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Dear Hilde

Consultation on integrity in professional ethics

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on the Fédération Des Experts Comptables Européens (FEE)'s consultation paper *on Integrity in professional ethics*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

MARTYN JONES
Chairman, Ethics Standards Committee



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

ICAEW REPRESENTATION

ICAEW REP 08/10

CONSULTATION ON INTEGRITY IN PROFESSIONAL ETHICS

Memorandum of comment submitted in January 2010 by The Institute of Chartered Accountants in England and Wales, in response to the Fédération des Experts Comptables Européens (FEE) consultation paper *Integrity in professional ethics* published in September 2009.

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INTRODUCTION

1. The Institute of Chartered Accountants in England and Wales (the Institute or the ICAEW) welcomes the opportunity to comment on the consultation paper *Integrity in Professional Ethics* published by the Fédération des Experts Comptables Européens (FEE).

WHO WE ARE

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our membership includes auditors, numerous audit committee chairs, finance directors and members involved in investment management activities. Members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.

MAJOR POINTS

4. We welcome this consultation paper on *Integrity in professional ethics* and are very supportive of your initiative aimed at encouraging debate on integrity by professions and business. We are delighted that some of ideas and suggestions in the Institute's *Reporting with Integrity* (2007) are referred to in this paper. This Institute publication, together with the more recent report on *Instilling Integrity in Organisations* (2009), emphasise the importance of integrity and provide suggestions on how integrity can be instilled in organisations and professions as well as promoted in activities such as reporting. These publications are available at www.icaew.com/ethics
5. As noted in the above publications and elsewhere, the ICAEW believes that integrity is fundamental to ethical behaviour and trust. Ethical behaviour is not just a matter of concern and media debate but is of crucial importance to individuals, organisations and markets. Efficient and effective markets will have as their foundations participants that can trust and be trusted, accepted standards of behaviour and mechanisms which influence and are influenced by behaviour.
6. While the importance of integrity is generally acknowledged, there is less general agreement about the meaning of integrity, especially internationally where different business practices and cultures may be acceptable. As a European representative professional body, FEE's initiative in this area will go a long way to promote debate on integrity at an international level, which is essential in an era of harmonisation of standards and globalisation.

RESPONSES TO SPECIFIC QUESTIONS/POINTS

Q1: What does integrity mean to you?

7. We believe that moral values such as honesty and truthfulness are an important aspect of integrity. However, as suggested in your consultation document, we also believe that there are other aspects of integrity that should be considered: motives, commitments, qualities and standing fast, even in the face of opposition. Integrity is a belief – an individual will be

guided by moral values and motivated by ideals, principles and interests they believe in. It also involves commitment – not just in thoughts but also in deeds. It is about doing the right thing, even when it is difficult or when no one is watching. This will sometimes require individuals to be courageous and to persevere in order to stand up for what they believe and achieve their goals.

Q2: Is integrity the core principle in professional behaviour? If yes, why?

8. Yes, we believe that integrity is the core principle in professional behaviour. Based on our analysis in *the Reporting with Integrity* publication, we propose that the other fundamental principles in the IFAC Code of Ethics support integrity and are applications of it. A professional accountant of integrity would surely be expected to be objective, to show professional competence and due care and to demonstrate professional behaviour. If one of these characteristics is lacking, then the professional accountant is likely to be described by others as lacking integrity.
9. It is worth noting that the link between confidentiality and integrity is more complex and perhaps requires further clarification in Part A of the International Federation of Accountants (IFAC) Code, the principles of which are adopted by the majority of the accounting professional bodies around the world. Some may argue that a professional accountant may lack integrity if they don't disclose everything they know about a particular situation. However, if they do, this would be breaching confidentiality. Such views do not take into account the context in which a professional accountant works. Honesty is about disclosing information which is appropriate to the circumstances and meets legal and confidentiality requirements.

Q3: What are the threats to ethical behaviour?

10. The threats to ethical behaviour are well documented in the IFAC Code and in our own Code which derives from IFAC. According to the IFAC Code, threats to ethical behaviour can be categorised into one or more of the following areas: self-interest, self-review, familiarity, advocacy and intimidation. In our opinion, two of the biggest sources of threats are fear and greed, which are not directly addressed in codes of ethics. For example, a professional accountant may be pressurised to meet certain targets or deadlines in their employing organisation and may be fearful that their working life may be made very difficult or perhaps may be cut short, if these targets are not met.

Q4: How do these threats change as the economic climate changes?

11. The types of threats to ethical behaviour are likely to be the same irrespective of the economic climate. However, as the economic climate changes, the pressures to behave without integrity may change. During recessionary times, businesses may have to fight for survival and take advantage of opportunities as they arise. In so doing, individuals may be more likely to cut corners, take risks and let standards of integrity slip, especially if their job or livelihood is at stake. This view is supported by our analysis of queries received by the Institute's ethics helpline. This helpline has experienced a rise in the number of queries relating to Chartered Accountants being pressurised to manage earnings or meet unrealistic targets compared to previous years.
12. Having said this, while individuals may be more pressurised to behave unethically in recessionary times, organisations might be more alert to the possibility of unethical behaviour than in boom years, when profit and costs pressures are not as significant and businesses are not fighting for survival. In addition, in boom years, when profits are higher, individuals may find it easier to hide unethical business practices.

Q5: How is integrity instilled in your audit firm or your organisation? Does it always work? How could it be improved?

13. The Institute currently has a number of policies and procedures including whistleblowing and disciplinary processes which are aimed at promoting integrity in our organisation, amongst other things. We are currently in the process of obtaining approval for an internal Code of Conduct to link these policies to our values, which include integrity. Once this has been obtained, as well as publicising the Code we will be considering what training and support is needed in this area and how our values can be incorporated into the reward and recognition process.

Q6: Do readers agree that integrity is actually the core principle and should be highlighted as such, compared with the other fundamental principles referred to in paragraph 2.3? If not, why not?

14. As noted in paragraph 8 and 9 of this response, integrity should be regarded as the core principle, supported by the other fundamental principles. Without it, the other fundamental principles are undermined. For example, being competent requires the professional accountant to make an honest assessment of his knowledge, skills and expertise and if found lacking, to get training, ask for help or assign a particular task to another individual.

Q7: Do the other fundamental principles derive from integrity or are they complementary to it? Please explain your rationale.

15. The Institute believes that the other principles derive from integrity; they provide more guidance as to how a professional accountant of integrity should behave. They reinforce the integrity mindset.
16. While it is important to analyse the relationships between integrity and the other core principles, we believe that it is more important to get a better understanding of what integrity means rather than trying to get the formal relationships between the core principles correct.

Q8: From the perspective of professional ethical behaviour, does the quality of the persons' character matter if their actions are consistent with expected standards? Does this have consequences for the disciplinary process?

17. A person's character is assessed to a large extent by their actions. In order to be described as a person of integrity, an individual's actions need to be credible as well as consistent with expected standards.
18. A person's character will also be assessed in terms of their motivations, whether they were being motivated by greed or providing security for their family. An individual's motivation as well as whether they actively or passively supported a particular course of action should be taken into account in disciplinary proceedings since it relates back to a person's character and their integrity. The motivation of individuals might be more important to influencing the punishment resulting from disciplinary proceedings rather than in evaluating what the offence is.

Q9: Do readers believe that the perceived integrity of the profession as a whole impacts upon the integrity of individuals within it? Again, does this have consequences for the disciplinary process?

19. A profession consists of individuals from different backgrounds, working in different organisations, industries and countries. Building an ethical profession is not as simple as bringing a group of individuals together who have integrity. It requires professional bodies,

regulators and other organisations to set ethical, technical and professional standards to unite individuals. Therefore, individuals, professional bodies, regulators and other organisations all have an important role to play in promoting integrity in the accounting profession.

20. The behaviour of individuals provides visible signals to others about their values. Professional bodies, regulators and other organisations influence the integrity of professional accountants, since they set the standards they have to follow which in turn shape the culture and working environment. Ideally, the extent to which organisations promote integrity should be taken into account in the disciplinary processes, but this may be difficult to do in practice, since it will require someone to opine on the collective efforts of one or more organisations at promoting integrity in a profession.

Q10: Would it be helpful for codes of ethics of accountancy bodies to include further discussion on integrity? If so, what are the key points that should be included?

21. The Institute believes that there should be further discussion on integrity in codes of ethics. Perhaps the best way of achieving this is to include this further discussion in the IFAC Code of Ethics. Currently discussion on integrity in the IFAC Code is limited to three paragraphs and the rest of the code is devoted mainly to the principle of objectivity and independence standards. If integrity is a core principle, then it should be given greater prominence in the Code, both in terms of its status and additional guidance.
22. If the above suggestion is implemented, possible changes in the IFAC Code might be:
- 22.1.1. *Part A Introduction and fundamental principles*: the definition of integrity could be expanded to cover some, if not all, of the aspects of integrity suggested in paragraph 4.5 of the consultation document. While this would require careful thought internationally and in terms of disciplinary proceedings, we believe that it would better reflect society's expectations of the accounting profession. In addition, as noted in paragraph 9 above, it may be helpful to include additional guidance on the relationship between integrity and confidentiality.
 - 22.1.2. *Part A Section 100 Integrity*: the guidance on integrity in this section focuses on the activity of reporting in the broad sense. This section could be expanded to include other activities, circumstances or relationships which might affect a professional accountant's integrity. Not all professional accountants are involved in reporting – some are involved in business development, marketing, IT, HR, tax and so on. Perhaps additional guidance could cover some of these areas, for example, what behaviour and business practices are acceptable when it comes to negotiations or areas such as tax avoidance/evasion.
 - 22.1.3. *Part B: Professional Accountants in Public Practice*. Currently guidance on promoting an ethical culture is mentioned under firm wide safeguards (paragraph 200.12) and touched on in other areas in Part B of the Code only. We believe that further guidance on how firms can promote an ethical culture would further enhance the reputation of the accounting profession, especially if this guidance was included in an international code. This guidance should be included in Part A of the Code which affects all professional accountants (see 21.1.4 below).
 - 22.1.4. *Part C: Professional Accountants in Business*. The requirement to promote an ethical culture by accountants is contained in Part C of the Code (paragraph 300.5). The Institute believes that this requirement should apply to all professional accountants, not just professional accountants in business. Therefore, it should be included in Part A of the Code, perhaps as part of the additional guidance on integrity in Section 100 or an additional section on instilling integrity (or ethics) in an organisation.

Q11: Should there be greater clarity of the extent to which personal integrity would affect professional integrity, to enhance harmonisation? What sort of personal behaviour should merit professional disciplinary action?

23. If we accept that consistency is a behavioural trait of an individual acting with integrity (paragraph 5.2 of the consultation document), then it could be argued that this requires a person to demonstrate integrity across all of their personal, social and professional roles and activities. Our consultation on the *Reporting with Integrity* publication in 2007 suggested that most respondents believed that a person should demonstrate integrity in their personal, business and professional activities. Integrity goes to the core of a person's identity and as such cannot be compartmentalised. Further information on our consultation on integrity is available at www.icaew.com/ethics
24. Based on this evidence, the Institute supports additional guidance in this area in codes of ethics. However, in order to be practical, this additional guidance should focus on discussion of how personal activities could have an impact on business and professional activities and bring the accounting professional into disrepute. Such guidance could cover whether personal discussions by email or on social networking sites such as Face Book, Twitter and LinkedIn which relate to business and professional activities should be taken into account when assessing an individual's integrity.

Q12: Do you agree with the behavioural characteristics discussed in paragraph 5.2? If not, please explain what should be changed.

25. We agree with the behavioural characteristics discussed in paragraph 5.2. Our consultation on the *Reporting with Integrity* publication which suggested very similar behavioural characteristics associated with integrity, received strong support in this area. However, some respondents indicated that they would like further clarification on what is meant by "taking into consideration the public interest".

Q13: Are there further behavioural characteristics that should be expected of someone behaving with integrity in a professional context, other than those listed in paragraph 5.2? If so, what?

26. No.

Q14: Do readers agree with the indicators discussed in 6.7? Are there others, and if so what?

27. While the Institute supports these high level indicators to assess the success of an organisation's attempt at embedding ethical values, we believe that some of these indicators should be included as part of a decision making framework, such as that found in Part A of the IFAC Code. Ultimately the actions of individuals reflect on the integrity of the organisation or the profession, and this is what we should be trying to influence. Perhaps enhanced guidance in this area would help.

Q15: Do readers agree that organisations should have clear ethical values and that in all but the smallest organisations this will require the organisation to have a code of conduct? If not, please explain your rationale.

28. Written codes of conduct are prevalent in large listed companies in the UK. According to an Institute of Business Ethics (IBE) survey, over 90% of listed companies in the UK have a code of conduct. Having a written code of conduct is helpful in guiding employees and other stakeholders on an organisation's values and expected standards of behaviour. While written codes of conduct should not be a pre-requisite for all organisations, they

should be encouraged since employees and other stakeholders such as customers and suppliers may find such a policy helpful in knowing what is acceptable and tolerated.

29. Codes of conduct guide employees and other stakeholders about what types of behaviour are acceptable to an organisation and what behaviour will not be tolerated. There are different styles, content and names for codes of conduct. Codes of conduct typically cover the values of an organisation, standards of behaviour, compliance and reporting issues as well as where to go for help and advice. The key point is that an organisation's code of conduct should be unique to that organisation and hence any future guidance in this area should be best practice guidance about how to develop and implement a code rather than setting specific requirements.
30. While one of the key policies for promoting an ethics based culture is a code of conduct, it is not the only policy. Policies on reward and recognition, support, training and disciplinary procedures are also very important for promoting integrity and the reputation of an organisation. These policies need to be mutually reinforcing to effectively embed integrity into an organisation.

Q16: Who should be responsible for ensuring that ethical behaviour is embedded in organisations?

31. While the responsibility for the promotion of ethics rests with every individual in an organisation, leadership, active management and oversight by those charged with governance is critical to ensuring that ethical behaviour is truly embedded in the organisation.
32. Leaders and senior management are well placed to instil integrity in an organisation by influencing the organisation's strategy, objectives, structure, policies, procedures, decision-making, communication and culture. In creating the right environment, leaders need to practice what they preach and set a good example. A 2007 Ethics survey by Deloitte & Touche in the USA showed that employees ranked the behaviour of management (42%) and direct supervisors (36%) as the top two factors contributing to the promotion of ethics in the workplace.
33. As well as strong leadership and active management, whether an organisation can promote an ethical culture will be dependent to a large extent on assigning responsibility to an individual or groups of individuals for creating an appropriate policies, procedures and work environment to encourage ethical behaviour. For example, in the UK, the Auditing Practices Board (APB) Ethical Standard 1 (www.frc.org.uk/apb/publications/ethical.cfm) requires the majority of audit firms (not those with 3 or less responsible individuals) to have an ethics partner.

Q17: Is it reasonable to expect professional accountants to promote an ethics-based culture in their organisations? If so, should there be greater guidance and what are the key points that it should include?

34. Accountants should promote an ethics-based culture in their employing organisation, to the extent they are able to, depending on their seniority and roles. We think it reasonable to expect professional accountants to promote an ethics-based culture in their organisations since ethics is at the heart of what being a professional means.
35. In the IFAC Code, for example, this would require additional discussion on promoting an ethics-based culture in an organisation in Part A of the Code, which would apply to all professional accountants. While the current IFAC Code encourages professional accountants in business to promote an ethics based culture in their employing

organisations (paragraph 300.5), a similar requirement is not stated for professional accountants in practice, although it is implied in Part B of the IFAC Code.

36. We also believe that codes should provide guidance on how promoting ethics in an employing organisation might be done. The guidance should include areas and questions to be considered when assessing and instilling an ethics-based culture in an organisation rather than specific and detailed requirements since when it comes to ethics, one size does not fit all. The promotion of ethics in an organisation is dependent on various factors including the size of the organisation and the industry and countries where it operates. Having said this, certain areas should be considered when embedding ethics in an organisation, such as leadership, strategy, policies, information and culture. These areas need to be linked and mutually reinforcing in order to successfully embed ethics in an organisation. The Institute's *Instilling integrity in organisations* publication suggests a number of questions that might be asked relating to these five key areas. For your convenience, I have enclosed a copy this publication.

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