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REVISOR OF STATUTES
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CERTIFICATE

STATE OF WISCONSIN)
DEPARTMENT OF REGULATION AND LICENSING) SS
ACCOUNTING EXAMINING BOARD)

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, James B. Bower, Secretary of the Accounting Examining Board, Department of Regulation and Licensing, and custodian of the official records of said board, do hereby certify that the annexed rules and regulations and amendments to rules and regulations relating to accounting, were duly approved and adopted by this board on April 27, 1979.

I further certify that said copy has been compared by me with the original on file in this board and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the board at 1400 East Washington Avenue in the city of Madison, this 14 day of May A.D. 1979.

James B. Bower

James B. Bower, Secretary

ORDER OF THE ACCOUNTING EXAMINING BOARD
ADOPTING, AMENDING OR REPEALING RULES

Pursuant to authority vested in the Accounting Examining Board, Department of Regulation and Licensing, by section 442.01(2), Wis. Stats., the Accounting Examining Board hereby repeals, amends and adopts rules as follows:

Sections Accy 1.101(1), 1.201(1), 1.202(1), and 1.204(1), of the WISCONSIN ADMINISTRATIVE CODE are repealed.

Sections Accy 1.101(1), 1.201(1), 1.202(1), and 1.204(1) of the WISCONSIN ADMINISTRATIVE CODE are recreated to read:

1.101 Independence. (1) A person licensed to practice as a certified public accountant or public accountant, as defined by the statutes, or a firm of which the certified public accountant or public accountant is a partner or shareholder, shall not express an opinion on financial statements of an enterprise unless the certified public accountant or public accountant and the firm are independent with respect to such enterprise. Independence will be considered to be impaired if, for example:

(a) During the period of a professional engagement, or at the time of expressing an opinion, the certified public accountant or public accountant or the firm

1. a. Had or was committed to acquire any direct or material indirect financial interest in the enterprise; or

b. Was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the enterprise; or

2. Had any joint closely held business investment with the enterprise or any officer, director or principal stockholder thereof which was material in relation to the certified public accountant's or public accountant's or the firm's net worth; or

3. Had any loan to or from the enterprise or any officer, director or principal stockholder thereof. This latter proscription does not apply to the following loans from a financial institution when made under normal lending procedures, terms and requirements:

a. Loans obtained by a certified public accountant or public accountant or the certified public accountant's or public accountant's firm which are not material in relation to the net worth of such borrower.

b. Home mortgages.

c. Other secured loans, except loans guaranteed by a certified public accountant's or public accountant's firm which are otherwise unsecured.

(b) During the period covered by the financial statements, during the period of the professional engagement or at the time of expressing an opinion, the certified public accountant or public accountant, or the firm

1. Was connected with the enterprise as a promoter, underwriter or voting trustee, a director or officer or in any capacity equivalent to that of a member of management or of an employee; or

2. Was a trustee for any pension or profit-sharing trust of the enterprise.

3. The above examples are not intended to be all-inclusive.

1.201 General Standards. (1) All persons licensed to practice as a certified public accountant or public accountant, as defined in the statutes, shall comply with the following general standards as interpreted by bodies designated by the American institute of certified public accountants council, and must justify any departures therefrom.

(a) Professional competence. A certified public accountant or public accountant shall undertake only those engagements which the certified public accountant or public accountant or the firm can reasonably expect to complete with professional competence.

(b) Due professional care. A certified public accountant or public accountant shall exercise due professional care in the performance of an engagement.

(c) Planning and supervision. A certified public accountant or public accountant shall adequately plan and supervise an engagement.

(d) Sufficient relevant data. A certified public accountant or public accountant shall obtain sufficient relative data to afford a reasonable basis for conclusions or recommendations in relation to an engagement.

(e) Forecasts. A certified public accountant or public accountant shall not permit the certified public accountant's or public accountant's name to be used in conjunction with any forecast of future transactions in a manner which may lead to the belief that the certified public accountant or public accountant vouches for the achievability of the forecast.

1.202 Auditing Standards. (1) A person licensed to practice as a certified public accountant or public accountant, as defined in the statutes, shall not permit the certified public accountant's or public accountant's name to be associated with financial statements in such a manner as to imply that the certified public accountant or public accountant is acting as an independent public accountant unless the certified public accountant or public accountant has complied with the applicable generally accepted auditing standards promulgated by the American institute of certified public accountants. Statements on auditing standards used by the American institute of certified public accountants auditing standards executive committee are, for purposes of this rule, considered to be interpretations of the generally accepted auditing standards, and departures from such statements must be justified by those who do not follow them.

1.204 Other technical standards. (1) A person licensed to practice as a certified public accountant or public accountant, as defined by the statutes, shall comply with other technical standards promulgated by bodies designated by the American institute of certified public accountants council to establish such standards, and departures therefrom must be justified by those who do not follow them.

Sections Accy 1.201(2)(a) and 1.501(2)(b) of the WISCONSIN ADMINISTRATIVE CODE are amended to read:

1.201(2)(a) Competence. A certified public accountant or public accountant who accepts a professional engagement implies that he/she has the necessary competence to complete the engagement according to professional standards, applying the certified public accountant's or public accountant's knowledge and skill with reasonable care and diligence, but the certified public accountant or public accountant does not assume a responsibility for infallibility of knowledge or judgment.

1.501(2)(b) Conviction of a crime. Conviction of a crime the circumstances of which substantially relate to the practice of accounting is an act discreditable to the profession in violation of Accy 1.501. (Also see Accy 6.03 for Board considerations on good moral character.)

1. On conviction of a felony the circumstances of which substantially

relate to the practice of accounting the board will initiate charges in every instance.

2. On conviction for willful failure to file an income tax return or other document which, the certified public accountant or public accountant as an individual is required by law to file, for filing a false or fraudulent income tax return or other document on his or her or a client's behalf, or for willful aiding in the preparation and/or presentation of a false or fraudulent income tax return of a client, or the willful making of a false representation in connection with the determination, collection or refund of any tax, whether it be in his or her own behalf or in behalf of a client, the board will initiate charges in every instance.

3. On conviction of a misdemeanor the circumstances of which substantially relate to the practice of accounting the board will review the circumstances and the nature of the act resulting in the conviction. Each such situation will be considered by the board as an informal complaint. The minutes of the board meeting will reflect the fact of review and the resulting disposition of the informal complaint. Such convictions that are professionally related and related to good moral character (see chapter Accy 6) can be the basis for bringing formal charges and subsequent board action.

Sections Accy 1.101(2)(f) and 1.504(2) are adopted to read as follows:

1.101(2)(f) The effect of actual or threatened litigation on independence. Rule of conduct 1.101 prohibits the expression of an opinion on financial statements of an enterprise unless a certified public accountant or public accountant and the certified public accountant's or public accountant's firm are independent with respect to the enterprise. In some circumstances, independence may be considered to be impaired as a result of litigation or the expressed intention to commence litigation.

1. Litigation between client and auditor. In order for the auditor to fulfill the auditor's obligation to render an informed, objective opinion on the client company's financial statements, the relationship between the management of the client and the auditor must be characterized by complete candor and full disclosure regarding all aspects of the client's business operations. In addition, there must be an absence of bias on the part of the auditor so that the auditor can exercise dispassionate professional judgment on the financial reporting decisions made by the management. When the present management of a client company commences, or expresses an intention to commence, legal action against the auditor, the auditor and the client management may be placed in adversary positions in which the management's willingness to make complete disclosure and the auditor's objectivity may be affected by self-interest.

For the reasons outlined above, independence may be impaired whenever the auditor and the auditor's client company or its management are in threatened or actual positions of material adverse interests by reason of actual or intended litigation. Because of the complexity and diversity of the situations of adverse interests which may arise, however, it is difficult to prescribe precise points at which independence may be impaired. The following criteria are offered as guidelines:

a. The commencement of litigation by the present management alleging deficiencies in audit work for the client would be considered to impair independence.

b. The commencement of litigation by the auditor against the present management alleging management fraud or deceit would be considered to impair independence.

c. An expressed intention by the present management to commence litigation against the auditor alleging deficiencies in audit work for the client is considered to impair independence if the auditor concludes that there is a strong possibility that such a claim will be filed.

d. Litigation not related to audit work for the client (whether threatened or actual) for an amount not material to the certified public accountant's or public accountant's firm (Because of the complexities of litigation and the circumstances under which it may arise, it is not possible to prescribe meaningful criteria for measuring materiality; accordingly, the certified public accountant or public accountant should consider the nature of the controversy underlying the litigation and all other relevant factors in reaching a judgment.), or to the financial statements of the client company would not usually be considered to affect the relationship in such a way as to impair independence. Such claims may arise, for example, out of disputes as to billings for services, results of tax or management services advice or similar matters.

2. Litigation by security holders. The auditor may also become involved in litigation ("primary litigation") in which the auditor and the client company or its management are defendants. Such litigation may arise, for example, when one or more stockholders bring a stockholders' derivative action or a so-called "class action" against the client company or its management, its officers, directors, underwriters and auditors under the securities laws. Such primary litigation in itself would not alter fundamental relationships between the client company or its management and auditor and therefore should not be deemed to have an adverse impact on the auditor's independence. These situations should be examined carefully, however, since the potential for adverse interests may exist if cross-claims are filed against the auditor alleging that

the auditor is responsible for any deficiencies or if the auditor alleges fraud or deceit by the present management as a defense. In assessing the extent to which the auditor's independence may be impaired under these conditions, the auditor should consider the following additional guidelines:

a. The existence of cross-claims filed by the client, its management, or any of its directors to protect a right to legal redress in the event of a future adverse decision in the primary litigation (or, in lieu of cross-claims, agreements to extend the statute of limitations) would not normally affect the relationship between client management and auditor in such a way as to impair independence, unless there exists a significant risk that the cross-claim will result in a settlement or judgment in an amount material to the certified public accountant's or public accountant's firm (Because of the complexities of litigation and the circumstances under which it may arise, it is not possible to prescribe meaningful criteria for measuring materiality; accordingly, the certified public accountant or public accountant should consider the nature of the controversy underlying the litigation and all other relevant factors in reaching a judgment.) or to the financial statements of the client.

b. The assertion of cross-claims against the auditor by underwriters would not usually impair independence if no such claims are asserted by the company or the present management.

c. If any of the persons who file cross-claims against the auditor are also officers or directors of other clients of the auditor, the auditor's independence with respect to such other clients would not usually be impaired.

3. Other third-party litigation. Another type of third-party litigation against the auditor may be commenced by a lending institution,

other creditor, security holder or insurance company who alleges reliance on financial statements of the client examined by the auditor as a basis for extending credit or insurance coverage to the client. In some instances, an insurance company may commence litigation (under subrogation rights) against the auditor in the name of the client to recover losses reimbursed to the client. These types of litigation would not normally affect the auditor's independence with respect to a client who is either not the plaintiff or is only the nominal plaintiff, since the relationship between the auditor and client management would not be affected. They should be examined carefully, however, since the potential for adverse interests may exist if the auditor alleges, in the auditor's defense, fraud or deceit by the present management.

If the real party in interest in the litigation (e.g., the insurance company) is also a client of the auditor ("the plaintiff client"), the auditor's independence with respect to the plaintiff client may be impaired if the litigation involves a significant risk of a settlement or judgment in an amount which would be material to the certified public accountant's or public accountant's firm (Because of the complexities of litigation and the circumstances under which it may arise, it is not possible to prescribe meaningful criteria for measuring materiality; accordingly, the certified public accountant or public accountant should consider the nature of the controversy underlying the litigation and all other relevant factors in reaching a judgment.) or to the financial statements of the plaintiff client. If the auditor concludes that such litigation is not material to the plaintiff client or the auditor's firm and thus the auditor's independence is not impaired, the auditor should nevertheless ensure that professional personnel assigned to the audit of either of the two clients have no involvement with the audit of the other.

4. Effects of impairment of independence. If the auditor believes that the circumstances would lead a reasonable person having knowledge of the facts to conclude that the actual or intended litigation poses an unacceptable threat to the auditor's independence the auditor should either disengage himself/herself to void the appearance that the auditor's self-interest would affect the auditor's objectivity, or disclaim an opinion because of lack of independence as prescribed by section 517 of statement on auditing standards no. 1. Such disengagement may take the form of resignation or cessation of any audit work then in progress pending resolution of the issues between the parties.

5. Termination of impairment. The conditions giving rise to a lack of independence are usually eliminated when a final resolution is reached and the matters at issue no longer affect the relationship between auditor and client. The auditor should carefully review the conditions of such resolution to determine that all impairments to the auditor's objectivity have been removed.

6. Actions permitted while independence is impaired. If the auditor was independent when the auditor's report was initially rendered, the auditor may re-sign such report or consent to its use at a later date while the auditor's independence is impaired provided that no post-audit work is performed by such auditor during the period of impairment. The term "post-audit work", in this context, does not include inquiries of subsequent auditors, reading of subsequent financial statements, or such procedures as may be necessary to assess the effect of subsequently discovered facts on the financial statements covered by the auditor's previously issued report.

1.504(2) Interpretations of Accy 1.504, not intended to be all-inclusive, are as follows:

(a) Engaging concurrently with the practice of public accounting in any business or occupation inconsistent with the certified public accountant's or public accountant's responsibilities under the Wisconsin rules of conduct would constitute involvement in an incompatible occupation prohibited by Accy 1.504(1).

(b) The above proscription would apply to any business or occupation which:

1. Detracts from the public image of the profession, as for example, on moral or legal grounds, or involves conduct which would constitute an act discreditable to the profession, or,

2. Impairs the certified public accountant's or public accountant's objectivity in rendering professional services to clients, or,

3. Inherently involves responsibilities which are likely to conflict with the certified public accountant's or public accountant's responsibility to others arising out of the client-certified public accountant or public accountant relationship.

The rules, amendments, and repeals contained herein shall take effect on August 1, 1979, pursuant to authority granted by section 227.026(1)(b), Wis. Stats.

Dated: May 14, 1979

ACCOUNTING EXAMINING BOARD

James B. Bower

James B. Bower, Secretary