

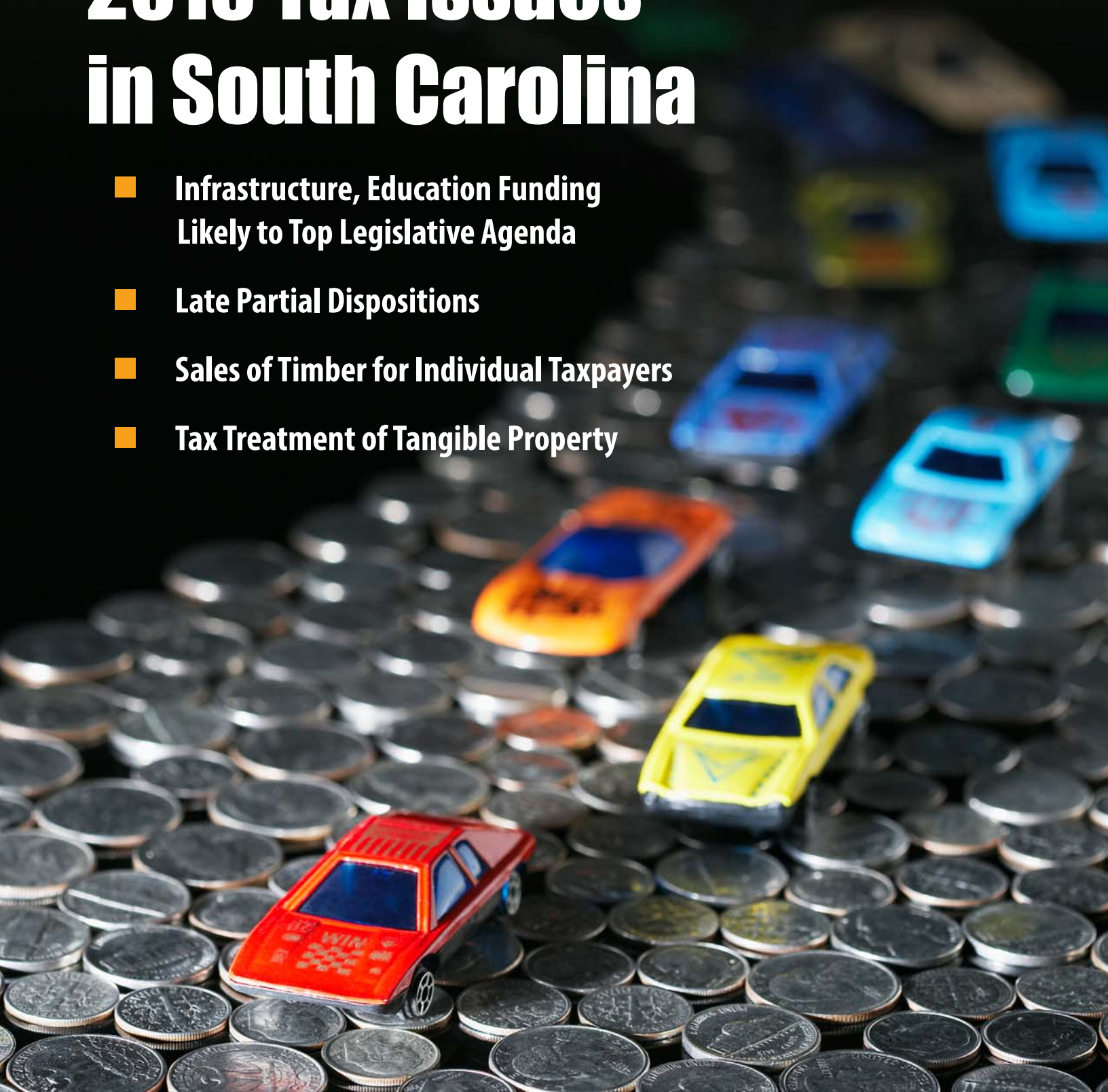
First Edition 2015

CPA REPORT

South Carolina Association of Certified Public Accountants

2015 Tax Issues in South Carolina

- **Infrastructure, Education Funding
Likely to Top Legislative Agenda**
- **Late Partial Dispositions**
- **Sales of Timber for Individual Taxpayers**
- **Tax Treatment of Tangible Property**





Ethically Speaking: What Should You Do?

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Assume you are preparing the annual income tax return of a multi-member limited liability company and discover the manager of the company has made unauthorized advances to himself unbeknownst to the other members of the company. If after confirming the situation with the manager and being instructed to not disclose it to anyone, what should you do?

In the absence of extraordinary circumstances, a prudent CPA likely would resign from the engagement because the client's lack of integrity would pose an unacceptable threat to the CPA's own ability to act with integrity. The more difficult dilemma is whether you should also breach client confidentiality by disclosing the advances to the other members.

Weighing against disclosure are legal (South Carolina Code of Laws §40-2-190) and ethical (AICPA Code of Professional Conduct §1.700.001) rules that prohibit unauthorized disclosure of confidential client information except under specific circumstances and this situation is not one of the exceptions. Many believe maintaining confidentiality optimally serves the public interest in the larger scheme of things because it is conducive to clients sharing relevant information with their CPA that otherwise might be kept secret. Because confidentiality is a fundamental value of the accounting profession and because breaching confidentiality can have serious financial and career implications for the CPA, the duty to maintain confidentiality is a powerful force in deciding whether to disclose.

On the other hand and under unusual circumstances, some see the aspirational and altruistic calling of the public accounting profession to serve the public interest and their duty to always act with the highest sense of integrity as conflicting with the duty to maintain confidentiality. They believe the public interest can be better served by breaching confidentiality under unusual circumstances. Because it can be difficult to predict what action ultimately will serve the public interest better, the more important action determinant is that the CPA acts with integrity (see the AICPA Code at §0.300.030).

The concept of *acting with integrity* means a whole lot more than just being honest. The following excerpt from Ronald Duska's book *Accounting Ethics* (Wiley-Blackwell 2011) vividly illustrates what it means to act with integrity.

“The story of Pinocchio illustrates that lying is only a symptom of the lack of integrity. People lie because they are self-absorbed. They lie to prevent unpleasantness, look better, avoid a harm, or gain an advantage.

Limiting the concept of integrity simply to being honest is analogous to describing Walt Disney’s story of Pinocchio merely as the tale of a boy whose nose grew when he lied. Certainly, the story tells us not to lie, just as integrity tells us to be honest. But honesty is not a synonym for integrity. Lying and dishonesty are merely symptoms of the lack of integrity, and identifying the lack of integrity only with lying does not embrace the core meaning, any more than Pinocchio’s growing nose is the whole story of *Pinocchio*.

What does the story tell us? Think back. Geppetto creates a special puppet, Pinocchio, who walks and talks by himself. But he is a wooden puppet, not a real boy. To be a real boy, Pinocchio must become morally complete. What does it take for Pinocchio to become “whole, entire, and undiminished” – that is, to achieve integrity – and become a real boy?

First, he must develop a conscience. Since puppets don’t come equipped with consciences, he is given Jiminy Cricket. But Jiminy is external to Pinocchio. With Jiminy, Pinocchio hears from the outside what is right and wrong. The code of conduct, which Jiminy represents, is not yet part of Pinocchio. He needs to internalize that code. Similarly, just learning the rules of a profession is not enough. An accountant must internalize and live by those rules.

In his incomplete state, Pinocchio goes off to school. On the way, he meets Gideon and Honest John (who is anything but honest), who entice

Pinocchio to join a puppet show. They promise him fame, convincing him that a puppet who can walk without strings and talk by himself will become an instant celebrity. Pinocchio soon learns that celebrity and fame do not make him complete. As a matter of fact, celebrity and fame entrap Pinocchio when the puppet master puts Pinocchio in a cage because he is too valuable to be set free.

Jiminy Cricket helps Pinocchio escape, only to see him lured to Pleasure Island, where he can engage in the self-centered pursuit of pleasure without restraint. Unrestrained pleasure, however, does not lead to his completeness either. Rather, it turns him into a jackass, including ears and a tail. With Jiminy’s help, Pinocchio flees the island and returns to Geppetto’s workshop.

Meanwhile, Geppetto, who had gone to sea to rescue Pinocchio from Pleasure Island, has been swallowed by a giant whale, Monstro. Pinocchio, with wisdom and self-control, devises a plan to rescue Geppetto. After the brave and selfless act of entering Monstro’s belly, Pinocchio finally becomes a real boy. He is complete. He has integrity.

The story of *Pinocchio* illustrates that lying is only a symptom of the lack of integrity. People lie because they are self-absorbed. They lie to prevent unpleasantness, look better, avoid a harm, or gain an advantage. People with integrity do not need to lie, because their values are sound. Moreover, they have the wisdom to recognize that there is nothing for which they should compromise those

values. Individuals with integrity have the courage to live with the consequences of the truth and the self-assurance to give others their due (justice) without unduly fearing for themselves.

Beginning with Plato and Aristotle, traditional ethical theories have placed a high emphasis on integrity, or wholeness. A person was not whole unless he or she possessed what were called the four cardinal virtues – wisdom, justice, temperance, and courage. The individual had integrity only if he or she had all four virtues; each virtue required the others.

With a fuller understanding of what the AICPA Code means by “act with integrity”, would you ever breach client confidentiality to prevent harm to a non-client?

Complex ethical dilemmas deserve careful consideration of duties, virtues, and the likely consequences of action. Thinking about hypothetical dilemmas helps develop good ethical decision making skills necessary to avoid being overwhelmed by powerful situational forces in real life. You are invited to share your thoughts on SCACPA’s LinkedIn site. ■



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