

Second Edition 2015

South Carolina Association of Certified Public Accountants

CPA REPORT

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“We promote financial integrity, expose wrongdoing and lift the veil of uncertainty to shine light on the truth.

When you think about it, we are much like the Swiss-Army knife for modern business—equipped to bring solutions in countless ways.”

Ethically Speaking: Let's Not Forget Who Brought Us to the Dance

by George W. DuRant, CPA/ABV, CFF, ASA
SCACPA member since 1976

Assume one of your tax clients instructs you to provide select information from your file to a third party. You know the information is incomplete and would be misleading for the third party's specific use. What do you do?

Likely, if you are a tax return preparer not subject to the AICPA's Code of Professional Conduct, you would send the information as instructed because you would not want to risk losing the client's business. As long as no laws are broken, that would be just good business practice.

If you are an attorney, you might do the same thing but for a different reason. Many attorneys believe they are obligated ethically to advance a client's interest within the bounds of the law without necessarily considering the morality of a client's actions. Thus, as long as no laws are broken, many would consider it just good legal practice.

However and in contrast to business people and attorneys, CPAs are generally seen as having a greater ethical obligation to third parties and the public. So much so that the public has reason to think, and tends to think, of CPAs somewhat as watchdogs for the public interest. To understand why that is so, it helps to remember who brought us to this dance – it was the public.

Public accounting as a profession in the United States got its big kick-start in the 1930s with passage of the Securities Acts of 1933 and 1934. That legislation was responsive to the stock market scandals of the 1920s and early 30s - in particular the 1932 Swedish Match Company investment scheme that in current dollars might rival investor losses in Enron. Then for the first time, federal law required public companies to include audited financial statements in their registration statements and annual reports.

At the time, there was considerable debate over whether the government should do the auditing. The prestige of the public accounting profession is owed in large part to those who persuaded the Senate Committee on Banking and Currency not to assign the external audit function to a government agency. Essentially, the argument was and continues to be that in the final analysis CPAs and in fact all accountants should be and can be trusted to be loyal and accountable to the public at large.

Recently, Olivia Kirtley, former chair of the AICPA board of directors and current president of the International Federation of Accountants (IFAC) posted the following on the AICPA Insights blog: "I've always thought the world would be a better place if only there were more professional accountants working throughout organizations. Each and every day, we bring transparency and accountability to businesses and governments around the globe. We promote financial integrity, expose wrongdoing and lift the veil of uncertainty to shine light on the truth. When you think about it, we are much like the Swiss-Army knife for modern business—equipped to bring solutions in countless ways."

Without regard to the type of service performed (audit, tax, litigation support or other services), the AICPA Code of Professional Conduct obligates members to **always** act in the public interest, always honor the public trust, and always demonstrate a commitment to professionalism (§0.300.030.01). Our obligation to the public interest is far more than just a lofty aspiration. George Oliver May, one of the giants of the accounting profession, observed in 1932 that accountants can be seen to have greater ethical obligations to persons who are not clients than other professionals such as lawyers and physicians.

As the late Harvey Kapnick (chairman and chief executive of Arthur Andersen from 1970 to 1979) put it: "the accounting profession is – or should be – the link between responsible business and the public in providing adequate financial data in an understandable manner

for use in arriving at sound, unbiased conclusions about the effectiveness of business enterprises in managing our economic wealth for the overall benefit of society."

Kapnick succinctly described the accounting profession's public service calling. It is our integrity and objectivity that warrants the public trust. It is our fidelity to that trust that makes us professional and different from other business people and attorneys.

Acting in the public interest can and often does conflict with a client's interest or the CPA's self-interest. The code provides that CPAs must resolve conflicting pressures from clients, credit grantors, governments, employers, investors, the business and financial community and others by acting "with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served" (§0.300.030.03).

The "conflict" dilemma described at the beginning of this column has a multitude of variations in practice, all with the same solution. For example, a client asks you to prepare a tax return based on information that you know or suspect is wrong; what do you do? Or, you are asked to prepare cash basis financial statements for an insolvent client seeking capital; what do you do? In each case, acting with integrity and objectivity in the public interest requires subordination of all other interests, including the CPA's own interest as a business person.

Fortunately, most clients want to act morally and legally and when tempted to do otherwise they welcome a virtuous response from their CPA. For the few who do not, we should remember that helping them obtain an unjust result is the same as helping them to steal.

We are at the dance because the public trusts us. Let's keep it that way. ■

Source: Kapnick, Harvey, Accounting And Financial Reporting In the Public Interest, Arthur Andersen & Co. 1974, Vol. 1



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