-Party Service Provider to Provide Professional Services to Clients or Administrative Support Services to the Member*

- .001 *Question*— ~~May a member make use of an outside service bureau for the processing of clients' tax returns? The member's firm would control the input of information and the computer service would perform the mathematical computations and print the return. Is there any violation of the confidential relationship in the fact that client information leaves the member's office?~~

A member in public practice uses an entity that the member, individually or collectively with his or her firm or with members of his or her firm, does not control (as defined by accounting principles generally accepted in the United States) or an individual not employed by the member (a "third-party service provider") to assist the member in providing professional services (for example, bookkeeping, tax return preparation, consulting, or attest services, including related clerical and data entry functions) to clients or for providing administrative support services to the member (for example, record storage, software application hosting, or authorized e-file tax transmittal services). Does Rule 301, Confidential Client Information [ET section 301], require the member to obtain the client's consent before disclosing confidential client information to the third-party service provider?

- .002 *Answer*— ~~A member may utilize outside services to process tax returns. He must take all necessary precautions to be sure that the use of outside services does not result in the release of confidential information.~~

No. Rule 301 is not intended to prohibit a member in public practice from disclosing confidential client information to a third-party service provider used by the member for purposes of providing professional services to clients or for administrative support purposes. However, before using such a service provider, the member should enter into a contractual agreement with the third-party service provider to maintain the confidentiality of the information and be reasonably assured that the third-party service provider has appropriate procedures in place to prevent the unauthorized release of confidential information to others. The nature and extent of procedures necessary to obtain reasonable assurance depends on the facts and circumstances, including the extent of publicly available information on the third-party service provider's controls and procedures to safeguard confidential client information.

In the event the member does not enter into a confidentiality agreement with a third-party service provider, specific client consent should be obtained before the member discloses confidential client information to the third-party service provider.

December 1, 2004



See Ethics Ruling No. 112 under Rule 102, Integrity and Objectivity [ET section 191.224-.225], and Ethics Ruling No. 12 under Rule 201, General Standards, and Rule 202, Compliance With Standards [ET section 291.023-.024], for additional responsibilities of the member when using a third-party service provider.

ETHICS RULING NO. 5 UNDER RULE 301 – Confidential Client Information

~~5. — Records Retention Agency~~

~~.009 — Question — May a member use a records-retention agency to store his clients' records, working papers, and so forth?~~

~~.010 — Answer — There is no objection to the use of such a records center. However, responsibility for preserving the confidential nature of the records rests with the member.~~